MORNING BRIEFING
March 11, 2019

Peace & Productivity Dividends Ahead?

See the collection of the individual charts linked below.

(1) Bad vs good data. (2) Rules for forecasters. (3) Draghi’s new mantra. (4) Remember Eurosclerosis? It’s back. (5) All we are saying is give peace a chance. (6) How the moon impacts Chinese trade. (7) Don’t put much weight on latest payroll stat. (8) Upward revisions to payrolls matter. (9) DC shutdown boosted January’s employment and depressed February’s number. (10) Blaming the weather too. (11) Earned Income Proxy at record high. (12) Tightening labor market could produce productivity dividend.

Video Podcast. In my latest video podcast, titled “Happy Birthday to the Bull Market,” I examine the prospects for the bull market that turned 10 years old on March 9. I also discuss potential peace and productivity dividends that may prolong the bull’s run.

Yardeni’s Rules for Forecasting. Any economic data point that does not support my forecast must be bad data, and will be revised to confirm that I was right all along. If two consecutive data points suggest that I may be wrong, then I will start to waffle. Three of them, and I’ll change my forecast. That is, unless I can blame the weather for distorting the numbers or the occasional government shutdown for doing the same. Furthermore, if a data point is stronger (or weaker) than expected, odds are that it will be followed by a weaker (or stronger) data point. Consider the following:

(1) China trade. A month ago, I recall that investors were surprised by the strength in China’s January merchandise trade stats in the face of the trade war with the US. This past Friday, they were surprised by the weaker-than-expected numbers for February.

(2) US payrolls. A month ago, investors were surprised by the stronger-than-expected jump in January’s US payroll employment. This past Friday, they were shocked by a weaker-than-expected number for February.

(3) ECB. On the other hand, there hasn’t been much ambiguity about the trends of economic indicators for the Eurozone. They’ve been uniformly abysmal, as Debbie and I have been observing for several months now.

Global Economy I: Eurosclerosis. Notwithstanding the increasingly loud drumbeat of negative economic and political news out of Europe over the past year, investors were surprised last Thursday when European Central Bank (ECB) President Mario Draghi announced the latest decision of the central bank’s Governing Committee in a press conference as follows: “First, we decided to keep the key ECB interest rates unchanged. We now expect them to remain at their present levels at least through the end of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.”

Draghi’s old mantra was “Whatever it takes.” His new one is “As long as necessary.” He indirectly acknowledged that there isn’t much more that the central bank can do to address problems that the
ECB can’t fix: “The persistence of uncertainties related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets appear to be leaving marks on economic sentiment.”

Central bankers still seem to believe that they can control inflation. Indeed, Draghi explained that the ECB’s latest decision was warranted because “underlying inflation continues to be muted.” Recall that he made his famous whatever-it-takes comments on July 26, 2012. Yet during February of this year, the latest CPI headline (1.5%) and core (1.0%) inflation rates remained well below the ECB’s target of 2.0%, according to the flash estimate (Fig. 1).

Draghi’s statement was a radical change from the previous guidance provided by bank officials, consisting of expectations that the bank would start raising interest rates again in September of this year. On the other hand, investors expected, and the ECB delivered, another round of targeted longer-term refinancing operations (a.k.a. TLTROs) to start in September.

“Eurosclerosis” was coined by German economist Herbert Giersch in a 1985 paper. He used it to describe a pattern of economic stagnation in Europe that resulted from government over-regulation and overly generous social benefits policies. The Europeans tried to fix the problem by coining a new currency, i.e., the euro. They hoped it would speed up economic integration in the region and cure all their structural problems. Monetary unification did not lead to political integration. Instead, recent events in Europe suggest that the forces of political disintegration are prevailing, which is weakening the forces of monetary and economic unification.

Global Economy II: Peace Dividend? While the latest two data points on Chinese exports and on American payrolls hold contradictory implications about global economic growth, there’s no ambiguity about the weakness in Europe. Indeed, the ECB slashed its 2019 growth forecast for the Eurozone from 1.7% to 1.1%. That follows recent cuts for the region by the International Monetary Fund (1.6%) and the European Commission (1.3%).

In last Tuesday’s Morning Briefing, titled “Will There Be a Peace Dividend?,” we wrote: “While there has been a great deal of exuberance in global stock markets so far this year, the same cannot be said about the global economy.” We suggested that global investors must be expecting that the China-US trade war will end soon with a negotiated settlement that should provide a significant “peace dividend” to the global economy.

Last week’s global stock selloff suggests that investors are getting tired of waiting for a deal and growing anxious about global growth prospects if no deal that provides a peace dividend arrives soon. Both China and the Eurozone have some serious homegrown problems. However, both would benefit from a quick resolution of the China-US trade tiff. The US economy continues to look very good, in our opinion, and would look even better if a deal is done. Now consider the following more detailed analysis of the points we just made.

Global Economy III: China’s Seasonal Swings. China’s monthly merchandise trade figures are not seasonally adjusted and are very volatile (Fig. 2). So for example, exports tend to be very weak during the month of February, when the Lunar New Year holiday often occurs. This year, exports dropped 38.6% m/m, following a 2.0% downtick during January.

Seasonally adjusted data show a decline of 13.1% during February, following a gain of 11.0% during January (Fig. 3). That’s still a big drop, but it followed a big increase. Furthermore, similar declines in the past were frequently followed by solid gains.
US Economy I: Blaming the Weather. In my book *Predicting the Markets* (2018), I wrote: “The initial report of payrolls tends to be revised in the next two monthly reports as more information becomes available. In fact, I tend to give much more weight to the data for the two revised months than to the latest preliminary estimate because the revisions can be significant. Furthermore, I believe they contain useful information. It’s not so obvious monthly, but the sum of the revisions over the previous 12 months tends to be a strong cyclical indicator. On this basis, the revisions tend to be positive and increasing during a business-cycle recovery and early expansion. They tend to turn less positive at the tail end of an expansion, then increasingly negative when the subsequent recession unfolds.” These comments certainly apply to the latest jobs report:

(1) *Revisions.* Sure enough, December and January figures were revised higher by a total of 12,000, as Debbie reports below. The three-month average increase was 186,000 through February. Over the past 12 months through January, revisions have added 290,000 to payrolls, based on first-reported data *(Fig. 4).*

(2) *Government shutdown.* Government employees who were furloughed by the 35-day partial shutdown from December 22, 2018 until January 25, 2019 must have found part-time jobs during January and returned to their regular jobs during February. Part-time employment for economic reasons jumped 490,000 during January and fell 837,000 last month *(Fig. 5).*

This certainly helps to explain why the U-6 measure of the unemployment rate plunged from 8.1% during January to 7.3% during February *(Fig. 6).* Meanwhile, full-time employment rose 322,000 to yet another record high during February *(Fig. 7).*

(3) *Weather.* Debbie and I actually prefer the ADP measure of payroll employment to the official data compiled by the Bureau of Labor Statistics (BLS). We think it gives a more accurate view of the most current monthly reading, as evidenced by the fact that it isn’t prone to big revisions as is the BLS measure. The ADP number for private payrolls was up 183,000 during February, while the comparable BLS count was 25,000.

Harsh winter weather might have had a more depressing impact on the BLS than the ADP figures. For example, construction employment fell 31,000 last month according to the BLS, while it was up 25,000 according to ADP.

(4) *Earned Income Proxy.* Notwithstanding all the noise in the BLS data, our Earned Income Proxy (EIP) of private wages and salaries rose 0.1% m/m during February to another record high. It is up a solid 5.1% y/y *(Fig. 8).* Boosting our EIP was a solid 3.4% increase in the average hourly earnings of total private workers *(Fig. 9).*

US Economy II: Productivity Revival? Wage gains continue to well exceed price inflation. That can only happen on a sustainable basis if productivity is finally making a comeback. Debbie and I think that this long-awaited event may be underway. If so, then economic growth may exceed expectations while inflation remains subdued. The Q4-2018 productivity report released last Thursday was certainly encouraging. Consider the following happy developments:

(1) *Output.* The productivity stats are based on the real output of the nonfarm business (NFB) sector. So they exclude government, which makes sense since no one ever associated what the government does with productivity. In any event, NFB real output rose at a robust pace of 3.7% y/y during Q4-2018, outpacing real GDP’s 3.1% increase *(Fig. 10).* Productivity accounted for 1.8ppts of the output gain, while hours worked accounted for the remaining 1.9ppts.
(2) **Productivity.** We track the five-year cycle in NFB productivity. Through our rose-colored glasses, we see a major bottom at 0.5% for the 20-quarter change at an annual rate during Q4-2015 (Fig. 11). During Q4-2018, it doubled to 1.0%. A shortage of workers may be forcing more and more companies to implement labor-saving innovations, which are boosting productivity.

(3) **Labor costs & inflation.** The productivity report includes data on NFB hourly compensation, which tends to be much more volatile than the Employment Cost Index (ECI) for private industry. Both cover wages, salaries, and benefits, but the former includes a few especially funky components such as imputed compensation for proprietors and for unpaid family workers. (In my book, see Appendix 4.1: *Alternative Measures of Wages & Labor Cost.*)

We like to track the yearly growth rate in the ratio of the ECI to productivity. We use this to measure labor costs and their influence on the inflation rate (as measured by the y/y percent change in the core PCED) (Fig. 12). The ratio’s inflationary push has been remarkably low and subdued since the mid-1990s. That certainly explains why price inflation has remained low and subdued since then as well.

(4) **Bottom line.** Once the China-US trade dispute is resolved, we expect a peace divided that will support global economic growth and reduce the likelihood of a global recession. We are also expecting a “productivity dividend” as companies around the world scramble to implement labor-saving innovations to offset the shortage of workers attributable to aging demographic trends.

**CALENDARS**

**US. Mon:** Retail Sales Total, Ex Autos, Ex Autos & Gas, and Control Group 0.0%/0.2%/0.5%/0.7%, Business Inventories 0.6%. **Tues:** NFIB Small Business Optimism Index 102.8, Headline & Core CPI 1.6%/2.2% y/y. (Econoday estimates)

**Global. Mon:** Germany Industrial Production 0.5%m/m/-3.3%y/y, Germany Trade Balance €15.2b, Japan Machine Tool Orders, China New Yuan Loans ¥950.0b, China Aggregate Financing ¥1300.0b. **Tues:** UK Headline & Manufacturing Industrial Production -1.3%/-1.9% y/y, UK Trade Balance -£3500m. (DailyFX estimates)

**STRATEGY INDICATORS**

**Global Stock Markets Performance** ([link](#)): Last week saw the US MSCI index drop 2.2% for its biggest decline in 11 weeks. That performance ranked 25th of the 49 global stock markets we follow in a week when 6/49 countries rose in US dollar terms. That compares to the prior week’s 22/49 ranking, when the US MSCI gained 0.4% and 25 markets rose. The AC World ex-US index fell 2.1%, also posting its biggest drop in 11 weeks; that performance compares to a 0.2% gain a week earlier. All regions fell w/w, but BRIC (-1.3) was the best performer, ahead of EM Eastern Europe (-1.4%), EM Latin America (-1.7), and EM Asia (-2.1). The EMU was the worst performer with a drop of 2.6%, followed by EMEA (-2.1) and EAFE (-2.1). India was the best-performing country, rising 2.3%, followed by Jordan (1.6), Egypt (1.2), the Philippines (1.1), New Zealand (0.7), and Sri Lanka (0.5). Of the 26 countries that underperformed the AC World ex-US MSCI last week, Austria fared the worst, falling 7.2%, followed by Korea (-4.1), Argentina (-3.6), Sweden (-3.5), and Pakistan (-3.5). The US MSCI’s ytd ranking improved to 8/49 from 11/49 a week earlier, with its 9.7% ytd gain ahead of that of the AC World ex-US (7.3). All regions and nearly all countries are in positive territory ytd. Among the regions, those outperforming the AC World ex-US ytd include: BRIC (10.0), EMU (7.7), and EM Asia (7.3). Regions underperforming the AC World ex-US: EMEA (4.5), EM Latin America (6.4), EM Eastern Europe (6.7), and EAFE (6.9). The best country performers ytd: Egypt (17.3), Colombia (16.4), Canada (13.4), China (13.3), and Belgium (12.1). The worst-performing countries so far in 2019: Morocco (-3.7),...
S&P 1500/500/400/600 Performance (link): All three of these indexes fell last week, registering their biggest declines in 11 weeks as SmallCap stayed in a correction. LargeCap dropped 2.2%, less than the declines for MidCap (-3.4%) and SmallCap (-4.6). LargeCap ended the week 6.4% below its record high on September 20, with MidCap and SmallCap 9.3% and 14.9% below their August 29 records, respectively. Among the 33 sectors, just four moved higher last week compared to 13 rising a week earlier. The gainers in the latest week: SmallCap Utilities (1.3%), LargeCap Utilities (0.7), LargeCap Real Estate (0.5), and MidCap Utilities (0.4). SmallCap Energy (-8.3) was the biggest decliner last week, followed by SmallCap Health Care (-6.3), MidCap Energy (-6.2), MidCap Health Care (-5.3), and SmallCap Financials (-5.0). In terms of 2019’s ytd performance, all three indexes are off to a great start. MidCap now leads with an 11.9% gain ytd, ahead of SmallCap (10.6) and LargeCap (9.4). All 33 sectors are positive ytd, with the SmallCap and MidCap cyclicals leading the top performers: SmallCap Materials (21.3), MidCap Tech (18.1), LargeCap Industrials (14.8), MidCap Communication Services (14.7), and SmallCap Tech (14.7). The “stable” sectors are dominating the biggest underperformers so far in 2019: LargeCap Consumer Staples (3.1), MidCap Consumer Staples (6.2), LargeCap Consumer Staples (6.3), SmallCap Utilities (6.4), and SmallCap Health Care (6.6).

S&P 500 Sectors and Industries Performance (link): Two of the 11 of the sectors rose last week, and six outperformed the S&P 500’s 2.2% decline. That compares to seven rising a week earlier, when four outperformed the S&P 500’s 0.4% gain. Utilities was the best-performing sector, with a gain of 0.7%, ahead of Real Estate (0.5%), Communication Services (-0.1), Materials (-0.6), Consumer Staples (-0.7), and Information Technology (-2.2). Health Care (-3.9) and Energy (-3.9) were the biggest decliners, following by these underperforming sectors: Industrials (-2.9), Financials (-2.7), and Consumer Discretionary (-2.5). All 11 sectors are higher so far in 2019, compared to just two sectors rising during 2018, when the S&P 500 fell 6.3%. These five sectors have outperformed the S&P 500’s 9.4% rise ytd: Industrials (14.8), Information Technology (12.3), Real Estate (12.2), Communication Services (11.7), and Energy (10.8). The ytd laggards, albeit with gains: Health Care (3.1), Consumer Staples (6.3), Materials (7.9), Utilities (8.0), Financials (8.5), and Consumer Discretionary (9.1).

Commodities Performance (link): Last week, the S&P GSCI index rose 0.1% as eight of the 24 commodities moved higher. That compares to a 1.9% decline a week earlier, when nine commodities moved higher. The index is still in a correction with a drop of 16.1% from its high in early October after being down as much as 26.9% on December 24. Lean Hogs was last week’s strongest performer, soaring 19.9%, followed by Unleaded Gasoline (4.1%), Feeder Cattle (2.1), and Brent Crude (1.0). Wheat was the biggest decliner, with a drop of 3.9%, followed by Sugar (-3.5), Kansas Wheat (-3.1), and Zinc (-3.1). The S&P GSCI commodities index is up 12.7% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Unleaded Gasoline (38.3), Crude Oil (23.8), Nickel (22.6), Brent Crude (22.1), and Heating Oil (18.9). The biggest laggards in 2019: Wheat (-12.7), Kansas Wheat (-11.9), Cocoa (-9.0), Coffee (-3.3), and Corn (-2.9).

S&P 500 Technical Indicators (link): The S&P 500 price index fell 2.2% last week, weakening relative to its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma). The index’s 50-dma relative to its 200-dma improved for the fifth time in six weeks, but was in a Death Cross for a 14th week; it had been in a Golden Cross for 137 weeks through late November. It was last in a Death Cross for 17 weeks through April 2016 when its 50-dma bottomed at a then-four-year low of 4.5% below its 200-dma in March 2016. The current Death Cross reading of -2.3% is at an 11-week high and up from -5.2% in early February, which had matched the lowest reading since November 2011. It’s still down from a 55-month high of 7.2% in February 2018. The S&P 500’s 50-dma rose for the fifth time in six weeks, after falling for 16 straight weeks in its worst downtrend since before the 2016 election. The index closed 2.2% above its rising 50-dma, down from 5.8% a week earlier and
6.6% during mid-February, which was its highest since October 2011. That compares to a seven-year low of 12.0% below at the end of December. The 200-dma rose for a sixth week after falling in 11 of the prior 15 weeks in the first downtrend since May 2016, when it had been slowly declining for nine months. However, the S&P 500 dropped to 0.3% below its rising 200-dma from a 20-week high of 2.1% above its rising 200-dma a week earlier. That compares to 14.5% below its falling 200-dma on December 24, which was the lowest since April 2009. However, it remains well below the seven-year high of 13.5% above its rising 200-dma during January 2018.

S&P 500 Sectors Technical Indicators (link): Ten of the 11 S&P 500 sectors traded above their 50-dmas, down from all 11 in the preceding five weeks, which was the highest since early August. Health Care moved below in the latest week, but that’s still a dramatic improvement from early January when all 11 were below. The longer-term picture—i.e., relative to 200-dmas—shows six sectors trading above currently, down from eight a week earlier as Consumer Discretionary and Health moved below in the latest week. When Utilities was the only sector above its 200-dma during December, that had been the lowest count since all 11 were below in January 2016 and represented a relatively swift reversal from the September 26 alignment, when all 11 sectors were above their 200-dmas. During the recent correction, two long-term 200-dma leaders left the building: Tech fell below its 200-dma for the first time in 121 weeks, and Consumer Discretionary fell below its 200-dma for the first time in 102 weeks. Consumer Discretionary and Health Care moved below their 200-dmas in the latest week, joining these three sectors: Energy, Financials, and Materials. Four sectors are now in the Golden Cross club (with 50-dmas higher than 200-dmas), up from two a week earlier, as Communication Services and Health Care joined Real Estate (35 straight weeks) and Utilities (31). At the end of November, Consumer Discretionary and Tech left the club for the first time since April 2016. Among the laggards, Financials has been out of Golden Cross territory for 21 straight weeks and during 33 of the past 37 weeks, Materials has been out for 45 straight weeks, Energy for 17 weeks, and Industrials for 16 weeks. All 11 sectors had been in a Golden Cross in January 2018 (for the first time since a 26-week streak ended in October 2016). All 11 sectors have rising 50-dmas, unchanged since three weeks earlier when Utilities and Consumer Staples turned up. Six sectors have rising 200-dmas, down from eight a week earlier, as Tech and Industrials flipped back below again and joined Energy, Financials, and Materials as the only members of the falling 200-dma club. That compares to just two sectors with a rising 200-dma in early January in what was then the lowest count since all 11 sectors had falling 200-dmas two years before.

US ECONOMIC INDICATORS

Employment (link): February saw the worst month for job creation since September 2017, as stormy weather and the government shutdown likely impacted February’s job count. Payroll employment last month rose only 20,000 (160,000 below consensus expectations), while revisions show January (to 311,000 from 304,000) and December (227,000 from 222,000) gains were slightly higher, for a net increase of 12,000. Meanwhile, private payrolls rose only 25,000—at odds with the 183,000 increase reported by ADP. Private payroll increases were also revised higher for both January (308,000 from 296,000) and December (224,000 from 206,000) for a net gain of 30,000. Construction payrolls fell 31,000 last month—the first decline since May 2016 and the steepest since December 2013—while employment in leisure & hospitality companies was unchanged after rising 89,000 and 65,000 the prior two months. Manufacturing payrolls were little changed, adding only 4,000 last month, after average monthly gains of 23,000 the prior five months. Meanwhile, employment continued to trend higher in professional & business services (42,000m/m & 537,000y/y), health care (21,000 & 361,000), and wholesale trade (11,000 & 95,000). The breadth of job creation (i.e., the percentage of private industries increasing payrolls) shows the three-month span was unchanged at 68.4%, while the one-month span sank for the second month from 65.9% in December to a 17-month low of 57.2%.

Earned Income Proxy (link): Our Earned Income Proxy (EIP), which tracks consumer incomes and
spending closely, continued to set new highs in February—not posting a decline in 36 months. Our EIP climbed 0.1% in February, slowing steadily from December’s 0.9%, which was the best monthly performance since October 2015; it was up a robust 5.1% y/y. Average hourly earnings (AHE), one of the components of our EIP, rose 0.4% last month, and 3.4% y/y—the highest since April 2009. Meanwhile, aggregate weekly hours—the other component of our EIP—fell 0.3% following a two-month gain of 0.7%; it was up 1.7% y/y, slowing from 2.4% in January.

Unemployment (link): The unemployment rate fell to 3.8% after climbing the prior two months from 3.7% in November to 4.0% in January, while the participation rate remained at 63.2%—which is the highest in more than five years. The number of workers working part-time for economic reasons (a.k.a. “involuntary part-time workers”) sank by 837,000 to 4.3 million (2.6% of the civilian labor force) after jumping in January by 490,000 to an 11-month high of 5.1 million (3.2% of the civilian labor force). The sum of the underemployment and jobless rates (to 6.1% from 7.2%) and the U6 rate (7.3 from 8.1)—which includes marginally attached workers—fell to the lowest levels since October 2000 and March 2001, respectively. According to the Labor Department, the recent volatility was a consequence of the government shutdown.

Wages (link): February wage inflation—as measured by the average hourly earnings (AHE) rate for all workers on private nonfarm payrolls—climbed to a new record high. The wage rate accelerated 3.4% y/y last month to its highest reading since April 2009; it was at a recent low of 2.3% during October 2017. The wage rate for service-providing industries (3.7% y/y) was at a series high, while the goods-producing rate (2.5) continued to fluctuate in a flat trend between 2.0%-3.0%. Within goods-producing, the manufacturing rate (2.0) remained around recent lows, while construction’s (3.1) held at its lowest rate in a year; the natural resources (2.1) rate continues to fluctuate around recent highs. Within service-providing, the rate for retail trade (5.0) was at a series high, while information services (6.5) was just below its record high of 6.7%. The rate for leisure & hospitality (4.1) continued to accelerate from recent lows. Meanwhile, rates for utilities (3.6), professional & business services (3.3), education & health services (2.9), and wholesale trade (3.0) remain stalled around recent highs. Moving down from recent highs are rates for financial activities (3.8) and transportation & warehousing (1.5), with the latter below 2.0% for the sixth month.

Productivity & Labor Costs (link): Nonfarm productivity for all of 2018 grew at its fastest yearly rate since 2010, while unit labor costs slowed from 2017’s pace. Productivity advanced 1.9% (saar) during the final quarter of last year, virtually matching Q3’s 1.8% rate, as output expanded 3.1% and hours worked increased 1.2%—slowing from 4.0% and 2.1%, respectively during Q3. Meanwhile, unit labor costs climbed 2.0% (saar), accelerating steadily from Q2’s 2.8% decline (the first negative reading since Q3-2014), boosted by a pickup in hourly compensation of 3.9% (saar), after a 3.9% gain and a 0.1% downtick the prior two quarters. For all of 2018, productivity grew 1.3%, accelerating from 1.1% in 2017 and 0.2% in 2016; it matched 2015’s pace—which was the best since 2010. Output followed a similar pattern, increasing 3.5% in 2018 after gains of 2.7% and 1.6% the previous two years—also matching its 2015 gain, which was the best since 2010. The increase in unit labor costs slowed to 1.4% last year, reflecting a 2.7% increase in hourly compensations and a 1.3% gain in productivity.

GLOBAL ECONOMIC INDICATORS

Eurozone GDP (link): Real GDP in the Eurozone reached a new record high last quarter, though the pace during H2-2018 was noticeably slower than H1-2018. The economy grew only 0.9% (saar) last quarter, slightly above Q3’s anemic 0.6%, after gains of 1.7% and 1.4% during Q2 and Q1, respectively. Last quarter’s growth pales in comparison to the 2.8% gain recorded during Q4-2017. Real domestic demand was flat last quarter, with inventories subtracting from GDP growth—as carmakers in Germany started shifting stocks after disruptions over the summer, offsetting gains in
capital, household, and government spending. Growth in real fixed capital investment expanded 2.4% (saar), basically matching Q3’s pace though slowing from Q2’s 6.3%, while real household consumption accelerated 1.0% (saar) after gains of 0.5% and 0.6% the prior two quarters; real government spending expanded 2.9% (saar)—the best quarterly growth since Q1-2016. Meanwhile, trade was the largest positive contributor to growth last quarter as exports (3.6%, saar) grew at a faster pace than imports (2.2). Of the four largest economies, Spain (2.8%, saar) and France (1.0) exceeded the Eurozone’s 0.9% gain, while growth in Germany (0.1) and Italy (-0.4) lagged behind—the latter contracting for the second quarter.