MORNING BRIEFING
March 29, 2017

Many Happy Revenues

See the collection of the individual charts linked below.

(1) The recession is over. (2) Low oil prices are now stimulative on balance for the global economy. (3) Revenues are recovering with manufacturing & trade sales. (4) M-PMI is bullish for revenues, and so are regional business surveys. (5) Lots of sectors showing record-high forward revenues. (6) Belushi & Trump: “Toga! Toga! Toga! Toga!” (7) Giddy measure of consumer optimism. (8) Older consumers turned especially upbeat after Election Day. (9) Jobs are plentiful.

Strategy I: S&P 500 Revenues. The global economy fell into a growth recession from mid-2014 through early 2016. It was caused by a severe recession in the global commodities sector, led by a collapse in oil prices. It was widely expected that the negative consequences of lower oil prices for producers would be more than offset by the positive ones for consumers. That was not the case. The former outweighed the latter because the commodity-related cuts in capital spending overshadowed the boost to consumer spending from lower oil prices. In addition, there was a brief credit crunch in the high-yield market on fears that commodity producers would default on their bonds and trigger a widespread financial contagion.

Now the worst is over for commodity producers, as their prices have rebounded. That’s because they scrambled to reduce output and restructure their operations to be more profitable at lower prices. More importantly, global demand for commodities remained solid. Now with commodity prices, especially oil prices, well below their 2014 highs, consumers are benefitting more than producers are suffering.

Voila! The global economy is showing more signs of improving in recent months. That’s already boosting revenues growth for the S&P 500, and should be increasingly obvious as corporations report their top-line growth rates for the Q1 earnings season during April. Let’s have a closer look:

(1) *Commodity prices.* The CRB raw industrials spot price index fell 27% from April 24, 2014 through November 23, 2015 (*Fig. 1*). The index is up 28% from the low. The price of a barrel of Brent crude oil plunged 76% from its 2014 high of $115.06 on June 19 to its 2016 low of $27.88 on January 20 (*Fig. 2*). It is up 84% from its low to $51.28 yesterday.

(2) *Business sales.* US manufacturers’ shipments of petroleum products plunged 58% from the end of 2013 through February 2016 (*Fig. 3*). That drop weighed heavily on US manufacturing and trade sales, which declined on a y/y basis each month from January 2015 through July 2016 (*Fig. 4*). Excluding petroleum shipments, this broad measure of business sales of goods barely grew during this energy recession.

(3) *S&P 500 revenues.* Joe and I aren’t surprised to see S&P 500 revenues tracing out the same pattern as business sales since we have been tracking the close relationship of the two for some time (*Fig. 5*). The y/y growth rates of business sales and S&P 500 revenues (either on an aggregate or per-share basis) continue to be very close (*Fig. 6*). The same goes for the relationship excluding Energy revenues from the S&P 500 aggregate and business sales excluding petroleum shipments (*Fig. 7*).

Joe continues to monitor analysts' expectations for the short-term (year-ahead) growth rates of S&P 500 revenues and earnings (STRG and STEG), as well as long-term (five-year-ahead) earnings growth (LTEG) on a weekly basis (*Fig. 8*). He reports that STRG has rebounded from close to zero in early 2015 to about 5.5% currently. Since the start of last year, STEG has jumped from about 5% to over 10%. LTEG is around 12.3%, near the best reading of the current economic expansion.

We doubt that any of these improvements have much to do with Trump's election victory. We have no doubts that the end of the global Energy sector's recession accounts for much of the improvement.

(4) *Business surveys.* Another upbeat indicator for S&P 500 revenues is the M-PMI, which has a good correlation with the y/y growth rate in S&P 500 revenues (both in aggregate and per-share) (*Fig. 9*). The former jumped from a recent low of 49.4 during August 2016 to 57.7 during February, the best level since August 2014. That too is consistent with a manufacturing recovery following the end of the energy recession, and augurs well for revenues growth.

By the way, there is a similarly good correlation between revenues growth and the composite business indicators from the regional surveys conducted by five Fed districts. All five are available through March, with their average index jumping from last year's low of -12.8 to 21.6 this month (*Fig. 10*).

Strategy II: S&P 500 Sectors Revenues. For the upcoming Q1 earnings season, Joe reports that industry analysts are currently forecasting a revenue gain of 7.1% y/y for the S&P 500, and 5.0% excluding Energy. Here are the expectations for the 11 sectors of the S&P 500: Energy (35.9%), Utilities (8.7), Financials (8.1), Tech (7.9), Health Care (6.1), Materials (6.0), Consumer Discretionary (4.7), Real Estate (2.8), Industrials (2.5), Consumer Staples (1.7), and Telecom (-0.4).

Forward earnings are in record-high territory for all but the following sectors: Energy, Financials, Materials, Real Estate, Telecom Services, and Utilities (*Fig. 11*).

US Economy: More Animals. The US economy is turning into Animal House. I say that with great admiration. After all, the 1978 movie "National Lampoon's Animal House" cost only $2.8 million to make, and is one of the most profitable movies in history, with an estimated gross of more than $141 million in ticket sales. When it was released, it got mixed reviews, but Roger Ebert judged that it was one of the year's best. In 2001, the United States Library of Congress proclaimed that the comedy film is "culturally, historically, or aesthetically significant" and selected it for preservation in the National Film Registry. It starred John Belushi.

The question is whether "Trump World" starring Donald Trump will eventually win similar accolades. It hasn't cost much so far. Yet it has arguably increased the market capitalization of the Wilshire 5000 by $2.2 trillion, to $24.4 trillion, since Election Day. It did so by reviving Animal Spirits. They've been boosted by Trump's moving rapidly on his promise to reduce regulations on business and bring back manufacturing jobs. The elevated spirits haven't been dashed by his failure last week to R&R Obamacare. Apparently, there are still high hopes for lower tax rates.

Our measure of consumer optimism has turned giddy, though half the country reportedly thinks that Trump is a joke. His poll ratings are terrible, though the pollsters have been wrong about him before. Indeed, the vote of confidence implied by the current and expected outlook for the economy in recent surveys of consumers is overwhelmingly upbeat. The Conference Board's Consumer Confidence Index (CCI) is particularly euphoric, rising from 100.8 last October to 125.6 during March, the highest since December 2000 (*Fig. 12*).

The Consumer Sentiment Index compiled by the Survey Research Center at the University of Michigan is more subdued. Maybe its respondents represent more Democrats and fewer Republicans than the CCI's. When Debbie and I average the two, our Consumer Optimism Index still shows lots of optimism (*Fig. 13*).

The CCI jump has been especially large among people who are 55 years and over (*Fig. 14*). The CCI seems to give more weight to labor market conditions. The survey used to compile the CCI shows that 31.7% of respondents agree that jobs are plentiful (*Fig. 15*). That's the highest reading since August 2001.

Previously, I've suggested that Olivia Newton-John's 1981 hit song "Physical" might provide a clue to the economy and the stock market in Trump World. The lyrics at the end are "Let's get animal, animal / I wanna get animal." You can monitor it all in our new *Animal Spirits* chart publication.

CALENDARS

US. Wed: Pending Home Sales 1.8%, MBA Mortgage Applications, EIA Petroleum Status Report, Evans. **Thurs:** Real GDP & Price Deflator 2.0%/2.0%, Corporate Profits, Jobless Claims 247k, Weekly Consumer Comfort Index, EIA Natural Gas Report, Kaplan, Dudley. (Bloomberg estimates)

Global. Wed: Japan Small Business Confidence. **Thurs:** Eurozone Business Climate Index 0.87, Germany Retail Sales 0.7%m/m/0.4%y/y, Germany CPI 0.4%m/m/1.8%y/y, UK Consumer Confidence -7, Japan Jobless Rate 3.0%, Japan Industrial Production, Japan Household Spending -1.7% y/y, Japan Headline, Core, and Core-Core CPI 0.3%/0.2%.0.1% y/y. (DailyFX estimates)

US ECONOMIC INDICATORS

Consumer Confidence (*link*): Consumer confidence in March continued its post-election surge, climbing to a 16-year high. The Consumer Confidence Index soared from 100.8 in October to 125.6 this month—the highest since December 2000. Both the present situation and expectations components climbed to new cyclical highs. Since October, the former has jumped 20.0ppts to 143.1 (the highest since August 2001), while the latter is 27.8ppts higher at 113.8 (the best since September 2000). Both the present and future jobs' situations improved dramatically. This month, the percentage of respondents saying jobs are plentiful (31.7%) was the highest since August 2001, while those saying jobs are hard to get (19.5) was the lowest since July 2007. Consumers' six-month job outlook also improved dramatically, with those expecting more jobs (24.8) continuing to exceed those expecting fewer jobs (12.2); March's spread was the most favorable since January 1984! Lynn Franco, director of economic indicators at the Conference Board, noted, "Consumers feel current economic conditions have improved over the recent period, and their renewed optimism suggests the possibility of some upside to the prospects for economic growth in the coming months."

Regional M-PMIs (*link*): Five Fed districts have reported on manufacturing activity for March—New York, Philadelphia, Kansas City, Dallas, and Richmond—and show the sector continued to expand at a robust pace, though not as fast as February's. We average the composite, orders, and employment measures as data become available. The composite index slipped to 21.6 this month from 23.5 last month—which was the highest reading since July 2004. The Kansas City measure (to 20 from 14) jumped to a six-year high; Richmond's (22 from 17) was the highest in seven years. The Philadelphia (32.8 from 43.3) and New York (16.4 from 18.7) measures slowed slightly after improving dramatically in February; Dallas' (16.9 from 24.5) eased from February's more-than-a-decade high. Meanwhile, the orders and employment indexes continued to pick up. The new orders index (25.5 from 22.6) accelerated for the seventh consecutive month, reaching its fastest pace in the history of this series going back to 2004. The Philadelphia (38.6 from 38.0) and Kansas City (32 from 26) measures showed the fastest growth since December 1987 and December 2003, respectively, while both the New York (21.3 from 13.5) and Richmond (26 from 24) rates were the best since April 2010. Dallas' (9.5 from 11.6) growth rate slowed for the second month. The employment index (13.5 from 9.9) was positive for the third month—after negative readings the prior 18 months—at its highest level since May 2011. Richmond's (20 from 10) gauge showed the best growth in the history of the series going back to 1993, while Philadelphia's (17.5 from 11.1) growth was the fastest in nearly two years. New York's (8.8 from 2.0) measure showed manufacturers adding to payrolls for the second month after cutting jobs the previous seven months; Kansas City's (13 from 17) and Dallas' (8.4 from 9.6) slowed a bit, from recent highs.

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