MORNING BRIEFING
April 20, 2020

S&P 500 Flying, Economy Diving

Check out the accompanying chart collection.


Strategy I: 1987 and 2020, Again. Joe and I continue to compare and contrast the current environment for S&P 500 revenues and earnings to the experience of 2008 and 2009. There are certainly significant similarities and differences between the Great Financial Crisis (GFC) back then and the Great Virus Crisis (GVC) currently.

However, so far, the performance of the S&P 500 is much more reminiscent of the bear market of 1987 than the one that spanned 2007-09. During the former, the stock price index plunged 33.5% in 101 days from August 25 through December 4, 1987. Most of the selloff occurred on Black Monday, October 19. It was a fast bear market mostly because the economy and forward earnings continued to grow; there was no recession (Fig. 1 and Fig. 2). Consider the following:

(1) Shortest bear market in history? This time, if the bear-market low was made on March 23, as Joe and I surmise, then it lasted just 33 days, with the S&P 500 plunging 33.9% from February 19 through March 23 (Fig. 3). That would make it the shortest bear market in US history. As of Friday’s close, the index is up 28.5% since March 23 but still 15.1% below the February 19 record high. That’s truly remarkable considering that, unlike in 1987, the economy and earnings now are sinking rapidly into deep recessions, as discussed below.
Was that THE bottom? In my March 12 Barron’s interview, Leslie Norton asked me how low I thought stocks could go. I responded as follows: “A 30% drop from the top of the S&P 500 brings us to 2300-2400. I had originally expected 3,500 on the S&P 500 by year-end, and we got to 3,300 in February. Now, I’m thinking 3,500 will be in 2021. There will be recovery and resumption of the bull market. I think it will be like 1987 all over again. Most of the downside should occur between now and the middle of the year. My year-end target is 2900 on the S&P 500.”

Yet here we are at 2874.56 on the S&P 500 as of Friday’s close, up 28.5% from the March 23 low of 2237.40 (Fig. 4)! That’s actually down only 1.0% from a year ago. A 0.9% uptick on Monday would get us to our year-end target already, and it’s only April 20! Joe and I aren’t going to raise our year-end target, but we are feeling better about our 3500 target for 2021.

The Fed then and now. So why might this have been a 1987-style bear market when it feels more like 2008, if not the 1930s? The Fed exacerbated and extended the recession and bear market of 2008 when Fed Chair Ben Bernanke let Lehman go under on September 15 of that year. The Fed’s monetary policies also worsened the Great Depression. This time, the Fed responded rapidly and forcefully with QE4ever on Monday, March 23 and what we call “NALB” (No Assets Left Behind) on Thursday, April 9.

Rather than bring a knife to a gun fight, Fed Chair Jerome Powell provided lots of shock and awe by loading up the Fed’s B52s with trillions of dollars and carpet-bombed the economy and financial markets with them. And he has just gotten started. The Fed’s assets soared to $6.3 trillion during the April 15 week, up $2.1 trillion since the March 11 week, just a few days before QE4 was announced on March 15 (Fig. 5).

Now get this: Over this same period, the Fed’s holdings of US Treasuries jumped $1.2 trillion to a record $3.7 trillion (Fig. 6). Debbie and I reckon that the federal deficit will mount to roughly $4 trillion during the current fiscal year. So the Fed is well on the way to financing at least half of it!

No choppers: from bazookas straight to B52s. In my March 12 Barron’s interview, I predicted: “To avoid a worst-case scenario, President Donald Trump and Powell could work out helicopter money—a tax cut financed with bonds purchased by the Fed. … The Fed will be looking for more-unconventional policies, which will undoubtedly lead them to lowering interest rates to zero and, once we get there, revive quantitative-easing purchases of bonds.” I didn’t
expect B52 money, but when we saw the bombers coming, Joe and I opined on March 25 that March 23 might have been the bear market low.

In my follow-up Barron’s interview on March 17, discussing my new book about Fed watching, I said that I expected the Fed “to buy corporate bonds.” Furthermore, I predicted: "I can see them setting up liquidity facilities in the credit and muni markets, where we’re seeing spreads blow out. Half of nonfinancial investment-grade corporate bonds are triple-B rated and on the edge of turning into junk." The Fed didn’t let me down.

(5) The rebalancing story. Joe and I believe that the bottom was made on March 23 because the Fed’s shock-and-awe campaign to carpet-bomb the financial markets with liquidity worked right away. That immediately stopped the mad dash for cash and triggered a mad dash to rebalance away from cash and bonds into stocks. Any significant selloff in the stock market now would likely stimulate another wave of rebalancing. Hence, we conclude, the bottom has been made.

Strategy II: 2008 and 2020, Again. The US economy is diving. So are analysts’ consensus earnings expectations for the S&P 500 for 2020. On the other hand, the stock price index has been flying since March 23 along with its forward P/E, from 12.9 to 18.3 on Friday. Also soaring are analysts’ consensus expectations for earnings growth in 2021. While the performance of the S&P 500 so far this year is most reminiscent of 1987, let’s review what happened to S&P 500 revenues and earnings during the GFC as a possible template for the GVC:

(1) Revenues in 2008 & 2009. I asked Joe to compile the available weekly data for industry analysts’ consensus expectations for S&P 500 revenues growth for each year since 2007, with the end points of each of these “S&P 500 Revenues Squiggles” being the actual results. My wingman rose to the challenge, as he always does (Fig. 7).

Joe’s data show that S&P 500 revenues actually grew by 5.5% during 2008 but were pummeled during 2009, falling 7.7%. Just before Lehman hit the fan in late 2008, industry analysts expected 2009 revenues to rise 5.5%. After Lehman was splattered all over the Street, consensus revenues growth expectations plunged to a low of -9.5% during the October 1 week of 2009.
(2) Revenues in 2020 and 2021. Since COVID-19 hit the headlines on January 23, the consensus expectation for 2020 revenues growth has plunged from 4.8% to -0.8% during the April 9 week. Joe and I still predict that revenues could fall 15% this year from $1,415 per share to $1,200 per share (Fig. 8). Why twice as much as in 2009? The economic freefall discussed below explains it all. On the other hand, we expect a 12.5% rebound in revenues during 2021 to $1,350 per share.

(3) Earnings in 2008 & 2009. During the GFC, S&P 500 operating earnings per share fell by 2.9% in 2007 and by 15.3% in 2008 (Fig. 9). Consensus expected earnings growth rates for 2008 and 2009 took big dives into negative territory following Lehman’s collapse. Most interestingly, 2009 earnings growth expectations plunged from a high of +27.7% during the September 11 week of 2008 to a low of -13.7% during the week of May 21, 2009, but then recovered to the actual result of +2.0%.

(4) Earnings in 2020 & 2021. Earnings expectations have been diving since mid-March, when most of the US economy was shuttered by states’ stay-in-place orders. The 2020 consensus expected earnings growth rate has plunged from just over +9.0% during the December 12 week to just under -9.0% during the April 9 week.

Joe and I think this estimate will continue to plunge in coming weeks, since we are expecting a 27% drop in earnings to $120 per share this year (Fig. 10). We wouldn’t be surprised to see, as in 2009, industry analysts overshoot on the downside and then revise their 2020 estimates higher—which they might do if they assume, as we do, that the economy will gradually open up during the second half of this year. We expect a 25% jump in earnings in 2021 to $1.50 per share. Industry analysts have been raising their consensus earnings growth rate projection toward ours, with their estimate at 18.3% during the April 9 week.

Strategy III: Going Digital and Biological. Could the S&P 500 retest its March 23 low? It could. Could it plunge below that level to 1500 or lower? It could. But that’s not our outlook. For now, that’s not the stock market’s outlook either. Admittedly, the dramatic rebound in the S&P 500 since March 23 stands in sharp contrast to the freefall in US and global economic indicators. In our opinion, the disconnect can be explained by progress that is likely to be made on all three fronts of the war against the virus (VW-I):

(1) Financial front. The rapid response of both fiscal and monetary policies to the GVC, with enormously stimulative programs, has been impressive. There has been plenty of shock and
awe, as evidenced by the significant narrowing of credit-quality spreads in recent weeks and by the rebound in stock prices.

(2) Health front. In addition, the market is working under the assumption that the health crisis in the US will last weeks, not months, similar to how it has played out in China so far, as Debbie and I discuss below. Indeed, the Trump administration and various state governors are already planning to open up the US economy gradually starting around mid-May, as social distancing seems to be flattening the curves of cases and deaths.

(3) Economic front. With progress being made on the health and financial fronts of the war against the virus, the market is discounting a recovery later this year, which for now is more important than whether it will be a V or U recovery.

At the start of the year, investors were still reaching for yield. Then the viral pandemic triggered a pandemic of fear, which caused a mad dash for cash. After the Fed announced QE4ever on March 23, there was another mad dash out of cash and bonds and into stocks.

Mirror, mirror on the wall, which stocks are the fairest of them all—i.e., most apt to survive the GVC and prosper in the past-crisis world? The short answer is the stocks of companies involved in digital and biological technologies. In other words, companies in the Information Technology and Health Care sectors of the S&P 500/400/600 indexes. They should continue to benefit from the rapid pace of digitization of our economy and the need to improve our healthcare system as a result of the GVC.

That should be a good investment theme to consider longer term. However, since March 23, many of the best-performing industries have been in the sectors that were crushed the most during the preceding 33-day bear market. Here’s the performance derby of the S&P 500 sectors from best- to worst-performing since March 23, alongside their performances during the bear market: Energy (43.7% since March 23, -56.0% during the 33-day bear market), Real Estate (35.2, -38.0), Utilities (35.2, -35.9), Health Care (34.8, -28.1), Materials (30.9, -36.9), Industrials (29.5, -41.8), Consumer Discretionary (29.5, -31.9), S&P 500 (28.5, -33.9), Financials (26.9, -43.0), Information Technology (26.8, -31.2), Consumer Staples (24.2, -24.3), and Communication Services (19.5, -28.6). (See Table 1 for bear-market performances and Table 2 for rebounds since March 23.)
US Economy: V, U, W, or L? Debbie and I expect that for the first couple of quarters of the economic rebound from the recession caused by the GVC, the recovery should be “V” shaped. We aren’t virologists, but we are 100% sure that we are all getting cabin fever. So there should be a surge in consumer spending once the economy starts to reopen. There could also be a surge of capital spending focused on bringing supply chains back home. And, of course, there’s also an enormous amount of fiscal and monetary stimulus that should spur a surge in growth.

But after the first couple of quarters, the continued recovery is more likely to be U-shaped. That’s because plenty of post-crisis after-shocks could weigh on the economy—including the fact that restarting the economy won’t happen all at once but gradually; consumers’ probable caution about visiting public venues and business establishments, where social distancing is also likely to reduce head counts; and the likelihood that consumers will save more than before the pandemic, at the expense of consumer spending.

For now, the economy is tracing out a big fat ugly capital “I,” falling into an unprecedented abyss. Here is a recent assortment of shockingly (but not surprisingly) bad economic indicators:

(1) *BBB & CESI*. Our Boom-Bust Barometer (BBB) has plumbed the lower depths as never before ([Fig. 11](#)). It is down a staggering 96% from this year’s high of 221.8 during the February 15 week to 8.3 during the April 11 week. That’s the lowest on record for the series, which starts in 1967. The Citigroup Economic Surprise Index (CESI) plummeted to -129.0 on April 17, holding around its lowest reading since December 17, 2008 ([Fig. 12](#)).

(2) *FRBNY weekly GDP indicator*. Another gut-wrenching economic indicator is the Weekly Economic Index (WEI) compiled by the Federal Reserve Bank of New York using 10 daily and weekly indicators of real economic activity, scaled to align with the four-quarter GDP growth rate. Unlike the Index of Leading Economic Indicators, it doesn’t include any financial variables, such as the S&P 500 or the yield-curve spread.

The WEI had been hovering around 2.0% since 2010, along with real GDP growth on a y/y basis ([Fig. 13](#)). It’s been plummeting since the February 29 week, when it was 1.6%, falling to -11.0% for the week ending April 11. During the previous recession, it was down a bit over 3.0%. Debbie calculates that the latest reading translates into a reading of -48.0% q/q saar for
real GDP growth during Q2! Ugly, indeed! However, this is a fairly new indicator that is available only since 2008.

(3) *FRB district business surveys.* Then again, just as ugly as the BBB and WEI is the average of the general regional business indexes compiled by the New York and Philly Feds for April. It tumbled to -67.4 this month, to the lowest reading on record going back to July 2001 (*Fig. 14*).

**China Economy: The Fall and Rise.** If we are very lucky, then the US economy would follow a path similar to that of China's economy in the aftermath of its COVID-19 breakout: Real GDP exhibited a depression-like collapse for a couple of months followed by a recovery. Chinese real GDP fell 6.8% y/y during Q1, when China’s economy was shut down by the government to stop the spread of the virus (*Fig. 15*). That translates into a staggering collapse of 42.9% q/q saar during Q1!

On a y/y basis, real retail sales dropped a record 20.1% during March (*Fig. 16*). However, the official M-PMI rebounded from a record low of 35.7 during February back over 50.0 to 52.0 during March. That improvement was confirmed by the rebound in industrial production growth from a record low of -13.5% y/y during January/February to -1.2% during March.

**Movie.** “Resistance” (+ +) ([link](#)) is about the WWII exploits of Marcel Marceau, the famous French actor and mime. As a youth, he lived in hiding and worked with the French Jewish resistance network in Vichy, France during most of the war. They rescued thousands of children and adults during the Holocaust in France, mostly from the murderous Klaus Barbie, an SS and Gestapo Nazi known as “the Butcher of Lyon.” Marceau gives his first major performance to 3,000 troops after the liberation of Paris in August 1944. The story is remarkable. The acting by Jesse Eisenberg in the lead role is not so remarkable. (See our movie reviews since 2005.)

**CALENDARS**


**Global:** *Mon:* Eurozone Trade Balance €20.0b, RBA Minutes of April Policy Meeting, Haldane, Broadbent. *Tues:* Germany ZEW Survey Current Situation & Expectations -75/-42, UK Employment Change & Unemployment Rate 100k 3/m/3m/3.9% 3m, Canada Retail Sales,
STRATEGY INDICATORS

Global Stock Markets Performance (link): Last week saw the US MSCI index rise 3.1% for its third gain in the past four weeks. The index ranked seventh of the 49 global stock markets we follow in a week when 27/49 countries rose in US dollar terms, and the AC World ex-US index gained 1.0% as most regions rose. The US MSCI index is out of a bear market and is now in a 15.3% correction from its 2/19 record high. EM Asia was the best-performing region, with a gain of 3.0%, followed by BRIC (1.4%). EM Eastern Europe was the biggest underperformer with a drop of 5.6%, followed by EMEA (-5.4), EM Latin America (-2.5), EMU (-0.8), and EAFE (0.7). New Zealand was the best-performing country last week, with a gain of 7.6%, followed by the Taiwan (5.4), the Philippines (5.2), Denmark (4.8), and Argentina (4.2). Of the 29 countries that underperformed the AC World ex-US MSCI last week, Russia fared the worst, with a decline of 7.2%, followed by Austria (-6.3), Egypt (-4.7), Colombia (-4.3), and Greece (-4.1). The US MSCI’s ytd ranking remained steady at 6/49 as its ytd performance rose to -10.9% from -13.6% the prior week. It’s still way ahead of the 20.1% ytd decline for the AC World ex-US. EM Asia is the best regional performer ytd, albeit with a decline of 12.9%, followed by BRIC (-16.6). The worst-performing regions ytd: EM Latin America (-43.5), EM Eastern Europe (-32.7), EMEA (-28.3), EMU (-24.7), and EAFE (-20.4). The best country performers ytd: Denmark (-3.8), China (-5.7), New Zealand (-8.1), Switzerland (-8.7), and Jordan (-9.9). The worst-performing countries so far in 2020: Brazil (-47.4), Colombia (-46.4), Greece (-43.2), Hungary (-40.2), and Austria (-39.8).

S&P 1500/500/400/600 Performance (link): LargeCap was the only one of these indexes to rise last week as investors took profits in the SMidCaps following their best gains on record a week earlier. LargeCap was 3.0% higher for the week, easily ahead of the declines for MidCap (-1.6%) and SmallCap (-2.8). LargeCap was out of a bear market for a second week and 15.1% below its 2/19 record high; MidCap finished 25.9% below its record high on 1/16; and SmallCap remained the worst performer, at 34.2% below its 8/29/18 record. Fifteen of the 33 sectors rose for the week, down from all 33 rising a week earlier. Nine of the 33 sectors are out of a bear market now, and six of them are LargeCap sectors. Among them, LargeCap Health Care is the only sector out of a correction. MidCap Energy was the best performer last week, with a gain of 8.6%, ahead of LargeCap Consumer Discretionary (7.9%), LargeCap Health Care (6.1), and LargeCap Information Technology (4.8). SmallCap Real Estate (-8.5) was the biggest underperformer last week, followed by SmallCap Financials (-7.0), MidCap Financials
(-6.4), SmallCap Materials (-6.0), and MidCap Real Estate (-5.2). All three indexes are still down on a ytd basis, but LargeCap’s 11.0% drop is much smaller than those of MidCap (-24.3) and SmallCap (-29.2). All 33 sectors are still down so far in 2020, with the best performers led by LargeCap Health Care (-1.2), SmallCap Communication Services (-1.7), LargeCap Information Technology (-2.5), MidCap Health Care (-3.8), and LargeCap Consumer Staples (-3.8). The biggest laggards of 2020 to date: SmallCap Energy (-65.5), MidCap Energy (-58.7), LargeCap Energy (-43.0), SmallCap Consumer Discretionary (-36.6), and SmallCap Financials (-35.6).

**S&P 500 Sectors and Industries Performance** (*link*): Six of the 11 S&P 500 sectors rose last week as five outperformed the index’s 3.0% gain. That compares to a 12.1% gain for the S&P 500 a week earlier, when all 11 sectors rose and seven outperformed the index. Consumer Discretionary’s 7.9% gain made it the best performer for the week, ahead of Health Care (6.1), Information Technology (4.8), Consumer Staples (4.2), and Communication Services (4.1). Financials was the biggest underperformer with a drop of 4.0%, followed by Real Estate (-2.8), Materials (-2.1), Utilities (-0.5), Industrials (-0.1), and Energy (0.2). The S&P 500 is now down 11.0% so far in 2020 with seven sectors leading the index. The leading sectors ytd: Health Care (-1.2), Information Technology (-2.5), Consumer Staples (-3.8), Utilities (-6.3), Consumer Discretionary (-6.3), Communication Services (-9.3), and Real Estate (-10.8). The laggards of 2020 so far: Energy (-43.0), Financials (-27.1), Industrials (-22.4), and Materials (-18.0).

**Commodities Performance** (*link*): Last week, the S&P GSCI index fell 2.1% for its biggest drop in four weeks. It’s now down 39.1% from its recent high on 1/6, and still in a bear market at 46.2% below its cyclical high on 10/3/18. Unleaded Gasoline was the best performer last week, with a gain of 6.9%, followed by Natural Gas (5.1%), Copper (3.9), Nickel (3.3), and Zinc (3.2). However, with the oil price war between Russia and Saudi Arabia not officially over, the Energy Commodities index (-3.4% last week) remains near an 18-year low. Lean Hogs was the biggest decliner for the week with a drop of 10.2%, followed by GasOil (-6.7), Crude Oil (-5.2), Brent Crude (-4.6), and Silver (-4.5). Just one of the 24 commodities that we follow is higher so far in 2020, Gold (11.5). The next best-performers ytd: Kansas Wheat (-0.2), Wheat (-4.5), Cocoa (-6.8), and Coffee (-9.4). The worst performers ytd: Crude Oil (-59.0), Unleaded Gasoline (-54.8), GasOil (-52.7), Brent Crude (-52.2), and Heating Oil (-51.6).

**S&P 500 Technical Indicators** (*link*): The S&P 500 price rose 3.0% last week, and improved markedly relative to its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma). It rose above its 50-dma for the first time in eight weeks, but
remained below its 200-dma for an eighth week, the first time that has happened since January 2019. Its 50-dma relative to its 200-dma dropped for an eighth straight week, putting the index in a Death Cross (with 200-dmas higher than 50-dmas), for a fourth week—for the first time since March 2019. The index’s 50-dma dropped last week to 5.5% below its 200-dma, the worst reading since November 2011. During late February, the 50-dma had been 7.6% above its 200-dma, which was the highest since May 2012. The S&P 500’s 50-dma dropped for an eighth week after rising for 20 weeks. The price index improved to 0.8% above its falling 50-dma from 3.9% below its falling 50-dma a week earlier. That’s up from 27.7% below on 3/23—it’s lowest reading since it was 29.7% below on Black Monday, 10/19/87. That compares to a 10-month high of 4.6% above its rising 50-dma in mid-January and 6.6% above during February 2019—it’s highest level since October 2011. The 200-dma fell last week after rising a week earlier for the first time in five weeks. It had been rising for 39 weeks through early March. The index traded below its 200-dma for an eighth week after being above for 38 weeks. It ended the week 4.8% below its falling 200-dma, up from 7.7% below a week earlier. That’s up from 26.6% below on 3/23—it’s lowest reading since March 2009 and down from a 24-month high of 11.2% in mid-February. That compares to a seven-year high of 13.5% above its rising 200-dma during January 2018 and 14.5% below on 12/24/18, which was then the lowest since April 2009. At its worst during the Great Financial Crisis, the S&P 500 price index was 25.5% below its 50-dma on 10/10/08 and 39.6% below its 200-dma on 11/20/08.

**S&P 500 Sectors Technical Indicators** ([link](#)): Five of the 11 S&P 500 sectors traded above their 50-dmas last week, and two traded above their 200-dmas. That compares to just one sector above its 50-dma and 200-dma a week earlier. Information Technology is now the only sector still in the Golden Cross club (with 50-dmas higher than 200-dmas). That compares to just two sectors (Real Estate and Utilities) in the club during February 2019 and all 11 in the club during January 2018. Energy has not been in a Golden Cross for 74 straight weeks. The 50-dma has been falling for eight weeks now for all 11 sectors, a swift reversal from the week ending 2/21, when 10 sectors had rising 50-dmas. Three sectors have rising 200-dmas now, up from two a week earlier, as Consumer Staples moved back above in the latest week and joined Health Care and Tech. Financials’ 200-dma was down for an eighth week for the first time since late August. Energy’s 200-dma has been mostly falling since October 2018.

**US Economic Indicators**

**Leading Indicators** ([link](#)): Leading indicators in March posted their biggest monthly decline in the 60-year history of the series, plunging 6.7%—double the previous record drop, of 3.4%,
recorded during October 2008! The sharp drop in March’s Leading Economic Indicators (LEI) “reflects the sudden halting in business activity as a result of the global pandemic and suggests the US economy will be facing a very deep contraction,” according to the Conference Board. The unprecedented decline in March’s LEI primarily reflected an unprecedented spike in jobless claims (-5.53ppts), which weighed heavily on the index and will likely again in April—with claims soaring an additional 11.9 million the first two weeks of this month! Also subtracting from March’s LEI were stock prices (-0.83ppt), building permits (-0.21), the average workweek (-0.20), ISM new orders diffusion index (-0.12), and consumer expectations (-0.09). Contributions from the remaining four components were in a narrow range from 0.00 to 0.03ppt.

**Coincident Indicators (link):** The Coincident Economic Index (CEI) dropped 0.9% in March, after reaching a new record high in February, posting its biggest decline since the start of 2013. Two of the four components contributed negatively: 1) Payroll employment fell for the first time since September 2010, tumbling 701,000 during March—the steepest loss since the 800,000 drop during the financial crisis—and only 38,000 short of the record drop of 838,000 recorded during October 1949! Leisure & hospitality accounted for roughly two-thirds of March’s loss. 2) Industrial production in March posted its steepest monthly decline since 1946! Output plummeted 5.4% last month—after climbing to within a percentage point of a new record high in February. Manufacturing (-6.3%) led declines among industry groups. The other two components—real personal income (excluding transfer payments) and real manufacturing & trade sales—contributed positively, but with a caveat: Their data are “estimated using statistical imputation to address the problem of lags in available data,” according to The Conference Board.

**Regional M-PMIs (link):** Two Fed districts have now reported on manufacturing activity for April—New York and Philadelphia—and show growth in both regions are in a freefall. The composite index sank to a record low -67.4 from -17.1 in March and 24.8 in February—which was the best rate since October 2017. New York’s measure tumbled 56.2 points this month—and 91.1 points the past two months—to a series low of -78.2! (By way of comparison, the lowest level this indicator had reached prior to this month was -34.3 during the Great Recession.) Meanwhile, growth in the Philadelphia (to -56.6 from -12.7) region contracted at its fastest rate since the Great Recession. New orders also took a nosedive this month, tumbling to a record-low -68.6 from -12.4 in March and a 21-month high of 27.9 in February. Both the New York (-66.3 from -9.3) and Philadelphia (-70.9 from -15.5) regions saw a record decline in billings. The story is the same for employment (-51.0 from 1.3), with this measure showing
factories slashing payrolls at a record rate in both the New York (-55.3 from -1.5) and Philadelphia (-46.7 from 4.1) areas.

**Housing Starts & Building Permits** ([link](#)): Housing starts in March plunged at their fastest pace since 1984, as the effects from the coronavirus spread throughout the economy. Housing starts tumbled 22.3% to 1.216mu (saar) last month, with both single-family (-17.5% to 856,000 units, saar) and multi-family (-31.7% to 360,000 units, saar) starts posting double-digit declines. Building permits sank 6.8% in March, and 12.7% the past two months, to 1.353mu (saar)—down from January’s cyclical high of 1.550mu. Single-family permits recorded their first decline in 11 months, tumbling 12.0% (the steepest decline since December 2008) to 884,000 units (saar). These permits had climbed to 1.005mu (saar) in February—which was the first reading above 1 million units since May 2007. Meanwhile, volatile multi-family permits climbed 4.9% to 469,000 units (saar) after sliding 20.6% in February. April’s report on housing starts and permits should be more of the same, as builders’ confidence took a huge hit in April. NAHB’s Housing Market Index (HMI) posted its largest monthly decline in the history of the series, tumbling 42 points to 30 this month—the lowest builder confidence since mid-2012 and the first reading in negative territory (below 50) since mid-2014. “This unprecedented drop in builder confidence is due exclusively to the coronavirus outbreak across the nation, as unemployment has skyrocketed and gaps in the supply chain have hampered construction activities,” said NAHB Chairman Dean Mon. “Meanwhile, there continues to be some confusion over builder eligibility for the Paycheck Protection Program, as some builders have successfully submitted loan applications while others have not been able to.”

**GLOBAL ECONOMIC INDICATORS**

**European Car Sales** ([link](#)): EU passenger car registrations (a proxy for sales) crashed 55.1% y/y in March as a result of the COVID-19 outbreak! The ACEA report noted: “With containment/lockdown measures taking hold in most markets from around the middle of the month, the vast majority of European dealerships were closed during the second half of March. Consequently, demand across the region fell by more than half last month, dropping from 1,264,569 units registered in March 2019 to 567,308 units.” All 27 EU countries posted y/y declines in March, with Italy (-85.4% y/y) taking the biggest hit. Demand also tumbled in France (-72.2) and Spain (-69.3), while Germany’s (-37.7) decline was not as dramatic—though still sizable. Sales during the first three months of this year dropped 25.6% y/y, from the comparable period in 2019—with Italy (-35.5), France (-34.2), Spain (-31.0), and Germany (-20.3) all recording significant declines.
**Eurozone CPI** *(link)*: March’s CPI headline rate slowed for the second month to 0.7% y/y, after accelerating the prior three months from 0.7% in October (which was the lowest since November 2016) to 1.4% in January. It was the 16th consecutive month the headline rate was below 2.0%. Meanwhile, the core rate edged down from 1.2% to a six-month low of 1.0%. Looking at the main components, food, alcohol & tobacco (to 2.4% from 2.1% y/y) recorded the highest rate, followed by services (1.3 from 1.6)—with the former accelerating and the latter decelerating; the rate for non-energy industrial goods held at 0.5%. Meanwhile, energy prices fell again in March, by 4.5% y/y—down from -0.3% in February and 1.9% in January. Of the top four Eurozone economies, rates in Germany (1.3) and France (0.8) were above the Eurozone’s headline rate of 0.7%, while Spain’s (0.1) and Italy’s (0.1) were both below—posting the lowest rate among all Eurozone members—along with Portugal (0.1) and Cyprus (0.1).