



MORNING BRIEFING

June 25, 2018

Europe's 'Meltdown Pot'

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

(1) Niall nails it. (2) Hooray, Greece is fixed (maybe)! (3) Anti-immigration fervor spreading in Europe, with talk of formation of an "axis" to combat the problem. (4) Merkel's coalition government could uncoalesce. (5) Closing up some borders. (6) The Bavarian connection. (7) Italy's new populist government wants to give immigrants the boot. (8) Eurozone PMs, production, and orders looking topky. (9) Darker days ahead? (10) Movie: "Jurassic World: Fallen Kingdom" (- -).

Europe I: Immigration Crisis. The European Union (EU) survived the Great Recession and the ensuing debt crisis only now to be possibly undone by an immigration crisis. At least that's what conservative British historian and commentator Niall Ferguson thinks. In a 6/18 opinion [piece](#) in the *South China Morning Post*, he referred to the EU as the "meltdown pot" and said he now sees immigration as the "fatal solvent" of the EU.

On Friday, there was lots of good news about Greece after Eurozone members provided the country with a last round of debt relief, which was widely held to mark the end of a decade of financial assistance and austerity. Still, a worrisome nationalistic, anti-immigration fervor is sweeping across EU member states, dominating the political discussion and threatening to destabilize the region. There is talk among some member states of forming a splinter "axis" group to address the refugee and asylum issue rather than look for an EU-wide solution, according to a 6/15 Reuters [report](#).

The root of the problem is the unrelenting wave of refugees seeking asylum from conflicts around the world, particularly in Africa and the Middle East. An uneven and inequitable response to the problem by EU member states and rules that place a greater burden on "front-line" countries such as Italy, Spain, and Greece have led to deep divisions and given rise to nationalist groups that are gaining in strength.

Recent elections in Europe have underscored how fraught the immigration issue has become:

(1) *In Germany*, the Alternative for Germany opposition party became the third-largest political party in 2017 and won seats in the Bundestag for the first time since it was founded in 2013. Two weeks ago, German Chancellor Angela Merkel faced a challenge on immigration policy by her interior minister—a member of the Bavarian Christian Social Union, a conservative sister party to Merkel's Christian Democratic Union.

(2) *In Italy*, a new coalition populist government formed by two anti-establishment parties, the League and the Five Star Movement, has made its anti-immigration agenda a top priority.

(3) *In Austria*, a new far-right populist anti-immigrant government, which is scheduled to take over the rotating six-month presidency of the EU in July, has vowed to cut benefits to immigrants and make passing a German language test a requirement to receiving benefits, in open defiance of EU rules. Austrian Chancellor Sebastian Kurz also favors doing away with quotas and establishing more secure borders, taking his lead from the Eastern Bloc countries such as Poland, Hungary, and the Czech

Republic, which have refused to accept refugees.

(4) *In Sweden*, the anti-immigration Sweden Democrats have been surging in the polls and have vowed to bring down any government that doesn't take a hard line on immigration in the elections scheduled for September 9.

Remember, too, that a key driver of the UK's 2016 Brexit vote to leave the EU was a repudiation of immigration policies. Ultimately, what's at stake is the [cornerstone](#) of EU citizenship that assures "freedom of movement and residence," especially within the 26 states that compose the Schengen area, which operates as a single jurisdiction without internal border controls. Since September 2015, some member states have reinstituted border checks in response to the heavy flow of refugees as well as the threat of terrorist attacks.

Italy's Interior Minister Matteo Salvini, who is also deputy prime minister, said that whether a united EU "still exists or not" will be decided within a year, adding that he's aware his stand on migration could topple German Chancellor Angela Merkel from power. He told German magazine *Der Spiegel*, published on Saturday, that talks on the EU's budget, as well as the European Parliament elections in 2019, will reveal "whether the whole thing makes no sense anymore."

All of this, of course, is unfolding in the EU as the Trump administration faces a backlash about its approach to discouraging illegal immigration along the border with Mexico.

Trump also may have started a multi-front trade war that is turning America's traditional allies in the EU into adversaries. On Friday, the President tweeted that he would place a 20% tariff on European cars, if the barriers on US exports of farm products "are not soon broken down." Volkswagen, BMW, and Daimler are the biggest European exporters of cars to the US, followed by Fiat Chrysler. Also on Friday, Europe retaliated for the administration's tariffs on steel and aluminum imports with tariffs on \$3.2 billion of US goods.

Immigration and trade issues may be starting to weigh on the EU's economy. I asked Sandra Ward, our contributing editor, to take a closer look at recent events involving immigration that have raised tensions and triggered concerns about the future of the EU.

Europe II: Mutiny in Germany. Germany is facing a political crisis over immigration, which could lead to the collapse of the three-month-old coalition government. Key points:

(1) *Master plan.* Interior Minister Horst Seehofer, a member of the Bavarian sister-party aligned with Merkel's CDU, broke ranks with the Chancellor and proposed closing the country's borders to some refugees as part of a broader "master plan" to stop illegal immigration, the Associated Press reported in a 6/13 [story](#). Refugees who had applied for asylum in other countries would be turned away at border crossings. Seehofer also said he backed Austrian Chancellor Sebastian Kurz's plan for an Italian-Austrian-German "axis" to solve the migration problem.

(2) *Bavaria first.* Seehofer's hardline stance comes ahead of Bavarian elections this fall. He's under pressure to win back votes from the far-right AfD party and revive his fading star after being ousted as CSU premier last year. A 6/15 Politico [story](#) recalled Seehofer at a CSU conference in November saying "Bavaria is our home, Germany is our fatherland, and Europe is our future," but adding "For us, Bavaria will always be first."

(3) *Concessions.* After first rejecting Seehofer's proposal outright, Merkel said she would try to negotiate bilateral deals on the asylum issue in advance of an EU summit this week with countries that

might be affected by the new policy. The CSU agreed to give her two weeks to find a pan-European solution, a 6/18 [piece](#) in the *FT* explained.

(4) *The risks*. If no deal emerges, Seehofer has said he would immediately order police to start turning people back at the border. Merkel has said his policy wouldn't automatically be implemented, suggesting that she might fire him if he acted over her objections. That could lead to the end of the CDU/CSU alliance and the collapse of the government.

(5) *Trump attack*. In the midst of this internal mutiny, Merkel had to contend with an unprecedented external attack on her government by an ally. US President Donald Trump tweeted that “the people of Germany are turning against their leadership as migration is rocking the already tenuous Berlin coalition,” a 6/18 [article](#) in the *Guardian* reported. His bid to undermine Merkel comes days after he phoned Hungarian Prime Minister Viktor Orban, an authoritarian and nationalist, to congratulate him on his reelection.

A 6/19 [article](#) on Bloomberg noted that Merkel pushed back, saying: “‘My answer is this: the interior minister recently presented federal crime statistics and they speak for themselves,’ Merkel said, describing ‘a slightly positive trend.’ ‘Of course, we always need to do more to fight crime,’ she added. ‘But the numbers certainly were encouraging to keep working along those lines to further reduce crime.’”

Europe III: Italy’s Age of Aquarius. Italy’s Interior Minister Salvini—the head of the far-right anti-immigrant League party—denied entry earlier this month to the *Aquarius*, a ship carrying 629 immigrants rescued off the coast of Libya. He called them “fake refugees,” according to a 6/17 [article](#) in the *NYT*. Salvini also vowed to block other rescue ships operating off Libya from entering Italian ports, singling out two humanitarian vessels operating under the Dutch flag, Bloomberg reported in a 6/16 [article](#).

(1) *The Vatican weighs in*. The action was criticized by the Vatican, with a 6/12 [report](#) in the *Economist* noting that Cardinal Gianfranco Ravasi, who serves as a kind of cultural ambassador, tweeted a line from the Gospel of St. Matthew: “I was a stranger and you did not invite me in.”

(2) *Southern port cities condemn move*. Mayors across southern Italy—Palermo, Naples, Messina, and Reggio Calabria—vowed to defy the action and allow the *Aquarius* to dock but were helpless to do so without the cooperation of the Italian coast guard, according to a 6/11 [story](#) in the *Guardian*.

(3) *Spain to the rescue*. Spain’s new socialist Prime Minister Pedro Sanchez agreed to accept the *Aquarius* into the port of Valencia, and after a week at sea, the ship disembarked on June 17 along with two others helping to transport the refugees to relieve overcrowded conditions. The *Aquarius*’ arrival in Spain coincided with the rescue of nearly 1,000 migrants crossing from Morocco in dinghies over the same weekend.

(4) *Bienvenue*. France’s President Emmanuel Macron said passengers from the *Aquarius* who wished to resettle in France would be welcomed. Macron accused Italy’s new government of exploiting the migration crisis for political gain and suggested it had violated international maritime law in preventing the *Aquarius* to dock, according to a 6/12 [piece](#) in the *FT*. Macron later urged Italy to work with France, Germany, and Spain to resolve migration issues, rather than aligning with the anti-immigration “axis” forming in the EU, explained Reuters in the 6/15 report linked above. Talk of an “axis” is a reminder of Europe’s darkest times, Macron cautioned at a news conference with the new Italian Prime Minister.

Europe IV: Eurozone’s Economy at Risk. Growth in the Eurozone has cooled this year after

expanding at the fastest pace in a decade during 2017. Economic expansion hit a one-and-a-half-year low in May, and June's flash estimate showed only a slight improvement in overall growth, according to the latest purchasing managers' survey. Other economic indicators are also showing a slowing so far this year:

(1) *Eurozone*. The Eurozone's M-PMI soared to a recent peak of 60.6 during December 2017 ([Fig. 1](#)). Since then, it has fallen to an 18-month low of 55.0, according to June's flash estimate. The region's NM-PMI is down from a recent high of 58.0 during January 2018 to 55.0 this month, slightly above May's recent low of 53.8. (Note: Germany and France are the only Big Four Eurozone economies that report flash estimates.)

(2) *Germany's* M-PMI is down from 63.3 during December 2017 to an 18-month low of 55.9 this month. That's still a strong reading, but let's see whether the downtrend continues over the summer months ([Fig. 2](#)). The country's NM-PMI is down from 57.3 to 53.9 over the past five months through June, though it did move higher this month.

(3) *France's* M-PMI also rose sharply last year, peaking at 58.8 during December 2017. Now it is back down to a 16-month low of 53.1 this month ([Fig. 3](#)). The NM-PMI is down from 60.4 last November to 56.4 this month, holding near May's 16-month low.

(4) *Italy's* M-PMI is down sharply from a recent peak of 59.0 during January 2018 to 52.7 last month ([Fig. 4](#)).

(5) *Spain's* M-PMI and NM-PMI continue to fluctuate at relatively solid readings above 50.0 ([Fig. 5](#)).

(6) *Real GDP and economic sentiment*. A somewhat brighter picture shows that the Eurozone's Economic Sentiment Indicator remained relatively high at 112.5 during May ([Fig. 6](#)). That's down from a recent high of 115.2 during December, but well above readings prior to the steep uptrend in this indicator since late 2016. By the way, this indicator has been highly correlated with the y/y growth rate in the region's real GDP.

(7) *Industrial production and orders*. April data for industrial output show that it was on an uptrend since mid-2016, but has stalled so far this year ([Fig. 7](#)). No surprise: The production data are following the lead of manufacturing orders, which are down 4.2% over the past four months through April ([Fig. 8](#)).

(8) *Retail sales*. So far, the recent peaking in manufacturing activity hasn't slowed retail sales at all in the Eurozone. The volume of such sales has been on a solid uptrend since early 2013, and has been making new record highs ever since March 2017 through early this year, and remains on that uptrend ([Fig. 9](#)).

(9) *MSCI metrics*. Our Blue Angels analysis for the EMU MSCI stock price index (in euros) shows that it has stalled since mid-2017, while forward earnings remains in a recovery mode since mid-2016 ([Fig. 10](#) and [Fig. 11](#)). The index's forward revenues has also stalled since mid-2017 ([Fig. 12](#)).

Chris Williamson, the chief business economist of IHS Markit, which compiles the PMIs discussed above, noted in the 6/5 IHS Markit [report](#): "With the economic indicators turning down at the same time as political uncertainty has spiked higher, the Eurozone's outlook has darkened dramatically compared to the sunny forecast seen at the start of the year."

Darker days may be ahead if the immigration issue continues to divide the EU and if Trump persists in raising the ante in his protectionist campaign against America's major trade partners in the region and

around the world.

Movie. “Jurassic World: Fallen Kingdom” (- -) ([link](#)) is the fifth of the Jurassic film franchise. It's entertaining if you like visiting Disney on a regular basis and riding the same rollercoaster ride over and over again. The novelty does wear off. There's still lots of debate about what caused the extinction of dinosaurs. There's no debating Spielberg's great success in bringing them back. The film raises an interesting ethical question: Is killing dinosaurs akin to cruelty to animals and a violation of their rights? Let's wait for the next installment to see how Spielberg resolves the debate.

CALENDARS

US. Mon: New Home Sales 665k, Dallas Fed General Activity Index 27.0, Chicago Fed National Activity Index 0.37. **Tues:** Consumer Confidence 128.1, Richmond Fed Manufacturing Index 16, S&P CoreLogic Case-Shiller HPI 0.5%*m/m*/6.8%*y/y*, Bostic. (*Wall Street Journal* estimates)

Global. Mon: Germany Ifo Business Climate, Current Assessment, and Expectation Indexes 101.8/105.6/98.0, Japan Leading & Coincident Indicators. **Tues:** None. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index fell 0.9% last week, ranking 22nd out of the 49 markets in a week when 12 countries rose in US dollar terms and the AC World ex-US index fell 1.3% for its seventh decline in nine weeks. That compares to the US MSCI's 0.1% rise a week earlier, which ranked 12th as 12 markets rose and the AC World ex-US index declined 0.9%. Most regions fell last week, but EM Latin America performed best with a gain of 0.5%, followed by EM Eastern Europe (0.3%), EMEA (-0.1), and EAFE (-1.0). The underperforming regions relative to the AC World ex-US were: EM Asia (-3.0), BRIC (-2.3), and EMU (-1.8). Greece was the best-performing country as it rose 2.9%, followed by Turkey (2.8), Mexico (2.6), and Australia (2.1). Of the 26 countries that underperformed the AC World ex-US MSCI last week, Pakistan fared the worst as it tumbled 7.9%, followed by the Philippines (-6.6), Thailand (-5.4), and Indonesia (-4.6). On a ytd basis, the US MSCI fell w/w to a 3.4% gain, but improved two places in the ytd performance ranking to 6/49. The US MSCI is ahead of the AC World ex-US (-4.2) in the ytd period as 39/49 countries and all other regions are in negative territory ytd. BRIC leads all regions with a decline of 3.2% so far this year and is ahead of EAFE (-3.4), EM Asia (-3.4), and EMU (-3.9). EM Latin America (-13.7) is biggest laggard relative to the AC World ex-US's performance, followed by EMEA (-10.0) and EM Eastern Europe (-6.8). The best country performers ytd: Finland (6.3), Colombia (6.2), Jordan (6.1), Israel (5.1), and Peru (4.8). The worst-performing countries ytd: Argentina (-34.6), Turkey (-33.1), the Philippines (-23.7), and Brazil (-19.2).

S&P 1500/500/400/600 Performance ([link](#)): Two of these three market-cap indexes fell last week, but SmallCap rose for an eighth straight week. SmallCap's 0.3% gain was ahead of the declines for MidCap (-0.1%) and LargeCap (-0.9), although SmallCap is down 0.9% from its record high on Wednesday. MidCap is down 0.6% from its record high on June 12, which was among its first since late January. LargeCap remains 4.1% below its late-January record high. Sixteen of the 33 sectors rose in the latest week, down from 17 rising a week earlier and the lowest count in 11 weeks. The best performers in the latest week: SmallCap Energy (5.4%), MidCap Energy (5.1), SmallCap Utilities (3.8), MidCap Utilities (2.8), and SmallCap Real Estate (2.8). LargeCap Industrials' 3.4% decline was the biggest underperformance for the week, followed by: LargeCap Materials (-2.1), MidCap Tech (-1.6), SmallCap Tech (-1.6), and MidCap Industrials (-1.5). LargeCap is now up 3.0% ytd, trailing MidCap's 4.7% and SmallCap's 11.4% gains. Twenty-one sectors are now positive to date in 2018, up from 20 a week earlier and up from just three in early February. The best-performing sectors ytd: SmallCap

Health Care (32.6), MidCap Health Care (21.7), MidCap Energy (14.5), LargeCap Consumer Discretionary (12.9), and LargeCap Tech (12.6). The worst performers ytd: LargeCap Telecom (-11.9), LargeCap Consumer Staples (-9.7), LargeCap Industrials (-4.3), LargeCap Utilities (-3.7), and LargeCap Materials (-3.3).

S&P 500 Sectors and Industries Performance ([link](#)): Four sectors rose last week and seven outperformed the S&P 500's 0.9% decline. That compares to five rising a week earlier, when five outperformed the S&P 500's relatively flat performance. Utilities and Real Estate were the best-performing sectors with gains of 2.5%, ahead of the performances of Energy (1.5%), Consumer Staples (0.1), Telecom (-0.5), Health Care (-0.7), and Consumer Discretionary (-0.7). Industrials was the biggest underperformer with a drop of 3.4%, followed by Materials (-2.1), Financials (-1.4), and Tech (-1.3). Just four sectors are in the plus column so far in 2018, unchanged from a week earlier and down from nine in early March. Just three sectors are ahead of the S&P 500's 3.0% ytd gain, two of them substantially so: Consumer Discretionary (12.9), Tech (12.6), and Energy (4.2). The eight ytd underperformers: Telecom (-11.9), Consumer Staples (-9.7), Industrials (-4.3), Utilities (-3.7), Materials (-3.3), Financials (-3.0), Real Estate (-2.0), and Health Care (2.8).

Commodities Performance ([link](#)): The S&P GSCI index rose 1.7% w/w for its first gain in five weeks and its biggest in 10 weeks as 10 of the 24 commodities that we follow moved higher. That compares to the prior week's 2.6% drop—the worst in 18 weeks—during a week when just 3/24 commodities rose. Last week's strongest performers: Crude Oil (5.8%), Brent Crude (3.1), Unleaded Gasoline (2.1), and Heating Oil (1.9). Last week's biggest decliners: Kansas Wheat (-5.4), Zinc (-5.2), Cotton (-5.1), Lean Hogs (-3.7), and Copper (-3.2). The S&P GSCI commodities index is up 6.6% ytd and near its highest level since December 2014, but remains nearly 50% below its record high in July 2008 just before the financial crisis. The top performer so far in 2018 is Cocoa (32.9), followed by Nickel (19.6), Kansas Wheat (18.3), Wheat (18.1), and Unleaded Gasoline (14.4). The biggest laggards of 2018 to date: Sugar (-18.1), Live Cattle (-12.9), Zinc (-12.2), Coffee (-7.3), and Copper (-6.1).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 10/24 commodities, 2/9 global stock indexes, and 14/33 US stock indexes, compared to 4/24 commodities, 3/9 global stock indexes, and 16/33 US stock indexes rising a week earlier. Commodities' average spread fell w/w to 2.7% from 3.6%. Thirteen commodities trade above their 200-dmas, down from 16 a week earlier. Nickel leads all commodities at 17.4% above its 200-dma, followed by Brent Crude (12.6%) and Crude Oil (11.9), which soared 5.4ppts for last week's best performance among commodities and all assets. Zinc trades at 9.8% below its 200-dma, the lowest of all commodities now, but Kansas Wheat (6.6) tumbled 6.5ppts for the worst performance among commodities and all assets. The global indexes trade at an average of 2.8% below their 200-dmas, down from 1.2% below in the prior week. Three of the nine global indexes trade above their 200-dmas, down from four a week earlier. Canada (3.9) now leads the global indexes, having gained 0.7ppt last week for the best w/w improvement among global assets. Brazil (-10.9) is the biggest laggard among global indexes and all assets, followed by China (-9.1), which dropped 3.5ppts w/w for the biggest decline among global indexes. The US indexes trade at an average of 5.2% above their 200-dmas, with 26 of the 33 sectors above, up from 5.1% a week earlier, when 26 sectors were above. SmallCap Health Care (22.5) continues to lead the US stock indexes and all assets, but SmallCap Energy (11.4) rose 5.1ppts w/w for the biggest gain among US stock indexes last week. LargeCap Telecom (-5.0) trades the lowest among all US stock indexes, but LargeCap Industrials (-2.8) fell 3.5ppts w/w for the worst performance among US stock indexes.

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index dropped 0.6% last week and weakened relative to both its short-term 50-day moving average (50-dma) trend line and its long-term 200-dma for the third time in the five weeks. The index remained in a Golden Cross (50-dma higher than 200-dma)

for a 113th straight week (after 17 weeks in a Death Cross) as the index's 50-dma relative to its 200-dma improved for a second week following 17 weeks of deterioration. The current Golden Cross reading of 1.7% is up from 1.5% a week earlier, but still well below its 55-month high of 7.2% in early February; these compare to its 25-month low of 1.0% at the end of May and four-year low of -4.5% in March 2016. The S&P 500's 50-dma rose for a fourth week, but has fallen in eight of the past 14 weeks. It had fallen for four weeks through mid-April for its worst performance since before the 2016 election. The index fell to a six-week low of 1.4% above its rising 50-dma—just half the 2.8% level it held a week earlier—and is down from an 18-week high of 3.4% at the beginning of June. 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 successfully tested its 200-dma in early April, but weakened to 3.2% above its rising 200-dma in the latest week; that's down from 4.4% a week earlier and down from an 11-week high of 4.6% in early June. Those readings compare to 0.6% below the index's rising 200-dma on April 3 (the lowest reading since June 2016), a seven-year high of 13.5% above its 200-dma on January 29, and 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 their 50-dmas and 200-dmas: Consumer Staples, Energy, Real Estate, and Utilities. Six sectors now trade above their 50-dmas, down from seven week earlier, as three (Industrials, Materials, and Telecom) moved below in the latest week and two (Energy and Utilities) moved above. All 11 sectors had been trading below their 50-dmas at the end of March (a first since February 2016). The longer-term picture—i.e., relative to 200-dmas—shows 5/11 sectors trading above, down from six a week earlier as Industrials and Materials fell into negative territory and Real Estate turned positive. That's up from just four sectors trading above their 200-dmas in early May (which matched the lowest count since January 2016). Financials was below its 200-dma for a second week and for the first time in 10 months after being mostly above since early 2016. Telecom remained below its 200-dma in the latest week, where it's been for most weeks since April 2017, and Utilities was below for a 27th straight week. Sectors trading the longest above their 200-dmas: Tech (above 200-dma for 103 straight weeks), Consumer Discretionary (85 straight weeks), and Energy (11 weeks). Those trading below for a long time include: Consumer Staples (below for an 18th week), Telecom (14th week), and Utilities (27th 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). Just four sectors are in a Golden Cross (with 50-dmas higher than 200-dmas), unchanged from a week earlier and the lowest count since March 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 12th week, Consumer Staples for a 14th, Real Estate for a 20th, and Utilities for a 22nd. Health Care was out for only a sixth week, but for the first time since February 2017. Seven sectors have rising 50-dmas now, down from eight a week earlier. Utilities' 50-dma began rising this week. Financials and Industrials joined Consumer Staples and Telecom as the only members of the declining 50-dma club. That compares to all 11 sectors with falling 50-dmas during early April (the worst count since before the election in November 2016). Consumer Staples' 50-dma fell last week for a 20th straight week and Telecom's for an 18th week. Seven sectors have rising 200-dmas, unchanged from a week earlier, and up from six in early February, which was the lowest since May 2017. The 200-dma for Utilities fell for a 24th straight week, Consumer Staples' dropped for an 18th week, and Telecom's fell for a seventh week, though it has been mostly declining since December 2016.

US ECONOMIC INDICATORS

Leading Indicators ([link](#)): The Leading Economic Index (LEI) continued to hit new record highs in May, advancing for the eighth consecutive month; it hasn't posted a decline in two years. May's 0.2% gain was half the 0.4% increase posted in each of the prior two months. "The U.S. LEI still points to solid

growth but the current trend, which is moderating, indicates that economic activity is not likely to accelerate,” said Ataman Ozyildirim, director of business cycles and growth research at the Conference Board. Of the 10 components, seven contributed positively last month; building permits (-0.14ppt), the average workweek (-0.13), and jobless claims (-0.06) were the only negative contributors, though the latter will likely boost June’s LEI. Driving May’s gain were the ISM new orders diffusion index (0.17), interest rate spread (0.14), consumer expectations (0.12), stock prices (0.07), and the leading credit index (0.07).

Coincident Indicators ([link](#)): Coincident Economic Index (CEI) also hit another new high in May; it has posted only one decline since January 2014. The CEI advanced for the eighth time in nine months, climbing 0.2% in May and 1.9% over the period; it’s up 9.0% since January 2014. Three of the four components contributed positively last month: 1) Nonfarm payroll employment continued to head straight up to new record highs. May’s 223,000 increase was above the average monthly gain of 207,400 so far this year. 2) Real personal income—excluding transfer payments—rose for the ninth time in 11 months, by a total of 1.9% over those months, to another new high. 3) Real manufacturing & trade sales increased for the 12th time in 13 months, by 0.3% m/m and a total of 4.1% over the period, setting new record highs along the way. 4) Industrial production—which was the biggest positive contributor the previous three months—was the sole negative contributor last month. However, it slipped only 0.1% in May after climbing six of the prior seven months by a total of 4.1% to a new record high.

Regional M-PMIs ([link](#)): Two Fed districts have reported on manufacturing activity for June—New York and Philadelphia—and they show growth remained robust. This month’s surveys show growth in the New York region accelerated, while Philly’s slowed from May’s heady pace. We average the composite, orders, and employment measures as data become available. The composite index (to 22.5 from 27.3) wasn’t far from its recent high of 28.5 recorded in October—which was the best reading since July 2004. The New York (to 25.0 from 20.1) region expanded at its fastest pace since October, while growth in the Philadelphia (19.9 from 34.4) region slowed from May’s vigorous pace—which was the fastest in a year. The new orders gauge (19.6 from 28.3) slowed from May’s pace—which was the fastest since July 2004—as orders growth in the Philly (17.9 from 40.6) region slowed more than New York’s (21.3 from 16.0) accelerated; the former’s was at a 45-year high in May. The employment measure (24.7 from 19.5) recorded its best showing in the history of this series going back to 2001, as manufacturers in both the Philadelphia (30.4 from 30.2) and New York (19.0 from 8.7) regions added to factories at a robust rate—Philly’s at nearly double New York’s pace.

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates ([link](#)): US manufacturers reported in June that private-sector growth remained strong, despite a slowdown in manufacturing, according to the flash estimates. June’s C-PMI ticked down to 56.0 this month after climbing from 54.2 in March to a 37-month high of 56.6 in May. The M-PMI slumped to a seven-month low of 54.6, down from April’s 43-month high of 56.5. According to the report, manufacturing production growth slipped to a nine-month low, reflecting weaker gains in new business volumes in June, while the latest upturn in new work was the softest since September 2017, partly reflecting a slight drop in export sales. The NM-PMI (to 56.5 from 56.8) virtually matched May’s three-year high, as higher levels of service-sector activity were supported by another marked rise in new work and a solid rate of job creation in June. The report highlighted stronger inflationary pressures for both input and output prices.

Eurozone PMI Flash Estimates ([link](#)): Eurozone activity picked up a bit this month, according to flash estimates, after posting its weakest growth in 18 months in May, on a slight improvement in the services sector. May’s C-PMI climbed to 54.8 this month after easing steadily from a 139-month high of

58.8 at the start of this year to 54.1 by May, as the NM-PMI's flash estimate rose to 55.0 after falling from a January peak of 58.0 to 53.8 in May. Growth in the manufacturing sector continued to slow, falling for the sixth month from 60.6 in December to a 19-month low of 55.0 this month—still a respectable showing. The report notes: “The June uptick could be at least in part explained by business returning to normal after an unusually high number of public holidays in May, suggesting that the underlying trend remains one of slower growth.” By country, C-PMIs showed growth accelerated in both France (to 55.6 from 54.2) and Germany (54.2 from 53.4) this month. In France, the NM-PMI (56.4 from 54.3) climbed to a two-month high, while the M-PMI (53.1 from 54.4) fell to a 16-month low. Likewise, in Germany the NM-PMI (53.9 from 52.1) climbed to a three-month high, while the M-PMI (55.9 from 56.9) sank to an 18-month low. Meanwhile, across the rest of the Eurozone, growth picked up momentum for the second month running, but saw the weakest calendar quarter since the end of 2016.

Japan M-PMI Flash Estimate ([link](#)): Japan's manufacturing sector this month held around May's pace—which was the slowest since October 2017—according to the flash estimate. The M-PMI ticked up to 53.1 this month after falling from 53.8 to 52.8 last month; it peaked at 54.8 at the start of this year. Output growth accelerated despite a slowing in new business, with export orders moving from expansion to contraction. Still, manufacturers added to payrolls at a faster pace during the month. Meanwhile, inflationary pressures intensified.

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