Yardeni Research

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Morning Briefing

Oil, Consumers & Driverless Taxis

Check out the accompanying chart collection.

Executive Summary: Oil prices have sputtered amid fears of weak global oil demand in a trade-warring world. Today, Jackie reviews news that bears upon the supply/demand balance underpinning oil pricing. The decision by OPEC+ to no longer underproduce should increase supplies, but that could soon be offset if US shale producers curb their production while oil prices are low. News of the US and China talking trade is supportive for global oil demand and pricing. … Also: Reports from the front lines of the Consumer Discretionary sector, where different companies are feeling Trump 2.0 impacts to different degrees and in different ways. … And: Are you ready to hail driverless taxis? They're ready for you.

Commodities: Have Oil Prices Bottomed? Gold is having a fabulous year, with inflation fears pushing its price up 29.3% ytd through Tuesday's close. "Liquid gold," as oil is often called, has had a much tougher 2025. The price of West Texas Intermediate (WTI) crude oil has fallen 16.6% ytd and 24.6% y/y (*Fig. 1* and *Fig. 2*). Recent declines are due to OPEC+'s plans to unwind production cuts much more quickly than expected. President Trump's Tariff Turmoil (TTT) has raised the specter of a global economic downturn, which also weighs on oil prices.

WTI crude prices fell to a low of $58.50 per barrel on May 5 and since have bounced by 3.3% to $60.42 on Tuesday's close, perhaps indicating that the worst has been priced into the market (*Fig. 3*). Traders now expect OPEC to flood the market with its excess production. What they'll be watching is just how much and how fast US shale producers respond to low oil prices by cutting production.

Likewise, the market was expecting slower economic growth to hurt oil demand. But headlines about US and Chinese diplomats meeting to discuss tariffs may indicate that cooler heads have prevailed; neither side wants to be held responsible for causing an economic downturn.

Here’s a look at some of the details surrounding the moves by OPEC, US shale producers, and tariff negotiators:

(1) *OPEC says “Uncle.”* The oil market has been over-supplied and artificially propped up by OPEC+’s production cuts. Last weekend, OPEC+ shocked the markets by increasing its output by 411,000 barrels per day in June, triple the amount that was expected. It was a none-too-subtle sign that Saudi Arabia was done defending high oil prices by reducing its own production, only to watch OPEC+ members sell more than their quotas allotted while US producers took market share.

“With this move, Saudi Arabia is seeking to punish lack of compliance and also ingratiate itself with President Trump,” Jorge Leon of Rystad Energy said in a May 3 Bloomberg *article*. Trump repeatedly has pushed for lower oil prices, which could help offset any tariff-related inflation. He has plans to visit the Middle East next week, before which he has touted plans to make a “big announcement.”

Last December, the organization announced plans to unwind the 2.2 million barrels per day (bpd) of oil that it had held off the market—but gradually, from March 2025 through the end of September 2026. The “gradual” part of that plan appears to have been abandoned: The unwind is occurring much more quickly than originally envisioned. Roughly 960,000 bpd will have returned to the market as of June, and another large reversal is expected in July.

(2) *Shale producers say “Uncle.”* With the price of oil in the low $60s, drilling becomes uneconomic for a wide swath of US producers and may at the least push them to cut spending on new wells.

Executives from 81 exploration and production firms were asked by the Dallas Federal Reserve what oil price is needed to profitably drill a new well in their top two areas of drilling. The E&P executives’ mean responses ranged from a low of $61 in the Permian basin around Midland, Texas to a high of $70 in other areas of the Permian, according to a chart shared by the folks at *The Daily Shot*.

The number of US oil rigs being used has been declining gradually, generally in step with the price of oil (*Fig. 4*). Thanks to improving technology, the amount of oil produced hasn’t fallen because more oil was produced by fewer rigs (*Fig. 5*). But going forward, oil production may face more challenges. “Today, geologic headwinds outweigh the tailwinds provided by improvements in technology and operational efficiency,” warned Diamondback Energy CEO Travis Stice in a May 5 shareholder *letter*. “As crude pricing moves lower for a period of time, as it has for the last month, we expect [US drilling] activity to slow and oil production to decline."

Diamondback is responding by cutting capital expenditures, drilling and completing fewer wells, and will instead maximize free cash flow generation, wrote Stice, who is retiring as CEO but will remain executive chairman. Capital expenditures this year will fall to $3.4 billion-$3.8 billion, down from $3.8 billion-$4.2 billion, and the company will drop three rigs and one full-time completion crew during Q2. If oil prices rise above $65 a barrel consistently, the company will reverse this decision.

While US drillers' pulling back may not be good news for the Texas economy or US oil production, it may be what the oil market needs to return to equilibrium sooner rather than later.

(3) *US and China say "Uncle."* Stock investors were understandably excited about news late Tuesday that US Treasury Secretary Scott Bessent and US Trade Representative Jamieson Greer are slated to meet He Lifeng, China's vice premier and lead economic representative, in Switzerland on May 10 and 11 to discuss tariffs.

"On Saturday and Sunday, we will agree on what we're going to talk about," Bessent said in a Fox News *interview* on Tuesday. "My sense is that this will be about de-escalation, not about the big trade deal. But we've got to de-escalate before we can move forward." The US has placed 145% tariffs on Chinese imports, while Beijing has placed 125% tariffs on US imports.

Oil prices have sputtered on fears that TTT, if left unchecked, could sharply reduce global economic growth. But the meeting between US and Chinese representatives may indicate that progress to reduce tariffs on both sides can occur before lasting economic damage is done. That would, of course, be good for oil demand and oil prices.

Consumer Discretionary: Consumers Worried, But Still Spending. Consumers may be less confident about the future and increasingly concerned about the direction of the stock market, but they still seem to be willing to spend based on recent earnings results from Disney, Marriott International, and DoorDash. Consumers' wallets may remain open as long as they have jobs and the unemployment rate remains low.

In April, consumer confidence about the present situation slid to 133.5, down from 144.0 in December (*Fig. 6*). Conversely, the percentage of consumers who believed that stock prices would be lower in 12 months jumped to 48.5%, up from 24.8% at the start of this year (*Fig. 7*).

Here’s what a few managements of companies in the S&P 500 Consumer Discretionary sector have said about the tariff impacts they saw last quarter, particularly on consumer spending:

(1) *The Disney magic shines.* Investors were excited to hear yesterday that the Walt Disney Co. has plans to open its seventh theme park in Abu Dhabi. It will be designed by Disney, which will receive royalty payments, but paid for and operated by Miral, a local company that has built theme parks.

We were more excited to see that revenue in Disney’s domestic Parks & Experiences division rose 9% y/y in its fiscal Q2 ending March 29 to $6.5 billion. The improvement was attributed to improved domestic park attendance and occupied room nights, increases in passenger cruise days, and higher Disney Vacation Club unit sales. The company also saw an increase in guest spending at domestic parks.

“Bookings right now for Walt Disney World for the third quarter are up 4% ... and then for the fourth quarter, bookings are up 7%, so [it’s] certainly looking very optimistic,” said CFO Hugh Johnston.

Conversely, there was a notable revenue decline, of 5%, and operating income decline, of 23%, at Disney’s international parks. The company attributed the drops to lower theme park attendance and higher costs at Shanghai Disney Resort and Hong Kong Disneyland. Johnston described Chinese consumers as “a bit challenged” and “tightening their belts a little bit.”

(2) *Marriott highlights impact of government layoffs.* Like most companies, Marriott International called out the uncertainty created by TTT, but unlike others it also noted that US government layoffs were impacting its results.

Marriott’s revenue per available room (RevPAR) in the US and Canada increased 3.3% in Q1, but results slowed in March due to a 10% y/y decline in US government RevPAR and softness in the company’s lower-end hotels. While preliminary, April results “improved sequentially” from March levels after excluding the impact of Easter. Also notable was the Q1 RevPAR 2% decline in Greater China.

“We operate a cyclical business, and there is no doubt that today we are in a period of heightened macroeconomic uncertainty, especially here in the US, with many concerned about slowing economic activity and lower consumer confidence,” said CEO Anthony Capuano on Tuesday’s earnings *conference call*.

While Q1 earnings beat estimates, Marriott reduced its Q2 and full-year outlook due to a “more cautious outlook” in the US and Canada. It now expects RevPAR to grow 1.5%-2.5% in Q2, down from previous guidance of 3.0%-4.0%. For the full year, it expects RevPAR growth of 1.5%-3.5%, down from 2.0%-4.0%. It also gave 2025 EPS guidance of $9.82-$10.19, below Wall Street analysts’ consensus forecast of $10.36. Nonetheless, Marriott’s shares are up roughly 2% so far this week in a down market.

(3) *DoorDash keeps growing.* DoorDash executives are among the lucky few that are saying their business has not been affected directly or indirectly by consumers’ tariff fears. “We haven't seen any changes in consumer behavior even if there are changes in consumer sentiment,” said CEO Tony Xu on the company’s earnings *conference call* Tuesday.

DoorDash posted 20.7% Q1 revenue growth, down slightly from the 23% y/y revenue growth posted in Q1-2024. The company has also shown in recent quarters that it can turn a profit, with operating income of $155 million in Q1 compared to a loss of $61 million in the year-ago quarter.

While DoorDash shares are up 13.3% ytd and 64.5% y/y through Tuesday’s close, they’ve fallen roughly 16% since the company reported earnings. The decline might partly reflect the fact that management projected a Q2 adjusted EBTDA range with a midpoint of $625 million, which is below analysts’ consensus estimate of $639 million. The stock price decline may also be related to the two acquisitions the company announced: Deliveroo, a British online food delivery company, for $3.9 billion, and SevenRooms, a US provider of booking software for restaurants and hotels, for $1.2 billion.

Notwithstanding the stock's recent weakness, many CEOs would love to head a company that’s growing so fast and with its services in such demand that it has yet to feel an impact from falling consumer confidence.

Disruptive Technologies: Maiden Voyage in a Driverless Taxi. “So, we finally did it,” Jackie reports. She took a driverless taxi: “While visiting Phoenix, my husband downloaded the Waymo app and ordered a car. The driverless taxi arrived on time, in the right spot, and offered a greeting as we hopped in. If I had been driving, I may have slowed down a little sooner as we approached one red light; but otherwise, the car drove far better than our teenagers."

While Waymo offers services via its own app in San Francisco, Los Angeles, Phoenix, and Tokyo, it can also be accessed through the Uber app in Phoenix and Austin today, and it's "ramping up" to do so in Atlanta. Uber's *website* says the rate it charges for a human-driven car is the same as what it charges for the Waymo driverless car, but no tip is needed in the Waymo car. Online anecdotes say Waymo pricing before the tip can be lower than, equal to, or more than Uber rides that use drivers.

Uber CEO Dara Khosrowshahi called autonomous vehicles "the single greatest opportunity ahead for Uber," a May 7 CNBC *article* reported. He noted that the Austin launch exceeded Uber's expectations, and the 100 Waymo vehicles operating in that city are "busier than over 99% of all drivers" as far as completed trips per day go. That makes sense: Autonomous vehicles don't have drivers that need to eat, sleep, or chill out.

Already this month, Uber has announced three autonomous vehicle partnerships with Chinese companies. Pony AI's robotaxis will be available on Uber's platform in a "key market" in the Middle East later this year, a May 6 TechCrunch *article* reported. A day earlier, Uber announced that it will work with Momenta to offer robotaxis via the Uber app in Europe starting next year as well as to roll out WeRide vehicles in 15 Middle Eastern and European cities within the next five years. Uber and WeRide already offer a commercial robotaxi service in Abu Dhabi.

Uber has more than 15 partnerships with autonomous vehicle companies offering ride-hail, delivery, and freight services in various markets around the world. With Waymo expanding and Tesla robotaxis expected to arrive in Austin next month, Uber's dealmaking will likely continue. The driverless taxi race is on.

Calendars

US: Wed: Fed Interest Rate Decision 4.50%; Consumer Credit Change $10.9b; MBA Mortgage Applications. **Thurs:** Jobless Claims 239k; Nonfarm Productivity & Unit Labor Costs -0.4% & 5.3%. (FXStreet estimates)

Global: **Wed:** Eurozone Retail Sales 0.0%m/m, 1.6%y/y; Germany Factory Orders 1.3%;

Italy Retail Sales 0.2%. **Thurs:** Germany Industrial Production 0.8%; BoE Interest Rate Decision 4.25%; Wholesale Inventories 0.5%. (FXStreet estimates)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): During the May 1 week, the S&P 500's forward revenues and earnings rose for the first time since peaking at record highs during the April 4 week. The forward profit margin rose 0.1ppt w/w back to a record-high 13.6%. It is now 3.3ppts above its seven-year low of 10.3% during April 2020. The consensus expectations for forward revenues growth rose 0.1ppt w/w to 5.3%, just 0.5ppt below its 23-month high of 5.8% during the August 1 week. It has gained 3.0ppts from its 33-month low of 2.3% during the February 23, 2023 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. The forward earnings growth forecast rose 0.2ppt w/w to 11.3% from a 14-month low of 11.1%. From a longer-term perspective, it remains close to its 20-year average of 11.4% and near its 38-month high of 14.3% during the December 12 week. That's down from its 23.9% reading at the end of April 2021, which was boosted by the recovery from the pandemic to its highest reading since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 4.6% in 2025 (unchanged w/w) and 6.0% in 2026 (down 0.1ppt w/w), compared to a 4.9% rise in 2024. They expect an earnings gain of 9.7% in 2025 (up 0.2ppt w/w) and a 13.6% rise in 2025 (down 0.6ppt w/w) compared to 2024's earnings gain of 11.4%. Analysts expect the profit margin to rise 0.6ppt y/y to 13.1% in 2025 (unchanged w/w) and 1.0ppt y/y in 2026 to 14.1% (unchanged w/w), compared to 2024's 12.5%. Looking at valuation data as of May 1, the S&P 500's weekly forward P/E rose 0.5pt w/w to 20.1, up from a 16-month low of 19.2 during the April 17 week and 2.3pts below its four-year high of 22.4 during the February 20 week. It's now 4.8pts above its 30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.09pt w/w to 2.72, up from a 12-month low of 2.59 during the April 17 week and 0.31pt below its record-high 3.03 during the February 20 week. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Revenues, Earnings, & Margins (*link*): During the May 1 week, forward revenues and earnings rose for 10 of the 11 S&P 500 sectors. The forward profit margin rose for eight sectors w/w. These four sectors had record-high forward revenues this week:

Communication Services, Consumer Staples, Health Care, and Information Technology. These three are less than 0.2% from their recent record highs: Financials, Real Estate, and Utilities. Among the remaining four sectors, Consumer Discretionary has dropped 1.9% from its mid-March record-high forward revenues, Industrials' is 2.6% below its early September record, and both Materials and Energy are the biggest laggards at 7.4% and 16.4% below, respectively. These four sectors had record-high forward earnings this week: Communication Services, Financials, Information Technology, and Utilities. These three sectors are less than 1.7% from their record highs: Consumer Staples, Industrials, and Health Care. These three sectors are a bit further from their highs: Consumer Discretionary (4.3% below its early March record), Industrials (1.8% below its early April record), and Real Estate (4.8% below its August 2022 record). Forward earnings remains depressed for the last two sectors, Energy and Materials, which are 39.3% and 27.8% below their respective highs during 2022. Looking at the forward profit margin, Communication Services and Financials returned to the record-high club that had three members two weeks earlier. Among them, Consumer Discretionary was out for a third week. During late 2024, the Industrials and Information Technology sectors were also in that club, and they remain close. These four sectors are struggling, with their forward profit margins at or barely above cyclical or record lows: Consumer Staples, Energy, Health Care, and Materials. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (27.2%, up 0.1ppt w/w and from its 27.6% record high in September, prior to low-margin Dell's addition to the index, which lowered the margin 1.3ppts then to 26.3%), Financials (20.3, up 0.2ppt w/w to a record high), Communication Services (19.1, up 0.5ppt w/w to a record high), Real Estate (16.3, down from its 19.2 record high in 2016), Utilities (14.6, down from its 14.8 record high in April 2021), S&P 500 (13.6, up 0.1ppt w/w back to a record high), Materials (10.5, down 0.2ppt w/w to a four-year low and down from a 20-month high of 11.6 in July 2023 and a 13.6 record high in June 2022), Energy (8.7, up 0.1ppt w/w from a 42-month low 8.6 and down from its 12.8 record high in November 2022), Industrials (11.0, down from its 11.3 record high in early January), Consumer Discretionary (9.2, down from a record high 9.4 in early April), Health Care (8.5, a record low and down from its 11.5 record high in February 2022), and Consumer Staples (6.7, a 21-month low and down from its 7.7 record high in June 2020).

US Economic Indicators

Eurozone Retail Sales (*link*): Eurozone retail sales have remained in a flat trend since September, despite real wage gains, as tariff concerns loom. *Headline retail sales* slipped

0.1% in March, following a 0.2% uptick in February, flat sales in January and a 0.1% decline in December, averaging flat monthly sales since September. The *components of retail sales* show food, drinks, and tobacco dipped 0.1% in March, following gains of 0.1% and 0.5% the prior two months, while non-food products ticked down 0.1%, not showing a gain this year. Meanwhile, *automotive fuels* have increased four of the past five months, by 0.4% in March and 1.8% over the period. March data are available for all of the *Eurozone's four largest economies*. On a *month-over-month* basis, all four showed slight downticks: France (-0.1% m/m), Spain (-0.2), Germany (-0.2), and Italy (-0.3). On a *year-over-year* basis, Spain (3.5% y/y) led the pack, followed by Germany (2.3) and France (1.9), with only Italy (-1.4) in the red.

Germany Factory Orders (*link*): Germany *factory orders* soared past expectations in March, on broad-based gains, as companies rushed to stockpile goods ahead of US tariffs. *Manufacturing orders* soared 3.6% in March (vs 1.3% expected). During March, foreign orders increased 4.7%, with *orders from within the Eurozone* jumping 8.0% and *orders from outside of the Eurozone* climbing 2.8%; *domestic orders* advanced 2.0%. The report shows many economic sectors contributing to March's gain: pharmaceuticals (17.3%), electrical equipment (14.5), other transport equipment (e.g., aircraft, ships, trains & military vehicles) (13.0), machinery & equipment (5.3), and autos (2.5). *By sector*, consumer goods (8.7%) orders rose sharply, followed by capital goods (3.7) and intermediate (2.5) goods orders.

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, 732-241-6502
Melissa Tagg, Senior Global Investment Strategist, 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
Sandy Cohan, Senior Editor, 570-228-9102