MORNING BRIEFING
June 5, 2017

Hannibal Spirits

See the collection of the individual charts linked below.

(1) Hannibal and his animals. (2) Climb every mountain. (3) Annual meeting of Bahre's often bearish strategists. (4) Air is getting thin up here. (5) Record net inflows into equity ETFs, while equity mutual funds continue to hemorrhage. (6) White-hot FAANGs. (7) Earned Income Proxy at another record high. (8) Fewer labor force dropouts, a.k.a. NILFs. (9) Baby Boomers were careerists and materialists. Millennials are lifestylists and minimalists. (10) There's more to life than money. (11) "Get Out" (+).

Strategy: Mountain Climbing. Hannibal, the Carthaginian general, was one of the greatest military strategists of all times. The city of Carthage in ancient Roman times was in the spot of modern-day Tunis, in Tunisia. Hannibal was so feared by the Romans that a common Latin expression to express anxiety about an impending calamity was "*Hannibal ante portas!,"* which means "Hannibal is at the gates!" He studied his opponents' strengths and weaknesses, winning battles by playing to their weaknesses and to his strengths.

One of Hannibal's most remembered achievements was marching an army that included war elephants over the Pyrenees and the Alps to invade Italy at the outbreak of the Second Punic War. He occupied much of Italy for 15 years but was unable to conquer Rome. A Roman general, Scipio Africanus, counter-attacked in North Africa, forcing Hannibal to return to Carthage, where he was decisively defeated by at the Battle of Zama. Scipio had studied Hannibal's tactics and devised some of his own to defeat his nemesis.

So far, the current bull market has marched impressively forward despite 56 anxiety attacks, by my count. (See our *S&P 500 Panic Attacks Since 2009*.) They were false alarms. At the annual gathering of investment strategists and portfolio managers hosted by Gary Bahre last week, the other strategists were mostly concerned about the overvaluation of stock prices and believed that "something bad" always unexpectedly brings an end to bull markets. No one expects an imminent recession. One rather lame scenario offered by the bears was a massively disruptive cyberattack. Most of them have been bearish on stocks since the beginning of the bull market.

I remain bullish. However, when asked for my what-could-go-wrong scenario, I said that my long-held concern is that the bull market might end with a melt-up that sets the stage for a meltdown. Indeed, on March 7, I raised my subjective odds of a melt-up from 30% to 40%. I lowered the odds of a sustainable bull run from 60% to 40%. So I increased the odds of a meltdown from 10% to 20%. In my mind, a melt-up would set the stage for a meltdown. However, in this scenario, the meltdown might be a 10%-20% correction or a short bear-market plunge of 20%+, but it would not necessarily cause a recession. So the bull market could resume relatively quickly.

The latest valuation and flow-of-funds data certainly suggest that the melt-up scenario may be imminent, or actually underway. Consider the following:

(1) *Valuation melt-up.* The Buffett Ratio is back near its record high of 1.81 during Q1-2000 (*Fig. 1*). It is simply the US equity market capitalization excluding foreign issues divided by nominal GDP. It rose to

1.69 during Q4-2016. It is highly correlated with the ratio of the S&P 500 market cap to the aggregate revenues of the composite ([Fig. 2](#)). This alternative Buffett Ratio rose to 2.00 during Q1 of this year, matching the record high during Q4-1999. It is also highly correlated with the ratios of the S&P 500 to both forward revenues per share and forward earnings per share (*Fig. 3* and *Fig. 4*). All these valuation measures are flashing red.

(2) *ETF melt-up.* The net fund flows into US equity ETFs certainly confirms that a melt-up might be underway. Over the past 12 months through April, a record $314.8 billion has poured into these funds (*Fig. 5*). That was led by funds that invest only in US equities, with net inflows of $236.4 billion, while US-based ETFs that invest in equities around the world attracted $78.4 billion in net new money over the 12 months through April.

Some of the money that went into equity ETFs came out of equity mutual funds (*Fig. 6*). Over the past 12 months through April, net outflows from all US-based equity mutual funds totaled $155.3 billion, with $163.7 billion coming out of US mutual funds that invest just in the US and $8.4 billion going into those that invest worldwide.

So the net inflows into all US-based equity mutual and indexed funds totaled $159.4 billion over the past 12 months, $72.7 billion going into domestic funds and $86.7 billion into global ones (*Fig. 7*). These totals don't seem to be big enough to fuel a melt-up. However, the shift of funds from actively managed funds to passive index funds is significant and could be contributing to the melt-up. That's especially likely since money is pouring into S&P 500 index funds, which are market-cap weighted. This certainly explains why big cap stocks, like the FAANGs, are outperforming.

(3) *FAANG-led melt-up.* Since the start of the year, the market-cap weighted S&P 500 is up 8.9%, while the equal weighted index is up 7.2% (*Fig. 8*). Joe calculates that the market cap of the FAANGs is up 41.4% y/y to a record $2.49 trillion, while the market cap of the S&P 500 is up 14.3% to $20.95 trillion over the same period (*Fig. 9*). In other words, the FAANGs account for 27.8% of the $2.6 trillion increase in the value of the S&P 500 over the past year.

US Economy: Warm Bodies. Is the US economy running out of warm bodies to employ? The unemployment rate is down to 4.3%. Job openings are at record highs. Payroll employment gains have slowed significantly over the past three months. Demographic trends may be exacerbating the situation.

The Baby Boomers are retiring. At the start of their careers, they mostly expected to work for one company over their entire careers. Of course, that was not the case for many of them, but they did mostly have a "careerist-materialist" attitude about their jobs and lives. The Millennials aren't rushing into the labor force as did the Baby Boomers. More of them are going to college, especially the women among them. When they land a job, they aren't as committed to keeping it for the rest of their careers. They may be willing to accept lower wages in exchange for more flexible (and less demanding) work. They have a more "lifestyles-minimalist" attitude. Melissa and I have been studying these trends. Let's analyze the latest employment report with this perspective in mind:

(1) *Earned Income Proxy.* First, let's not get too carried away by the weakness in May's payrolls. They were up only 138,000, and the previous two months were revised down by 66,000 in total, as Debbie reports below. Private-sector payrolls are up only 126,300 per month on average from March through May. Yet over this same period, the ADP measure of private-sector payrolls is up 227,300 per month on average (*Fig. 10*).

Our Earned Income Proxy, which tracks private-sector wages and salaries in personal income, rose 0.3% m/m during May to a new record high (*Fig. 11*). It is up solidly by 4.3% y/y, auguring well for consumer spending.

(2) *Labor force.* Again, the actual data belie some of the concerns about a shortage of warm bodies to hire. The y/y growth of the labor force, based on the 12-month average, has exceeded 1.0% for the past 10 months (*Fig. 12*). That's holding around its best performance since the fall of 2007. Workers are still dropping out of the labor force. However, the y/y growth of NILFs (i.e., the working-age population not in the labor force), based on the 12-month average, fell to 0.5% in May, the lowest since March 1998 (*Fig. 13*). The growth of NILFs who are 55 years old and older was 2.4% over the past 12 months, while younger NILFs fell 1.8% (*Fig. 14*).

The percent of the labor force with a college degree was a record 34.5% during May (*Fig. 15*). That's up from 25.1% when the oldest Millennials (born in 1981) turned 18 years old during January 1999. This certainly implies that more young adults are going to college and adding to the number of NILFs while they are doing so.

(3) *New normal.* Despite the cyclical improvement in the growth of the labor force recently, the new normal in the labor market may be slower growth in both the labor force and employment, as low as 50,000 to 110,000 added per month. According to a FRB-SF paper from last October, such a pace would maintain a near-natural rate of unemployment around 5%, taking into account lower labor force participation rates resulting from retiring Baby Boomers over the next decade.

(4) *Wages.* Given that the job market appears to be so tight, the puzzle is that the pace of wage growth has remained so slow. Average hourly earnings for all employees on private nonfarm payrolls has risen just 2.5% y/y through May. It seems plausible that wages could be suppressed as retiring Baby Boomers with a lot of experience, and, thus higher salaries, are handing off the baton to younger less experienced workers. At the same time, job openings are at record highs. And small businesses, which make-up the lion's share of the US economy in terms of jobs, are complaining that good employees are hard to find.

So employers are probably being forced to hire some employees that are not totally qualified, or just not that good. And employers might not be willing to pay those sorts of folks the big bucks. Thinking out loud, something else that could be at play is that Millennials who are entering the workforce now as the Baby Boomers retire might also not be demanding the big bucks. Some may prefer a more balanced lifestyle to a high-paying, high-stress job. Millennials and their inclination for minimalism and life experiences over "stuff" is a trend we have spotted and discussed previously.

In any event, employers are reporting that lots of low-wage workers today aren't very loyal and don't even show up, according to a 6/2 *WSJ* article. In it, the owner of a staffing agency was paraphrased as saying that "workers who skip out of jobs, whether to hang out with friends or care for family members, face little repercussion. With the unemployment rate so low, they can quickly find another low-wage job when they are ready to work."

Nevertheless, the article observed that the "national tilt toward low-wage job growth now shows signs of shifting, which could lead to bigger increases in national pay raises." During the past year, better-paying fields like health care and professional & business services have increased payrolls, while lower-wage retail payrolls have been cut. For example, payroll employment at all retail stores fell 80,100 over the past four months through May.

Movie. "Get Out" (+) (*link*) is not explicitly about the stock market. However, it is a movie worth watching as a cautionary tale. Sometimes, it is just so obvious that it's time to go. For example, if you are meeting your girlfriend's parents in their rural home for the first time, and you notice something odd about the maid and the caretaker…get out. Or, if her psychologist mom hypnotizes you involuntarily…get out. Or, if a bunch of old couples show up for a Sunday cocktail party to admire your physique…get out. We may be starting to see similar clues in the stock market. So why are we all still staying?

CALENDARS

US. Mon: Productivity & Unit Labor Costs (-0.2%/2.6%), ISM & Markit NM-PMIs 57.0/54.0, Factory Orders -0.2%. **Tues:** Job Openings 5.754m. (Bloomberg estimates)

Global. Mon: Eurozone, Germany, France, and Italy Composite PMIs 56.8/57.3/57.6/55.7, Eurozone, Germany, France, and Italy NM-PMIs 56.2/55.2/58.0/55.3, UK Composite & NM-PMIs 55.5/55.0, China & Japan Composite & NM-PMIs. **Tues:** Eurozone Retail Sales 0.1%m/m/2.1%y/y, RBA Rate Decision 1.50%. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): The US MSCI index rose 1.0% last week, ranking 20th of the 49 markets as 35 rose in US dollar terms—compared to 16th a week earlier, when it rose 1.4% as 33 markets moved higher. The AC World ex-US index outperformed the US MSCI, rising 1.1% compared to a 0.6% gain a week earlier. EAFE was the best-performing region last week with a gain of 1.6%, followed by EMU (1.3). EM Latin America was the week's worst-performing region, with a decline of 1.6%, followed closely by EM Eastern Europe (-1.6), EMEA (-0.7), BRIC (-0.2), and EM Asia (0.3). Egypt (4.4) was the best-performing country, followed by Japan (3.5), Turkey (3.3), Denmark (3.2), and Jordan (3.0). Pakistan (-11.6) was the worst performer, followed by Russia (-2.6), Austria (-2.3), South Africa (-2.3), and Brazil (-2.1). In May, the US MSCI rose 1.1%, ranking 37/44 and behind the 2.8% gain for the AC World ex-US index as most regions rose. That compares to a 1.0% gain in April, when it ranked 33/44 and was behind the 1.9% rise for the AC World ex-US in a month when most regions rose. The best regions in May: EM Asia (4.4), EMU (3.9), and EAFE (3.1). May's worst-performing regions: EM Eastern Europe (-3.7), EM Latin America (-2.6), EMEA (-1.6), and BRIC (1.9). The US MSCI is up 9.2% ytd, with its ranking edging up w/w to 35/49 from 36/49, but continues to trail the AC World ex-US (13.7) on a ytd basis. Forty-six of the 49 markets are positive ytd, led by Argentina (49.9), Poland (32.8), Austria (29.1), Korea (28.6), Turkey (27.3), and Spain (25.4). The worst country performers ytd: Russia (-11.5), Pakistan (-5.6), Canada (-0.2), Morocco (0.3), and Jordan (1.6). EM Asia is the best-performing region ytd with a gain of 21.8%, ahead of: EMU (18.4), BRIC (16.2), and EAFE (13.8). The worst-performing regions: EM Eastern Europe (-1.0), EMEA (3.0), and EM Latin America (8.8).

S&P 1500/500/400/600 Performance (*link*): All three market-cap indexes rose together for a second straight week. LargeCap underperformed for the first time in six weeks as it rose 1.0%, behind SmallCap's 1.7% gain and MidCap's 1.4% rise. Twenty-nine of the 33 sectors rose, up from 28 rising a week earlier. LargeCap ended the week at a record high, MidCap was 0.4% below its March 1 record, and SmallCap ended 1.3% below its record high on February 21. These SmallCap sectors dominated last week's top gainers: Telecom (4.4%), Industrials (3.1), Health Care (3.1), and Utilities (2.7). Energy dominated last week's worst performers: MidCap Energy (-4.1), SmallCap Energy (-3.9), LargeCap Energy (-2.2), and LargeCap Financials (-0.8). LargeCap was the only market-cap index to rise in May after all three rose in April. LargeCap's gain, of 1.2%, was ahead of MidCap (-0.6) and SmallCap (-2.3). Thirteen of the 33 sectors advanced in May, down from 22 rising in April. May's best performers: LargeCap Tech (4.1), MidCap Tech (4.1), LargeCap Utilities (3.6), LargeCap Consumer Staples (2.6), and MidCap Health Care (2.6). May's laggards: MidCap Telecom (-11.9), SmallCap Energy (-11.3), MidCap Energy (-9.1), and SmallCap Telecom (-8.6). Twenty-four of the 33 sectors are positive ytd, with LargeCap (8.9) beating MidCap (5.5) and both easily ahead of SmallCap (1.7). The biggest sector gainers ytd: LargeCap Tech (21.3), MidCap Health Care (19.6), MidCap Tech (15.8), SmallCap Health Care (15.6), LargeCap Consumer Discretionary (13.1), and LargeCap Health Care (12.1). Energy and Telecom dominate the worst performers ytd: SmallCap Energy (-33.8), MidCap Energy (-28.8), MidCap Telecom (-27.7), LargeCap Energy (-14.0), and LargeCap Telecom (-9.6).

S&P 500 Sectors and Industries Performance (*link*): Nine of the 11 sectors rose last week, and eight outperformed the S&P 500's 1.0% gain. This compares to nine sectors rising a week earlier, when five outperformed the S&P 500's 1.4% gain. Telecom was the best-performing sector—with a gain of 2.3%, its first in 11 weeks—followed by Health Care (2.1%), Utilities (1.7), Materials (1.7), Consumer Discretionary (1.5), Tech (1.3), Consumer Staples (1.3), and Industrials (1.2). Last week's worst performers: Energy (-2.2), Financials (-0.8), and Real Estate (0.8). The S&P 500 rose 1.2% in May as seven sectors moved higher and four beat the index; that compares to seven sectors rising and five beating the S&P 500's 0.9% gain in April. The leading sectors in May: Tech (4.1), Utilities (3.6), Consumer Staples (2.6), and Industrials (1.2). Energy was the biggest laggard in May, with a drop of 4.0%, followed by Financials (-1.4), Telecom (-1.0), Materials (-0.3), Real Estate (0.5), Health Care (0.6), and Consumer Discretionary (1.0). So far in 2017, nine of the 11 sectors are higher, and five have outperformed the S&P 500's 8.9% gain. The best performers in 2017 to date: Tech (21.3), Consumer Discretionary (13.1), Health Care (12.1), Utilities (11.0), and Consumer Staples (10.5). The six sectors underperforming the S&P 500: Energy (-14.0), Telecom (-9.6), Financials (0.5), Real Estate (4.4), Materials (8.0), and Industrials (8.3).

Commodities Performance (*link*): Seven of the 24 commodities we follow rose last week, down from eight rising a week earlier. The week's best performers: Feeder Cattle (8.0%), Live Cattle (6.0), Cocoa (4.7), and Silver (1.2). Last week's laggards: Natural Gas (-9.4), Sugar (-8.7), Heating Oil (-5.2), and Brent Crude (-4.9). May saw just eight of the 24 commodities climb, down from nine rising in April and led by Lean Hogs (12.2), Cocoa (11.2), Unleaded Gasoline (3.1), and Corn (1.5). May's laggards: Sugar (-7.8), Natural Gas (-6.3), Lead (-6.1), and Nickel (-5.1). The best performers in 2017 so far: Feeder Cattle (26.9), Lean Hogs (23.9), Aluminum (14.0), and Gold (11.2). The energy-related commodities are no longer dominating this year's laggards: Sugar (-29.6), Natural Gas (-19.5), Heating Oil (-14.1), GasOil (-13.0), and Brent Crude (-12.1).

Assets Sorted by Spread w/ 200-dmas (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 5/24 commodities, 5/9 global stock indexes, and 29/33 US stock indexes compared to 7/24, 6/9, and 28/33 rising a week earlier, respectively. Eleven commodities trade above their 200-dmas, down from 14 a week earlier as Brent Crude, Heating Oil, Natural Gas, and Zinc turned negative w/w. Commodities' average spread fell to -0.8% from 0.7%. Among assets, Commodities walked away the top spot last week: Lean Hogs leads all commodities and all assets at 28.4% above its 200-dma, followed by Feeder Cattle (22.1%), which performed the best of all commodities and all assets last week as it improved 8.8ppts. Sugar (-29.2) trades the lowest of all commodities and all assets, but Natural Gas tumbled 10.0ppts last week to -5.5% for the worst performance of all commodities and all assets. The global indexes trade at an average of 6.9% above their 200-dmas, up from 6.7% above in the prior week. Eight of the nine global indexes trade above their 200-dmas, down from nine a week earlier as Brazil turned negative w/w. South Korea (13.3) leads the global indexes, but Japan (9.0) was the group's best performer last week with a 2.2ppts advance. Brazil (-0.5) is trading at the lowest relative to its 200-dma of the global assets, and had the weakest performance of its country peers last week, falling 2.7ppts. The US indexes trade at an average of 3.3% above their 200-dmas, with 28 of the 33 sectors above, up from a 2.1% average a week earlier, when 25 sectors were above. These three sectors turned positive w/w: MidCap Consumer Staples, MidCap Real Estate, and SmallCap Telecom. The US stock indexes no longer dominate the top ten assets trading above their 200-dmas as they did in early March. LargeCap Tech leads all US stock indexes at 15.1% above its

200-dma, followed by MidCap Health Care (14.6) and MidCap Tech (14.1). SmallCap Telecom (4.1) rose 4.1ppts w/w for the biggest improvement among US stock indexes. SmallCap Energy trades 24.3% below its 200-dma, the lowest among the US stock indexes, but MidCap Energy (-20.8) tumbled 3.0ppts w/w for the worst performance among US stock indexes.

S&P 500 Technical Indicators (*link*): The S&P 500 index remained in a Golden Cross last week for a 58th week (after 17 weeks in a Death Cross). The index's 50-day moving average (50-dma) relative to its 200-dma was steady w/w after falling for nine straight weeks. Its 50-dma was unchanged w/w at 4.7% above its 200-dma, but down from a 34-month high of 5.4% in early April. That's up from a six-month low of 2.0% in early December and a 52-month low of -4.5% in March 2016. The S&P 500's 50-dma moved higher for a 30th week as the index closed above its 50-dma for a sixth week, after trading below for two weeks for the first time since the November election. The S&P 500 rose to an 11-week high of 2.5% above its rising 50-dma from 1.9% a week earlier, and is up from a 23-week low of -1.0% in mid-April. That's down from a 38-week high of 4.8% above its rising 50-dma on December 13 and compares to a 52-month high of 6.2% in March 2016. The S&P 500 rose to an 11-week high of 7.4% above its rising 200-dma last week from 6.6% a week earlier. That's up from mid-April's 19-week low of 4.2%, but down from a 38-month high of 9.4% on March 1. The 50-dma and 200-dma both rose together for a 27th week.

S&P 500 Sectors Technical Indicators (*link*): Nine of the 11 sectors improved w/w relative to their 50-dmas and 200-dmas; Energy and Financials were the only sectors to weaken. Eight of the 11 sectors trade above their 50-day moving averages (50-dmas), down from nine a week earlier, as Financials fell below again. Energy remained below for a 20th straight week and Telecom for an 11th week. Still that's up from just three in mid-April, which was the lowest since the election. All 11 sectors had been above their 50-dmas during mid-January, and all 11 were below the week before the election, for the first time since December 11, 2015. Nine of the 11 sectors were above their 200-dmas last week, unchanged from a week earlier, as Energy remained below its 200-dma for a 15th week and Telecom for an 11th. Nine sectors are in a Golden Cross, with 50-dmas higher than their 200-dmas, unchanged from a week earlier and leaving Energy and Telecom still out of the club. All 11 had been in a Golden Cross during a 21-week streak that ended October 24, the longest such stretch since October 2014. Eight of the 11 sectors have rising 50-dmas, unchanged from a week earlier. Financials' 50-dma fell for a ninth week; Energy's dropped for a 17th week, and Telecom's fell for a 16th. Eight sectors have rising 200-dmas, unchanged from a week earlier. These three sectors continued their 200-dma downtrends: Real Estate's fell for a 13th week, Telecom's for an 11th, and Energy's for a seventh.

US ECONOMIC INDICATORS

Employment (*link*): Jobs growth fell short of expectations in May, and there were downward revisions to April and March. US companies expanded payrolls by 138,000 last month (47,000 below the consensus estimate of 185,000), after downward revisions to April (to 174,000 from 211,000) and March (50,000 from 79,000), for a net loss of 66,000. Private payroll employment climbed 147,000 after gains of 173,000 (vs 194,000 preliminary) and 59,000 (77,000) the prior two months, for a net loss of 39,000. The breadth of job creation (percent of private industries increasing payrolls) for the one-month span (to 54.8% from 61.3%) moved back below 60.0% last month, while the three-month span (60.7 from 65.7) remained just above 60.0%, holding near February's two-year high of 66.1%.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP) continued to reach new record highs last month, climbing for the eighth time in nine months, by 0.3% m/m and 3.4% over the period. Average hourly earnings, one of the components of our EIP, climbed 0.2% and 1.9% over the comparable periods, while aggregate weekly hours, the other component, advanced 0.1% and 1.5%. Compared to a year ago, the EIP increased 4.3% y/y—the best this year—with wages up 2.5% (matching March's rate) and aggregate hours 1.8% higher. Our proxy tracks income and spending closely and remains favorable for continued solid gains in both.

ADP Employment (*link*): "Job growth is rip-roaring," according to ADP. "The current pace of job growth is nearly three times the rate necessary to absorb growth in the labor force. Increasingly, businesses' number one challenge will be a shortage of labor." Private industries added 253,000 to payrolls in May (considerably above the BLS gain of 147,000), following a slight downward revision to April's (to 174,000 from 177,000) increase, while March's was unchanged at 255,000. In May, service-providing industries (205,000) once again accounted for most of the growth, while goods-producing industries (48,000) was in the plus column for the seventh straight month—adding 353,000 jobs over the period. Within service-providing, the biggest advances came from professional & business services (88,000), trade, transportation & utilities (58,000), and health & education services (54,000). The gain in goods-producing payrolls was widespread, led by construction (37,000), with manufacturing (8,000) and natural resources (3,000) recording more modest gains. Medium-sized companies topped the leader board again last month, boosting payrolls by 113,000—with the mix 91,000 services and 22,000 goods-producing. Small businesses added 83,000 jobs—63,000 service-providing and 20,000 goods-producing. Large companies remained in the bottom slot, increasing payrolls by 57,000, nearly all service-providing (51,000).

Employment by Industry (*link*): Hirings in professional & business services, restaurants, health care, and mining led May employment gains, while department-store payrolls were cut for the seventh straight month, by a total of 45,000. Employment in professional & business services and restaurants continued to trend higher, with the former adding 38,000 in May and 622,000 over the past 12 months, and the latter expanding by 30,300 and 267,100, respectively. Health care added 24,300 jobs last month, averaging 22,000 per month so far this year, below 2016's monthly pace of 32,000; these payrolls are up 329,100 y/y. Mining hiked payrolls for the seventh consecutive month by a total of 46,700 after falling steadily from October 2014 through October 2016. Employment in other major industries—including construction, manufacturing, wholesale trade, retail trade, transportation & warehousing, information services, financial activities, and government—changed little last month.

Unemployment (*link*): The unemployment rate sank to 4.3% in May (the lowest since May 2011), as 429,000 dropped out of the labor force, following a 757,000 gain the prior five months. The number not in the labor force climbed for the third month by 608,000 m/m and 793,000 over the period. The participation rate ticked down for the second month from 63.0% to 62.7%, showing little movement over the past year. May's adult rate (3.9%) fell to a new cyclical low, while the teenage rate slipped from 14.7% to 14.3%, nearing March's cyclical low of 13.7%; the college grad rate (2.3) is back down at its cyclical low posted last fall. Those working part-time for economic reasons (a.k.a. "involuntary part-time workers") fell 53,000 in May, and 1.2 million the past 12 months, to 5.2 million (3.3% of the civilian labor force)—the lowest level since April 2008. The U6 rate—which includes marginally attached workers—and the sum of the underemployment and jobless rates both sank to new cyclical lows, of 8.4% and 7.6%, respectively.

Wages (*link*): Wage inflation—as measured by the average hourly earnings rate for all workers on private nonfarm payrolls (AHE)—climbed 0.2% for the second month in May; the yearly rate was unchanged at 2.5%, holding below February's 2.8%. The wage rate for goods-producing industries (2.1% y/y) dropped to a 19-month low, while service-providing's (2.6) remained just below its recent high of 2.8%. Within goods-producing, the manufacturing rate (1.9) sank below 2.0% for the first time since July 2015, while the construction rate (2.2) was little changed from April's 15-month low; the natural resources rate (1.4) continued to ease. Within service-providing, the rate for transportation & warehousing (3.4) remained on a steep uptrend, while leisure & hospitality's (4.2) was stalled around recent highs; wholesale trade's (2.0) was little changed around its lowest reading since summer 2015.

Rates for utilities (1.9) and retail trade (1.5) stayed on volatile downtrends, though the latter may have found a bottom. Meanwhile, rates for information services (4.3), financial activities (2.5), professional & business services (2.4), and education & health services (1.9) continued to move sideways.

GLOBAL ECONOMIC INDICATORS

Global Manufacturing PMI (*link*): Global manufacturing activity in May slowed to a six-month low, though remained above the long-run series average of 51.4. The JP Morgan M-PMI slipped slightly for the second month to 52.6 from 52.7 in April and 53.0 the previous two months. Both output (to 53.5 from 53.6) and employment (51.5 from 51.6) rose at slower rates last month, while new orders (53.6) grew at the same rate as April, though new export orders (52.3 from 52.5) slowed slightly. The developed nations (unchanged at 54.1) continued to record much stronger growth than emerging markets (50.5 from 50.8), with the latter's sinking to an eight-month low. While US manufacturing (52.7 from 52.8) grew at its slowest rate in eight months, the Eurozone (57.0 from 56.7) saw its best growth in six years; the UK (56.7 from 57.3) held around three-year highs, while Japan (53.1 from 52.7) improved to a three-month high. Within the Eurozone, seven out of the eight nations covered posted robust growth: Germany (59.5), Austria (58.0), the Netherlands (57.6), Ireland (55.9), Spain (55.4), Italy (55.1), and France (53.8); Greece's (49.6) manufacturing sector contracted at its slowest pace in nine months, and is on the verge of turning positive. For Germany and Ireland, it was the best growth in 73 and 22 months, respectively; Spain's was at a four-month high. Within the emerging markets, China's M-PMI (49.6 from 50.3) slipped below the breakeven point of 50.0 for the first time in 11 months, while Brazil's (52.0 from 50.1) moved further above 50.0 after being below from February 2015 through March of this year.

US Manufacturing PMI (*link*): US Manufacturing PMI (link): Manufacturing activity in May grew at the weakest pace in eight months according to Markit's survey and stabilized around its low for the year according to ISM's. The ISM M-PMI edged up to 54.9 last month after falling the prior two months from a 30-month high of 57.7 in February to a four-month low of 54.8 in April. The new orders measure (59.5 from 57.5) accelerated, even as new export orders (57.5 from 59.5) slowed from April's cyclical high; the employment (53.5 from 52.0) and inventory (51.5 from 51.0) measures also improved last month. Meanwhile, production (57.1 from 58.6) slowed, though remained at a robust pace, while supplier deliveries (53.1 from 55.1) eased for the second month from March's 27-month high of 55.9. Markit's M-PMI eased for the fourth month since reaching a 22-month high of 55.0 at the start of this year, falling to an eight-month low of 52.7 last month. According to the report, "Weaker new business growth and softer job creation helped to offset a marginally stronger upturn in production volumes."

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