



MORNING BRIEFING

March 24, 2016

Spring Forward

See the [collection](#) of the individual charts linked below.

(1) US economy has pedal to the metal. (2) Seasonal factors and year-ago port strike might explain some of trucking and imports strength in February. (3) But average of three regional business surveys soared in March. (4) A brief chronology of FOMC's recent conflation of headline and core inflation. (5) Bullard morphs from dove to hawk on inflation. (6) Jackie reviews developments in the Industrials sector. (7) Technology is disrupting more and more industries. (8) FAQ on McD's app: Do you want fries with your order?

US Economy: On the Fast Track? Surprise, surprise: A few recent economic indicators suggest that the US economy could be turning red hot. That would be a very big surprise indeed given all the recession fears at the year's start. Consider the following:

(1) *Record tonnage.* February was an awesome month for truck tonnage. The American Truck Associations' measure soared 7.2% m/m and 8.6% y/y ([Fig. 1](#) and [Fig. 2](#)). The index, which is a good indicator of the broader economy since trucks account for 69% of tonnage carried by all carriers, jumped to a new record high.

However, ATA's Chief Economist Bob Costello cautioned: "The strength was mainly due to a weaker than average January, including bad winter storms, thus there was some catch-up going on in February." The result was a big seasonally adjusted gain. Costello also cited inventory overhangs as a reason he's waiting to see March's data before getting too excited.

There is a good correlation between the trucking index and real business inventories, which may be somewhat bloated as Costello notes ([Fig. 3](#)). However, even if there is some payback in March, the uptrend in the trucking business may boost sales of medium-weight and heavy-weight trucks, which have been stalled at a cyclical high over the past year ([Fig. 4](#)). (See our [Truck Tonnage Index](#).)

(2) *Coast to coast.* What are trucks hauling? Imports have surged recently at the West Coast ports. Inbound traffic of 20-foot equivalent containers made a good showing during February, jumping 8.6% y/y based on its 12-month moving sum. Of course, a year ago imports were depressed by strikes at the ports. (See our [West Coast Ports Container Traffic](#).)

(3) *Regional factory boom.* As Debbie and I reported on Wednesday, manufacturing business survey results came in strong for three of the earliest reporting Fed districts: New York, Philadelphia, and Richmond. The average of their composite manufacturing indexes shot straight up from -7.8 in February to 11.7 this month, the highest since November 2014 ([Fig. 5](#)). Of the contributing components, new orders and shipments rose sharply, while employment readings were steady to slightly positive.

The Fed: Inflation Conflation. The Fed's inflation outlook eased between the December and March FOMC meetings. FOMC officials have often said that below-target inflation is a major reason for slowing the pace of normalizing monetary policy. Though the March meeting was just a week ago and there hasn't been any inflation data since then, a few Fed officials seem to be turning more hawkish on inflation already! Consider the following recent evolution of the Fed's spin on inflation:

(1) *December's close call.* The FOMC voted to raise the federal funds rate by 25bps for the first time after nearly seven years near zero at their December meeting. During that time, the Fed's projections implied that around four to five rate increases would follow in 2016, with the rate path ending the year at 1.4%. The December [minutes](#) cited, "uncertainty about inflation dynamics" as a key reason that the decision was a close call. Major factors perceived as weighing on inflation were energy, import prices, and the strong dollar. Since these effects were expected to be transitory, the FOMC still proceeded with the rate hike.

(2) *January's holding pattern.* FRB-SL President James Bullard telegraphed the Fed's dovish turn in January in a 1/14 [speech](#). He said that while central bankers typically "look through" oil price changes, more concern is warranted "when inflation expectations themselves begin to change due to the changes in crude oil prices." Bullard presented an analysis that showed that the longer it took oil prices to stabilize, the longer it would take the Fed to reach its 2% inflation goal.

Along with the 1/27 FOMC [statement](#) announcing the Fed's decision to do nothing, the committee's annual "[Statement on Longer-Run Goals and Monetary Policy Strategy](#)" was released. Interestingly, it contained a revision to clarify that the FOMC views its inflation objective as symmetric. Specifically, the "Committee would be concerned if inflation were running persistently above or below" its 2% objective.

(3) *February's wait-and-see.* January's [minutes](#) released on 2/17 stated: "Regarding the outlook for inflation, the additional sharp declines in energy prices and strengthening of the exchange value of the dollar since the December meeting were likely to hold down inflation for longer than previously anticipated ... A couple of members emphasized that direct evidence that inflation was rising toward 2 percent would be an important element of their assessments of the appropriate timing of further policy firming."

One of them must have been Fed Governor Lael Brainard. In a 2/26 [speech](#), she said: "[The] deterioration in inflation expectations and a weakened link between labor market tightening and inflation--together with the asymmetry of policy in the vicinity of the lower bound--lead me to put a high premium on evidence that actual inflation is firming sustainably."

(4) *March's madness.* The lack of confidence in inflation's return, especially in the near term, was especially evident in March's updated "[Summary of Economic Projections](#)." It accompanied the Fed's second do-nothing decision subsequent to December's initial rate hike. The median 2016 projection for the headline PCE inflation rate was lowered to 1.2% in March from 1.6% in December. The core rate forecast remained at 1.6%.

Echoing Brainard's February speech, Fed Chair Janet Yellen said during her 3/16 [press conference](#) that "some undershoots and overshoots are a part of how the economy operates, and our tolerance for those is symmetric." In other words, she essentially admitted that she wouldn't mind seeing inflation exceed the Fed's inflation target for a while before raising rates again.

(5) *April's fools.* In fact, the yearly percent change in the three-month moving average for the core PCE inflation rate jumped to 1.5% y/y through January, awfully close to the Fed's 1.6% y/y estimate for the final quarter of the year. Lately, it hasn't been very clear whether Fed officials are focusing on headline or core inflation, though the latter has typically been their objective. James Bullard, Stanley Fischer, and Janet Yellen have each made recent comments suggesting that they are giving headline inflation more weight than in the past. This ambiguity might be intentional, providing Fed officials with the option to choose whichever numbers best serve their purpose.

Comments from a few non-voting Fed presidents during the past week indicate that the wind might once again be blowing in the direction of a rate hike sooner rather than later. FRB-SF President John Williams [told](#) Market News International that the “evidence on inflation was not that convincing, even for me” in March, but if the data keeps flowing as it has, he could support an upcoming increase. At least two other non-voting FRB presidents have recently said the same.

Just yesterday, Bullard, a voter, turned hawkish, saying he could see a case for moving at the April 26-27 meeting. In a Bloomberg [interview](#) he opined: “I think we are going to end up overshooting on inflation.” But he wouldn’t reveal his specific dot, saying: “I want to get out of the game of how many rate increases [we’ll do] this year.” Well, that would certainly provide the Fed with more leeway to change their minds.

Sector Spotlight I: Industrials Rebounding. Much ink has been spilt on the sharp rebound in Energy and Materials names since the market bottomed in February. Less attention has been paid to the admirable performance of Industrials. This S&P 500 sector is up 4.5% ytd, trailing only the Telecom, Utilities, and Energy sectors. The outperformance was even more noticeable in the week ending Tuesday, as the sector gained 3.4% and placed second among the 10 S&P 500 sectors.

Here’s how the 10 S&P 500 sectors performed for the week ending Tuesday: Materials (3.6%), Industrials (3.4), Energy (2.4), Tech (2.3), S&P 500 (1.7), Financials (1.6), Health Care (1.3), Utilities (0.9), Consumer Discretionary (0.9), Telecom Services (0.7), and Consumer Staples (0.0) ([Fig. 6](#)).

The strength in Industrials has been broad-based, with concentrations of outperformance in construction-related companies as well as those related to transportation. They’re rebounding from dismal performances last year, when they were dragged down by their exposure to the Energy sector and fears of a recession. Last week, the best-performing industry within Industrials was Construction & Engineering, which was up 7.0% for the week and 12.3% ytd. That industry includes Jacob’s Engineering, Fluor Corp., and Quanta Services.

Other strong areas include Electrical Components & Equipment (up 6.4% last week and 13.2% ytd), Construction Machinery & Heavy Trucks (up 3.8% last week and 14.7% ytd), and finally Industrial Machinery (up 4.5% last week and 7.1% ytd).

The Industrials sector’s gains also owe much to transportation-related industries, like Trucking, which was up 6.2% last week and 16.4% ytd. Trucking stocks were helped by news that the seasonally adjusted truck tonnage index rose 7.2% in February m/m, hitting a new all-time high, the 3/22 [WSJ reported](#). Rates for truckload shipments also increased slightly y/y.

Virginia Henkels, CFO of Swift Transportation, said that after a “slow start” to the year, the company’s measure of shipping volume increased 3% year over year in February, the [WSJ](#) reported. “Our customers are not near as bearish on the overall economy or freight demands as many of the research reports or surveys that are out there,” she said. “With the exception of a couple of our customers, they are all anticipating increased volumes in 2016 vs. 2015.”

In addition to Trucking, Air Freight & Logistics stocks were up 6.1% last week and 9.8% ytd, while Railroads remain laggards, rising 2.9% last week and 3.8% ytd.

Overall, Industrials revenue has continued to climb, but weaker margins have capped earnings ([Fig. 7](#) and [Fig. 8](#)). The sector’s earnings are forecasted to grow only 2.9% this year, but 9.5% earnings growth is expected in 2017 ([Fig. 9](#)). Industrials stocks have moved sideways for much of the past two years. At 15.5, the sector’s forward P/E is slightly below the S&P 500’s earnings multiple, and almost halfway

between the sector's low and high multiples going back roughly 20 years ([Fig. 10](#)). While the Industrials P/E multiple may be constrained, it seems reasonable to expect the sector's stocks to rise with earnings.

Sector Spotlight II: Technology Is the Great Disruptor. Horn & Hardart Automats opened in New York City in 1912. They were essentially cafeterias that operated like big vending machines. They featured prepared foods behind small glass windows and coin-operated slots. They were very popular during the Depression era when their macaroni and cheese, baked beans, and creamed spinach were staple offerings. In the late 1950s, for under \$1.00, one could enjoy a large, if somewhat plain, meal, purchased with nickels usually obtained from the cashier. Each stack of glass-doored dispensers had a metal cylinder that could be rotated by the staff on the other side of the vending wall to refill them with food.

Today, automation and robotics are disrupting a multitude of industries, including restaurants. These rapidly proliferating technologies are driving cars, taking meal orders, and revolutionizing finance. Consider the following:

(1) *Restaurants go back to the future.* Various reasons were given for the demise of Horn & Hardart including higher prices for ingredients, changing tastes, and the growing popularity of fast-food chains like McDonald's. The last Automat closed in 1991, but a similar idea is gaining traction today.

At Eatsa in Los Angeles and San Francisco, customers order food at an iPad kiosk and then wait in front of a glass wall of cubbies where freshly prepared quinoa bowls appear when ready, according to a 2/23 Business Insider [article](#). Of course, there's staff behind the glass wall preparing the food, but gone are employees taking orders in the front.

Carl's Jr. CEO Andy Puzder would like to try something similar. "With government driving up the cost of labor, it's driving down the number of jobs," according to a 3/16 Business Insider [article](#). "You're going to see automation not just in airports and grocery stores, but in restaurants." Last year, McDonald's started installing self-service kiosks in a number of locations. Kiosks are "always polite, they always upsell, they never take a vacation, they never show up late, there's never a slip-and-fall, or an age, sex, or race discrimination case," says Puzder.

(2) *Wall Street's new block trades.* Wall Street has historically embraced technology to execute transactions faster and drive down costs. But now there's a new technology, blockchain, that may drive down firms' costs or it may result in new competition that could pose a threat. Blockchain is the distributed ledger technology that powers bitcoin. We've noted that blockchain could easily replace the current securities settlement system and make paper currencies obsolete.

PwC also sees the technology having a major impact on Wall Street. "In our view, blockchain technology may result in a radically different competitive future in the [financial services] industry, where current profit pools are disrupted and redistributed toward the owners of new, highly efficient blockchain platforms. Not only could there be huge cost savings through its use in back-office operations but also large gains in transparency that could be very positive from an audit and regulatory point of view," a March 2016 PwC Global FinTech [report](#) opined. The firm identified more than 700 companies entering this area, with 150 worthy of tracking and 25 likely to emerge as leaders.

Yet Wall Street's executives aren't all on board. In PwC's survey of 544 financial services executives in 46 countries, 83% of the executives were at best "moderately" familiar with blockchain, only 56% recognized the importance of the technology, and 57% said they are unsure how to, or unlikely to, respond to this trend. Well, that's good news for the 700 little companies entering the fray.

(3) *Central banks go virtual.* Blockchain technology could also have a dramatic impact on central banking around the world. Two London researchers proposed a cryptocurrency that central banks can still control, CoinDesk [reported](#) on 3/15. With RSCoin, developed by George Danezis and Sarah Meiklejohn of University College London, central banks would control the creation of new cryptocurrency, but there would be “a transparent transaction ledger, a distributed system for maintaining it, and a globally visible monetary supply.” In addition, the anonymous trackers of bitcoin transactions would no longer be anonymous and would simply track RSCoin transactions

Central bankers around the world are studying the possibilities. The Bank of England is in the midst of a comprehensive research effort focused on the technology, noted the BOE’s Deputy Governor for Monetary Policy Ben Broadbent in a speech [covered](#) by CoinDesk on 3/2. He argued “that bitcoin is unlikely to obtain widespread adoption--but that central bank-issued digital currencies could have a big impact on the global financial system.” Earlier this year, a different BOE official indicated that England’s central bank was evaluating how distributed ledgers could be used as part of the country’s settlement system.

In China, the central bank “is studying the prospects of issuing its own digital currency and aiming to roll out a product as soon as possible, contending that alternative payment systems can improve the efficiency of global transactions,” BloombergBusiness [reported](#) on 1/20. The bank didn’t specify which technology it would use or how it would interact with the yuan.

And in the US, the Depository Trade & Clearing Corporation (DTCC) joined the Linux Foundation’s Hyperledger Project in December, and its systems director is on the project’s steering committee, CoinDesk [reported](#) on Monday. The project aims to offer open-source financial solutions using blockchain technology. DTCC also has invested in a blockchain company and has published research on the subject that warns the industry not to create new silos based on different standards.

The DTCC “last year processed \$1.6 quadrillion in securities (and) has a lot to lose if it is cut out of the financial food chain,” CoinDesk noted.

(4) *Dr. Watson, I presume.* IBM’s Watson gained fame by defeating two *Jeopardy!* champions in 2011, showing that computers can access more information than mere mortals can remember. The firm has since formed the IBM Watson Group, which uses Watson to help industries access information when the volume of information has grown beyond the ability of professionals to process it.

For example, in healthcare, the amount of new research and publications produced has outstripped the ability of doctors to stay current, explained Michael Rhodin, head of IBM Watson, in a 1/18 *Forbes* [interview](#). So IBM built a system with Memorial Sloan-Kettering that captures the best practices of the best professionals in oncology. Now doctors at Bumrungrad Hospital in Thailand have access to that information. “It is a way for us to think about democratizing best practices or democratizing expertise on a global scale,” explained Rhodin.

IBM is using an open platform so developers can build businesses around Watson, he noted. For example, Elemental Path has built a dinosaur connected to Watson that can give age-appropriate responses to a child’s questions. It also monitors the dialogue to track the child’s development. Other areas that may use Watson include oil and gas discovery, pharmaceuticals and drug discovery, genomics, metallurgy, and linguistics.

(5) *AI wins a board game.* The technologies described above, though amazing, still require human programmers to instruct the machines. The Holy Grail of automation is teaching a machine to think, in

what's known as "AI," or "artificial intelligence." A huge milestone in that direction was reached earlier this month when Google DeepMind's AlphaGo bested Lee Sedol, the world's top player of Go, an ancient East Asian board game, 4-to-1.

"The game has been much more challenging for computer algorithms to master because of its complex and intuitive nature. There are far more possible moves in Go than chess or checkers, games in which computer programs have long been able to beat the sharpest human players," an *LA Times* 3/12 [article](#) explained. AlphaGo learned the game by observing the best human players' moves and then trained itself to get even better. A machine's ability to learn has "implications for the AI world as a whole," said the *LA Times*.

CALENDARS

US. Thurs: Durable Goods Orders Total and Ex Transportation -3.0%/-0.2%, Jobless Claims 268k, Kansas City Fed Manufacturing Index, NM-PMI Flash Estimate, Weekly Consumer Comfort Index. **Fri:** Real GDP & Price Deflator 1.0%/0.9%, Corporate Profits. (Bloomberg estimates)

Global. Thurs: Germany Gfk Consumer Confidence 9.5, UK Retail Sales 3.4% y/y, Japan CPI Headline, Core, and Core-Core 0.3%/0.0%/0.8%, ECB Publishes Economic Bulletin. **Fri:** France GDP 1.4% y/y. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators ([link](#)): The Investors Intelligence Bull/Bear Ratio (BBR) rose for the sixth week this week to a seven-month high of 1.71, after falling from 0.89 to 0.63 six weeks ago--which was the lowest since March 2009. The latest reading is the fourth above 1.0 after seven weeks below. Bullish sentiment has jumped 22.7ppts the past six weeks to 47.4% (highest since last July); bearish sentiment sank 7.6ppts the past two weeks to a new low for this year of 27.8%, and is down 11.4ppts over the past six weeks. The correction count was little changed for the second week at 24.8% this week, but has dropped a total of 11.3ppts the past six weeks. The AAI Bull Ratio fell for the first time in five weeks to 52.7% after rising the prior four weeks from 28.3% to 60.5%. Bullish sentiment slipped to 30.0% after rebounding the previous four weeks from 19.2% to 37.4%; bearish sentiment rose to 26.9% after falling from 48.7% to 24.4% the prior four-week period.

AC World ex-US MSCI ([link](#)): This index is down 0.6% ytd in dollar terms after falling 8.0% in 2015. In local currency terms, the index has fallen 4.0% ytd after slipping just 0.7% in 2015. Dollar-based forward revenues had risen as much as 3.6% from its low in March, but is stalled at a seven-year low now and down 23.8% from its record high in August 2011. However, local currency forward revenues has been more stable and is down just 9.3% from its October 2014 record to its lowest level since July 2011. Dollar-based forward earnings had improved as much as 5.4% from its low in March, but is near its lowest level since October 2009 now and down 36.8% from its July 2008 record. Local currency forward earnings has dropped 11.1% below its July 2011 cyclical high to a three-year low and is down only 21.4% from its September 2008 record to its lowest level since May 2010. Revenues are expected to rise 1.0% in 2016 following a 1.9% decline in 2015, and earnings are expected to rise 3.8% (2016) after falling 4.7% (2015). Analysts are forecasting STEG of just 6.9%, near the lowest level in seven years. The implied profit margin is expected to remain steady at 7.0% in 2016 before improving to 7.4% in 2017. NERI weakened to a 51-month low of -11.3% from -10.5% in February, and has been negative for 60 straight months. The P/E is up to 13.8 from a 16-month low of 12.4 in early February, but that's down from a six-year high of 15.3 in April 2015. Its 9% discount to the World P/E is nearing historical lows and is down from a 6% discount last April.

EMU MSCI ([link](#)): The EMU's MSCI price index has dropped 2.7% ytd in dollar terms after falling 3.3% in 2015. In euro terms, the price index is down 5.9% ytd following a gain of 7.7% in 2015, when it was the best regional performer. Euro-based forward revenues is up just 0.5% from its four-year low last February, and has weakened 3.3% from its cyclical high in August. Euro-based forward earnings is falling too. It has weakened to just 0.8% above its February 2015 low from 6.9% in September. Analysts expect earnings to rise 3.6% in 2016 on a 1.3% rise in revenues, but that's a slowdown from 2015 when earnings rose 8.7% on a 3.7% revenue gain. STEG has weakened from 15.6% during April 2015 to a seven-year low of 6.0% now, and is now below LTEG (9.4%) after being above it since late 2013. The forward profit margin has improved over half of a percentage point to 6.7% from a cyclical bottom of 6.2% in May 2013. The implied profit margin is expected to improve to 6.6% in 2016 from 6.4% in 2015. NERI was negative for an eighth straight month in March as it fell to a 23-month low of -12.5% from -10.4% in February. It's down from a 56-month high of 4.0% in May. The P/E of 13.8 is down from a 13-year high of 16.4 in April 2015, but is up from a 30-month low of 12.2 in early February. It's trading at a 9% discount to the World MSCI's P/E now, up from a record-low 25% discount during 2011. But the current reading is still well below the 1% premium during April 2015--which was a record high since the inception of the euro.

Emerging Markets MSCI ([link](#)): The EM MSCI price index is up 4.6% ytd in US dollar terms after tumbling 17.0% in 2015. In local currency terms, EM has risen 2.5% ytd compared to an 8.0% decline in 2015. Dollar-based forward revenues is steadying now near the lowest level since September 2010 and 26.6% below its record high in August 2014, but local currency forward revenues is only at a three-year low and down just 13.8% from its November 2014 record. Dollar-based forward earnings is steady too, near the lowest point since September 2009 and down 38.5% from its August 2011 record, but local currency earnings is at the lowest level since April 2010 and down just 17.5% from its January 2014 record. Revenues are expected to rise 2.2% in 2016 following a slight 0.4% rise in 2015, and lead to an earnings gain of 6.9% (2016) after a fall of 7.9% in 2015. STEG of 9.4% is up from a seven-year low of 6.0% in February, but remains below LTEG (11.2%). STEG has been in a downtrend since mid-2013, when it peaked at 14.3%. The implied profit margin is expected to improve to 6.0% in 2016 from 5.7% last year. The forward profit margin is down more than four full percentage points from a record high of 10.3% in December 2007 to a record low of 6.0% now. NERI--negative for 61 months--dropped to an 83-month low of -10.2% in March from -10.0% in February. Emerging Markets' valuation has been more stable recently than that of the rest of the world. The P/E of 11.6 is up from a 17-month low of 10.2 in August, but down from a four-year high of 12.6 in April. It's trading at a 24% discount to the World MSCI P/E, near its 10-year-low 30% discount in August.

MSCI World & Region MSCI Net Earnings Revisions ([link](#)): Analysts' recent earnings revisions suggest greater pessimism about profits across some of the world's regions outside the United States. The World MSCI's NERI was negative in March for a 57th straight month, and weakened to an 83-month low of -12.4% from -11.7% in February. The World Ex-US fell to a 51-month low of -11.3% from -10.5% as Emerging Markets weakened to an 83-month low of -10.2% from -10.0%. NERI was negative for all regions for an eighth straight month, and weakened m/m for all MSCI regions except EM Eastern Europe and EM Latin America. March's score among the regional MSCIs: EM Eastern Europe (up to -7.2% from -10.2%), EM Latin America (-7.7, -7.9), EM Asia (-11.1, -10.5), World ex-US (-11.3, -10.5), EAFE (-11.6, -10.0), Europe (-11.7, -11.3), AC World (-12.4, -11.7), EMU (-12.5, -10.4), and United States (-14.8, -14.7).

MSCI Countries Net Earnings Revisions ([link](#)): NERI was positive for 2/44 MSCI countries in March--unchanged from February--and marks the fewest positive since just one in August 2012. NERI improved m/m in March for 20/44 countries, up from 12 improving in February. New Zealand was at a 58-month high, followed by Greece (17) and the United Kingdom (9). Countries at multi-month lows: Norway and Singapore (52-month lows), Spain (46), China (42), Japan (39), and Italy (33). Ireland's

NERI has been positive for 10 straight months, followed by New Zealand's, which turned positive in March for the first time in five months. Italy's NERI has been negative for 76 straight months, followed by the negative streaks of Brazil (69), Singapore (60), UK (58), and Chile (56). During March, NERI turned back into negative territory for Hungary after 10 straight months of positive readings.

US ECONOMIC INDICATORS

New Home Sales ([link](#)): New home sales recovered 2.0% in February to 512,000 units (saar) after falling a revised 7.1% in January (smaller than the initial 9.1% drop), which followed a three-month surge of 18.2%. February's increase was driven by a 38.5% jump in sales out West, after a 32.7% drop in January; the remaining three regions show sales fell in the Northeast (-24.2%), Midwest (-17.9), and South (-4.1). There were 240,000 new homes on the market at the end of February--the most since October 2009, though less than half the level at the height of the housing bubble. The months' supply was unchanged at 5.6, near the recent high of 5.9 months last September. The outlook for housing remains favorable; homebuilders' confidence has softened a bit recently, but this month's reading of 58 remains close to October's cyclical high of 65.

GLOBAL OIL SUPPLY & DEMAND

Global Oil Supply ([link](#)): Non-OPEC output reached a new record high in February, while OPEC's slipped a bit from January's record reading. Based on Oil Market Intelligence data, Non-OPEC output continues to set new record highs, climbing to 56.8mbd last month. Output in the US (9.6mbd) is just shy of its record high, while Canada's (4.0mbd) is at a new record high. Combined, they're up 4.2mbd since August 2012 to a record-high 13.5mbd. OPEC supply fell from a record high of 39.9mbd in January to 39.3mbd in February. Within OPEC, Saudi Arabia output (10.2mbd) is just shy of June's 10.6mbd, which was its highest level since February 1981. Iraq's output (4.1mbd) is down from its record high of 4.5mbd, while Iran's supply (3.3mbd) continued to recover from its recent low of 2.2mbd in the fall of 2013 to its highest reading since February 2012. Libyan production (0.5mbd) remains volatile around recent lows.

Global Oil Demand ([link](#)): World oil usage climbed to a new record high of 95.4mbd in February (based on 12-ma), up 10.5mbd from the summer 2009 low of 84.9mbd. The yearly growth rate slowed to 1.9% last month after accelerating from 0.7% in August/September 2014 to 2.2% last November. Non-OECD demand rose to a new record high of 49.2mbd, while OECD demand (46.2mbd) has flattened out around recent highs. (Non-OECD demand surpassed OECD demand in summer 2013; its spread is at 3.0mbd.) In terms of y/y growth, the former held around November's (3.3%) two-year high at 3.0%, while the latter slowed to 0.7%, down from November's 1.1%--which was the best since May 2011. Looking at just "Old World" economies, demand held at 37.3mbd in the 12 months ending February. Demand in Japan slid to a new record low of 4.2mbd, while demand in the US is stalled around recent highs; Europe's has turned up from recent lows, led by the UK, Italy, and Spain. Excluding these three economies, "New World" demand is at a record high (58.1mbd), up 2.7% y/y, near its high for last year. At record levels were China, India, and OPEC; Latin America is down from its record high in the spring of last year.

Contact us by [email](#) or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333

Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333

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