Global Economy I: Gloomy World View. There’s lots of angst about global economic growth. That’s understandable because it has been slowing significantly since early 2018. Given that Trump’s critics blame him for everything bad in the world, it’s easy to blame the slowdown on Trump’s trade wars. His tariff saber-rattling has certainly weighed on global growth. However, as our YRI team has been documenting, there are plenty of homegrown problems weighing on the economies of China, Europe, and Japan.

In other words, even if Trump succeeds in renegotiating US trade relationships on a bilateral basis, global growth may still be structurally weak, mostly as a result of aging demographic trends in much of the world. Furthermore, we can all observe that ultra-easy monetary and debt-financed fiscal policies aren’t as stimulative as policymakers have been hoping.

That’s because debt-to-GDP ratios are so high that piling on more debt is depressing rather than stimulating growth. The result of too much debt and geriatric demographic trends is lots of deflationary pressures. Deflation is worsened by disruptive technological innovations. So ultra-easy monetary policy has succeeded in offsetting the forces of deflation (so far) rather than in stimulating economic growth.

The bottom line is that the new abnormal for the global economy can be attributed to the 4Ds: Demography, Debt, Disruption, and Deflation. Putting it all together, there’s a new rock group rocking the global economy: The New Abnormal & the 4Ds.

The 4Ds are inter-related. Aging demographic trends are causing governments to spend more on social security (including health care). Since the ratio of seniors to working-age adults is rising globally, governments are forced to borrow more to support more seniors; tax revenues alone can’t keep up with seniors’ needs. Old people tend to downsize. Young people, burdened by high taxes, tend to be minimalists. Facing labor shortages, companies are spending more on labor-saving technologies, which tend to be deflationary.

Let’s review the latest economic indicators for the world before moving on to the ones for Europe, Japan, and the US:

(1) Analysts’ consensus for revenues. Apparently, industry analysts didn’t get the global recession memo yet. The analysts’ consensus expectations for the growth rates of revenues for the All Country

See the collection of the individual charts linked below.

(1) Lots of global angst. (2) The 4Ds (Demography, Debt, Disruption, and Deflation) all weighing on global growth. (3) Industry analysts haven’t gotten the recession memo. (4) Global trade indicators still on uptrends. (5) Powell is right about the global economy. (6) Blame China for Europe’s weakness, or Uber? (7) Japan is in a soft patch. (8) In US, trucks and trains are cruising along just fine, and existing homes are selling well again. (9) The services sector is also fine in the US, and overseas too.
World MSCI stock price index was 4.1% y/y for 2019 and 5.0% for 2020 during the 3/15 week (Fig. 1). Forward revenues actually rose to a record high during the first half of March.

Excluding the US, the consensus revenues growth expectation for 2019 has dropped from 4.4% at the beginning of this year to 3.3% during the 3/14 week (Fig. 2). While it remains positive, it is down from 7.4% last year. The good news is that next year’s expected revenues growth has been moving higher this year and is currently 4.7%.

(2) Commodity prices. The CRB raw industrials spot price index has been relatively flat since mid-2018. However, last Thursday, it rose to the best reading since August 30, 2018 (Fig. 3). This index does not include petroleum product prices. The price of a barrel of Brent crude oil is up 25% ytd. The nearby price of copper is up 8% ytd (Fig. 4).

(3) Trade indicators. The sum of inflation-adjusted US exports and imports is highly correlated with the volume of world exports (Fig. 5). That’s no surprise since the US economy is the largest in the world and accounts for a great deal of world trade. Both series remained on uptrends through the end of last year.

Also not surprising is that the sum of real US exports and imports is highly correlated with the sum of outbound and inbound container traffic at US West Coast ports (using the 12-month sum to eliminate seasonality) (Fig. 6). The latter series is available through February and remains near recent record highs.

(4) Bottom line. The big-picture data aren’t showing a recession in place for the global economy. They are showing some signs of improvement in commodity markets and relatively upbeat expectations by industry analysts for revenues.

(5) Powell’s assessment. We agree with Fed Chairman Jerome Powell, who provided the following assessment of the weak global economy during his 3/20 press conference:

“In terms of what’s causing [global weakness], it seems to be a range of different things. In China you have [...] factors that are very specific to China. ... [L]et’s look at the outlook. Chinese authorities have taken many steps since the middle of last year to support economic activity, and I think the base case is that ultimately Chinese activity will stabilize at an attractive level. And in Europe [...] we see some weakening, but [...] we don’t see recession, and we do see positive growth still. You ask about tariffs. I would say tariffs may be a factor in China. I don’t think they’re the main factor. I think the main factors are the levering campaign that the government undertook a couple of years ago and also just the longer term slowing to a more sustainable pace of growth that economies find as they mature.”

Global Economy II: Europe’s Morass. If you are looking for depressing economic indicators, go to Europe. The selloff in stock prices on Friday was triggered by the release of Markit data on European M-PMIs for March. They were certainly ugly. But it wasn’t all bad news. Consider the following:

(1) European M-PMIs are bad. Here is the performance derby for the M-PMIs for the major European economies: UK (Feb: 52.0), Spain (Feb: 49.9), France (Mar: 49.8), Italy (Feb: 47.7), Eurozone (Mar: 47.6), and Germany (Mar: 44.7) (Fig. 7). Yes, you read it right: Germany has a lower M-PMI than Italy. That may be one for the record books!

(2) European NM-PMIs are good. On the other hand, the comparable NM-PMIs in Europe are mostly all above 50.0: Germany (Mar: 54.9), Spain (Feb: 54.5), Eurozone (Mar: 52.7), UK (Feb: 51.3), Italy (Feb: 50.4), and France (Mar: 48.7) (Fig. 8).
(3) **Germany’s mixed picture.** What’s the problem with Germany? It’s clearly in the country’s manufacturing sector, not services. The IHS Markit press release noted: “A solid and accelerated rise in new work in the service sector—the most marked since September 2018—was more than offset by a sharp contraction in manufacturing order books.”

The press release highlights exports as Germany’s problem: “The downturn in demand for German goods continued to be largely driven by a slump in new export orders, which fell for the seventh month in a row and at the quickest rate since August 2012. Anecdotal evidence highlighted delayed decision-making among clients due to uncertainty, as well as weaker demand in the automotive sector.”

(4) **Is Uber the problem?** Interestingly, the 12-month sum of new passenger car registrations in Europe (EU plus EFTA) peaked at 16.2 million during August 2018. It fell to 15.5 million through February (Fig. 9). The weakness has been broad-based among the major EU economies (Fig. 10).

Could it be that ride-sharing services like Uber are starting to weigh on European car sales? We think so. Could it also be that European drivers are waiting before buying their next car for more choices and lower prices on electric vehicles with autonomous driving capabilities? We think that may also explain why car sales are weak in Europe.

**Global Economy III: Japan’s Soft Patch.** The IHS/Markit press release on Japan’s M-PMI for March showed that the overall index was unchanged at 48.9. That’s the second consecutive reading below 50.0. The press release reported: “Slack demand from domestic and international markets prompted the sharpest cutback in output volumes for almost three years. With input purchasing falling, firms appear to be anticipating further troubles in the short-term. Indeed, concern of weaker growth in China and prolonged global trade frictions kept business confidence well below its historical average in March.”

**US Economy: Keep on Trucking!** While there is no shortage of weak economic indicators abroad, the ones for the US continue to show signs of solid growth on balance. Debbie and I expect that the US economy will keep trucking along this spring despite the overseas slowdown. Consider the following:

(1) **GDP.** The Atlanta Fed’s latest GDPNow model estimate for real GDP growth is 1.2% (saar) for Q1-2019 as of 3/22, following a 2.6% gain during the previous quarter. Despite the slower pace of growth, there is still no evidence of a recession. In fact, the model’s latest estimate is up from the initial estimate on 3/1 of 0.3%. Besides, the estimate has a history of improving as the actual quarter end approaches and more data are incorporated. For example, the latest existing-home sales release from the National Association of Realtors, discussed below, pushed the estimate higher.

(2) **Trucks & trains.** The ATA Truck Tonnage Index is one of our favorite US economic indicators. It throttled to a record high in January, decelerating ever so slightly during February. It is fairly well correlated with the 26-week average of railcar loadings of intermodal containers, a more volatile series that has continued on an upward trend (Fig. 11).

(3) **Houses.** After a brief winter chill, sales of existing homes rebounded strongly in February to an 11-month high, driven by a 13.3% jump in single-family sales to a one-year high (Fig. 12). Lower mortgage rates, more inventory, rising incomes, and higher consumer confidence are boosting sales.

(4) **Production.** The national average of regional business indexes continued to expand during March, with a reading of 8.6 for the three Fed district regions that have reported for the month so far—
specifically New York, Philadelphia, and Dallas (Fig. 13). Markit’s flash measures of the US M-PMI and NM-PMI for March slightly decelerated but remain solidly above 50.0, at 52.5 and 54.8, respectively (Fig. 14).

CALENDARS

US. Tues: Consumer Confidence 132.0, Housing Starts & Building Permits 1.220k/1.300k, S&P CoreLogic 20-City Composite 0.3%m/m/4.0%y/y, Richmond Fed Manufacturing Index. Wed: Advanced Trade Balance -$57.5b, MBA Mortgage Applications. (DailyFX estimates)

Global. Tues: Germany GFK Consumer Confidence 10.8, France GDP 0.3%q/q/0.9%y/y. Wed: Draghi. (DailyFX estimates)

STRATEGY INDICATORS

S&P 500/400/600 Forward Earnings (link): LargeCap’s forward earnings ticked down for the first time in four weeks, ending its best string of weekly gains since October. MidCap’s rose for a second straight week for the first time since early December, but SmallCap’s was down for an 11th straight week. All three of these indexes are still on the downtrend that began in late October. LargeCap’s forward EPS remained steady at 1.9% below its record high of $175.48 in late October, while MidCap’s improved to 2.6% below its mid-October high. However, SmallCap’s dropped to 8.4% below its mid-October high. LargeCap’s forward EPS had been the most below its record high since June 2016 and MidCap’s was the lowest since February 2016. SmallCap continues to worsen and has not been this far below since October 2010. The yearly change in forward earnings soared to cyclical highs during 2018 due to the boost from the Tax Cuts and Jobs Act, but is tumbling now as y/y comparisons become more difficult. In the latest week, the rate of change in LargeCap’s forward earnings was steady for a third week at a 26-month low of 6.6% y/y. That’s down from 23.2% in mid-September, which was the highest since January 2011 and compares to a six-year low of -1.8% in October 2015. MidCap’s y/y change was down to a 26-month low of 6.4% from 7.0%, which compares to 24.1% in mid-September (the highest since April 2011) and a six-year low of -1.3% in December 2015. SmallCap’s tumbled to a 31-month low of 3.8% from 7.9%, which is down from an eight-year high of 35.3% in early October and compares to a six-year low of 0.3% in December 2015. Analysts had been expecting double-digit percentage earnings growth in 2019, but those forecasts have been dropping since October. Here are the latest consensus earnings growth rates for 2018, 2019, and 2020: LargeCap (22.7%, 3.5%, 12.0%), MidCap (22.9, 3.1, 12.5), and SmallCap (22.1, 4.6, 18.4).

S&P 500/400/600 Valuation (link): Forward P/E ratios fell w/w for all these indexes and were at six-week lows for MidCap and SmallCap. However, they remain well above their multi-year lows in late December. LargeCap’s weekly forward P/E edged down to 16.3 from 16.4, which is up from a five-year low of 13.9 during December. That compares to a six-month high of 16.8 in mid-September and a multi-year high of 18.6 on January 26 (highest since May 2002)—and of course is well below the tech-bubble record high of 25.7 in July 1999. Last week’s level remains above the post-Lehman-meltdown P/E of 9.3 in October 2008. MidCap’s forward P/E lost 0.4pt to 15.3. That’s up from 13.0 during December, which was the lowest reading since November 2011. MidCap’s P/E is down from a 15-year high of 19.2 in February 2017 and the record high of 20.6 in January 2002. However, MidCap’s P/E has been at or below LargeCap’s P/E for most of the time since August 2017—the first time that alignment has prevailed since 2009. SmallCap’s P/E fell to 16.3 from 16.8, but remains above its seven-year low of 13.6 during December. That’s well below its 51-week high of 20.2 in December 2017 (which wasn’t much below the 15-year high of 20.5 in December 2016, when Energy’s earnings were depressed). SmallCap’s P/E was higher than LargeCap’s P/E for a tenth week, after being below for much of December—the first time it was below since 2003.
**S&P 500 Sectors Quarterly Earnings Outlook** *(link)*: With one week left in the Q1 books, analysts continued to trim their Q1 forecasts. Last week saw the S&P 500’s Q1-2019 EPS forecast drop 12 cents w/w to $37.37. That’s down 6.9% since the end of Q4 and is on pace to be the worst quarter since Q1-2016. The $37.37 estimate represents a forecasted pro forma earnings decline for Q1-2019 of 1.7%, compared to -1.5% a week earlier and 5.3% at the end of Q4. If it comes to pass, Q1’s y/y decline would be its first after 10 straight gains, and down from 16.8% in Q4 and 28.4% in Q3 (which marked the peak of the current earnings cycle). Just four of the 11 sectors are expected to record positive y/y earnings growth in Q1-2019, with none rising at a double-digit percentage rate. That compares to 10 during Q4, when seven rose at a double-percentage rate. Five sectors are expected to beat the S&P 500’s Q1 growth rate, compared to just four during Q4. Utilities is the only sector expected to post better growth on a q/q basis during Q1. Here are the latest forecasted Q1-2019 earnings growth rates versus their blended Q4-2018 growth rates: Health Care (4.6% in Q1-2019 versus 13.3% in Q4-2018), Industrials (3.7, 27.1), Financials (3.4, 15.6), Real Estate (2.4, 6.2), Utilities (-0.3, -10.4), Consumer Staples (-1.7, 4.6), Consumer Discretionary (-3.2, 17.3), Communication Services (-5.8, 26.4), Information Technology (-6.4, 10.3), Materials (-13.8, 6.1), and Energy (-18.7, 81.4). On an ex-Energy basis, analysts expect S&P 500 earnings to drop 0.9% y/y in Q1, well below the 14.2% y/y gain in Q4.

**US ECONOMIC INDICATORS**

**Regional M-PMIs** *(link)*: Three Fed districts have now reported on manufacturing activity for March so far—Philadelphia, New York, and Dallas—and show growth is the fastest in four months, though remains subdued. We average the composite, orders, and employment measures as data become available. The composite (to 8.6 from 5.9) index was just above the 6.1 average posted the prior three months, and only a third the pace of last year’s high for the year of 27.6 in February. The Philadelphia region’s composite (13.7 from -4.1) index shows growth expanding again this month after turning negative in February for the first time since May 2016, though is growing at roughly half the pace of H2-2018; gauges for Dallas (8.3 from 13.1) and New York (3.7 from 8.8) both slowed—with the latter’s the weakest since May 2017. The new orders gauge (2.4 from 4.0) dropped closer to the breakeven point of zero—expanding at the slowest pace since September 2016. The pattern was similar to the composite index, with new orders in the Philadelphia (1.9 from -2.4) region moving from contraction to expansion, while New York (3.0 from 7.5) and Dallas (2.4 from 6.9) billings decelerated. Meanwhile, the employment (12.2 from 10.4) measure shows hirings close to February’s pace, with Philadelphia (9.6 from 14.5) factories adding to payrolls at a slower pace this month and New York’s (13.8 from 4.1) and Dallas’ (13.1 from 12.6) at a faster pace. In the meantime, inflationary pressures remained on an easing trend according to prices-paid indexes for the three regions, while the prices-received measures were a mixed bag. Here’s a look at the prices-paid indexes for March versus their respective peaks during 2018: Philadelphia (to 19.7 from 60.0), Dallas (20.4 from 54.4), and New York (34.1 from 54.0)—with only New York showing a slight acceleration this month. Meanwhile, Dallas’ prices-received index ticked up to 6.9 after easing from June 2018’s peak of 26.2 to 5.2 in February, while New York’s measure eased to 18.1 after accelerating the prior two months from 12.8 to 22.9—nearly matching its recent peak of 23.3 last June. The prices-received index for the Philly region has hovered in a flat trend around 26.3 the past six months, still below its peak of 35.0 last July.

**GLOBAL ECONOMIC INDICATORS**

**Germany Ifo Business Climate Index** *(link)*: “The companies are somewhat more satisfied with their current business situation, and they are decidedly more optimistic regarding business in the coming six months,” Ifo said. Sentiment among German firms improved for the first time in seven months, climbing to 99.6 this month after falling from 104.1 in August to 98.7 in February, which was the lowest reading
since March 2016. German business leaders were decidedly more optimistic about business six months from now, with Ifo’s expectations component advancing to a three-month high of 95.6 from 94.0 in February—which was the lowest reading since November 2012. The increase in the present situation component barely budged, ticking up from 103.6 in February to 103.8 this month. Sentiment in three of the four sectors improved in March, though sentiment among manufacturers deteriorated for the seventh straight month, plunging from 24.1 in August to 6.6 this month, with the expectations measure sinking to -12.2—the lowest since November 2012. Meanwhile, the service sector got a boost from its expectations gauge, with the overall index climbing from 21.3 to 26.0 on a 7.2-point jump in expectations. The trade sector rose for the second month, from 4.7 in January to 8.2 in March, with appraisals of the current situation rising to a 10-month high of 26.1; construction sentiment (to 20.3 from 18.0) rose after a weakening trend in past months—also boosted by the present situation component (43.5 from 38.3).