MORNING BRIEFING
February 23, 2023

On Earnings & Fuel Efficiency

Check out the accompanying chart collection.

Executive Summary: For the S&P 500 index and many of its sectors, forward revenues are at record highs but forward earnings are below their record highs of last year. The disparity indicates a profit-margin squeeze, with several labor-cost-related sources; those stemming from pandemic aftereffects should abate in time. ... And: The fuel efficiency of automobiles has been climbing—with more miles traveled on fewer tanks of gasoline. Increasing use of electric vehicles may be driving this trend. Jackie collects the evidence from two places where EV adoption is ahead of the curve, California and Norway. It's a nascent trend worth watching given the ramifications for global oil demand.

Strategy: Sector Earnings. Yesterday, Joe and I reviewed the latest data on S&P 500 forward earnings. Today, we examine the latest forward data for the 11 sectors of the S&P 500. (FYI: "Forward" earnings, revenues, and profit margins are data series we calculate from industry analysts' consensus estimates for this year and next, time-weighting these estimates such that as a year goes on, months that have passed drop out of the calculation and the forward estimate converges toward the analysts' consensus for the following year, finally matching it at year-end. We impute the forward margin series from their earnings and revenue estimates.)

As we noted yesterday, forward revenues for the S&P 500 remained in record-high territory during the February 16 week. So did forward revenues for several of the index's sectors.

We also observed that S&P 500 forward earnings is down 5.7% from its record high during the week of June 16, 2022. Several of the sectors' forward earnings are also down since then. That's because profit margins have been getting squeezed—in all but the Energy sector, to some degree—as a result of rising unit labor costs, reflecting increasing wages and weakening productivity. We are expecting these cost increases to moderate to the extent that they were boosted by the aftereffects of the pandemic.

Let's look at the latest data:

(1) *S&P 500 forward revenues.* Over the past 26 weeks though the week of February 16, here is the performance derby showing how much forward revenues grew or contracted for

the S&P 500 and its 11 sectors: Utilities (4.6%), Financials (4.1), Consumer Staples (3.9), Health Care (3.8), Communication Services (1.4), Industrials (1.2), S&P 500 (0.7), Real Estate (-0.4), Consumer Discretionary (-1.0), Materials (-1.4), Information Technology (-2.5), and Energy (-7.4) (*Fig. 1*).

(2) *S&P 500 forward earnings.* Now let's do the same analysis for forward earnings: Utilities (3.5%), Consumer Staples (2.6), Financials (0.0), Industrials (-1.7), S&P 500 (-4.2), Communication Services (-4.9), Consumer Discretionary (-5.5), Health Care (-5.5), Information Technology (-5.6), Energy (-6.8), Real Estate (-7.7), and Materials (-15.0) (*Fig. 2*).

(3) *S&P 500 forward profit margin.* Now let's compare the sectors' forward profit margins during the week of February 16 to those of 26 weeks ago (on August 18): Information Technology (23.8%, 24.6%), Financials (17.7, 18.4), Real Estate (17.0, 18.3), Communication Services (14.3, 15.3), Utilities (13.8, 13.9), S&P 500 (12.4, 13.0), Energy (12.3, 12.2), Materials (11.1, 12.9), Industrials (10.0, 10.3), Health Care (9.7, 10.6), Consumer Discretionary (7.1, 7.4), and Consumer Staples (7.1, 7.2) (*Fig. 3*).

(For tables showing the forward earnings and revenues data for the S&P 500 sectors along with 100+ industries, see our *Performance Derby: S&P 500 Sectors & Industries Forward Earnings & Revenues*. Similar tables with forward profit margins are available at *Performance Derby: S&P 500 Sectors & Industries Forward Profit Margin*.)

Energy I: US Still Pumping. US crude oil field production rose to 12.3 million barrels a day (mbd) during the February 10 week, the highest since April 2020 though still below the record high of 13.1mbd during the week of March 13, 2020 (*Fig. 4*). During the February 10 week, petroleum products supplied, which is a measure of demand, was 19.8mbd, while net imports of petroleum products was -0.5mbd. That implies that domestic production was 20.4mbd, exceeding domestic demand by 0.5mbd (*Fig. 5*). (Note that production is equal to crude oil field output plus natural gas liquids.)

The US is even more energy independent when it comes to natural gas. During October, the US imported 237 trillion cubic feet (tcf) of natural gas and exported 554tcf (*Fig. 6*).

Energy II: Auto Efficiency on a Roll. Auto efficiency is undergoing a renaissance, and that could have large implications for oil demand.

Even though Americans have been driving a near-record number of miles, US gasoline consumption has fallen sharply. Vehicle miles driven was 3.26 million in November, based on the 12-month sum, not far from the February 2020 peak of 3.28 million. Yet gasoline usage has fallen to 8.67 million barrels per day (mbd), down 4.5% from a recent peak of 9.08mbd at the start of April 2022 and down 7.1% from 2019 consumption peak of 9.33mbd (*Fig. 7*). Put another way, US drivers are using as much gas today as they were in mid-2020, yet we're driving 7.5% more miles each day.

That alone attests to the fact that vehicle energy efficiency has improved. But for a sense of how greatly, consider data from the US Department of Energy, which reports that vehicle fuel efficiency has jumped to a new all-time high of 24.2 miles per gallon (mpg) as of November, up from 22.8mpg in December 2019 and 21.3mpg in December 2010 (*Fig. 8*).

For perspective, the last time gasoline consumption dropped this sharply was in 2020. But that decline was an anomaly, reflecting fewer miles driven during Covid shelter-in-place mandates. Both miles driven and gasoline consumed snapped right back—though not entirely—when the US economy recovered. A situation more analogous to today's occurred in 2011, when gasoline usage dropped sharply AND vehicle miles traveled slowly increased. That year, the price of gasoline jumped, and more small, fuel-efficient cars were sold in 2011 and 2012. US gasoline fuel efficiency rose from 21.2mpg in 2011 to 22.4mpg by 2012. But over the next decade, major improvements in fuel efficiency stalled.

The gas price jumps of early 2022 and tax incentives encouraging the purchase of electric vehicles (EVs) presumably catalyzed the recent surge in fuel efficiency. The price of gasoline futures soared from the 2020 Covid lows of 41 cents per gallon to a 2022 peak of $4.28 per gallon, only to fall back recently to $2.42 per gallon (*Fig. 9*). Now that gas prices have settled back to more reasonable levels, we'll be watching to see whether fuel efficiency plateaus or keeps climbing—which may depend on whether EVs gain traction.

With that in mind, we decided to examine how the widespread adoption of EVs in California and Norway has affected gasoline consumption. Their experience may foretell where gasoline usage in rest of the world is headed, albeit at a slower speed:

(1) *EVs in the Golden State.* California has adopted EVs more aggressively than any other state in the nation. In 2022, EVs represented almost 16% of new light-duty vehicle sales in the state, a February 10 *article* in Smart Cities Drive reported. Add in plug-in hybrid vehicles, and the number rises to 18%. That's far above the 6% average for the nation, as EV adoption is encouraged by California's high fuel costs and tax incentives. The state has also banned the sale of new light duty gasoline-fueled cars produced starting with the 2035

model year.

There are early indications that Californians' EV adoption may be lessening demand for gasoline. Net taxable gasoline (including for aviation) sold in California fell most years since peaking in fiscal 2018 (ending June), dropping almost linearly: 2018 (15.6 billion gallons), 2019 (15.3 billion), 2020 (14.0 billion), 2021 (13.1 billion), 2022 (13.9 billion), according to the *California Department of Tax and Fee Administration*.

The US Energy Information Administration (EIA) *tracks* prime supplier sales of motor gasoline. Its data show 2021 sales in California were 16% lower than the state's 2015-19 average—greater than the comparable declines in Texas (6%), New York (8), and the US as a whole (5). (The EIA defines a prime supplier as "a firm that produces, imports, or transports any of the surveyed petroleum products across state boundaries and local marketing areas and sells the product to local distributors, local retailers, or end users.")

After adjusting for states' population changes, the EIA determined that prime supplier gasoline sales per capita in 2021 were 15% lower in California compared to its 2015-19 average, exceeding the declines of 10% in Texas, 9% in New York, and 2% in North Carolina. Likewise, prime gasoline sales per 1,000 vehicle miles traveled in 2021 were notably below the 2015-19 average in some states, with California topping the list: California (-10%), Texas (-9), New York (-1), and North Carolina (2).

California's marked decline in gasoline usage could reflect Covid-19 impacts, e.g., more people may continue to work from home in liberal-leaning states like California and New York. So we'll continue to monitor the data to confirm whether EV uptake is driving California's reductions in gasoline demand.

(2) *EVs in the Land of the Midnight Sun.* Norway has successfully encouraged its population to go green with a batch of tax incentives. Last year, 79.3% of new cars purchased there were battery EVs (BEVs), up from 64.5% in 2021, *reported* the Norwegian Electric Car Association. In addition, 8.5% of new cars sold in 2022 were plug-in electric vehicles (PEVs), which means that only 12.2% of cars sold in Norway last year ran exclusively on gasoline or diesel. As a result, Norway is close to achieving its goal of having all new cars sold be powered by electricity or hydrogen by 2025.

That said, it will take a while for Norway's fleet of cars on the road to be entirely electric. Currently, BEVs represent 20.9% of passenger cars on Norway's roads.

The percentage of EVs sold could decline this year because tax incentives won't be as juicy. January's auto sales dropped to less than 5% of December's volume, as purchases were pulled forward in anticipation of the tax changes. The percentage of BEVs slumped to 66.5% of new cars sold, and plug-in hybrids represented 9.8% of car sales in January, *reported* CleanTechnica on February 3.

Norway's enthusiastic adoption of EVs appears to be impacting gasoline demand. BP estimates that Norway's consumption of oil fell from 221,000bpd in 2018 to 199,000bpd in 2021 (the latest data available).

BP's recently published 2023 *Energy Outlook* projects that the large role oil plays in the global economy will continue but diminish. How quickly that drop occurs will depend on how rapidly the world's drivers purchase EVs. BP estimates that global oil demand, which fell from its 2019 peak of 97.7mbd to 94.1mbd in 2021, will continue to decline to the 85-97mbd range in 2030 and 70-93mbd in 2035.

The US EIA isn't as sanguine. It *estimates* that world consumption of petroleum and other liquids peaked at 100.9mbd in 2019, fell to a Covid low of 91.6mbd in 2020, resumed climbing to a projected 99.4mbd in 2022, and is bound for 100.5mbd in 2023 and 102.3 in 2024.

Car manufacturers are taking the move to EVs in Norway seriously. Norway is the first country into which Hyundai stopped selling gasoline-only fueled cars, in 2020, and the company pulled the plug on plug-in hybrids as of year-end 2022. Volvo plans to stop selling gasoline-fueled cars in Norway at some point this year. And VW has said it will sell only EVs starting in 2024, a December 30 Electrek *article* reported. The trend may extend throughout the EU, which plans to ban the sale of new gas and diesel cars in 2035.

Calendars

US: Thurs: Real GDP & Price Index 2.9%/3.5%; Core PCE Prices 3.9%; Corporate Profits Initial & Continuous Jobless Claims 200k/1.70m; Kansas City Manufacturing Index; Chicago Fed National Activity Index; Natural Gas Storage; Bostic. **Fri:** Core PCED 0.4%m/m/4.3%y/y; Personal Income & Spending 1.0%/1.3%; Consumer Sentiment 66.4; New Home Sales 620k; Baker-Hughes Rig Count; Jefferson. (Bloomberg estimates)

Global: Thurs: Eurozone Headline & Core CPI -0.2%m/m/8.6%y/y & -0.8%m/m/5.2%y/y;

UK Gfk Consumer Confidence -42; Japan National Core CPI 4.2% y/y; Nagel; Buck; Bullock; Mann; Cunliffe. **Fri:** Germany GDP -0.2%q/q/0.5%y/y; Germany Gfk Consumer Climate -30.4; France GDP; France Consumer Confidence 81; Spain PPI; Mester; Tenreyro. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The Bull-Bear Ratio was unchanged at 1.68 this week, after falling for the first time in six weeks last week from 1.89 (the highest since early January 2022) to 1.68. *Bullish* sentiment fell this week for the second week by 4.2ppts, to 44.4% from 48.6%—which was the highest percentage since the final reading of 2021. Bulls outnumbered bears for the 14th consecutive week. Meanwhile, *bearish* sentiment slipped to 26.4% this week, after rising from 25.7% (lowest since February 2022) to 26.8% last week; recent readings are well below the 44.1% reading in early October last year. The *correction count* climbed for the second week by 3.5ppts (to 29.2% from 25.7%), remaining well below its late September 2022 peak of 40.3%. Turning to the *AAII Sentiment Survey* (as of February 16), optimism about the short-term direction of the stock market fell after jumping the prior week, while neutral sentiment fell but extended its streak of above-average readings; bearish sentiment rose during the week. The *percentage expecting stock prices to rise* over the next six months slumped to 34.1% after jumping the prior two weeks by 9.1ppts, from 28.4% to 37.5%—which was the highest percentage since December 30, 2021's 37.7%—moving back below its historical average of 37.5% after being at the average the prior week for the first time in 58 weeks. The *percentage expecting stocks to fall* over the next six months rebounded to 28.8% after sinking 11.7ppts the prior two weeks, from 36.7% to 25.0%—which was the lowest since November 11, 2021's 24.0%. Pessimism was below its historical average of 31.0% for just the fifth time in the past 65 weeks—and below average on consecutive weeks for the first time since a five-week stretch in October and November 2021. The *percentage expecting stock prices will stay essentially unchanged* over the next six months fell to 37.1%, after rising the prior two weeks from 34.9% to 37.5%, remaining above its historical average of 31.5% for the seventh consecutive weeks—the longest streak of above-average neutral sentiment since a seven-week stretch in December 2021 and January 2022.

S&P 500 Q4 Earnings Season Monitor (*link*): With the Q4-2022 earnings season now over 85% complete, it's clear that this season is a relatively poor one as assessed by the four surprise metrics we measure for both earnings and revenues. Revenue and earnings surprises are deteriorating q/q due to the slowing economy, higher costs, and currency translation. With over 85% of S&P 500 companies finished reporting for Q4, revenues are ahead of the consensus forecast by just 1.7%, and earnings have exceeded estimates by only 1.6%. This reporting season marks the first time ever that the earnings surprise has trailed the revenue surprise. The earnings surprise is on track to be the weakest since Q4-2008, and the revenue surprise is the weakest since Q1-2020. At the same point during the Q3 season, revenues were 2.2% above forecast and earnings had beaten estimates by 3.7%. For the 427 companies that have reported Q4 earnings through mid-day Wednesday, the aggregate y/y revenue and earnings growth rates have slowed considerably from their readings of Q2-2021 to Q3-2022. The collective y/y revenue gain for the 427 reporters so far has slowed from double-digit percentage gains in the prior seven quarters to 5.8%, and earnings are down 0.5% y/y as higher costs and increased loan-loss provisions continue to pressure profit margins. During the past 56 quarterly reporting seasons over the last 14 years, y/y earnings growth has trailed revenue growth in only 14 of the quarters. Just 68% of the Q4 reporters so far has reported a positive revenue surprise, and a similar 68% has beaten earnings forecasts. Those are the weakest readings since the Great Virus Crisis in H1-2020. Furthermore, significantly fewer companies have reported positive y/y earnings growth in Q4 (61%) than positive y/y revenue growth (73%). These figures will change less markedly as more Q4-2022 results are reported in the coming weeks, but signals from the early retail reporters are disappointing too. While we expect y/y revenue growth rates to remain positive in Q4, earnings are expected to decline for the first time since Q2-2020.

S&P 500 Sectors Net Earnings Revisions (*link*): The S&P 500's NERI was negative for an eighth straight month in February, but improved m/m for a second month. NERI rose to a seven-month high of -7.3% from -11.0% in January and is up from a 30-month low of -15.6% in December. It had been negative for 13 straight months through July 2020 due to the pandemic shutdown. The 23-month positive streak that ended in June 2022 had exceeded the prior 18-month positive streak during the cycle that ended October 2018, when NERI reached a tax-cut-induced, then-record high of 22.1% in March 2018. February's reading compares to a record-high 23.1% in July 2021 and an 11-year low of -37.4% in May 2020. Ten of the 11 sectors had negative NERI in February, up from all 11 with negative readings in the prior two months, which matched the lowest count since July 2020 when all 11 were negative for four straight months. Among the 11 sectors, Consumer Staples turned positive for the first time in 12 months as all but Energy and Utilities improved m/m. Communication Services was negative for a 16th month, and Consumer Discretionary and Health Care for an 11th month. Here are the February NERIs for the S&P 500 and its sectors compared with their January readings: Consumer Staples (1.1% in February [12-month high], up from -0.9% in January), Industrials (-4.5, -9.4), Health Care (-5.5, -15.1), Consumer Discretionary (-6.0, -11.1), Information Technology (-6.1, -10.6), S&P

500 (-7.3, -11.0), Utilities (-8.2, -7.8), Communication Services (-9.0, -19.1), Financials (-10.6, -11.0), Real Estate (-11.0, -13.9), Energy (-13.4 [32-month low], -4.9), and Materials (-16.7, -16.7).

S&P 500 Sectors Net Revenue Revisions (*link*): The S&P 500's NRRI improved for a third straight month in February and was positive for the first time in seven months. It improved to a seven-month high of -0.8% in February from -5.2% in January. Before the 24-month positive streak ended in August, it had been negative for 21 straight months. That positive streak exceeded the prior 19-month streak during the cycle that ended in October 2018, when NRRI reached a tax-cut-induced then-record high of 14.7% in March 2018. February's reading compares to a record-high 25.9% in August 2021 and an 11-year low of -35.8% in May 2020. Six of the 11 S&P 500 sectors had positive NRRI in February, up from four in the prior three months and down from all 11 positive during July-October 2021. All but the Energy, Real Estate, and Utilities sectors had NRRI move higher m/m. NRRI turned negative m/m for Real Estate, but three sectors turned positive: Consumer Discretionary, Health Care, and Industrials. Communication Services was negative for a 16th straight month, followed by Tech at eight months and Materials at seven. Here are the February NRRIs for the S&P 500 and its sectors compared with their January readings: Consumer Staples (21.2% in February [25-month high], up from 16.9% in January), Health Care (6.9 [13-month high], -7.6), Industrials (5.9 [eight-month high], -3.1), Utilities (3.6 [12-month low], 6.8), Financials (3.3 [nine-month high], 0.2), Consumer Discretionary (3.0 [11-month high], -7.4), S&P 500 (0.8 [seven-month high], -5.2), Real Estate (-0.4 [24-month low], 1.8), Materials (-4.0, -4.2), Information Technology (-7.7, -12.0), Communication Services (-12.6, -21.8), and Energy (-19.3 [31-month low], -7.1).

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin remained steady during the February 16 week at a 21-month low of 12.4%. That's down 1.0ppts from its record high of 13.4% achieved intermittently in 2022 from March to June. It's now up 2.1pts from 10.3% during April 2020, which was the lowest level since August 2013. Forward revenues improved 0.1% w/w to 0.2% below its record high during the February 2 week. Forward earnings edged down a whisker to 5.7% below its record high during the June 16, 2022 week. Both had been steadily making new highs from the beginning of March 2021 to mid-June; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth rose 0.1ppt w/w to 2.5%, and is 0.2ppt above its 33-month low of 2.3% during the February 2 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. Forward earnings growth of 3.3% was unchanged w/w, but remains at a 31-month low.

That's down from its 23.9% reading at the end of April 2021, which was its highest since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 1.8% in 2023 (up 0.1ppt w/w) and 5.1% in 2024 (down 0.1ppt w/w) compared to a revenue gain of 11.6% in 2022. They expect earnings gains of 0.3% in 2023 (unchanged w/w) and 11.8% in 2024 (unchanged w/w) compared to an earnings gain of 7.5% in 2022. Analysts expect the profit margin to drop 0.2ppt y/y to 12.2% in 2023 (unchanged w/w) compared to 12.4% in 2022 and to rise to 13.0% in 2024 (unchanged w/w). The S&P 500's weekly reading of its forward P/E rose 0.2pt w/w to a 43-week high of 18.5. That's up from a 30-month low of 15.3 in mid-October. It also compares to 23.1 in early September 2020, which was the highest level since July 2000 and up from a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.01pt w/w to a 24-week high of 2.29, up from a 31-month low of 1.98 in mid-October. That's down from a four-month high of 2.38 in mid-August and also compares to a record high of 2.88 at the end of 2021 and a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Looking at the 11 S&P 500 sectors, last week saw consensus forward revenues rise for five sectors and forward earnings rose for four. The forward profit margin moved w/w for two sectors, rising for Financials and falling for Real Estate, but none of the 11 sectors are at a record high. Forward earnings is below a record high for all but the Consumer Staples sector, but four sectors still have forward revenues at or close to record highs: Consumer Staples, Financials, Health Care, and Industrials. These three sectors are holding up well with their forward earnings down less than 5% from their record highs: Financials, Industrials and Utilities. Since mid-August, all sectors have seen forward profit margins retreat from their record highs. Those of Energy and Industrials remain close to their post-pandemic highs. Energy and Industrials were the only two sectors to have their profit margin improve y/y for full-year 2022, but these five sectors are expected to improve y/y in 2023: Communication Services, Consumer Discretionary, Financials, Industrials, and Utilities. Here's how they rank based on their current forward profit margin forecasts along with their record highs: Information Technology (23.8%, unchanged w/w at a 21-month low and down from its 25.4% record high in June 2022), Financials (17.7, up 0.1ppt w/w from a 22-month low and down from its 19.8 record high in August 2021), Real Estate (17.0, down 0.2ppt w/w and from its 19.2 record high in 2016), Communication Services (14.3, unchanged w/w and down from its 17.0 record high in October 2021), Utilities (13.8, unchanged w/w and down from its 14.8 record high in April 2021), Energy (12.3, unchanged w/w and down from its 12.8 record high in November), S&P 500 (12.4, unchanged w/w at a 21-month low and down from its record high of 13.4 achieved intermittently in 2022 from March to June), Materials (11.1, unchanged w/w at a 24-month low and down from its 13.6 record high in

June), Industrials (10.0, unchanged w/w at an 18-month low and down from its 10.5 record high in December 2019), Health Care (9.7, unchanged w/w at a record low and down from its 11.5 record high in March 2022), Consumer Staples (7.1, unchanged w/w at a 56-month low and down from its 7.7 record high in June 2020), and Consumer Discretionary (7.1, unchanged w/w at a 21-month low and down from its 8.3 record high in 2018).

S&P 500 Sectors & Industries Forward Profit Margin Since Peak (*link*): Since the S&P 500's forward profit margin peaked at a record-high 13.4% during the June 9 week, it has fallen 7.6% to 12.4% through the February 16 week. The drop has been paced by four of the 11 sectors, though all but the Energy sector is down since the peak. Here's the sector performance since the June 9 peak: Energy (up 2.8% to 12.3%), Utilities (down 0.6% to 13.8%), Consumer Staples (down 2.7% to 7.1%), Industrials (down 3.9% to 10.0%), Real Estate (down 5.3% to 17.0%), Information Technology (down 6.2% to 23.8%), Financials (down 7.2% to 17.7%), S&P 500 (down 7.6% to 12.4%), Consumer Discretionary (down 8.2% to 7.1%), Communication Services (down 11.2% to 14.3%), Health Care (down 11.7% to 9.7%), and Materials (down 18.3% to 11.1%). These are the best performing industries since the June 9 peak: Oil & Gas Refining & Marketing (up 67.3% to 5.7%), Wireless Telecommunication Services (up 65.8% to 11.2%), Casinos & Gaming (up 53.3% to 3.5%), Airlines (up 25.7% to 5.1%), Reinsurance (up 20.4% to 14.1%), and Oil & Gas Equipment & Services (up 17.8% to 10.8%). The worst performing industries since the June 9 peak: Alternative Carriers (down 75.1% to 2.2%), Commodity Chemicals (down 43.6% to 5.8%), Home Furnishings (down 39.8% to 5.4%), Housewares & Specialties (down 37.0% to 5.2%), Copper (down 34.7% to 12.6%), and Publishing (down 32.3% to 2.4%).

Global Economic Indicators

Germany Ifo Business Climate Index (*link*): "The German economy is gradually working its way out of a period of weakness," according to ifo. The overall index hasn't posted a decline in five months, climbing 1.0 point in February and 6.7 points over the period, to 91.1 this month. It was as high as 101.4 in June 2021. The *expectations* component accounts for the upswing, rising for the fifth month, by a total of 13.2 points to 88.5, after plunging 23.2 points—from 98.5 last February to 75.3 by September, which was the lowest since April 2020. Meanwhile, *current conditions* has remained at recent lows, slipping from 94.1 to 93.9 this month, averaging 94.0 the past five months. There were signs of hope, with all four sectors moving higher this month: The *manufacturing sector* saw its business climate index continue to improve, moving back into positive territory. It's jumped 17.1 points the past four months, from a 28-month low of -15.6 in October to +1.5 this month, as companies were less pessimistic about the future (to -10.1 from -40.5 in October) over the period; the current assessment component was up from its recent lows though did slip this month, from 17.0 to 13.0. The *service sector* saw its business climate index move up for the fifth month, from -8.7 last September to +1.3 this month, as its expectations (-13.7 from -36.0 in September) measure was less negative, while businesses were somewhat more satisfied with their current conditions. Sentiment was particularly strong in hospitality and tourism. Sentiment in the *trade sector* (-10.6 from -32.3 in September) improved for the fifth month, posting its highest reading since last February, as expectations (-27.0 from -57.6) moved away from historical lows and current conditions (to 7.5 from -2.5) posted its third successive reading above zero. Both wholesalers and retailers are getting over last year's collapse in sentiment. The *construction sector* remained entrenched in negative territory, though improved a bit for the second straight month, to -19.6. Its expectations component improved for the fourth month in a row, to -43.1 from -46.8 in October, though remained extremely pessimistic, while businesses were more satisfied with their current situation—with that measure up from 3.9 to 7.4; it had peaked at 33.4 last February.

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