MORNING BRIEFING
June 4, 2018

Keep on Trucking

See the collection of the individual charts linked below.

(1) So far this year, S&P 500 has held up reasonably well despite lots of bearish noise. (2) Cyclical sectors mostly outperforming, while interest-rate-sensitive mostly underperforming. (3) SmallCaps at record high because they are less exposed to the global economy, which may be challenged by the strong dollar and protectionism. (4) Sounding the retreat alarm: Going back to Stay Home investment recommendation. (5) GDPNow now predicting 4.8% growth this quarter. (6) Record-high truck freight index belies shortage-of-truckers scare, as does truckers' modest pay gain. (7) Our Earned Income Proxy at record high again. (8) Movie Review: "Adrift" (+ +).

Strategy: A Market of Stocks. An age-old adage is that the stock market is a market of stocks. That's especially true this year. There's been lots of bearish noise about protectionism since February, possible government regulation of the FANG stocks (Facebook, Amazon, Netflix, and Google's parent Alphabet) during March, and the worsening Italian political mess last week. Yet the overall S&P 500 is up 2.3% ytd (*Fig. 1*). More importantly, there are big winners within the more cyclical sectors of the composite. Meanwhile, the losers are mostly in the sectors that are deemed to be safe havens and bond surrogates (*Fig. 2*). Consider the following:

(1) *LargeCap winners and losers.* Here is the ytd performance derby for the S&P 500 and its 11 sectors: Information Technology (12.8%), Consumer Discretionary (7.8), Energy (5.2), S&P 500 (2.3), Health Care (0.7), Industrials (-1.1), Financials (-1.9), Materials (-2.7), Real Estate (-4.3), Utilities (-5.4), Telecom Services (-12.5), and Consumer Staples (-13.5).

Under the circumstances, that's fairly impressive performance. The sector that has been weighed down the most by the outbreak of protectionism is Industrials. The interest-rate-sensitive sectors have been depressed by the rise in the bond yield from 2.40% at the end of last year to 2.89% on Friday (*Fig. 3*). Financials has been held back by the flattening of the yield curve, as the Treasury bond yield hasn't risen as much as the two-year Treasury note yield.

(2) *Lots of SmallCap winners.* Meanwhile, the Russell 2000 stock price index managed to rise 7.3% ytd to a record high last week (*Fig. 4*). That's because SmallCaps tend to be less exposed to the dollar, which has been strengthening recently. They are also less exposed to the global economy, which has been rattled by Trump's threats of protectionism, the Eurozone's renewed existential crisis, and concerns about capital outflows from emerging market economies.

(3) *Earnings signals remain bullish.* On balance, the stock market has done a good job of tuning out the noise and focusing on the signal, which has been the more rapid increases into record territory of the S&P 500/400/600 forward earnings since the enactment of the Tax Cuts and Jobs Act at the end of last year (*Fig. 5*). Also significant is that S&P 500/400/600 revenues growth continues to climb to record highs (*Fig. 6*).

(4) *Coming back home again.* Under the circumstances, Joe and I once again are recommending a Stay Home investment strategy rather than a Go Global one. We had been staying home during the current bull market until late 2016, when we saw signs of global synchronized growth and recommended a globally market-weighted stance on stocks. Now we are back to overweighting the US.

A glance at the ratio of the US MSCI stock price index to the All Country World ex-US index shows that it was on a solid uptrend from 2011 through late 2016. It moved down sharply during 2017 in dollars and was relatively flat in local currencies (*Fig. 7*). Since late 2017, the ratio has been rising again in both dollars and local currencies.

US Economy: Pedal to the Metal. While the global economy is being rattled by Trump's protectionist stance on trade, renewed uncertainty about the future of the Eurozone, and capital outflows from some emerging markets, the US economy is barreling along. Real GDP may be starting to do so at a faster speed now, exceeding the so-called 2% "stall speed," which was the so-called "New Normal" from mid-2010 through Q1-2018 (*Fig. 8*). Consider the following:

(1) *A supercharged quarter.* On Friday, the Atlanta Fed's GDPNow model boosted the Q2-2018 real GDP growth rate to 4.8%. That's up from 4.7% on May 31. Here are the details: "The nowcasts for second-quarter real consumer spending growth and second-quarter real private fixed investment growth increased from 3.4 percent and 4.6 percent, respectively, to 3.5 percent and 5.4 percent, respectively, after the employment report from the U.S. Bureau of Labor Statistics, the construction spending report from the U.S. Census Bureau, and the Manufacturing ISM Report On Business from the Institute for Supply Management were released this morning."

(2) *Truckers lost and found.* The ATA Truck Tonnage Index rose solidly by 9.5% y/y to a record high in April (*Fig. 9*). It's been rising into record territory consistently since 2013. Its y/y growth rate is a good coincident indicator of real GDP growth, though the former is much more volatile than the latter (*Fig. 10*).

Could it be that all the chatter about the shortage of truck drivers is misguided? How else to explain the record high in truck tonnage? There is a good correlation between the ATA index and payroll employment of truckers (*Fig. 11*). Friday's employment report showed that payroll employment in the truck transportation industry has been stuck just below 1.5 million for the past six months, but it is at a record high and up 24,200 y/y.

Starting at the end of last year, a new federal rule requires all interstate truck drivers to install an electronic logging device, or ELD, that logs their hours. Truck drivers are required to reduce their overtime hours because fatigued ones have been involved in major crashes on the highways. That could exacerbate the perceived shortage of workers. The y/y growth rate in the average hourly earnings of truckers is very volatile, but April's increase of 2.5% was relatively subdued and belies the shortage-of-truckers chatter (*Fig. 12*).

(3) *Earned Income Proxy rising.* There has also been lots of chatter about a shortage of workers in other industries. Yet overall wage inflation remained moderate at 2.7% y/y during May. However, it continues to exceed price inflation, currently running around 2.0% recently.

According to the payroll survey, employers in the private sector managed to find 218,000 net new hires last month, a solid increase, for sure. According to the household survey, the number of full-time employees rose a whopping 904,000 last month to a new record high (*Fig. 13*). Manufacturers have increased average overtime weekly hours from 3.2 hours a year ago to 3.5 hours during May (*Fig. 14*).

Aggregate weekly hours worked for all private industries rose to a record 4.36 billion hours during May, up 2.2% y/y. Our Earned Income Proxy, which closely tracks wages and salaries in private industries, rose to yet another record high last month, as Debbie discusses below (*Fig. 15*). This augurs well for consumer spending in particular and GDP in general.

Movie. "Adrift" (+ +) (*link*) is based on the true story of a young couple hired by the owners of a sailboat to bring it across the Pacific Ocean from Tahiti to San Diego. A terrible storm damages the ship. I won't spoil the ending. But I do see parallels between the movie and the stock market last year and so far this year. It was certainly smooth sailing last year through late January of this year, when we ran into some significant storms. Will we survive them? I think so, if we keep our wits about us.

CALENDARS

US. Mon: Factory Orders -0.4%. **Tues:** Job Openings 6.543m, ISM & Markit NM-PMIs 58.0/55.7. (*Wall Street Journal* estimates)

Global. Mon: None. **Tues:** Eurozone Retail Sales 0.5%m/m/1.7%y/y, Eurozone, Germany, France, and Italy Composite PMIs 54.1/53.1/54.5/52.8, Eurozone, Germany, France, and Italy Nonmanufacturing PMIs 53.9/52.1/54.3/53.0, UK Composite & Nonmanufacturing PMIs 53.4/53.0, Japan Composite & Nonmanufacturing PMIs, China Nonmanufacturing PMI 52.9, RBA Cash Rate Target 1.50%, Draghi. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): The US MSCI index rose 0.5% last week, ranking eighth out of the 49 markets in a week when 13 countries rose in US dollar terms and the AC World ex-US index fell 0.9%. That compares to the index's 0.3% rise a week earlier, which ranked 10th as 13 markets rose and the AC World ex-US index fell 1.2%. All regions fell last week, but BRIC and EM Asia performed best with declines of 0.1%, followed by EMEA (-0.6), and EM Eastern Europe (-0.7). The underperforming regions relative to the AC World ex-US were: EM Latin America (-3.3), EMU (-1.4), and EAFE (-1.1). Greece was the best-performing country as it rose 5.7%, followed by Colombia (3.4), India (1.4), Norway (1.4), and New Zealand (1.1). Of the 24 countries that underperformed the AC World ex-US MSCI last week, Brazil fared the worst as it tumbled 4.8%, followed by Argentina (-4.4), Chile (-2.8), Malaysia (-2.7), and Jordan (-2.5). In May, the US MSCI rose 2.2%, ranking 4/44 and well ahead of the 2.8% decline for the AC World ex-US index as all regions fell. That compares to a 0.3% rise in April, when it ranked 27/44, behind the 1.3% gain for the AC World ex-US in a month when the emerging market regions underperformed. The best regions in May, albeit with declines: EM Asia (-1.5) and BRIC (-2.1). May's worst-performing regions: EM Latin America (-14.3), EMU (-5.7), EMEA (-5.2), EM Eastern Europe (-3.1), and EAFE (-2.8). On a ytd basis, the US MSCI improved w/w to a 2.5% gain from 1.9% a week ago, and rose five places in the ytd performance ranking to 7/49. The US MSCI is ahead of the AC World ex-US (-2.8) in the ytd period. None of the regions and just 15/49 countries are in positive territory ytd. EM Asia is down 0.1% so far this year and leads BRIC (-0.2) slightly. EM Latin America (-9.2) is biggest laggard relative to the AC World ex-US's performance, followed by EMEA (-7.6), EM Eastern Europe (-3.9), EMU (-3.1), and EAFE (-2.8). The best country performers ytd: Colombia (11.5), Finland (8.8), Peru (8.4), Jordan (6.5), China (4.1), and Israel (3.1). The worst-performing countries ytd: Argentina (-31.0), Turkey (-30.5), Hungary (-16.1), the Philippines (-16.0), and Poland (-16.0).

S&P 1500/500/400/600 Performance (*link*): All three of these market-cap indexes rose last week as SmallCap performed best with a gain of 1.1%, ahead of MidCap (0.6%) and LargeCap (0.5). SmallCap is down negligibly from its record high on Wednesday, by just 0.3%, but MidCap and LargeCap remain below their late-January record highs by more substantial amounts of 1.8% and 4.8%, respectively. Twenty-four of the 33 sectors rose in the latest week, up from 20 rising a week earlier. The best performers in the latest week: SmallCap Telecom (4.2), MidCap Energy (3.1), LargeCap Energy (2.5), MidCap Real Estate (2.3), and LargeCap Tech (2.1). LargeCaps dominated the biggest underperformers for the week: LargeCap Financials (-1.3), LargeCap Telecom (-0.9), LargeCap Industrials (-0.7), MidCap Financials (-0.6), and LargeCap Utilities (-0.6). All three market-cap indexes moved higher in May, up from two rising during April. SmallCap was the only index to rise for three straight months, while LargeCap rose for a second month. LargeCap rose a healthy 2.2% in May, but trailed SmallCap's 6.3% gain, its best in eight months, and MidCap's 4.0%—its strongest performance in 18 months. Twenty-seven of the 33 sectors advanced in May, up from 20 in April, 19 in March, and just one in February (the lowest since August 2015). May's best performers: MidCap Energy (9.3), SmallCap Health Care (9.2), SmallCap Tech (7.8), MidCap Health Care (7.7), and SmallCap Real Estate (7.6). May's biggest laggards: MidCap Telecom (-6.5), LargeCap Telecom (-2.3), LargeCap Consumer Staples (-1.8), and LargeCap Utilities (-1.7). LargeCap is now up 2.3% ytd, trailing MidCap's 3.0% and SmallCap's 8.5% gains. Twenty sectors are now positive to date in 2018, up from 18 week earlier and just three in early February. The best-performing sectors ytd: SmallCap Health Care (28.4), MidCap Health Care (15.6), MidCap Energy (14.7), LargeCap Tech (12.8), and SmallCap Energy (11.8). The worst performers ytd: LargeCap Consumer Staples (-13.5), LargeCap Telecom (-12.5), MidCap Telecom (-7.6), LargeCap Utilities (-5.4), SmallCap Real Estate (-5.2), and MidCap Consumer Staples (-5.0).

S&P 500 Sectors and Industries Performance (*link*): Five sectors rose last week as three outperformed the S&P 500's 0.5% gain. That compares to seven rising a week earlier, when seven outperformed the S&P 500's 0.3% rise. Energy was the best-performing sector with a 2.5% gain, ahead of the performances of Tech (2.1%) and Real Estate (1.7). Financials was the biggest underperformer with a drop of 1.3%, followed by Telecom (-0.9), Industrials (-0.7), Utilities (-0.6), Consumer Staples (-0.5), Materials (-0.1), Consumer Discretionary (0.2), and Health Care (0.4). The S&P 500 rose 2.2% in May as six sectors moved higher and three beat the index. That compares to five rising and four beating the S&P 500's 0.3% gain in April. The leading sectors in May: Tech (7.1), Industrials (2.7), and Energy (2.5). Telecom was the biggest laggard in May as it fell 2.3%, followed by Consumer Staples (-1.8), Utilities (-1.7), Financials (-1.1), Health Care (0.0), Materials (1.8), Consumer Discretionary (1.9), and Real Estate (2.0). Four sectors are in the plus column so far in 2018, down from nine in early March. These three sectors are ahead of the S&P 500's 2.3% ytd gain: Tech (12.8), Consumer Discretionary (7.8), and Energy (5.2). The eight ytd underperformers: Consumer Staples (-13.5), Telecom (-12.5), Utilities (-5.4), Real Estate (-4.3), Materials (-2.7), Financials (-1.9), Industrials (-1.1), and Health Care (0.7).

Commodities Performance (*link*): The S&P GSCI index fell 1.0% w/w as 15 of the 24 commodities we follow moved higher. That compares to last week's 1.4% drop, which was its biggest in seven weeks as 16/24 commodities rose. Last week's strongest performers: Cotton (4.6%), Nickel (4.4), Aluminum (2.2), and Coffee (2.0). Last week's biggest decliners: Kansas Wheat (-4.1), Cocoa (-3.8), Wheat (-3.6), and Corn (-3.6). May saw 17 of the commodities climb as the S&P GSCI Commodities index rose 1.2%, compared to 19 rising in April when the index rose 5.0%. May's best performers were led by Nickel (11.5), Cotton (11.1), Sugar (8.9), Lean Hogs (7.4), and Natural Gas (6.8). May's laggards: Cocoa (-13.1), Soybeans (-2.9), Crude Oil (-2.2), Live Cattle (-2.0), and Corn (-1.7). The S&P GSCI commodities index is up 7.8% ytd and near its highest level since December 2014, but remains 46.4% below its record high in July 2008 just before the financial crisis. The top performer so far in 2018 is Cocoa (29.9), Kansas Wheat (26.6), Wheat (22.5), Nickel (21.0), Unleaded Gasoline (19.4), and Cotton (18.7). The biggest laggards of 2018 to date: Sugar (-17.4), Live Cattle (-14.7), Zinc (-6.9), Copper (-4.8), and Silver (-4.1).

Assets Sorted by Spread w/ 200-dmas (*link*): That compares to last week's 1.4% drop, which was its biggest in seven weeks as 16/24 commodities rose. Last week's strongest performers: Cotton (4.6%), Nickel (4.4), Aluminum (2.2), and Coffee (2.0). Last week's biggest decliners: Kansas Wheat (-4.1), Cocoa (-3.8), Wheat (-3.6), and Corn (-3.6). May saw 17 of the commodities climb as the S&P GSCI Commodities index rose 1.2%, compared to 19 rising in April when the index rose 5.0%. May's best performers were led by Nickel (11.5), Cotton (11.1), Sugar (8.9), Lean Hogs (7.4), and Natural Gas (6.8). May's laggards: Cocoa (-13.1), Soybeans (-2.9), Crude Oil (-2.2), Live Cattle (-2.0), and Corn (-1.7). The S&P GSCI commodities index is up 7.8% ytd and near its highest level since December 2014, but remains 46.4% below its record high in July 2008 just before the financial crisis. The top performer so far in 2018 is Cocoa (29.9), Kansas Wheat (26.6), Wheat (22.5), Nickel (21.0), Unleaded Gasoline (19.4), and Cotton (18.7). The biggest laggards of 2018 to date: Sugar (-17.4), Live Cattle (-14.7), Zinc (-6.9), Copper (-4.8), and Silver (-4.1).

S&P 500 Technical Indicators (*link*): The S&P 500 price index rose 0.5% last week and improved relative to both its short-term 50-dma trend line and its long-term 200-dma. The index remained in a Golden Cross (50-dma higher than 200-dma) for an 109th 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 17th straight week to a 25-month low of 1.0% from 1.1%, 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 rose for the first time in three weeks, but has fallen in eight of the past 11 weeks. It had fallen for four weeks through mid-April for its worst performance since before the 2016 election. The index rose to 2.2% above its now-rising 50-dma from 1.9% above its falling 50-dma 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 to 3.3% above its rising 200-dma from 3.0% a week earlier. 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 four improve relative to both their 50-dmas and 200-dmas: Consumer Staples, Health Care, Real Estate, and Tech. Seven sectors now trade above their 50-dmas, down from eight a week earlier as Financials fell below in the latest week. Consumer Staples has been the worst performer recently with 18 weeks below its 50-dma, followed by Telecom (17 weeks below) and Utilities (three). 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, unchanged from a week earlier, as Health Care flipped back into positive territory and Materials fell below. That's up from just four sectors trading above their 200-dmas in early May, which matched the lowest count since January 2016. Telecom remained below its 200-dma in the latest week, where it's been for most weeks since April 2017. Sectors trading the longest above their 200-dmas: Tech (above 200-dma for 100 straight weeks), Consumer Discretionary (82 straight weeks), Financials (38 weeks, but barely so in the latest week), and Energy (eight weeks). Those trading below for a long time include: Consumer Staples was below for a 15th week, Real Estate below for a 22nd week, and Utilities below for a 24th 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. Four sectors are in a Golden Cross (50-dmas higher than 200-dmas), down from five a week earlier—and the lowest count since March 2016—as Industrials left the club in the latest week for the first time since April 2016. 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 a tenth week, Consumer Staples for a 12th, Real Estate for an 18th, and Utilities for a 20th. Health Care was out for only a fourth week, but for the first time since February 2017. Nine sectors have rising 50-dmas now, up from just three a week earlier, with Consumer Staples and Telecom the only decliners presently. 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 17th straight week and Telecom's for a 15th 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 21st week, Consumer Staples' dropped for a 15th week, and Telecom's fell for a fourth week, though it has been mostly declining since December 2016.

US ECONOMIC INDICATORS

Employment (*link*): Employment growth in May was stronger than expected, climbing above 200,000 for the first time in three months. Last month, 223,000 (vs 190,000 consensus estimate) were added to payrolls, while April's (to 159,000 from 164,000) gain was revised lower and March's (to 155,000 from 135,000) higher, for a net gain of 15,000. Private payrolls added 218,000 jobs last month—40,000 above ADP's count of 178,000, following a downwardly revised increase in April (162,000 from 168,000) and an upwardly revised advance in March (153,000 from 135,000), for a net gain of 12,000. The industries boosting May payrolls were a combination of both service-providing and goods-producing companies. Leading the former were retail trade (31,000), health care (29,000), professional & tech services (23,000), and transportation & warehousing (19,000). Within goods-producing, construction (25,000) and manufacturing (18,000) continued to post impressive gains—climbing 286,000 and 259,000, respectively, over the past 12 months. All these industries combined rose 145,000 last month, accounting for two thirds of May's 223,000 gain. Meanwhile, the breadth of job creation (percentage of private industries increasing payrolls) for the one-month (67.6%) and three-month (67.2%) spans were just shy of 70%.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, continued to climb to new record highs in May. Our EIP rose for the 17th time in 18 months, up 0.5% in May and 7.4% over the period. Average hourly earnings (AHE), one of the components of our EIP, keeps setting new highs, advancing 0.3% last month and 4.0% the past 18 months, while aggregate weekly hours—the other component—rose 0.2% and 3.4% over the period.

Unemployment (*link*): May's unemployment rate dropped to an 18-year low, sinking further below 4.0%—which it breached in April for the first time since December 2000. The rate fell to 3.8%, tying the lowest unemployment rate since 1969; the only other time the rate was this low was April 2000. Meanwhile, the participation rate declined for the third month from 63.0% in February to 62.7% last month; it has fluctuated in this narrow band for the past 2.5 years. Both the adult (3.4%) and teenage (12.8) unemployment rates fell to new cyclical lows in May, while the college grad (2.0) rate was back down at October's cyclical low. Those working part-time for economic reasons (a.k.a. "involuntary part-time workers") declined 212,000 the past three months to 4.9 million (3.1% of the civilian labor force). The sum of the underemployment and jobless rates (6.9) and the U6 rate (7.6)—which includes marginally attached workers—both sank to their lowest levels since May 2001.

Wages (*link*): May wage inflation—as measured by the average hourly earnings (AHE) rate for all workers on private nonfarm payrolls—was at 2.7% y/y. That's a tick up from 2.6% the prior three months, but down from 2.8% at the start of this year; it was at a recent low of 2.3% in October. The wage rate for goods-producing industries (2.3% y/y) was little changed for the sixth month, while the service-providing rate (2.8) remained in a volatile flat trend, moving near the top of its range. Within goods-producing, the manufacturing rate (1.5) held around April's 34-month low of 1.3%, while the construction (3.2) rate remained near April's 19-month high of 3.5%; the natural resources (2.3) rate was the highest since July 2016. Within service-providing, the rates for financial activities (5.6) and retail trade (2.9) are on steep accelerating trends, with the former matching its high for the series going back to March 2007. The rate for leisure & hospitality (2.5) remained on a downtrend, while wholesale trade's (1.6) rate has moved up from recent lows. Meanwhile, rates for utilities (3.1), professional & business services (2.3), transportation & warehousing (2.2), and education & health services (2.4) continued to move roughly sideways, with the latter two drifting toward the bottom of their respective ranges. The information services' rate (3.3) is in a volatile flat trend, near the bottom of its range.

Auto Sales (*link*): Motor vehicle sales in May fell for the second month, following a March rebound. Sales sank to 16.9mu (saar) last month after jumping from 17.1mu to 17.5mu in March. Sales reached a 12-year high of 18.6mu last September—boosted by consumers' replacement of flood-damaged vehicles in areas hit by the hurricanes. Domestic car sales remains the weakest segment of the market, unchanged at 3.9mu (saar) last month—which is the lowest reading since November 2010. These sales have been in a virtual freefall since peaking at 6.1mu (saar) during August 2014. Light-truck sales dipped from 9.6mu to 9.1mu (saar) the past two months—not too far from September's 9.7mu peak, which was the strongest showing since the summer of 2005. Meanwhile, sales of imports slipped to 3.9mu (saar) from 4.0mu in April—which was the strongest pace since summer 2009.

Construction Spending (*link*): Construction spending in April more than reversed March's decline, reaching a new record high. Total spending rebounded 1.8%, following a 1.7% drop in March, as private construction spending more than offset a decline in public construction expenditures. Private construction spending advanced for the fifth time in six months by 2.8% m/m and 6.9% over the period, to a new record high, while public construction spending retreated 1.3% after climbing seven of the previous eight months by 12.1%. Residential (4.5%) construction drove private construction spending higher in April, led by a double-digit gain in home-improvement (11.6) spending—to a new record high—along with a rebound in multi-family (3.6) spending after March's 4.3% decline; single-family investment was unchanged at March's cyclical high. Meanwhile, private nonresidential construction edged up 0.8% in April, to a new record high, after edging down 0.6% in March. This investment accelerated 5.3% y/y—the best in nearly a year—after dipping into negative territory from July through November of last year.

GLOBAL ECONOMIC INDICATORS

Global Manufacturing PMIs (*link*): Global manufacturing activity last month slowed to a nine-month low as new business expanded at the slowest pace since June 2017 and new export orders were lifeless. May's JP Morgan M-PMI fell for the fourth month since reaching a near-seven-year high of 54.5 in December, sinking to 53.1 in May. Developed nations (to 54.7 from 55.1) continued to record much stronger growth than emerging ones (51.1 from 51.3), though both have slowed since late last year to their lowest readings since September and July, respectively. Among the larger industrial nations, M-PMIs show the US (56.4 from 56.5) manufacturing sector outperformed the Eurozone's (55.5 from 56.2) for the second month, with the former virtually matching April's 3.5-year high, while growth in the latter was at a 15-month low. Within the Eurozone, M-PMIs for five of the eight nations covered registered slower rates of growth than in April—the Netherlands (60.3, 8-month low), Austria (57.3, 14-month low), Germany (56.9, 15-month low), Spain (53.4, 9-month low), and Italy (52.7, 18-month low). M-PMIs for Ireland (55.4, 3-month high), France (54.4, 3-month high), and Greece (54.2, 2-month high) all showed slightly faster growth last month. The UK's M-PMI (54.4 from 53.9) showed growth in its manufacturing sector accelerated from April's 17-month, while Japan's (52.8 from 53.8) eased to a seven-month low. Manufacturers in the emerging economies had little to cheer about last month. China's M-PMI (51.1) matched April's sluggish pace, while India's (51.2 from 51.6) held just above the breakeven point of 50.0—down sharply from December's reading of 54.8. Taiwan's (53.4 from 54.8) manufacturing sector posted its slowest growth in 11 months, while Brazil's (50.7 from 53.3) recent upturn slowed to near stagnation. Manufacturing activity in South Korea (48.4 from 48.9) contracted for the third straight month, while Russia's (49.8 from 51.3) contracted for the first time in 22 months.

US Manufacturing PMI (*link*): Manufacturing activity in May virtually matched April's 3.5-year high according to IHS Markit, while ISM's measure accelerated back toward February's 14-year high. The ISM M-PMI climbed to 58.7 last month after slipping the prior two months from 60.8 in February to 57.3 in April. All the index's components except inventories improved last month; inventories deteriorated for the third month, from 56.7 in February to 50.2—back near the breakeven level of 50.0. Both the new orders (to 63.7 from 61.2) and production (61.5 from 57.2) indexes moved higher in May, with the former above 60.0 for the 12th consecutive month; the latter moved back above 60.0 after falling below in April for the first time since May 2017. Meanwhile, foreign demand slowed a bit, with the new export orders (55.6 from 57.7) sub-index slipping further below 60.0—after moving above that threshold in February (62.8) for the first time since April 2011. Employment (56.3 from 54.2) accelerated after matching its low for the year in April, while the supplier deliveries (62.0 from 61.1) gauge was above 60.0 for the fourth straight month, at its highest reading since last September, signaling a lengthening in delivery times. The ISM price index climbed to 79.5—the highest since April 2011—as 94.4% of industries reported paying higher prices. IHS Markit's M-PMI barely budged, inching down to 56.4 in May after climbing to 56.5 in April—which was the fastest pace since September 2014 and well above the series' trend. According to the report, manufacturers are selling more than they can make: "The past two months have seen the strongest back-to-back improvements in order books since the fall of 2014, fueled by strengthening domestic demand. New orders have in fact now grown at a faster rate than output in each of the past five months, highlighting how producers have struggled to boost production to meet sales."

Eurozone CPI Flash Estimate (*link*): May's CPI rate is expected to accelerate to a 13-month high of 1.9%, according to the flash estimate, reaching the ECB's goal of just under 2.0% for the first time since April 2017. Looking at the main components, energy (6.1% from 2.6%) is expected to have the highest annual rate in May—more than double April's rate—followed by food, alcohol, and tobacco (2.6 from 2.4), and services (1.6 from 1.0); the rate for non-energy industrial goods (0.2 from 0.3) is expected to hold around zero. The core rate—which excludes energy, food, alcohol, and tobacco—is expected to accelerate to an eight-month high of 1.1% y/y from a 13-month low of 0.7% in April.

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