MORNING BRIEFING
September 5, 2017

Back to School

See the collection of the individual charts linked below.

(1) Good summer for stocks and bonds. (2) Explosive domestic political tensions. Boiling geopolitics. (3) US growth on steady course. (4) Capital equipment spending in record territory. (5) M-PMI remains strong despite weak auto sales. (6) Global economic warming attributable to benefits of cheaper oil. (7) Global "oil tax" cut by 50% since mid-2014. (8) Lots of happy numbers in Europe, China, and Japan. (9) Movie review: "Tulip Fever" (- - -).

US Economy: More of the Same. Welcome back. I hope you had a good summer and took some time off to recharge your batteries. It certainly was a good summer for stock and bond investors. From the end of May through the end of August, the S&P 500 rose 2.5%, while the bond yield remained relatively flat around 2.20%, earning the coupon. On the other hand, the trade-weighted dollar fell 3.5% over this period, but that helped to boost commodity prices as the CRB raw industrials spot price index rose 2.0%. It was a good summer for global investors too, with a solid gain in the All Country-World ex US MSCI stock price index (in local currencies), up 1.3%, led by the MSCI stock price indexes for Emerging Markets (7.6%) as Europe fell 2.1%.

It may be rougher going during the rest of the year as domestic political tensions heat up over the debt ceiling and tax reform, while geopolitical tensions with North Korea could come to a boil. The good news is that the US and global economic outlooks remain relatively calm. In case you were on the beach over the past couple of weeks, here is a quick refresher course on the US economy:

(1) *GDP & profits*. The growth rate in real GDP was revised higher last week, from 2.6% to 3.0% (saar) for Q2. On a y/y basis, real GDP was up 2.2%. It has been fluctuating around 2.0% since mid-2010 (*Fig. 1*). Excluding government spending, which has been relatively weak during the current expansion, it was up 2.7%. Nothing new here, so let's move along. The Atlanta Fed's GDPNow estimate for Q3 is currently 3.2%.

Inflation-adjusted consumer spending in real GDP rose 2.7% y/y during July (*Fig. 2*). Capital spending rose 4.4% y/y to a new record high during Q2, confirming the post-election strength in the CEO confidence index (*Fig. 3*). Leading the way are record-high capital outlays on information processing equipment (up 7.0% y/y) and industrial equipment (6.8%) (*Fig. 4*).

Released along with the first revision of GDP were data on corporate profits during Q2 (*Fig. 5*). On an after-tax basis, both profits reported to the IRS and adjusted to a cash-flow basis continued to meander at record highs, recovering this year from their energy-related dips last year. Nothing new here either.

(2) *Inflation.* So far, inflation remains MIA. The GDP implicit price deflator rose just 1.6% y/y during Q2. Leading the way to nowhere new was the PCED, which edged down on a y/y basis during July to 1.4% for both the headline and core readings (*Fig. 6*). Also going nowhere special is wage inflation. The average hourly earnings (AHE) measure rose 2.5% y/y for all workers in the private sector. It has been hovering around this pace since fall 2015.

(3) *Employment & income.* While wage inflation remains subdued, it continues to outpace the PCED headline inflation rate. So real AHE for production and nonsupervisory workers, who currently account for 70% of all private-sector workers, rose to yet another record high during July (*Fig. 7*). This measure is up 17.5% since the start of 2000, contrary to the widespread myth that real wages have stagnated since then.

On the other hand, as Debbie reports below, our current-dollar Earned Income Proxy for private-sector wages and salaries stagnated during August (*Fig. 8*). But it remains in record-high territory. While private-sector payrolls disappointed during August with a gain of 165,000, the comparable ADP series showed a solid increase of 237,000 (*Fig. 9*).

(4) *Car sales & manufacturing.* Debbie and I weren't surprised to see August's auto sales fall to 16.1 million units (saar), the lowest since February 2014 and down from a cyclical peak of 18.2 million units during December (*Fig. 10*). That's because this series is highly correlated with weekly railcar loadings of motor vehicles, which also has been weak over the past year.

We are surprised by how well the M-PMI has been doing, having risen from 56.3 during July to 58.8 last month, with solid readings for New Orders (60.3), Production (61.0), and Employment (59.9) (*Fig. 11*). Confirming this strength are the regional business surveys, which are available with August data for the following Fed districts: New York, Philadelphia, Richmond, Kansas City, and Dallas. Debbie and I average the indexes for overall business activity, new orders, and employment (*Fig. 12*). They all rose to solid levels last month.

Global Economy: More Growth. The global economy is running on all six cylinders. It may not be a global synchronized boom, but it is the most synchronized expansion of economic activity that the global economy has had since the recovery from the 2008/2009 recession. The direction of change can be seen in the titles of the past four issues of the International Monetary Fund's *World Economic Outlook*: "Subdued Demand: Symptoms and Remedies" (Oct. 2016), "A Shifting Global Economic Landscape" (Jan. 2017), "Gaining Momentum?" (Apr. 2017), and "A Firming Recovery" (Jul. 2017).

Why is this happening now? The global synchronized expansion may be attributable to the plunge in the price of a barrel of Brent crude oil from a 2014 peak of $115.06 on June 19 to a low of $27.88 on January 20, 2016 followed by the recovery to $52.75 last week. Over this same period, Debbie and I calculate that global crude oil revenues dropped from an annualized $3.2 trillion during June 2014 to $952 billion in early 2016, back to $1.5 trillion currently (*Fig. 13*).

The initial freefall in revenues depressed the global energy industry, which slashed capital spending rapidly around the world. The rebound in oil revenues has given a lift to this industry, but surely not enough to explain the global synchronized expansion. The flip side of crude oil revenues is outlays by users of crude oil. The drop in the cost to users of oil is like a 50% cut in the global "oil tax" on consumers. Now that the downside of the energy price shock is over, the benefits to the global economy are rising to the surface of the barrel. Let's review some of the recent more buoyant global data:

(1) *Europe.* The Eurozone's Economic Sentiment Index rose to 111.9 during August, the highest since July 2007 (*Fig. 14*). It is highly correlated with the region's real GDP growth rate on a y/y basis, which was 2.2% during Q2, the best pace since Q1-2011. The Eurozone's M-PMI rose to 57.4 last month, matching June's reading, which was the highest since April 2011.

(2) *China.* China's official M-PMI edged up to 51.7 during August, the 11th consecutive reading above 51.0. However, its NM-PMI declined from 54.5 during July to a 15-month low of 53.4 last month.

(3) *Japan.* Japan's real GDP rose 4.0% (saar) during Q2, the fastest such pace since Q1-2015.

(4) *Global manufacturing.* Last month, the global M-PMI rose to 53.1, the highest since May 2011 (*Fig. 15*). Solid increases were registered for both the developed economies and the emerging ones (*Fig. 16*).

Movie: "Tulip Fever" (- - -) (*link*) is a very disappointing film. It has an all-star cast of very fine actors. The fundamental flaw is with the convoluted story, which is set in Amsterdam during the tulip bubble, which burst in 1637. During such manias, people tend to lose their minds. In this film, they've lost their minds while pursuing love, lust, and revenge. My wife and I left before it ended, and before the crash in the tulip market's bubble. I hope I do as well exiting markets before the next bubble that forms suddenly bursts.

CALENDARS

US. Tues: Factory Orders -3.1%, Brainard, Kashkari, Kaplan. **Wed:** Merchandise Trade Balance -$44.6b, ISM & Markit NM-PMIs 55.4/56.9, MBA Mortgage Applications, Beige Book. (Bloomberg estimates)

Global. Tues: Eurozone, Retail Sales -0.3%m/m/2.5%y/y, Eurozone, Germany, France, and Italy Composite PMIs 55.8/55.7/55.6/55.8, Eurozone, Germany, France, and Italy Nonmanufacturing PMIs 54.9/53.4/55.5/55.5, UK Composite & Nonmanufacturing PMIs 54.0/53.5, RBA Rate Decision 1.50%. **Wed:** Germany Factory Orders 0.2%m/m/5.8%y/y, Australia GDP 1.8% y/y, BOC Rate Decision 0.75%. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): The US MSCI index rose 1.4% last week for its best gain in eight weeks. That performance ranked it 17th out of the 49 markets as 36 countries rose in US dollar terms—compared to 29th a week earlier, when it rose 0.8% as 44 countries moved higher. The AC World ex-US index underperformed the US MSCI for only the second time in eight weeks, rising 0.6% compared to a 1.1% gain a week earlier. Last week saw all regions rise w/w for a second straight week, but EM Eastern Europe performed best with a gain of 3.0%, followed by EMEA (1.8%), BRIC (1.0), and EM Latin America (0.7). EMU was the week's worst-performing region, but even it rose, posting a gain of 0.2%, followed by EM Asia (0.4) and EAFE (0.5). Egypt (5.2) was the best-performing country, followed by Russia (4.1), Thailand (3.4), Poland (2.1), and Chile (2.0). Pakistan was the worst performer as it fell 7.4%, followed by Greece (-3.9), New Zealand (-2.0), and Czech Republic (-1.7). In August, the US MSCI rose 0.1%, ranking 30/44 and behind the 0.3% gain for the AC World ex-US index as most regions rose. That compares to a 2.0% gain in July, when it ranked 34/44 and was behind the 3.3% rise for the AC World ex-US in a month when all regions rose. The best regions in August: EM Eastern Europe (7.5), EMEA (4.8), EM Latin America (4.4), BRIC (3.6), EM Asia (1.1), and EMU (0.3). August's worst-performing region: EAFE (-0.3). The US MSCI is up 10.8% ytd, with its ranking up one place w/w to 38th of the 49 markets, but continues to trail the AC World ex-US (17.1) on a ytd basis. Forty-five of the 49 markets are positive ytd, now led by Poland (50.3), Argentina (48.0), Austria (44.7), Turkey (44.4), China (39.2), Hungary (33.1), and Denmark (30.5). The worst country performers ytd: Pakistan (-25.1), Israel (-6.7), Russia (-6.3), and Jordan (-0.4). BRIC and EM Asia are the best-performing regions ytd, both with gains of 30.0%, ahead of EM Latin America (24.4) and EMU (20.4). The worst-performing regions, albeit with gains: EM Eastern Europe (7.2), EMEA (10.1), and EAFE (15.1).

S&P 1500/500/400/600 Performance (*link*): ll three indexes rose last week as SmallCap, with a 2.3% rise, outperformed MidCap (1.7%) and LargeCap (1.4). At the week's end, LargeCap stood 0.2% below its August 7 record high, MidCap was 3.0% below its July 25 high, and SmallCap was 3.3% below its July 25 peak. Twenty-eight of the 33 sectors rose w/w, compared to 30 rising a week earlier and just one the week of August 11, which was the lowest since September 2016. Last week's biggest gainers: SmallCap Health Care (4.2), SmallCap Industrials (3.5), MidCap Energy (3.4), SmallCap Materials (3.3), and MidCap Materials (3.3). Last week's worst performers: LargeCap Telecom (-1.3), LargeCap Utilities (-0.6), MidCap Utilities (-0.4), and MidCap Financials (-0.2). Just one of the three market-cap indexes moved higher in August as LargeCap rose for a fifth straight month. LargeCap's gain of 0.1% was ahead of the declines for MidCap (-1.7) and SmallCap (-2.7). Ten of the 33 sectors advanced in August, down from 25 rising in July. August's best performers: SmallCap Telecom (6.1), LargeCap Tech (3.2), SmallCap Utilities (3.0), LargeCap Utilities (2.7), and SmallCap Health Care (2.0). August's laggards: SmallCap Energy (-9.5), MidCap Energy (-8.2), LargeCap Energy (-5.7), and SmallCap Financials (-5.0). Twenty of the 33 sectors are positive ytd, with LargeCap (10.6) easily beating both MidCap (4.6) and SmallCap (1.1). Tech and Health Care dominate the biggest sector gainers ytd: LargeCap Tech (25.2), SmallCap Health Care (21.1), MidCap Health Care (18.7), LargeCap Health Care (17.6), and SmallCap Utilities (16.5). Energy and Telecom dominate the worst performers ytd: SmallCap Energy (-41.6), MidCap Telecom (-34.0), MidCap Energy (-33.9), LargeCap Energy (-16.1), and LargeCap Telecom (-11.1).

S&P 500 Sectors and Industries Performance (*link*): Eight of the 11 sectors rose last week, and five outperformed the S&P 500's 1.4% gain. This compares to 10 sectors rising a week earlier, when eight outperformed the S&P 500's 0.7% gain. Health Care was the best-performing sector as for the first time in 10 weeks as its 3.0% gain beat these outperforming sectors: Tech (2.2%), Materials (1.9), Consumer Discretionary (1.6), and Industrials (1.5). Telecom (-1.3) was the worst-performing sector, followed by Utilities (-0.6), Financials (-0.1), Real Estate (0.4), Consumer Staples (0.5), and Energy (0.8). The S&P 500 rose 0.1% in August as five sectors moved higher and five beat the index; that compares to all 11 sectors rising and four beating the S&P 500's 1.9% gain in July. The leading sectors in August: Tech (3.2), Utilities (2.7), Health Care (1.6), Real Estate (0.9), and Materials (0.8). Energy was the biggest laggard in August as it fell 5.7%, followed by declines for Telecom (-3.1), Consumer Discretionary (-2.0), Financials (-1.9), Consumer Staples (-1.3), and Industrials (-0.2). So far in 2017, nine of the 11 sectors are higher, but only four have outperformed the S&P 500's 10.6% gain. The best performers in 2017 to date: Tech (25.2), Health Care (17.6), Utilities (12.0), and Materials (11.1). The seven sectors underperforming the S&P 500 ytd: Energy (-16.1), Telecom (-11.1), Consumer Staples (6.1), Financials (6.1), Real Estate (6.6), Industrials (8.3), and Consumer Discretionary (10.4).

Commodities Performance (*link*): Nineteen of the 24 commodities we follow rose last week, the most in nine weeks as the S&P GSCI commodities index rose 1.9%. That compares to 13 commodities rising a week earlier, when the GSCI index fell 0.4%. The week's strongest performers: Unleaded Gasoline (13.4%), Heating Oil (7.6), GasOil (6.0), Cotton (5.5), and Natural Gas (5.0). Last week's laggards: Lean Hogs (-2.6), Sugar (-2.0), Coffee (-1.8), and Live Cattle (-1.7). August saw 13 of the 24 commodities climb, down from 15 rising in July and led by Nickel (15.5), Zinc (12.7), Aluminum (10.6), Natural Gas (8.8), and Copper (6.6). August's laggards: Wheat (-8.4), Kansas Wheat (-8.1), Coffee (-7.1), Lean Hogs (-7.0), and Cocoa (-6.5). Industrial metals-related commodities dominate the best performers in 2017 so far: Aluminum (25.9), Zinc (24.0), Copper (23.3), Nickel (20.1), and Lead (18.7). This year's laggards: Sugar (-29.5), Natural Gas (-17.6), Crude Oil (-12.0), Live Cattle (-9.4), and Cocoa (-8.4).

Assets Sorted by Spread w/ 200-dmas (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 19/24 commodities, 5/9 global stock indexes, and 28/33 US stock indexes compared to 13/24, 6/9, and 29/33 rising a week earlier, respectively. Twelve commodities trade above their 200-dmas, up from 10 a week earlier as Brent Crude (0.2% above) and Unleaded Gasoline (9.7) turned positive w/w. Commodities' average spread improved w/w to 1.8% from -0.6%. Nickel leads all commodities and all assets at 19.5% above its 200-dma, followed by Zinc (16.3), Copper (16.2) and Aluminum (13.0). Unleaded Gasoline also performed the best of all commodities and all assets last week, improving 12.6ppts. Sugar (-18.2) trades the lowest of all commodities, but Lean Hogs (-13.7) fell 2.4ppts last week for the worst performance of all commodities and all assets. The global indexes trade at an average of 5.2% above their 200-dmas, unchanged from the prior week. Eight of the nine global indexes trade above their 200-dmas, also unchanged from a week earlier. Brazil (11.8) now leads the global indexes, but Japan had the best performance among its peers as it gained 1.1ppts to 1.3%. Canada (-1.3) trades the lowest of the global assets relative to their 200-dmas, but South Korea (6.6) performed the worst of its country peers last week as it fell 1.4ppts. The US indexes trade at an average of 0.2% above their 200-dmas, with 20 of the 33 sectors above, up from a -1.3% average a week earlier, when 18 sectors were above. These two US indexes turned positive w/w: MidCap Industrials and SmallCap Consumer Staples. LargeCap Tech now leads all US stock indexes at 11.2% above its 200-dma, followed by SmallCap Utilities (11.0). SmallCap Health Care (10.5) rose 4.0ppts w/w for the best performance of the US stock indexes last week. SmallCap Energy trades 27.1% below its 200-dma, the lowest among the US stock indexes and all assets. LargeCap Telecom (-4.3) fell 1.2ppts for the worst performance of the US stock indexes last week.

S&P 500 Technical Indicators (*link*): The S&P 500 index remained in a Golden Cross last week for a 71st week (after 17 weeks in a Death Cross) as both the short-term and long-term technicals improved w/w. The index's 50-day moving average (50-dma) relative to its 200-dma fell for a fifth straight week to a 33-week low of 3.6% above its 200-dma from 3.8%, and has weakened during nine of the past 10 weeks. That's down from a 34-month high of 5.4% in early April and compares to a six-month low of 2.0% in early December and a 52-month low of -4.5% in March 2016. The 50-dma and 200-dma both rose together for a second straight week, after failing to rise together a week earlier for the first time in 36 weeks. The S&P 500's 50-dma moved higher w/w for a second week after falling a week earlier for the first time in 39 weeks. The index closed above its 50-dma for the first time in four weeks, ending its worst streak since it closed below its 50-dma for 10 straight weeks from September 2016 until the November election. The S&P 500 improved to 1.0% above its rising 50-dma from 0.3% below its rising 50-dma a week earlier, which compares to a four-month low of 1.0% below its falling 50-dma three weeks ago. These 50-dma readings compare to a 38-week high of 4.8% on December 13, and a 52-month high of 6.2% in March 2016. The S&P 500 improved to 4.6% above its rising 200-dma from 3.5%, which compares to a post-election low of 3.0% above its rising 200-dma three weeks ago and an 11-week high of 7.4% in early June. That's down from a 38-month high of 9.4% on March 1, but up from an eight-month low of -0.1% immediately before the election.

S&P 500 Sectors Technical Indicators (*link*): Among the 11 sectors, all but Financials, Telecom, and Utilities improved w/w relative to their 50-dma and 200-dma. Six of the 11 sectors trade above their 50-day moving averages (50-dmas), up from four a week earlier as Health Care and Materials moved above in the latest week and joined Real Estate, Tech, Telecom, and Utilities. Two weeks ago, just three sectors traded above their 50-dmas, matching mid-April's reading, 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. Energy has traded below its 50-dma in 31 of the past 32 weeks, and Consumer Staples was below for an 11th week. The longer-term picture is better: Nine of the 11 sectors were above their 200-dmas last week, unchanged from a week earlier, as Energy was below for a 26th week and Telecom for a 24th week. 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, up from six a week earlier, as Consumer Discretionary and Telecom turned up w/w, leaving these three with still declining 50-dmas: Consumer Staples, Energy, and Industrials. Consumer Staples' 50-dma has fallen in seven of the past eight weeks, Energy's fell for a 29th week, and Industrials' for a fourth week. Ten sectors have rising 200-dmas, unchanged from a week earlier, as Energy's fell for a 19th week.

US ECONOMIC INDICATORS

Employment (*link*): Job growth was below expectations in August, while there were big downward revisions to July and June payrolls—virtually all government related. US companies expanded payrolls by 156,000 last month after downward revisions to July (to 189,000 from 209,000) and June (210,000 from 231,000) payrolls, for a net loss of 41,000. Meanwhile, private payroll employment climbed 165,000 after gains of 202,000 (vs 205,000 preliminary) and 207,000 (194,000) the prior two months, for a net addition of 10,000. The increase in BLS private nonfarm payrolls was considerably below the 237,000 increase in ADP private payroll employment. According to ADP, "The initial BLS employment estimate is often very weak in August due to measurement problems, and is subsequently revised higher. The ADP number is not impacted by those problems." The breadth of job creation (percent of private industries increasing payrolls) for both the one-month and three-month spans remained above 60%, though the former (to 63.8% from 64.9%) slipped a bit, while the latter (67.4% from 65.7%) was the highest since January 2015.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP) in August was stalled at July's record high, after soaring 14 of the prior 17 months by 6.4%. Average hourly earnings, one of the components of our EIP, edged up 0.1% last month, while aggregate weekly hours, the other component, edged down 0.1%. On a y/y basis, our EIP advanced 4.6%, with AHE up 2.5% and aggregate hours 2.1% higher. Our proxy tracks income and spending closely and continues to predict robust gains in both.

Employment by Industry (*link*): Goods-producing jobs in manufacturing and construction led employment gains in August, followed by professional & technical services, health care, and mining. Manufacturers added 36,000 to payrolls last month—the most in four years; factories haven't reduced payrolls since last October, hiring 155,000 since then. Construction companies hired 28,000 in August and 214,000 the past 12 months to its highest level since October 2008. Employment in professional & tech services and health care continued to trend higher, with the former boosting payrolls 22,400 m/m and 262,000 y/y and the latter by 20,200 and 328,400 over the comparable periods. Meanwhile, mining companies hiked payrolls for the tenth consecutive month by a total of 59,600, after falling steadily from October 2014 through October 2016. Employment in other major industries—including wholesale trade, retail trade, transportation & warehousing, information services, financial activities, and government—showed little change last month.

Unemployment (*link*): August's unemployment rate ticked up to 4.4% after ticking back down to May's 16-year low of 4.3% in July. The civilian labor force expanded for the third month by 77,000 in August and 787,000 over the period; those not in the labor force increased 128,000 last month after falling 326,000 over the prior two months. The participation rate remained at 62.9%, showing little movement on net over the past year. August's teenage rate edged up to 13.6% after sinking to 13.2% in July—which was its lowest reading since December 2000. The adult (4.1%) and college grad (2.4) rates held just above their May cyclical lows of 3.9% and 2.3%, respectively. Those working part-time for economic reasons (a.k.a. "involuntary part-time workers") edged down in August for the second month, by a total of 71,000, to 5.25 million (3.3% of the civilian labor force). That brought the level back down near May's 5.22 million, the lowest since April 2008. The sum of the underemployment and jobless rates (7.7) ticked up from its cyclical low of 7.6%, while the U6 rate—which includes marginally attached workers—was unchanged again, at 8.6%, just above May's cyclical low of 8.4%.

Wages (*link*): Wage inflation—as measured by the average hourly earnings rate for all workers on private nonfarm payrolls (AHE)—was at 2.5% y/y in August for the fifth straight month, below February's 2.8%. The wage rate for goods-producing industries (2.2% y/y) fell back down near May's 19-month low of 2.1%, while service-providing's was at 2.6% for the fourth month, remaining just below its recent high of 2.8%. Within goods-producing, the manufacturing rate (1.8) sank to a 25-month low, while construction's (2.6) climbed to a six-month high; the natural resources rate was little changed at 2.4% y/y last month after dipping below zero in May. Within service-providing, the education & health services rate (2.6) continued to accelerate out of its recent flat trend, while the rate information services (4.1) returned to its volatile flat trend. Rates for financial activities (2.4) and professional & business services (2.6) continued to move sideways. The rate for transportation & warehousing (2.7) remained stalled at recent highs, while wholesale trade's (1.5) sank to a 28-month low. The utilities' rate (1.2) remained on a volatile downtrend, while retail trade's (1.8) moved up from recent lows.

Auto Sales (*link*): Motor vehicle sales in August sank to 16.1mu (saar), its lowest reading since February 2014, and 2.1mu below the recent high of 18.2mu at the end of last year. Domestic car sales (4.4mu, saar) remain on a steep downtrend, holding around its lowest reading since the end of 2011. Meanwhile, light truck sales (8.3) fell to a 17-month low, but are within 0.9mu of February's cyclical high of 9.2mu. Sales of imports have fluctuated in a narrow band between 3.3mu and 3.7mu since spring 2015; these sales edged down from 3.6mu to 3.5mu (saar) last month.

Construction Spending (*link*): Construction spending in July fell for the third time in four months as slumps in both public and private nonresidential spending more than offset gains in private residential investment. The headline number fell 0.6% m/m and 2.3% over the four-month period—with public construction spending down 1.4% and 7.9% and private construction spending down 0.4% and 0.6% over the comparable periods. Within private construction spending, nonresidential investment sank 2.9% over the four-month period to its lowest level since April 2016. Meanwhile, residential investment rose for the 14th time in 15 months, by a total of 13.7%, to a new cyclical high. Within residential investment, new single-family construction remains strong, increasing in nine of the past ten months by 11.3% to a new cyclical high, while home-improvement spending jumped 5.4% in the three months through July to a new record high. Weighing on residential investment in recent months was a 5.5% drop in new multi-family construction—though spending remains at record levels.

GLOBAL ECONOMIC INDICATORS

Eurozone CPI Flash Estimate (*link*): August's CPI rate is expected to be 1.5% y/y, up from 1.3% the prior two months, though holding below the ECB's goal of just under 2.0%; April's 1.9% rate was in line with the ECB goal. Looking at the main components, energy (to 4.0% from 2.2% y/y) is expected to have the highest annual rate, continuing to accelerate from June's four-month low of 1.9%. Meanwhile, the yearly rates for the remaining components, services (1.6%), food, alcohol & tobacco (1.4), and non-energy industrial goods (0.5) are expected to match their July readings. The core rate—which excludes energy, food, alcohol, and tobacco—is expected to hold at 1.2%, which is the highest in four years.

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