



MORNING BRIEFING

May 29, 2018

Recession Watch List

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

(1) Second longest day's journey into the longest day. (2) Fielding questions in North Carolina and Texas. (3) Is it monetary "normalization" or tightening? (4) In the past, rising interest rates rose until they caused a financial crisis, a credit crunch, and a recession. (5) Slicing and dicing the yield curve. (6) Will credit markets start to crack in the corporate bond sector this time? (7) Trump makes a deal with the Saudis by breaking Obama's Iran deal. (8) Rounding up the usual troublemakers in the Eurozone. (9) Trade war...yada, yada, yada. (10) Fed officials worrying about flattening yield curve. (11) Is it the third mandate?

US Economy: Stress Cracks? The US economic expansion is now 107 months old. That makes it the second longest of the previous eight expansions since 1959, when the monthly Index of Coincident Indicators starts ([Fig. 1](#)). This index is highly correlated with real GDP, which is available quarterly ([Fig. 2](#)). The current expansion has lasted this long mostly because it has been relatively slow paced. So far, there hasn't been a boom, which in the past often set the stage for a bust. It will be the longest expansion if it makes it to July of next year. However, in recent meetings with our accounts in Texas and North Carolina, I fielded more questions about the economy's risks of a recession than its potential for record longevity. Consider the following:

(1) *Monetary tightening?* Fed officials continue to characterize the tapering of the Fed's balance sheet and the gradual hiking of the federal funds rate as monetary "normalization." However, it certainly must seem like monetary *tightening* to would-be borrowers. Increasing the federal funds rate from zero to 1.50%-1.75% since late 2015 may seem relatively innocuous, but after seven years of rates that were close to zero, from late 2008 through late 2015, it's a rather big deal. Fed officials have indicated that they intend to continue gradually raising the federal funds rate through next year closer to 2.50%-3.00%, which they deem to be a more normal rate.

(2) *Credit crunch?* Periods of prolonged easy credit tend to stimulate speculative excesses, especially among borrowers who have relatively short maturity debts that unexpectedly must be refinanced at higher rates. History shows that since the late 1960s, rising rates often have triggered a financial crisis, which turned into a widespread credit crunch and a recession ([Fig. 3](#) and [Fig. 4](#)). (For more on this see Chapter 4, "Predicting Business Cycles," in my new [book](#).)

This time, during the current expansion, lots of money has been raised in the US corporate bond market. From Q4-2008 through Q4-2017, nonfinancial corporate bonds outstanding rose by \$2.4 trillion to a record \$5.3 trillion ([Fig. 5](#)). Might this be the crack in the credit markets that crumbles them? Put another way, might this be the unintended consequence of the Fed's well-intentioned normalization process?

When I was in Austin, one account expressed concern that lots of "cov-lite" bonds have been issued.

He didn't have any data to back up his concern, and he acknowledged that most of them were issued at historically low rates with relatively long maturities. Furthermore, so far there haven't been any signs of stress in the yield spread between junk-grade corporate bonds and the 10-year US Treasury bond ([Fig. 6](#)).

Admittedly, this credit-quality yield spread tends to be a coincident indicator of the economy rather than a leading one ([Fig. 7](#)). It always widens sharply after the onset of a financial crises.

(3) *Yield curve inverting?* On the other hand, the yield curve spread between the 10-year Treasury bond yield and the federal funds rate is one of the 10 components of the Index of Leading Economic Indicators. Yet it is widely given more weight than any of the other ones—even by Fed officials, as discussed below—because it has a consistent record of inverting just before recessions begin ([Fig. 8](#)).

The yield curve spread between the two-year Treasury note yield and the federal funds rate has been relatively tight since the Fed started raising the federal funds rate in late 2015 ([Fig. 9](#)). The FOMC has provided lots of forward guidance about the likely path of interest rates, and the two-year has reflected the Fed's narrative.

The 10-vs-two-year and 30-vs-10-year spreads have narrowed sharply over this same period, raising fears that the yield curve might invert. Melissa and I think the action in the bond market confirms our view that the Fed is ahead of the curve on keeping a lid on inflation. This explains why spreads on the long end of the curve have narrowed, reflecting diminishing long-term inflationary expectations. If the Fed can avert a late-cycle inflationary boom (along with debt-financed speculative excesses), then the expansion could persist for the foreseeable future. In other words, the flattening of the yield curve is bullish, not bearish, for stocks!

(4) *Gasoline fumes?* Another concern expressed during my meetings in Texas was that the rebound in gasoline prices might depress consumer spending, offsetting the windfall from Trump's Tax Cuts and Jobs Act (TCJA) enacted at the end of last year. In the past, rising outlays on gasoline caused by spikes in gasoline prices often were followed by economic downturns ([Fig. 10](#)). Nominal personal consumption expenditures on gasoline increased \$71 billion from a recent low of \$225 billion (saar) during February 2016 to \$296 billion during March. On a per-household basis over this same period through March, gasoline spending increased by \$570 from a recent low of \$1,900 (saar) during February 2016 to \$2,470 ([Fig. 11](#)).

Following President Trump's decision to pull out of the Iran nuclear deal earlier this month, the Saudis indicated that they are ready to increase their oil production in response to the expected decline in Iranian crude oil bound for international markets. The price of oil tumbled late last week on perceptions that the Saudis were starting to pump more oil. Apparently, Trump made a deal with the Saudis: They will pump more oil if he walks away from Obama's nuke deal with Iran, reviving sanctions again, including on Iran's oil exports.

(5) *Tax hikes?* Many of us who live and work in New York State will be paying more in taxes in 2018 than in 2017 thanks to Trump's tax-cutting package. That's because state and local taxes will no longer be deductible, and the deduction for mortgage interest also has been sharply curtailed. The same holds for taxpayers in other states that have relatively high income and property taxes and expensive homes financed with large mortgages. So far, it's hard to see that the TCJA has boosted consumer spending from the data on retail sales and consumer outlays.

Global Economy: Troubles Brewing? The 2008 financial crisis was global, but its epicenter was the US subprime mortgage market meltdown. There are mounting fears that this time the epicenter might

be in emerging markets or European economies. Consider the following:

(1) *Emerging markets again?* As Melissa and I noted last week, Fed Chairman Jerome Powell discussed the risk that Fed rate hikes pose to emerging markets in a 5/8 [speech](#) titled “Monetary Policy Influences on Global Financial Conditions and International Capital Flows.” He reassuringly declared: “There is good reason to think that the normalization of monetary policies in advanced economies should continue to prove manageable for EMEs.” However, he added: “All that said, I do not dismiss the prospective risks emanating from global policy normalization.”

(2) *PIIGS again?* The 5/25 *FT* [reported](#): “Mounting fears about political instability in Italy and Spain sent tremors through the eurozone’s two largest peripheral debt markets on Friday with investors dumping the sovereign bonds of both countries and sending European bank shares sharply lower.”

The Italians are struggling, as they do on a regular basis, to form a government. The leaders of the current coalition include so-called “Eurosceptics.” In Spain, the main opposition party called for a vote of no-confidence in the minority rule of Prime Minister Mariano Rajoy, whose center-right Popular party has been hit by a campaign finance scandal.

Let’s not forget about Greece. The Greeks want another round of debt relief from the International Monetary Fund and the Eurozone. Their crisis has been going on since 2010.

(3) *Trade war?* Fears of a trade war were heightened during February when President Trump slapped tariffs on aluminum and steel imports and more recently threatened to impose significant tariffs on Chinese imports. Along the way, the Trump administration handed out lots of exemptions to companies that rely on aluminum and steel imports. In addition, there may (or may not) be ceasefires already in effect before trade wars have even started, most notably with China, Mexico, and Canada.

Fed Minutes: The Yield Curve. By the way, the flattening yield curve has caught the attention of the FOMC. The [minutes](#) of the May 1-2 meeting of the Fed’s policy-setting committee noted that an inverted yield curve has a darn good track record of forecasting recessions. So it’s possible that the Fed’s gradual normalization of monetary policy could be even more gradual if the yield curve gets even flatter as a result of the next round or two of Fed rate hikes. Perhaps the yield curve is now becoming the Fed’s third mandate: Don’t let the yield curve invert!

Here is the relevant excerpt from the latest minutes, released last week:

“Meeting participants also discussed the recent flatter profile of the term structure of interest rates. Participants pointed to a number of factors contributing to the flattening of the yield curve, including the expected gradual rise of the federal funds rate, the downward pressure on term premiums from the Federal Reserve’s still-large balance sheet as well as asset purchase programs by other central banks, and a reduction in investors’ estimates of the longer-run neutral real interest rate. A few participants noted that such factors could make the slope of the yield curve a less reliable signal of future economic activity. However, several participants thought that it would be important to continue to monitor the slope of the yield curve, emphasizing the historical regularity that an inverted yield curve has indicated an increased risk of recession.”

Got that? “A few” participants aren’t concerned about the flattening of the yield curve. However, “several” are worried about it. In Fed-speak, “a few” is less than “several.”

CALENDARS

US. Tues: Consumer Confidence 128.1, Dallas Fed General Activity Index 23.2, S&P Corelogic Case-Shiller HPI 0.7%/m/m/6.4%/y/y, Bullard. **Wed:** ADP Employment 186k, Real GDP & PCE 2.2%/1.2%, GDP Price Index 2.0%, Corporate Profits, Advance Merchandise Trade Balance -\$71.0b, MBA Mortgage Applications, Beige Book, Fed to Issue Proposal to Modify Volcker Rule. (*Wall Street Journal* estimates)

Global. Tues: Japan Retail Trade 0.9% y/y. **Wed:** Germany Unemployment Change & Unemployment Rate -10k/5.3%, Germany Retail Sales 0.5%/m/m/1.7%/y/y, Germany CPI 0.3%/1.9%, France GDP 0.3%q/q/2.1%/y/y, UK Gfk Consumer Confidence -8, Japan Industrial Production 1.4%/m/m/3.6%/y/y, Japan Consumer Confidence 43.9, BOC Rate Decision 1.25%, OECD Forecasts, Kuroda. (DailyFX estimates)

STRATEGY INDICATORS

YRI Weekly Leading Index ([link](#)): Our Weekly Leading Index (WLI)—a good coincident indicator that can confirm or raise doubts about stock market swings—fell during the week of May 19, after rising the prior four weeks to a new record high. Our WLI, which is the average of our Boom-Bust Barometer (BBB) and Bloomberg's Weekly Consumer Comfort Index (WCCI), sank 1.7% after a four-week jump of 3.8%. Our BBB dropped 3.0%, after rebounding 7.8% the previous four weeks to a new record high, as jobless claims—one of the components of our BBB—rose for the first time in five weeks. Jobless claims climbed to 219,750 (4-wa) during the week of May 19, after dropping from 231,500 to 213,500 the previous four weeks—which was the lowest reading since December 13, 1969. The CRB raw industrial spot price index, another BBB component, continued to rise through the week of May 19, after retreating since mid-April, though has dipped in recent sessions. Meanwhile, the WCCI rebounded 1.1% after sliding 6.0% the prior four weeks, from its cyclical high.

Global Stock Markets Performance ([link](#)): The US MSCI index rose 0.3% last week, ranking tenth out of the 49 markets in a week when 13 countries rose in US dollar terms and the AC World ex-US index fell 1.2%. That compares to the index's 0.5% drop a week earlier, which ranked 15th as eight markets rose and the AC World ex-US index fell 1.0%. Nearly all regions fell last week, but EM Asia performed the best with a gain of 0.1%, followed by BRIC (-1.0%), EMEA (-1.0), and EM Eastern Europe (-1.0). The underperforming regions relative to the AC World ex-US were: EMU (-2.3), EM Latin America (-1.7), and EAFE (-1.6). Indonesia was the best-performing country as it rose 5.2%, followed by Israel (2.3), South Africa (1.5), Korea (1.4), and Taiwan (1.1). Of the 23 countries that underperformed the AC World ex-US MSCI last week, Greece fared the worst as it tumbled 6.0%, followed by Italy (-5.8), Hungary (-5.6), Turkey (-4.1), and Spain (-4.1). On a ytd basis, the US MSCI improved w/w to a 1.9% gain from 1.7% a week ago, and rose five places in the ytd performance ranking to 12/49. The US MSCI is ahead of the AC World ex-US (-2.0) in the ytd period. None of the regions and just 18/49 countries are in positive territory ytd. EM Asia is unchanged for the year and now leads BRIC (-0.1), EMU (-1.7), and EAFE (-1.8). EMEA (-7.1) is biggest laggard relative to the AC World ex-US's performance, followed by EM Latin America (-6.1) and EM Eastern Europe (-3.3). The best country performers ytd: Jordan (9.2), Finland (8.6), Peru (8.1), Colombia (7.8), Israel (3.9), and China (3.6). The worst-performing countries ytd: Turkey (-29.0), Argentina (-27.8), Hungary (-16.4), the Philippines (-15.8), and Poland (-14.9).

S&P 1500/500/400/600 Performance ([link](#)): All three of these market-cap indexes rose last week as LargeCap performed best with a gain of 0.3%, ahead of SmallCap (0.2%) and MidCap (0.2). SmallCap is down just 0.7% from its record high on Monday which was its first since late January, but MidCap remains 2.4% below its record then and LargeCap is still down 5.3%. Nineteen of the 33 sectors rose in the latest week, up from 18 rising a week earlier. The best performers in the latest week: SmallCap Real Estate (4.0), MidCap Real Estate (3.2), LargeCap Utilities (3.1), SmallCap Consumer Staples

(3.0), and MidCap Utilities (3.0). Energy dominated the biggest underperformers for the week: SmallCap Energy (-6.6), MidCap Energy (-5.1), LargeCap Energy (-4.5), SmallCap Telecom (-2.0), and LargeCap Materials (-1.5). LargeCap is now up 1.8% ytd, trailing the 2.4% gain for MidCap and SmallCap's ytd gain of 7.3%. Eighteen sectors are now positive to date in 2018, up from 17 week earlier and up from just three in early February. The best-performing sectors ytd: SmallCap Health Care (26.1), MidCap Health Care (14.7), MidCap Energy (11.3), LargeCap Tech (10.5), and SmallCap Energy (10.2). The worst performers ytd: LargeCap Consumer Staples (-13.1), LargeCap Telecom (-11.8), MidCap Telecom (-8.0), SmallCap Real Estate (-6.9), and LargeCap Real Estate (-5.9).

S&P 500 Sectors and Industries Performance ([link](#)): Seven sectors rose last week as seven outperformed the S&P 500's 0.3% gain. That compares to four rising a week earlier, when six outperformed the S&P 500's 0.5% decline. Utilities was the best-performing sector with a 3.1% gain, ahead of the performances of Real Estate (2.0%), Tech (1.3), Consumer Discretionary (1.2), Telecom (1.2), Consumer Staples (0.7), and Industrials (0.5). Energy was the biggest underperformer with a drop of 4.5%, followed by Materials (-1.5), Financials (-0.4), and Health Care (-0.3). Four sectors are in the plus column so far in 2018, down from five a week earlier and down from nine in early March. These three sectors are ahead of the S&P 500's 1.8% ytd gain: Tech (10.5), Consumer Discretionary (7.5), and Energy (2.7). The eight ytd underperformers: Consumer Staples (-13.1), Telecom (-11.8), Real Estate (-5.9), Utilities (-4.8), Materials (-2.6), Financials (-0.6), Industrials (-0.4), and Health Care (0.2).

Commodities Performance ([link](#)): The S&P GSCI index fell 1.4% w/w for its biggest drop in seven weeks as 16 of the 24 commodities we follow moved higher. That compares to last week's 1.0% gain when 14/24 commodities rose. Last week's strongest performers: Sugar (6.9%), Feeder Cattle (5.3), Wheat (4.8), Kansas Wheat (4.7), and Lead (4.7). Last week's biggest decliners: Crude Oil (-4.9), Cocoa (-4.6), Brent Crude (-2.6), GasOil (-2.6), Unleaded Gasoline (-2.5), and Heating Oil (-2.4). The S&P GSCI commodities index is up 9.0% ytd and near its highest level since December 2014. The top performer so far in 2018 is Cocoa (35.1), Kansas Wheat (32.0), Wheat (27.2), Unleaded Gasoline (21.1), Nickel (15.8), and Corn (15.8). The biggest laggards of 2018 to date: Sugar (-17.8), Live Cattle (-15.8), Zinc (-8.3), Copper (-4.9), and Coffee (-4.6).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 15/24 commodities, 1/9 global stock indexes, and 18/33 US stock indexes, compared to 12/24 commodities, 5/9 global stock indexes, and 17/33 US stock indexes rising a week earlier. Commodities' average spread rose w/w to 7.2% from 6.8%. Sixteen commodities trade above their 200-dmas, up from 14 a week earlier. Kansas Wheat now leads all commodities and all assets at 21.5% above its 200-dma, but Sugar (-8.4%) rose 6.0ppts w/w for the best performance among commodities and all assets. Live Cattle trades at 11.4% below its 200-dma, which is the lowest of all assets. Crude Oil (14.1) tumbled 7.1ppts for the worst w/w performance among commodities. The global indexes trade at an average of 0.6% above their 200-dmas, down from 2.0% in the prior week. Six of the nine global indexes trade above their 200-dmas, down from seven a week earlier. The UK (4.2) now leads the global indexes, but Indonesia (-2.9) gained 3.1ppts for the best performance among global assets. China (-4.0) is now the biggest laggard among global indexes, but Brazil (-0.3) dropped 5.7ppts for the biggest decline among global assets. The US indexes trade at an average of 3.5% above their 200-dmas, with 24 of the 33 sectors above, down from 3.8% a week earlier, when 23 sectors were above. SmallCap Health Care (21.1) now leads the US stock indexes, but SmallCap Real Estate (-2.5) rose 3.9ppts for the biggest gain among US stock indexes last week. MidCap Telecom (-8.4) and LargeCap Consumer Staples (-8.4) trade the lowest among all US stock indexes, but SmallCap Energy (14.6) tumbled 9.4ppts for the worst performance among US stock indexes and all assets.

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 0.3% last week and improved relative to its short-term 50-dma trend line and long-term 200-dma. The index remained in a Golden Cross (50-dma higher than 200-dma) for an 108th straight week (after 17 weeks in a Death Cross), yet the index's 50-day moving average (50-dma) relative to its 200-dma dropped for a 16th week to a 25-month low of 1.1% from 1.5%, and is down from a 55-month high of 7.2% in early February. This Golden Cross reading compares to a four-year low of -4.5% in March 2016. The S&P 500's 50-dma fell for the eighth time in 10 weeks. It had fallen for four weeks through mid-April for its worst performance since before the 2016 election. However, the index rose to 1.9% above its falling 50-dma from 1.4% a week earlier. That compares to a 25-month low of 5.6% below its falling 50-dma near the end of March and a two-year high of 6.2% above its rising 50-dma on January 29. The 200-dma continued to rise, as it has done since May 2016, but near the slowest pace since October 2011. The S&P 500 appears to have successfully tested its 200-dma again recently, and improved a hair to 3.0% above its rising 200-dma. That compares to a seven-week high of 3.8% in early May and is up from 0.6% below on April 3 (the lowest reading since June 2016). Looking back further, the S&P 500 had traded at a seven-year high of 13.5% above its 200-dma on January 29 and at a four-year low of -10.1% in August 2015.

S&P 500 Sectors Technical Indicators ([link](#)): Among the 11 S&P 500 sectors, last week saw seven sectors improve relative to both their 50-dmas and 200-dmas: Consumer Discretionary, Consumer Staples, Industrials, Real Estate, Tech, Telecom, and Utilities. Eight sectors now trade above their 50-dma, up from seven a week earlier as Real Estate turned positive in the latest week. Consumer Staples has been the worst performer recently with 17 weeks below its 50-dma, followed by Telecom (16 weeks below) and Utilities (two). All 11 sectors had been below their 50-dmas at the end of March, which was the first time that has occurred since February 2016. The longer-term picture—i.e., relative to 200-dmas—shows 6/11 sectors trading above, down from 7/11 a week earlier as Health Care flipped back into negative territory. That's up from just four sectors trading above their 200-dma in early May, which matched the lowest count since January 2016. Telecom remained below its 200-dma in the latest week, where it has been in most of the weeks since April 2017. Sectors trading the longest above their 200-dmas: Tech (above 200-dma for 99 straight weeks), Consumer Discretionary (81 straight weeks), Financials (37 weeks), and Energy (seven weeks). On the other hand, Consumer Staples was below for a 14th week, Real Estate below for a 21st week, and Utilities below for a 23rd week. All 11 sectors had been above both their 50-dmas and 200-dmas briefly in mid-December for the first time since July 2016. Five sectors are in a Golden Cross (50-dmas higher than 200-dmas), unchanged from a week earlier. All 11 had been in a Golden Cross in mid-January for the first time since a 26-week streak ended in October 2016. Telecom was out for an eighth week, Consumer Staples for a tenth, Real Estate for a 16th, and Utilities for an 18th. Health Care was out for only a third week, but for the first time since February 2017. Consumer Discretionary and Tech have rising 50-dmas now, joining Energy, which had been the only sector in that club a week earlier. That compares to all 11 sectors with falling 50-dmas during early April in the worst count since before the election in November 2016. Consumer Staples' 50-dma fell for a 16th straight week and Telecom's for a 14th week. Seven sectors have rising 200-dmas, unchanged from a week earlier. That's up from six in early February, which was the lowest since May 2017. The 200-dmas for Real Estate and Utilities fell for a 20th week, and Consumer Staples' dropped for a 14th week.

US ECONOMIC INDICATORS

Durable Goods Orders & Shipments ([link](#)): Both core capital goods orders and shipments began this quarter on an up note. Nondefense capital goods orders ex aircraft (a proxy for future business investment) rebounded 1.0% in April after slumping 0.9% in March; they've been on a volatile uptrend—climbing 3.5%—since posting a sharp drop during the two months ending November. Meanwhile, the comparable shipments measure (used in calculating GDP) more than reversed March's decline, rising 0.8% last month to its highest reading since September 2014. Core capital goods orders

accelerated 6.1% (saar) during the three months through April, based on the three-month average, after turning negative the first two months of this year. The comparable shipments measured grew 3.3% (saar), below the double-digit gains at the end of last year, but a slight improvement from March's rate. Meanwhile, a 29.0% plunge in volatile commercial aircraft orders last month pushed headline durable goods orders down for the first time in three months, by 1.7%, after a 7.3% surge the prior two months to a new cyclical high. Excluding transportation, April orders rose for the fourth time in five months, up 0.9% m/m and 3.3% over the period, to a new cyclical high.

Regional M-PMIs ([link](#)): Four Fed districts have now reported on manufacturing activity for May—New York, Philadelphia, Richmond, and Kansas City—and they show growth was exceptionally strong in the Philly and Kansas City regions. We average the composite, orders, and employment measures as data become available. The composite index accelerated from 15.5 to 24.9 this month—which was just shy of its record high of 25.6 recorded in April 2004. The Philadelphia (to 34.4 from 23.2) region expanded at the fastest pace in a year, while Kansas City (29 from 26) manufacturers posted their best month on record. Activity in the New York (20.1 from 15.8) and Richmond (16 from -3) regions also increased at a robust clip—the latter from a negative reading last month. The new orders gauge (27.7 from 13.9) showed orders accelerated at their fastest pace in the history of this series (going back to 2001), led by the Philly (40.6 from 18.4) region, which expanded at its fastest pace in 45 years, and Kansas City's (38 from 37), which recorded its best performance since the end of 2003. Meanwhile, orders in the New York (16.0 from 9.0) and Richmond (16 from -9) regions also picked up—with Richmond's moving from contraction to expansion. The employment measure (20.2 from 17.8) showed jobs growth continued at a steady pace, as manufacturers in the Philly (30.2 from 27.1) and Kansas City (24 from 26) regions continued to hire at a robust rate, while Richmond's (18 from 12) rate was more modest. Meanwhile, New York (8.7 from 6.0) factories added to payrolls at less than half the pace at year-end.

Existing Home Sales ([link](#)): Existing home sales retreated in April, after a two-month spurt, with no region in the black. NAR's chief economist noted, "The root cause of the underperforming sales activity in much of the country so far this year continues to be the utter lack of available listings on the market to meet the strong demand for buying a home," adding that "inventory shortages are even worse than in recent years, and home prices keep climbing above what many home shoppers are able to afford." Realtors say the healthy economy and job market are keeping buyers in the market for now even as they face rising mortgage rates. Existing home sales—tabulated when a purchase contract closes—sank 2.5% to 5.46mu (saar) after a rebounding 4.1% the prior two months. Sales fell in all regions except the Midwest during April, while the South was the only region to post a year-over-year gain. Here's the tally: Northeast (-4.4% m/m & -11.0% y/y), West (-3.3 & -0.8), South (-2.9 & +2.2), and Midwest (0.0 & -3.0). Single-family sales sank 3.0% in April to 4.84mu (saar) after a two-month jump of 4.8%; multi-family sales rebounded 6.9% during the two months ending April to 620,000 units (saar), reversing February's slide. Single-family sales were 1.6% below a year ago, while multi-family sales were flat with last April's. The number of existing single-family homes on the market at the end of April climbed for the fourth month, from 1.29mu to 1.59mu over the period. Still, inventory was 6.5% below a year ago—recording y/y declines for the 35th consecutive month—though narrowing from double-digit declines at the end of last year. Unsold inventory was at a 3.9 months' supply, rising steadily from December's record low of 3.1 months. The median existing single-family home price was \$259,900 in April, up 5.5% from April 2017.

Consumer Sentiment ([link](#)): Final data for May show consumer sentiment dipped slightly, rather than held steady as the mid-month reading suggested. The Consumer Sentiment Index (CSI) retreated for the second month since reaching a 14-year high of 101.4 in March, falling to 98.0 this month—below the 98.8 preliminary estimate. (The CSI has held in a tight eight-point range from 93.4 to 101.4 since the November 2016 election.) The expectations component rose for the first time in three months in May to 89.1 (slightly below the 89.5 preliminary estimate), after falling from 90.0 to 88.4 the previous

two months. The present situation component declined for the second month since hitting a record high of 121.2 in March, slipping to 111.8 this month—weaker than the preliminary estimate of 113.3. Richard Curtin, the survey's chief economist, noted, "Consumers have remained focused on expected gains in jobs and incomes as well as anticipated increases in interest rates and inflation in the year ahead." The May survey found that consumers anticipated smaller income gains than a month or year ago, while they expected inflation to continue hovering just below 3.0%.

GLOBAL ECONOMIC INDICATORS

Germany Ifo Business Climate Index ([link](#)): German business confidence halts a five-month slide this month. "The German economy is performing well in a difficult international situation," Ifo's president noted after the report was released. The new index, which now incorporates responses from the services sector, was unchanged at 102.2 this month, after sliding steadily from November's reading of 105.2—which was a high for this series going back to January 2005. Most of the recent weakness was centered in the expectations component, which dropped from 103.7 in November to a 25-month low of 98.5 this month. The present situation component ticked up to 106.0 this month, after falling the prior three months from a record high of 108.3 at the start of the year to 105.8 last month. Ifo's expectations component correlates closely with German factory orders and production, while the overall index tracks exports more closely. Recent Ifo data continue to suggest an easing of growth across the board.

Germany GDP ([link](#)): Last quarter, economic growth in the Eurozone's largest economy expanded at half the pace of Q4, and one-third the pace of Q1-2017—posting its weakest performance in three years. Real GDP growth slowed for the second quarter to 1.2% (saar) from 2.4% during Q4 and 3.0% during Q3; it recorded a 3.6% gain during Q1-2017. Last quarter's slowdown was driven by a 4.1% drop in real exports—the first decline since Q3-2016—following a 10.9% jump during the final quarter of last year; domestic demand accelerated 1.6% (saar) from near zero during Q4. Within domestic demand, capital investment (6.8%, saar) posted its best performance in a year, with both construction (8.5) and equipment (4.8) spending showing solid gains, with the former rebounding from virtually no growth during Q4. Real household consumption expanded 1.6% (saar) last quarter after showing negligible growth the prior two quarters. Meanwhile, government spending (-2.1) contracted for the first time since Q2-2013, after averaging quarterly gains of 2.0% the prior three quarters.

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