Earnings I: Yesterday. Joe reports that S&P 500 data are now available through Q4-2018. There are no surprises in the newly released data. Let’s review:

1. **Revenues at record high.** S&P 500 revenues per share jumped 2.5% q/q to a new record high of $349.97 (Fig. 1). The y/y growth rate slowed to 6.2% from a recent high of 11.2% during Q2 of last year (Fig. 2).

Last year’s strong revenues growth came after the recovery during late 2016 and 2017 from the revenues recession of 2015 and early 2016. This pattern is very reminiscent of previous cycles in revenues. If the pattern continues, then revenues growth will probably be weaker this year than last year, and should be stronger during 2020.

2. **Earnings dip from record high.** S&P 500 operating earnings (using Refinitiv data) fell 3.6% q/q during Q4, but rose 14.2% y/y (Fig. 3 and Fig. 4).

3. **Profit margin dips too.** Joe and I calculate the S&P 500’s operating profit margin using operating earnings data series compiled by Refinitiv and dividing it by S&P’s data for S&P 500 revenues (Fig. 5 and Fig. 6). The quarterly margin rose to a record high of 10.9% during Q4-2017, before Trump’s tax cut, and rose to a record high of 12.5% during Q3-2018 thanks to Trump’s tax cut. The tax cut should provide a permanent boost to the profit margin, provided that it remains in force. So the recent dip in the profit margin may reflect rising cost pressures that cannot be passed through to prices or offset with productivity.

4. **Big tax cut.** As a rough measure of the impact of the tax cut on earnings last year, we observe that revenues rose 9% last year compared to the 2017 pace. Similarly, earnings grew 23% last year over the previous year. This implies that the tax cut boosted earnings by 14ppts.

Earnings II: Today. The bears have done their best to warn us all that an earnings recession is likely to happen during the first half of this year. Only a few of them are saying that it will result from a revenues recession. If revenues growth slows to a more normal pace of 4.0% this year, let’s say, then earnings should grow at the same rate if the profit margin remains flat near its recent record high.

The profit recession during the first half of this year is mostly attributable to the very tough y/y
comparisons due to the tax cut. As noted above, the tax cut boosted earnings by 14ppts last year. Excluding it, “organic” growth in earnings would have lowered last year’s level to make for easier comparisons during the first half of this year.

During the 2/28 week, industry analysts continued to lower their consensus expectations for S&P 500 operating earnings for the first three quarters of 2019 (Fig. 7). They now see earnings down 1.1% y/y during Q1 and up just 1.2% during Q2 (Fig. 8). But then the sun comes out from the clouds: They estimate 2.7% during Q3 and 9.3% during Q4.

Joe and I have found that the weekly series on forward revenues, earnings, and the profit margin are all great coincident indicators of their respective quarterly series (Fig. 9). All three of the weekly indicators are looking toppy, but that’s after big moves to the upside last year.

**Earnings III: Tomorrow.** During the 2/21 week, industry analysts predicted that S&P 500 revenues per share would grow 4.8% this year, down from their estimate of 5.6% at the start of this year (Fig. 10). On the other hand, they’ve been getting more optimistic about next year, raising their forecast from 4.9% to 5.6%.

Their earnings growth forecast for this year has been slashed from 7.6% to 4.2% during the 2/21 week (Fig. 11). Growth is then expected to increase to 11.3% next year.

The analysts’ consensus estimate for the profit margin has declined since early this year to 12.0%, now unchanged from last year (Fig. 12). Next year’s forecast has also been getting cut, but remains (too) high at 12.6%.

**Earnings IV: YRI Forecasts.** Joe and I are projecting that S&P 500 revenues per share will rise 4% this year to $1,383 and 5% next year to $1,452 (Fig. 13). We are slightly lowering our earnings targets to $167 for 2019 and to $176 for 2020 (Fig. 14).

We calculate aggregate S&P 500 operating earnings by multiplying the S&P 500 earnings per share (EPS) by the index’s divisor, which is used to ensure that changes in shares outstanding, capital actions, and the addition or deletion of stocks to the index do not change the level of the index. The divisor boosted EPS growth by nearly 2.0ppts last year with an assist from buybacks fueled by repatriated earnings (Fig. 15). We have no reason to expect that it will contribute much more than 1.0ppt to EPS this year or next year.

**Earnings V: Dividends.** Finally, the S&P 500 companies paid a record $454.2 billion in dividends last year (Fig. 16). The dividend payout ratio, defined as the four-quarter sum of dividends divided by the four-quarter sum of aggregate operating earnings, fell to 35% from 39% a year earlier (Fig. 17).

**CALENDARS**

**US. Wed:** ADP Employment 180k, Merchandise Trade Balance -$57.6b, MBA Mortgage Applications, EIA Petroleum Status Report, Beige Book, Williams, Mester. **Thurs:** Productivity & Unit Labor Costs 1.6%/1.8%, Jobless Claims 223k, Challenger Job-Cut Report, Consumer Credit $17.3b, EIA Natural Gas Report, Brainard. (Econoday estimates)

**Global. Wed:** Australia GDP -.5%/q/2.7%/y/y, BOC Rate Decision 1.75%, OECD Interim Economic Outlook. **Thurs:** Eurozone GDP 0.2%/q/1.2%/y/y, Japan GDP (annualized) 1.7%, Japan Leading & Coincident Indexes 96.0/98.9, Australia Retail Sales 0.3%, Mexico CPI 3.9% y/y, ECB Rate Decision 0.00%, ECB Marginal Lending Facility & Deposit Facility Rates 0.25%/-0.40%, Draghi. (DailyFX
estimates)

**US ECONOMIC INDICATORS**

**New Home Sales** ([link](#)): New home sales—tabulated when contracts are signed—climbed to a seven-month high in December, though November’s double-digit gain was revised lower. New home sales rose 3.7% at the end of 2018 to 621,000 units (saar)—the highest since May—after climbing a revised 9.1% in November, which was significantly slower than the 16.9% preliminary estimate. Regionally, sales rose in three of the four regions—the Northeast (44.8%), South (5.0), and West (1.4)—and fell in the Midwest (-15.3) at a double-digit rate after increasing at a double-digit rate in November. The supply of new homes on the market (344,000) was the highest since the end of 2008, while the months’ supply at the current sales rate fell to 6.6 from 7.2 in October (the highest since March 2011). The number of properties sold for which construction hadn’t yet started jumped 22.4% in December to a 13-month high of 213,000.

**GLOBAL ECONOMIC INDICATORS**

**Global Composite PMIs** ([link](#)): Global economic activity accelerated slightly in February after posting its slowest growth since September 2016 in January. The JP Morgan Global Composite Output Index (C-PMI) rose to 52.6 after slipping to a 28-month low of 52.1 in January; it was at a 3.5-year high of 54.8 last February. The Global M-PMI (to 50.6 from 50.7) continued to deteriorate, falling to its lowest reading since June 2016, while the Global NM-PMI (53.3 from 52.6) improved to a three-month high—after posting its slowest growth since September 2016 in January. Growth in the services industry outpaced manufacturing for the tenth month running. Looking at C-PMIs for the developed (52.9 from 52.3) and emerging (unchanged at 51.6) economies, growth picked up slightly in the former and matched January’s pace in the latter—with emerging economies once again growing at a slower pace than the developed ones. February C-PMIs show the US (55.5, 7-month high) remained the main driver of the global economic expansion; growth accelerated in both the Eurozone (to 51.9 from 51.0) and the UK (51.5 from 50.3) last month, though remained below the global average of 52.6. Within the Eurozone, C-PMIs for Ireland (55.4, 2-month high), Spain (53.5, 2-month low), and Germany (52.8, 4-month high) were all above the global average. Meanwhile, France’s C-PMI (50.4) moved back into expansionary territory, after contracting the prior two months, while Italy’s (49.6, 2-month high) showed growth contracting for the fourth time in five months, though is nearing the breakeven point of 50.0. C-PMIs for India (53.8, 3-month high) and Russia (54.1, 3-month high) saw their respective rates of increase improve, with expansions above the global average in both cases. Meanwhile, growth remained modest in Japan (50.7, matching a 24-month low) and China (50.5, 4-month low), weakening from the prior survey month.

**Global Non-Manufacturing PMIs** ([link](#)): February saw the rate of expansion in the global services economy improve for the first time in three months, driven by an acceleration in developed economies. JP Morgan’s Global NM-PMI (to 53.3 from 52.6) picked up along with the NM-PMI (53.7 from 52.5) for developed economies, after each dropped to 28-month lows in January. Meanwhile, the NM-PMI (52.1 from 52.9) for emerging economies fell for the third month since reaching a recent peak of 53.8 in November. Once again, NM-PMIs show the US (56.0, 7-month high) was the main driver of the acceleration, but the service sector also strengthened in the Eurozone (52.8, 3-month high), Japan (52.3, 3-month high), the UK (51.3, 4-month high), and India (52.5, 2-month high). China’s NM-PMI (51.1, 4-month low) expanded at its second-weakest pace in 18 months, while Australia’s (48.7) contracted for the first time since the (Australian) survey history began in May 2016.

**US Non-Manufacturing PMIs** ([link](#)): The ISM measure for February shows growth in the US service sector accelerated for the first time in three months—with its NM-PMI just shy of 60.0—while the IHS
Markit measure was the strongest since last July. ISM’s NM-PMI (to 59.7 from 56.7) rebounded to within 1.1 points of September’s cyclical high of 60.8. Of the four components, only employment (55.2 from 57.8) showed a deceleration, though remained at an elevated level. Meanwhile, both the business activity (64.7 from 59.7) and new orders (65.2 from 57.7) measures rebounded sharply, soaring above 60.0. The supplier deliveries (53.5 from 51.5) component improved to a three-month high. February’s IHS Markit’s NM-PMI increased for the first time in four months, to a seven-month high of 56.0, after falling from 54.8 in October to 54.2 in January. According to the report, the rise in output was supported by a sharp increase in new business and a return to growth in new export orders—as foreign demand advanced at the strongest rate since last May. Meanwhile, inflationary pressures picked up in February, with service providers registering faster rises in both input prices and output charges.

Eurozone Retail Sales (link): January retail sales rebounded to within 0.1% of November’s record high. Sales recovered 1.3% after contracting a revised 1.4% (from -1.6%) in December, on widespread gains. Sales of non-food products (excluding auto fuel) recorded the biggest gain, jumping 1.7%, after contracting 2.4% in December, followed closely by automotive fuel’s 1.6% increase; it was the fifth consecutive gain for the latter, for a total advance of 3.4%. Spending on food, drinks & tobacco climbed 0.6%, more than reversing the 0.4% decline posted during the two months through December. January sales are available for two of the four largest Eurozone economies, Germany and France—with the former posting the biggest gain in January, among the Eurozone economies, after recording the biggest decline in December. German retail sales rebounded 3.3% to a new record high, following a revised 3.1% decline in December—first reported as a 4.3% loss. Sales in France climbed 0.9%, also to a new record high, more than reversing December’s 0.6% fall. Aside from Germany, Malta (3.3%) and Estonia (1.9) rounded out the top three gainers, while losses were recorded in only four Eurozone economies: Finland (-2.1), Slovenia (-1.0), Austria (-0.7), and Belgium (-0.4).