



MORNING BRIEFING

February 24, 2020

Snorting vs Sneezing Bull

Check out the accompanying [chart collection](#) and [podcast](#).

(1) Known unknown and known knowns. (2) Fed's policy report mentions COVID-19 as a risk, but Clarida says US economy remains strong and uninfected. (3) China is a weak link in global supply chains. (4) Impressive rebound in February's manufacturing activity according to NY & Philly Fed surveys. (5) US factories getting a boost from strong housing starts. (6) Consumer optimism lifted by lots of jobs. (7) LEI and CESI confirm economy still expanding. (8) February's flash PMIs weakened in US and Japan, improved in Eurozone. (9) Bull sneezed on Friday. (10) Investors reaching for yield in bond and stock markets. (11) Tech accounts for nearly half of capital spending. (12) Outperforming stocks include those of the Stay Home, LargeCap, and Growth varieties. (13) Movie review: "The Traitor" (+ + +).

US Economy: Uninfected So Far. The recent strength in housing starts may be boosting US manufacturing. So the longest economic expansion in US history could keep on going through 2020—if the coronavirus (COVID-19) outbreak ends soon and doesn't significantly disrupt global supply chains. Admittedly, that's a BIG IF, and a significant known unknown. Here are a few of the relevant and significant known knowns:

(1) *The Fed's optimistic opinion vs the bond market's pessimistic view.* In last Wednesday's [Morning Briefing](#), Melissa and I observed that Fed officials are monitoring the impact of the coronavirus outbreak on the global and US economies. The Fed's latest [Monetary Policy Report](#) (MPR) to Congress, dated 2/7, mentioned this development eight times, including "[M]ore recently, possible spillovers from the effects of the coronavirus in China have presented a new risk to the outlook" and "The recent emergence of the coronavirus ... could lead to disruptions in China that spill over to the rest of the global economy."

Nevertheless, the MPR implied that Fed officials expect this virus outbreak, like previous ones, to pass before long without overly disrupting US manufacturing. The report mentioned that US manufacturing output declined in 2019 but observed that it was a mild slowdown. Such soft patches are not unusual during economic expansions, the MPR noted, suggesting that manufacturing production is likely to improve in 2020.

In a 2/20 [CNBC interview](#), Federal Reserve Vice Chairman Richard Clarida reiterated that the “fundamentals in the US are strong,” though he said Fed officials are monitoring risks, in particular the coronavirus. “It’s obviously something that is probably going to have a noticeable impact on Chinese growth in the first quarter,” he said. However, he dismissed expectations that the Fed will be cutting the federal funds rate anytime soon, implying that China’s health crisis should be contained without having much impact on the US economy.

The rally in the bond market suggests that investors beg to differ and are discounting a rate cut by the Fed before long. Since 1/23 (the day before the outbreak made headlines), the 10-year US Treasury bond yield has declined by 28bps from 1.74% to 1.46% on Friday. Stock prices, coincidentally, have been making record highs almost on a daily basis on expectations that either the global health crisis will end soon or the Fed and the other major central banks will inject more liquidity into global financial markets to fight the adverse economic consequences of a prolonged crisis.

(2) *Broken chains made in China*. In last Thursday’s [Morning Briefing](#), Jackie and I reviewed the latest effects of the coronavirus outbreak on global supply chains. To stop the coronavirus outbreak, the Chinese government has quarantined nearly 60 million people in Wuhan and surrounding Hubei province. Workers who visited family there over the Lunar New Year holiday can’t return home to work. And travelers returning home from elsewhere in China are being asked to stay isolated at home for 14 days before going back to work. The upshot is a massive labor shortage. In a trade group survey of 109 companies with manufacturing operations in Shanghai and nearby areas that was released on Monday, 78% said they don’t have enough staff to run a full production line.

(3) *Two rebounding US business surveys*. Apparently, US factories have enough inventory of made-in-China parts to keep operating for now. Indeed, the 2019 manufacturing growth recession mentioned in the *MPR* may be over, according to February’s business surveys conducted by the Federal Reserve Banks of NY and Philly. Their general business indexes shot up, led by their new orders components ([Fig. 1](#)).

That’s very impressive given flat auto sales and Boeing’s MAX woes ([Fig. 2](#) and [Fig. 3](#)). Three more Fed district banks will be reporting the results of their February surveys soon. The average of all five tends to be highly correlated with the national purchasing managers manufacturing index ([Fig. 4](#)).

Giving the US manufacturing sector a big boost is the recent strength in construction activity, especially housing starts, which is lifting industrial production of construction supplies ([Fig. 5](#) and [Fig. 6](#)).

(4) *US consumers remain upbeat.* Debbie and I derive the Consumer Optimism Index (COI) every month by averaging the Consumer Confidence Index (CCI) and the Consumer Sentiment Index ([Fig. 7](#)). During January, the COI rose a bit and continued to fluctuate around its cyclical high, as it has for the past year or so. Impressively, the COI's current conditions component rose to the highest reading since November 2000 last month. Consumers are particularly pleased about the opportunities available in the labor market. According to January's CCI survey, the percentage of respondents agreeing that jobs are plentiful was 49.0%, while the percentage feeling that jobs are hard to get was only 11.6%, near the past year's cyclical lows ([Fig. 8](#)). The COI must also be getting a boost from the stellar performance of the stock market.

The risk is that a prolonged global health crisis could disrupt supply chains significantly, forcing factories to lay off workers. In that scenario, a significant correction in stock prices could result.

(5) *Leading the way higher.* The Index of Leading Economic Indicators (LEI) started the year with a solid gain of 0.8% m/m—the most since October 2017 ([Fig. 9](#)). It has stalled around this level for the past year, which is why it is up just 0.9% on a y/y basis. Debbie and I have suggested that because the current expansion is the longest one on record, some of the LEI components have run out of room to improve much. For example, initial unemployment claims probably can't go much lower. Meanwhile, the Index of Coincident Economic Indicators did rise to a new record high during January, putting it up 0.1% m/m and 1.1% y/y.

(6) *Positive economic surprises.* Also showing more signs of life is the Citigroup Economic Surprise Index (CESI) ([Fig. 10](#)). It was 50.7 on 2/21, down from 61.8 on 2/20, which was the best reading since 1/18/18. It's up from around zero at the start of this year. Importantly, the CESI has a history of weakness during the first half of the year and strength during the second half, making its recent strength more significant.

(7) *Mixed bag of global flash PMIs.* Debbie and I usually don't pay much attention to the US flash PMIs that are released several days before the official PMIs are released because the former don't track the latter very well ([Fig. 11](#)). Nevertheless, under the circumstances, we do take note that the US flash M-PMI dropped from 51.9 during January to 50.8 this month.

Furthermore, the US flash NM-PMI fell from 53.4 during January to 49.4 this month. Both are obviously at odds with the two optimistic surveys discussed above.

On the other hand, the Eurozone's flash PMIs moved higher this month, as Debbie reports below. On the third hand (remember, there are two of us), Japan's M-PMI fell further below 50.0 (as it has since last May), with a reading of 47.6. China's woes undoubtedly are weighing on Japan's economy, but so is the sales tax hike that was raised on 10/1/19 by the Japanese government.

US Stocks I: *Gesundheit*. The bull sneezed on Friday. While China's economy is suffering from the flu, the global bull market in stocks has charged ahead in local currencies, led by snorting US stock prices. The S&P 500 sneezed on Friday, falling 1.05% on renewed concerns about COVID-19, but the index is up 3.3% ytd, while the All Country World MSCI ex-US is up 0.9% in local currencies and down 1.7% in US dollars.

Why have the major US stock market averages continued making new record highs almost every day despite the coronavirus outbreak? Investors obviously expect that the pandemic will be contained soon and go into remission as the weather improves, just the way the flu does on a seasonal basis. Though we aren't virologists, this scenario for the latest global health crisis seems to be the most likely one currently.

Furthermore, historically low interest rates are continuing to cause investors to reach for coupon yield in the bond market and dividend yield (as well as earnings growth) in the stock market. Historically low inflation means that central bankers are free to provide liquidity to avert deflation and to keep their economies growing. In this scenario, a recession seems unlikely, especially if the virus crisis abates.

Historically high P/Es can be justified by historically low inflation and interest rates. Nevertheless, this meltup is vulnerable to a correction because P/Es are so high. But that would be yet another buying opportunity as long as the economy continues to grow. Credit crunches and recessions are what cause bear markets in stocks.

Beyond the immediate global health crisis, stock investors seem to be anticipating a very bright future, led by technological innovation and productivity. We agree with that outlook.

Technology now accounts for 47% of capital spending in nominal GDP ([Fig. 12](#)). Joe and I remain bullish on the long-term prospects for the bull market, but we would like to see a pickup

in profits following last year's earnings growth recession. The coronavirus outbreak has postponed the earnings upturn we've been waiting for. So far, that hasn't stopped stock prices from going up, led by US stocks, especially large-cap growth stocks. Consider the following:

(1) *US versus them*. As noted above, US stocks have continued to outperform overseas stocks so far this year ([Fig. 13](#)). Here is the ytd performance for selected major MSCI indexes in local currencies: US (3.7%), EMU (2.5), All Country ex-US (0.9), Emerging Markets (-0.7), Japan (-1.7). (See our [MSCI Share Price Indexes Tables](#).)

(2) *LargeCaps vs SMidCaps*. The S&P 400 and 600 have continued to underperform the S&P 500 since 2018's record high in the S&P 500 on 9/20 of that year ([Fig. 14](#)). Here is the ytd performance derby for the S&P 500/400/600 indexes and sectors: S&P 500/400/600 (3.3%, 1.0%, -0.1%), Communication Services (-1.9, 0.2, 21.9), Consumer Discretionary (4.5, 2.7, 0.9), Consumer Staples (2.7, -2.4, -8.9), Energy (-11.1, -25.7, -25.9), Financials (-0.3, 1.6, -1.8), Health Care (1.3, 4.9, 5.3), Industrials (2.4, 1.1, -0.4), Information Technology (8.2, 0.4, -2.8), Materials (-1.8, -4.8, -7.2), Real Estate (8.1, 3.9, 4.4), Utilities (8.3, 3.1, 3.6). (See our [Performance 2020: S&P 500/400/600 Sectors](#).)

(3) *Growth vs Value*. Growth stocks have been outperforming Value stocks in the S&P 500 since the start of the current bull market, much as the US MSCI has outperformed the All Country World ex-US MSCI since the start of the current bull market ([Fig. 15](#)). Here is the ytd performance derby for the S&P 500/400/600 (3.3%, 1.0, -1.1), S&P 500/400/600 Growth (6.2%, 2.9, 1.8), and S&P 500/400/600 Value (0.0%, -0.9, -4.2).

(4) *Bottom line*. For now, we are sticking with 3500 as the high for the S&P 500 this year. We will consider raising that target (or possibly lowering it), if the index gets there well ahead of the end of 2020, which seems increasingly likely. Stay tuned.

Movie. "The Traitor" (+ + +) ([link](#)) is an Italian docudrama about a real-life Godfather, Tommaso Buscetta, who ratted on the Costa Nostra crime organization run out of Palermo, Sicily. "The Godfather" trilogy is about the fictionalized Corleone family's exploits in the American mafia. In fact, Corleone is a village in the country region of Palermo, where an all-out war between Sicilian mafia bosses over the heroin trade broke out during the early 1980s. Buscetta's sons and brother were murdered in the bloody melee. He decides to become an informant and violate his oath of allegiance to the Cosa Nostra because the blood-thirsty bosses butchered innocent family members of their no-longer-partners in crime. The movie's

portrayal of the courtroom scenes is both hilarious and bloodcurdling. The story told in this film is eerily similar to the one portrayed in Netflix's outstanding "Narcos" series. The latest season ("Narcos: Mexico") is phenomenal. Corruption is an evil human trait that is all too often exacerbated by illegal drugs.

CALENDARS

US: **Mon:** Dallas Fed Manufacturing Index 0.0, Chicago Fed National Activity Index -0.16, Mester, Clarida. **Tues:** Consumer Confidence 132.0, Richmond Fed Manufacturing Index 10, S&P Case-Shiller 20-City Home Price Index 0.4%m/m/2.9%/y/y. (DailyFX estimates)

Global: **Mon:** Ifo Business Climate Index Headline, Current Assessment, and Expectations Indexes 95.3/98.6/92.1, Haldane. **Tues:** Germany GDP 0.0%q/q/0.4%/y/y, Lane. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index drop 1.2%, for its third decline in five weeks. The US MSCI ranked 27th of the 49 global stock markets we follow in a week when 14/49 countries rose in US dollar terms. That compares to a 1.4% decline for the AC World ex-US index as nearly all regions moved lower. EMEA was the best performer as it remained unchanged for the week, followed by EM Eastern Europe (-0.5), EMU (-0.9), BRIC (-1.2), and EAFE (-1.3). EM Latin America (-2.8) was the biggest underperformer, followed by EM Asia (-2.1). Argentina was the best-performing country, rising 5.3%, followed by Portugal (2.9), Morocco (2.1), Hungary (1.8), and New Zealand (1.7). Of the 21 countries that underperformed the AC World ex-US MSCI last week, Korea fared the worst, falling 5.7%, followed by Chile (-4.7), Greece (-4.2), Colombia (-3.9), and Japan (-3.1). Although the US MSCI's ytd ranking fell two places last week, its ytd performance, up 3.7%, puts it at a still-strong ranking of 6/49. The best country performers ytd: Portugal (10.1), Israel (7.3), Egypt (5.5), Denmark (5.4), and Argentina (4.3). The worst-performing countries so far in 2019: Thailand (-11.0), Brazil (-10.3), Greece (-10.1), Chile (-9.5), and Peru (-8.9).

S&P 1500/500/400/600 Performance ([link](#)): All three of these market-cap indexes dropped last week for the third time in five weeks. LargeCap's 1.3% decline was worse than the drops recorded by the MidCap (-0.6%) and SmallCap (-0.8) indexes. LargeCap ended the week 1.4% below its 2/19 record high of 3386.15, MidCap ended up 1.0% below its record high on 1/16, and SmallCap ended up 8.1% below its 8/29/18 record. Four of the 33 sectors moved

higher, down from 31/33 sectors rising a week earlier. SmallCap Communication Services' 1.9% gain was the biggest in the latest week, followed by SmallCap Consumer Discretionary (1.5) and MidCap Consumer Discretionary (0.6). SmallCap Materials (-4.3) was the biggest underperformer last week, followed by LargeCap Tech (-2.5), SmallCap Energy (-2.5), SmallCap Tech (-2.3), and MidCap Tech (-2.0). On a ytd basis, LargeCap's 3.3% gain is well ahead of MidCap's 1.0% rise and SmallCap's 1.1% decline. Twenty-one of the 33 sectors are higher so far in 2020, with the gainers led by SmallCap Communication Services (13.5), LargeCap Utilities (8.3), LargeCap Information Technology (8.2), LargeCap Real Estate (8.1), and SmallCap Health Care (5.3). The biggest laggards of 2020 to date: SmallCap Energy (-25.9), MidCap Energy (-25.7), LargeCap Energy (-11.1), SmallCap Consumer Staples (-8.9), and SmallCap Materials (-7.2).

S&P 500 Sectors and Industries Performance ([link](#)): None of the 11 S&P 500 sectors rose last week, the first time that has happened since mid-May. However, nine of the 11 sectors outperformed the S&P 500's 1.3% decline. That compares all 11 rising and four outperforming the S&P 500's 1.6% gain a week earlier. Real Estate's flat performance for the week made it the best-performing sector, ahead of the declines recorded by Consumer Staples (-0.1), Utilities (-0.2), Materials (-0.3), Health Care (-0.5), Energy (-0.9), Consumer Discretionary (-1.1), Industrials (-1.2), and Communication Services (-1.2). Information Technology was the biggest underperformer with a decline of 2.5%, its biggest since early August, and followed by a 1.3% drop for Financials. The S&P 500 is now up 3.3% so far in 2020, with 8/11 sectors in the plus column and five beating the index. The leading sectors ytd: Utilities (8.3), Tech (8.2), Real Estate (8.1), Consumer Discretionary (4.5), and Communication Services (4.1). The laggards of 2020: Energy (-11.1), Materials (-1.8), Financials (-0.3), Health Care (1.3), Industrials (2.4), and Consumer Staples (2.7).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 1.1% for its second straight weekly gain. It's still down 9.9% since its recent high on 1/6 and ended the week still in a bear market at 20.3% below its cyclical high on 10/3/18. Silver was the best performer last week with a gain of 4.5%, followed by Lean Hogs (4.2%), Gold (3.9), Sugar (3.9), and Natural Gas (3.3). Nickel was the biggest decliner, with a drop of 3.8%, followed by Lead (-2.3), Live Cattle (-1.7), Zinc (-1.7), and Cocoa (-1.5). Just five of the 24 commodities that we follow are up so far in 2020: Sugar (12.7), Cocoa (11.9), Gold (8.3), Unleaded Gasoline (4.2), and Silver (3.9). The worst performers ytd: GasOil (-17.5), Heating Oil (-16.9), Coffee (-15.0), Crude Oil (-12.6), and Natural Gas (-12.4).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index fell 1.3% 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). It remains above its 50-dma, which it successfully tested at the end of January. Its 50-dma relative to its 200-dma rose for an 18th week following nine straight declines and is now 7.6% above its 200-dma, the highest since May 2012. The S&P 500 has formed a Golden Cross for 48 weeks after 17 weeks in a Death Cross formation. The S&P 500's 50-dma rose for a 20th week following three down weeks, but at a slower pace as the price index dropped to a three-week low of 1.6% above its rising 50-dma from 3.6% a week earlier. That's up from a 22-week low of 0.1% above its rising 50-dma at the end of January and is still down from a 10-month high of 4.6% above its rising 50-dma in mid-January. It had bottomed in late August at 3.5% below its falling 50-dma, which was down from 6.6% above during February 2019—its highest level since October 2011. The 200-dma rose for a 37th week. It had been rising for 16 weeks through mid-May after falling from October 2018 to February 2019 in the first downtrend since May 2016 (when it had been slowly declining for nine months). The index traded above its 200-dma for a 38th week, but at a slightly slower pace as it dropped to a three-week low of 9.3% above its rising 200-dma from a 24-month high of 11.2% a week earlier. It had bottomed at a 10-week low of 6.9% above its rising 200-dma at the end of January. That compares to a seven-year high of 13.5% above its rising 200-dma during January 2018 and 14.5% below on 12/24/18, which was the lowest since April 2009.

S&P 500 Sectors Technical Indicators ([link](#)): Nine of the 11 S&P 500 sectors traded above their 50-dmas last week, down from ten a week earlier. That's still up sharply from 5/11 during the last week of January, which was the lowest count since early October. Energy and Financials are the only sectors trading below their 50-dmas. The longer-term picture—i.e., relative to 200-dmas—still had all sectors except Energy trading above. That's down from all 11 above during the three weeks surrounding the new year, when Energy was above for the first time since October 2018. That's still up from six at the end of August, which was the lowest count since early June. Ten sectors are in the Golden Cross club (with 50-dmas higher than 200-dmas), unchanged from a week earlier. That compares to just two sectors in the club during February and all 11 in January 2018. Energy has not been in a Golden Cross for 66 straight weeks. Ten sectors have rising 50-dmas now, unchanged from a week earlier. Energy is the only sector with a falling 50-dma. Ten sectors have rising 200-dmas, unchanged from a week ago. The sole laggard, Energy, has been mostly falling since October 2018. Materials and Financials moved higher for a 26th week in their successful attempts at new uptrends for the first time since September 2018. That compares to just two sectors with rising 200-dmas in

January 2019, in what was then the lowest count since all 11 sectors had falling 200-dmas two years before.

US ECONOMIC INDICATORS

Leading Indicators ([link](#)): Leading indicators in January rebounded to a new record high after falling four of the final five months of 2019. The Leading Economic Index (LEI) posted its biggest monthly gain since October 2017 last month, jumping 0.8%, more than reversing the 0.7% decline during the five months through December. Eight of the 10 components of the LEI contributed positively, while only one, the ISM diffusion index (-0.07ppt), contributed negatively; the average workweek was unchanged. Leading the gain in January's LEI were jobless claims (0.32ppt), building permits (0.26), stock prices (0.12), the leading credit index (0.10, and consumer expectations (0.09). January's report noted: "The LEI's six-month growth rate has returned to positive territory, suggesting that the current economic expansion—at about 2 percent—will continue through early 2020," though cautions that while the weakness in manufacturing is showing signs of softening, "the COVID-19 outbreak may impact manufacturing supply chains in the US in the coming months."

Coincident Indicators ([link](#)): The Coincident Economic Index (CEI) reached another new record high in January; the past six months have seen the index decline only once and rise nearly a percentage point. January's CEI edged up 0.1%, with three of the four components increasing, while industrial production, once again, was the outlier. 1) Job gains in January blew past forecasts, climbing 225,000 (vs 165,000 expected), while revisions showed December and November gains were a net 7,000 higher. 2) Real personal income—excluding transfer payments—posted yet another record high in January, climbing 0.3% in January and 1.2% the past six months. Real incomes accelerated 2.1% y/y, after dipping below 2.0% in December for the first time since January 2017. 3) Real manufacturing & trade sales also reached a new record high in January, climbing 0.3% m/m and 1.2% during the three months through January. 4) Unseasonably warm weather in January, coupled with a halt in Boeing's 737 Max production, depressed output. Headline production dropped 0.3% last month, building on December's 0.4% decline, as utilities output sank 4.3% and factory output slipped 0.1% during the month. Excluding civilian aircraft, manufacturing output rose 0.3% in January.

Regional M-PMIs ([link](#)): Two Fed districts have now reported on manufacturing activity for February—Philadelphia and New York—and show growth accelerating at its fastest clip since October 2017. Thanks to a sharp acceleration in both the Philly and New York regions, the

composite index jumped to 24.8 this month from 10.9 and 2.9 the prior two months. While both regions improved notably, the Philly (to 36.7 from 17.0) region is growing at nearly triple the pace of New York (12.9 from 4.8). Orders were the strongest since May 2018, jumping to 27.9 from 12.4 in January and 6.4 at the end of 2019. Billings in the Philadelphia (33.6 from 18.2) and New York (22.1 from 6.6) regions were the best since May 2018 and September 2017, respectively. In the meantime, employment increased at roughly half the pace of last month, slipping to 8.2 from 14.2 in January—with manufacturers in both the Philly (9.8 from 19.3) and New York (6.6 from 9.0) regions hiring at a slower pace.

Existing Home Sales ([link](#)): Existing home sales—tabulated when a purchase closes—took a step back in January, though was still considerably above year-ago levels. Sales slipped 1.3% in January, to 5.46mu (saar), after jumping 3.9% in December, though was 9.6% higher than last January's 4.98mu. Lawrence Yun, NAR's chief economist, finds the outlook for 2020 home sales promising despite the drop in January. "Existing-home sales are off to a strong start at 5.46 million," Yun said. "The trend line for housing starts is increasing and showing steady improvement, which should ultimately lead to more home sales." Regionally, total sales were mixed in January, though all began 2020 well above year-ago levels: Midwest (2.4% m/m & 8.4 y/y), South (0.4 & 11.7), Northeast (0.0 & 7.4), and the West (-9.4 & 8.2). Single-family sales dipped 1.2% to 4.85mu (saar) last month, after reaching a 21-month high of 4.91mu in December, while multi-family sales slipped 1.6% to 610,000 units (saar) from December's 18-month high of 620,000 units. Total single-family housing inventory at the end of January totaled 1.25 million units, up 3.3% from December but down 11.3% from one year ago (1.41 million). Unsold inventory sits at a 3.1-month supply at the current sales pace, up from a 3.0-month supply in December and down from a 3.8-month supply in January 2019.

GLOBAL ECONOMIC INDICATORS

Eurozone CPI ([link](#)): January's CPI headline rate accelerated for the third month, to 1.4% y/y (matching its flash estimate), after falling to 0.7% in October—which was the lowest since November 2016. It was the 15th consecutive month the headline rate was below 2.0%. Meanwhile, the core rate slowed to 1.1%—from recent highs of 1.3% the prior two months—back near August's recent low of 0.9%. Looking at the main components, food, alcohol & tobacco (to 2.1% from 2.0% y/y) recorded the highest rate, followed by energy (1.9 from 0.2), which had turned positive in December for the first time in five months. Meanwhile, the services rate eased for the second month, to 1.5% y/y in January from 1.9% in November. The rate for non-energy industrial goods fell to 0.3% y/y after accelerating from 0.2% to 0.5% the

prior three months. Of the top four Eurozone economies, rates in France (1.7% y/y) and Germany (1.6) were above the Eurozone's headline rate of 1.4%, while Spain's (1.1) and Italy's (0.4) were below—with Italy's the lowest among all Eurozone members.

Eurozone PMI Flash Estimates ([link](#)): “Eurozone business bucks virus impact as growth hits six-month high” was the headline of this month's IHS Markit's flash estimate report. The C-PMI improved for the third month, from 50.6 in November to 51.6 this month. February's M-PMI (to 49.1 from 47.9) was below 50.0 for the 13th straight month, though improved to a 12-month high—to just below the breakeven point—while the NM-PMI (52.8 from 52.5) reached a two-month high. Looking at the top two Eurozone economies, Germany's C-PMI (to 51.1 from 51.2) shows little change in the rate of growth in its private sector this month, according to preliminary estimates, though manufacturing activity moved closer to stabilization. Germany's M-PMI (47.8 from 45.3) climbed to a 13-month high, while the NM-PMI (53.3 from 54.2) slipped to a two-month low. Regarding the M-PMI, the report noted, “Almost half of the index's month-on-month gain was attributable to a deterioration in supplier delivery times, which panelists predominantly linked to coronavirus-related disruption in China.” However, there were some positive signs, with output, new orders, and employment all exhibiting slower rates of decline. Meanwhile, France's C-PMI (51.9 from 51.1) shows its private sector growing at a slightly faster pace, supported by a solid expansion in the NM-PMI (52.6 from 51.0) to a four-month high, while the M-PMI (49.7 from 51.0) contracted after expanding the prior six months. Its manufacturing sector was hit by weakness in the auto sector, prolonged discontinuation of Boeing 737 Max production, as well as supply-chain issues related to the coronavirus.

US PMI Flash Estimates ([link](#)): Business activity this month contracted for the first time since the global financial crisis, according to flash estimates—with the exception of the government shutdown of 2013. Chris Williamson, Markit's chief business economist, noted: “Weakness was primarily seen in the service sector, where the first drop in activity for four years was reported, but manufacturing production also ground almost to a halt due to a near-stalling of orders.” The weakness reflects concerns about the ongoing coronavirus outbreak—which has affected everything from travel and tourism to exports and supply chains. February's C-PMI (to 49.6 from 53.3) sank to a 76-month low, as did the NM-PMI (49.4 from 53.4), while the M-PMI eased for the third month, from 52.6 in November to a six-month low of 50.8 in February. According to the report, businesses are limiting spending plans due to “worries about a wider economic slowdown and uncertainty ahead of the presidential election later this year.”

Japan PMI Flash Estimates ([link](#)): “Latest PMI data dash any hope of a first quarter recovery in Japan and significantly raise the prospect of a technical recession in the world’s third largest economy,” according to Jibun Bank, source of February’s flash estimate. February’s C-PMI (to 47.0 from 50.1) dropped back below 50.0 as the NM-PMI (46.7 from 51.0) posted its steepest contraction since April 2014. According to the report, the coronavirus outbreak has hit the tourism industry hard—which was a key source of demand for services. The M-PMI (47.6 from 48.8) remained below 50.0 for the 10th consecutive month, posting its weakest performance since December 2012—also impacted by the coronavirus outbreak—though activity was already under pressure following the sales tax hike and devastating typhoon in October. Output, new orders, exports, and backlog orders all fell at an accelerating pace.

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