Yardeni Research

MORNING BRIEFING
July 9, 2018

Somebody Had Better Blink Soon

See the collection of the individual charts linked below.

(1) Trump's dogs of war are no longer just barking. They are biting. (2) Trump considering tariff on all Chinese imports. (3) Hedge clause ("barring a trade war") is no longer a hypothetical threat. (4) Markets are saying China has more to lose than US. (5) Dr. Copper raising odds of recession in China. (6) US imports from China are three times greater than US exports to China. (7) Emerging market economies suffer collateral damage. (8) US yield curve reflects global flight to US quality. (9) Will Europeans blink on auto tariffs? (10) Is there method to Trump's madness on trade? (11) Trucking index rose to record high in US during May. (12) Movie review: "Won't You Be My Neighbor?" (+ + +).

Trade War I: Rising Recession Odds. The saber-rattling turned into a trade war between the US and China on Friday. That's when the Trump administration slapped a 25% tariff on $34 billion of goods imported from China. It was imposed on Chinese machinery, medical instruments, aircraft parts, and other goods—to punish China for years of intellectual property theft.

Beijing immediately retaliated by targeting mostly US farm products, seafood, and autos—also valued at $34 billion—to be taxed at the same rate or higher. Indeed, China raised its tariffs on the US automotive sector, and they are now 40% on vehicles that are mostly built by BMW, Daimler, and Ford.

Trump is considering targeting another $16 billion of Chinese imports for the levy. Last Thursday on *Air Force One*, Trump suggested that the final tariff total could exceed $500 billion, almost the same amount that the US imported in total last year. China's Commerce Ministry accused the US of "bullying" and igniting "the largest trade war in economic history."

Somebody had better blink soon because the risk of a recession caused by a widening trade war just increased significantly. Until Friday, our house view at Yardeni Research has been that the prospects for the US economy and the outlook for the US stock market remain upbeat. That assessment came with a hedge clause: "barring a trade war." That clause is no longer a hypothetical risk.

China may be more at risk of falling into a recession than the US. If so, then the Chinese government may blink and make concessions to get Trump's dogs of war to back off and stop their barking and biting. That would trigger a huge relief rally in global stock markets. But that's not a sure bet. Instead, the war could escalate. Consider the following recent and relevant developments:

(1) *Copper flashing Code Red for Red China.* Dr. Copper raised the odds of a recession in recent days. The metal with a PhD in economics dropped 14.6% to 281.3 cents per pound from its June 8 peak through Friday, to the lowest level in a year (*Fig. 1*). China alone accounts for around 40% of global copper demand, closely tying copper's price to the health of the world's second-largest economy.

Copper is one of the 13 components of the CRB raw industrials spot price index, which is our favorite indicator for tracking global economic activity (*Fig. 2*). So far, the index is holding up reasonably well under the circumstances.

The price of copper is also highly correlated with the price of a barrel of Brent crude oil (*Fig. 3*). The price of oil remains strong, reflecting the resilience of the global economy (so far). Of course, Venezuela is exporting much less oil, and Iran's oil exports soon will be depressed as a result of Trump's sanctions imposed on the country. On the other hand, US crude oil production soared to a record 11.0 mbd at the end of June, up 1.6 mbd from a year ago and 2.5 mbd from two years ago (*Fig. 4*).

(2) *China addicted to exporting to US and stealing US technology.* Over the past 12 months through May, US merchandise trade data show that the US imported $523.0 billion from China (21.5% of total US imports) and exported only $133.7 billion to China (8.3% of total US exports) (*Fig. 5*). The resulting deficit of $389.3 billion accounted for 47.5% of the US trade deficit over the past 12 months (*Fig. 6*).

Chinese data show that exports to the US totaled $473.3 billion over the past 12 months through May, accounting for 18.7% of Chinese exports over that same period (*Fig. 7*).

It may be that the biggest downside for China in Trump's new world order is losing ready access to US technological innovations. Trump's biggest beef with China is unfair trade practices that have allowed the Chinese essentially to steal US technology by requiring US companies seeking to produce in China to form joint ventures with local companies. This issue may take a long while to resolve to the satisfaction of the Trump administration.

(3) *Financial markets starting to reflect relative pain.* In addition to the recent swoon in the price of copper, China's Shanghai-Shenzhen 300 (in yuan) dropped 4.2% last week and is down 16.5% ytd (*Fig. 8*). There's a reasonably good (though not great) correlation between the China MSCI stock price index (in yuan) and the price of copper (*Fig. 9*). The former is down 4.4% ytd, while the latter is down 14.2% ytd. Both dropped sharply last week.

Meanwhile, the S&P 500/400/600 stock price indexes are up 3.2%, 4.7%, and 12.1% ytd. The significant outperformance of US stock market indexes relative to the Chinese stock price indexes suggests that investors believe that China has more to lose in a trade war than does the US.

(4) *Collateral damage in emerging economies.* The price of copper is also highly correlated with the Emerging Markets MSCI stock price index (in local currency) (*Fig. 10*). The latter is down 4.7% ytd. That's not surprising since China is included in the former. So far, China's M-PMIs and NM-PMIs show no evidence of an economic slowdown through June. More broadly, these indexes for emerging market economies edged up in June, but are down from recent highs at the beginning of this year (*Fig. 11* and *Fig. 12*).

(5) *Flat yield curve in US reflecting more alarm abroad than at home.* Proliferating protectionism certainly helps to explain why the 10-year US Treasury bond yield remains around 3.00% since the start of this year despite two hikes in the federal funds rate. As a result, the yield spread between the 10-year and 2-year Treasuries fell to 29 bps on Friday, the lowest since August 8, 2007 (*Fig. 13*). Coinciding with the relative calm in the US bond market has been the strength of the dollar (*Fig. 14*). This suggests that there has been a flight to quality by global investors to the benefit of US Treasuries and blue-chip US stocks.

Trade War II: Blinking Europeans? Earlier this year, on March 1, Trump said he would impose duties on foreign steel and aluminum imports (which were implemented on May 31), drawing the ire of the European Union and Canada, which fret that he may go after automakers next. Last week came signs that European leaders may be willing to negotiate a deal that would cut existing European tariffs on American cars in an effort to head off a widening of the trade war.

Trump has threatened to impose tariffs of 20%-25% on auto imports. He has asked the Commerce Department to study whether vehicle imports threaten national security, the same argument that the US used to impose steel and aluminum tariffs. US cars are subject to a 10.0% tariff when they are exported to Europe, compared with a US tariff of 2.5%. The US, however, also has a special tariff on pickup trucks of 25.0%.

According to CNBC, the US exported 267,000 autos to China last year and has a trade surplus of $6.4 billion in the auto sector with China, but it has a deficit of about $32 billion in the automotive sector with Europe. Furthermore: "Analysts note that the irony is that Daimler and BMW manufacture vehicles in the U.S., as do Japanese manufacturers Honda, Toyota and Subaru. Mercedes-Benz U.S. International says on its website that it manufactures 286,000 vehicles at its Tuscaloosa, Alabama, plant, exporting them to 135 countries last year. It says it exported 70 percent of the SUVs it produces, making it the second largest exporter in the U.S."

Trade War III: Method to Trump's Madness? In a 3/2 tweet, Trump declared: "When a country (USA) is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win. Example, when we are down $100 billion with a certain country and they get cute, don't trade anymore—we win big. It's easy!"

Trump is betting that the trade skirmish will prompt American companies to return operations to the US. He must also believe that the US economy can absorb protectionist shocks better than the economies of our major trading partners. If so, then according to his script, they should fold 'em, while he holds 'em.

There may be method to what is widely believed to be Trump's madness about protectionism. Trump's protectionist campaign started on January 22, when tariffs were slapped on solar panels and washing machines. A month earlier, he signed the Tax Cuts and Jobs Act on December 22 of last year. That legislation certainly provided a fiscal boost to the economy, which may very well absorb the shock of Trump's "art of the deal" applied to trade negotiations.

Previously, I've observed that no other President in the past has been simultaneously more bullish (tax cuts) and bearish (tariffs) than President Trump. That's why the S&P 500 has been zigzagging all year. At the same time, the US economy has been strengthening. Consider the following recent developments:

(1) *Pedal to the metal.* The American Trucking Association reported that the ATA truck tonnage index rose 7.8% y/y to yet another new record high during May (*Fig. 15*). That's remarkable given all the chatter about a shortage of truckers. Over the past 12 months through June, payroll employment in the truck transportation industry rose 25,000 to 1.48 million, matching March's record high. Yet average hourly earnings for truck drivers remains relatively subdued at 2.3% y/y (*Fig. 16*).

(2) *Lots of jobs.* As Debbie discusses below, private payroll employment is up 2.36 million over the past year through June. Our Earned Income Proxy for private-sector wages and salaries is up solidly, by 4.9% y/y through June.

Trade War IV: The Fog of War. The risk is that the first round of trade skirmishes escalates into a widespread trade war. The Chinese might not blink. As the 7/5 Bloomberg observed:

“China also has other ways to retaliate by going after U.S. companies such as Apple Inc. and Walmart Inc., which operate in its market and are keen to expand. It could introduce penalties such as customs delays, tax audits and increased regulatory scrutiny, while more drastic steps include devaluing the yuan or paring $1.2 trillion holdings of U.S. Treasuries.

“Beijing has shown little interest in making fundamental changes to its economic model. President Xi Jinping has balked at U.S. demands to stop subsidizing Chinese firms under his plan to make the nation a leader in key technologies by 2025.

“The strength and size of both economies means the fight could rage on for years.”

Movie. “Won't You Be My Neighbor?” (+ + +) (*link*) is a remarkable documentary about Fred Rogers, the creator, host, music composer, and director of “Mister Roger’s Neighborhood” from 1968-2001. It was a television program aimed at preschool children. Instead of bombarding his target audience with clowns (slapstick) and superheroes (violence), he focused on themes of self-esteem, kindness, and love using mostly hand puppets. The rarity of his approach is a stark reminder of how these pillars of civility have crumbled in recent years.

CALENDARS

US. Mon: Consumer Credit $12.4b. **Tues:** NFIB Small Business Optimism Index 106.0, Job Openings 6.700m. (*Wall Street Journal* estimates)

Global. Mon: Eurozone Sentix Investor Confidence 9.0, Germany Trade Balance €20.2b, China Foreign Direct Investment, Draghi, Kuroda. **Tues:** Germany ZEW Survey Current Situation & Expectations 78.2/-18.5, UK Headline & Manufacturing Industrial Production 1.9%/1.9% y/y, UK Trade Balance £3.38b, UK Statistics Office Publishes First Monthly Estimate of GDP, Japan Machine Orders -5.0%m/m/10.2%y/y, China New Yuan Loans 1520b, China Aggregate Financing 1400b, China CPI & PPI 1.9%/4.5% y/y. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): The US MSCI index rose 1.5% last week, ranking 21st out of the 49 markets in a week when 32 countries rose in US dollar terms and the AC World ex-US index edged up 0.2% for its third gain in 11 weeks. That compares to the US MSCI’s 1.4% drop a week earlier, which ranked 31st as 16 markets rose and the AC World ex-US index declined 1.1%. EMU performed best with a gain of 2.0%, followed by EM Latin America (1.9%), EM Eastern Europe (1.8), EMEA (1.7), and EAFE (0.6). The underperforming regions relative to the AC World ex-US were EM Asia (-1.8) and BRIC (-1.2). Argentina was the best-performing country as it rose 7.1%, followed by Mexico (5.6), the Czech Republic (4.0), and Spain (4.0). Of the 17 countries that underperformed the AC World ex-US MSCI last week, Pakistan fared the worst as it fell 3.7%, followed by Sri Lanka (-2.6), and Korea (-2.5). On a ytd basis, the US MSCI rose w/w to a 3.5% gain, but dropped one place in the ytd performance ranking to 8/49. The US MSCI is ahead of the AC World ex-US (-5.1) in the ytd period; 37/49 countries and all other regions are in negative territory ytd. EMU leads all regions with a decline of 3.1% so far this year, putting it ahead of EM Eastern Europe (-3.6) and EAFE (-4.0). EM Latin America (-10.8) is biggest laggard relative to the AC World ex-US’s performance, followed by EM Asia (-7.6), EMEA (-7.4), and BRIC (-6.8). The best country performers ytd: Colombia (11.6), Finland (7.2), Israel (6.2), Peru (5.8), and Norway (4.2). The worst-performing countries ytd: Argentina (-42.1), Turkey (-30.5), the Philippines (-22.1), Indonesia (-22.1), and Brazil (-18.0).

S&P 1500/500/400/600 Performance (*link*): All three market-cap indexes rose last week, but

SmallCap's 3.2% surge was bigger than those for MidCap (1.9%) and LargeCap (1.5). SmallCap is down 0.2% from its record high on June 20 while MidCap is 0.7% below its June 12 record. LargeCap is the biggest laggard, down 3.9% from its record high on January 26. Thirty-two of the 33 sectors rose in the latest week, up from just eight rising a week earlier which was the lowest count since early April. The best performers in the latest week: SmallCap Telecom (5.1), SmallCap Tech (4.6), MidCap Telecom (4.4), and SmallCap Utilities (4.2). LargeCap Energy (-0.3) was the sole decliner this week, followed by these underperformers: MidCap Energy (0.2), LargeCap Financials (0.3), LargeCap Materials (0.6), and LargeCap Industrials (0.7). LargeCap is now up 3.2% ytd, trailing MidCap's 4.7% and SmallCap's 12.1% gains. Twenty-six sectors are now positive to date in 2018, up from 21 a week earlier and just three in early February. The best-performing sectors ytd: SmallCap Health Care (35.6), MidCap Health Care (21.2), MidCap Energy (16.4), and SmallCap Telecom (15.8). The worst performers ytd: LargeCap Telecom (-8.9), LargeCap Consumer Staples (-8.6), LargeCap Industrials (-4.9), LargeCap Financials (-4.6), and LargeCap Materials (-3.4).

S&P 500 Sectors and Industries Performance (*link*): Ten sectors rose last week, and five outperformed the S&P 500's 1.5% rise. That compares to four rising a week earlier, when six outperformed the S&P 500's 1.3% decline. Health Care was the best-performing sector with a gain of 3.1%, ahead of the performances of Utilities (2.4%), Tech (2.3), Telecom (2.2), and Real Estate (1.8). Energy was the biggest underperformer with a drop of 0.3%, followed by gains for Financials (0.3), Materials (0.6), Industrials (0.7), Consumer Discretionary (0.9), and Consumer Staples (1.4). Six sectors are in the plus column so far in 2018, up from four a week earlier and down from nine in early March. Just four sectors have bested the S&P 500's 3.2% ytd gain: Tech (12.7), Consumer Discretionary (11.8), Energy (4.9), and Health Care (4.1). The seven ytd underperformers: Telecom (-8.9), Consumer Staples (-8.6), Industrials (-4.9), Financials (-4.6), Materials (-3.4), Real Estate (-0.8), and Utilities (0.9).

Commodities Performance (*link*): Last week, the S&P GSCI index fell 1.4% w/w for its fifth drop in seven weeks as seven of the 24 commodities that we follow moved higher. That compares to the prior week's 3.4% rise, which was its biggest in 11 weeks when 8/24 commodities rose. Last week's strongest performers: Kansas Wheat (5.0%), Wheat (2.8), and Soybeans (1.6). Last week's biggest decliners: Nickel (-6.5), Sugar (-6.0), Copper (-5.4), and Zinc (-4.4). The S&P GSCI commodities index is up 8.7% 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 (30.3), followed by Crude Oil (22.1), Wheat (20.7), Kansas Wheat (20.1), and Unleaded Gasoline (17.4). The biggest laggards of 2018 to date: Sugar (-24.1), Zinc (-17.8), Copper (-13.3), Live Cattle (-12.5), and Coffee (-9.6).

Assets Sorted by Spread w/ 200-dmas (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 7/24 commodities, 3/9 global stock indexes, and 31/33 US stock indexes, compared to 8/24 commodities, 1/9 global stock indexes, and 8/33 US stock indexes rising a week earlier. Commodities' average spread fell w/w to 1.0% from 2.7% as 12 commodities trade above their 200-dmas, down from 13 a week earlier. Crude Oil leads all commodities at 18.3% above its 200-dma, while Kansas Wheat (7.8%) performed the best among commodities last week, rising 4.9ppts. Zinc now trades at 15.1% below its 200-dma, the lowest of all commodities now, but Nickel (5.5) tumbled 8.2ppts for the worst performance among commodities and all assets. The global indexes trade at an average of 4.2% below their 200-dmas, down from 3.6% below in the prior week. Two of the nine global indexes trade above their 200-dmas, down from three a week earlier. Canada (3.1) leads the global indexes, but Brazil (-5.2) gained 2.8ppts last week for the best w/w improvement among global assets. China (-14.8) is the biggest laggard among global indexes after a drop of 3.4ppts w/w, the biggest decline among global indexes. The US indexes trade at an average of 6.0% above their 200-dmas, with 26 of the 33 sectors above, up from 3.8% a week earlier, when 25 sectors were above.

SmallCap Health Care (23.0) continues to lead the US stock indexes and all assets, but SmallCap Telecom (13.0) rose 5.2ppts w/w for the biggest gain among US stock indexes and all assets last week. LargeCap Financials (-3.8) now trades the lowest among all US stock indexes, but LargeCap Energy (6.2) fell 0.6ppts w/w for the worst performance among US stock indexes.

S&P 500 Technical Indicators (*link*): The S&P 500 price index rose 1.5% last week and improved relative to both its short-term 50-day moving average (50-dma) trend line and its long-term 200-dma for the first time in four weeks. The index remained in a Golden Cross (50-dma higher than 200-dma) for a 115th straight week (after 17 weeks in a Death Cross) as the index's 50-dma relative to its 200-dma rose for the fourth time in five weeks following 17 straight weekly declines. The current Golden Cross reading of 1.7% is up from 1.6% a week earlier, but 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 fifth week, but has fallen in eight of the past 15 weeks—including four straight weeks of decline through mid-April that constituted its worst performance since before the 2016 election. The index appears to have successfully tested its 50-dma, rising to 1.2% above its rising 50-dma from an eight-week low of slightly below its rising 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 at near the slowest pace since October 2011. The S&P 500 successfully tested its 200-dma in early April, and improved to 2.9% above its rising 200-dma in the latest week from 1.6%; but that's 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 all but Energy improve relative to their 50-dmas and 200-dmas. Eight sectors now trade above their 50-dmas, unchanged from a week earlier. 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 6/11 sectors trading above, also unchanged from a week earlier. 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 fourth 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. Industrials and Materials were below too, but only for a third week. Sectors trading the longest above their 200-dmas: Tech (above 200-dma for 105 straight weeks), Consumer Discretionary (87 straight weeks), and Energy (12 weeks). Those trading below for a long time include Consumer Staples (below for a 20th week) and Telecom (16th 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 14th week, Consumer Staples for a 16th, Real Estate for a 22nd, and Utilities for a 24th. Health Care was out for only an eighth week, but for the first time since February 2017. Eight sectors have rising 50-dmas now, up from seven a week earlier. Materials' 50-dma resumed rising, but has been falling for much the past five months. Financials, Industrials, and Telecom are 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). 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. In the latest week, Industrials' and Utilities' 200-dmas turned flat after falling slightly week earlier. The 200-dma for Consumer Staples dropped for a 20th week, and Telecom's fell for a ninth week, though it has been mostly declining since December 2016.

US ECONOMIC INDICATORS

Employment (*link*): Employment growth in June was stronger than expected, remaining above 200,000 for the second month. Last month, 213,000 (vs 195,000 consensus estimate) were added to payrolls, while gains for both May (to 244,000 from 223,000) and April (to 175,000 from 159,000) were revised higher, for a net gain of 37,000. Private payrolls added 202,000 jobs last month—25,000 above ADP's count of 177,000—following upwardly revised increases to both May (239,000 from 218,000) and April (174,000 from 162,000), for a net gain of 33,000. The industries boosting June payrolls were a combination of both service-providing and goods-producing companies. Leading the former were professional & business services (50,000) and health care (25,200); retail trade, which was among the leaders in May, cut payrolls -21,600 in June. Within goods-producing, manufacturing (36,000) and construction (13,000) continued to post impressive gains—climbing 285,000 and 282,000, respectively, over the past 12 months. Meanwhile, the breadth of job creation (percentage of private industries increasing payrolls) for both the one-month (65.5%) and three-month (70.3) spans remained at elevated percentages.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, continued to climb to new record highs in June. Our EIP rose for the 18th time in 19 months, up 0.4% in June and 7.7% over the period. Average hourly earnings (AHE), one of the components of our EIP, keeps setting new highs, advancing 0.2% last month and 4.2% the past 19 months, while aggregate weekly hours—the other component—rose 0.2% and 3.5% over the comparable periods.

ADP Employment (*link*): In June, private industries added 177,000 to payrolls, following upward revisions to both May (to 189,000 from 178,000) and April (170,000 from 163,000) counts, for a net gain of 18,000. (Payrolls averaged monthly gains of 178,700 during Q2, slowing from Q1's 217,700.) ADP notes: "Business' number one problem is finding qualified workers. At the current pace of job growth, if sustained, this problem is set to get much worse. These labor shortages will only intensify across all industries and company sizes." Last month, service-providing industries rose 148,000, while goods-producing industries climbed 29,000—roughly half the average monthly gain of 50,400 during the first five months of this year. Construction (13,000) and manufacturing (12,000) companies continued to add to payrolls, though at a slower pace; over the past 18 months, they've boosted payrolls by 368,000 and 290,000, respectively. Natural resources/mining jobs have climbed steadily since the end of 2016, up 74,000 over the period. Within service-providing industries, the increase was broad based, with health care & social assistance (37,000), professional & business services (33,000), and leisure & hospitality (33,000) once again leading the pack. By company size, medium-sized companies remained at the top of the leader board, adding 80,000 jobs—63,000 service-providing and 17,000 goods-producing. Large companies held their number-two position, boosting payrolls by 69,000—mostly service-providing (58,000)—while small companies remained at the bottom slot, adding 29,000 to payrolls (the least since last fall)—27,000 service-providing and only 2,000 goods-producing.

Unemployment (*link*): June's unemployment rate climbed to 4.0% as 601,000 entered the labor force during the month. The rate had dropped to an 18-year low of 3.8% in May—which had tied the lowest jobless rate since 1969. Meanwhile, the participation rate rose for the first time in four months, to 62.9%, after falling from 63.0% in February to 62.7% in May; it has fluctuated in this narrow band for the past 2.5 years. The teenage unemployment rate (12.6%) fell to a new cyclical low in June, while the rates for both adults (to 3.7% from 3.4%) and college grads (2.3 from 2.0) moved up from their May cyclical lows. Those working part-time for economic reasons (a.k.a. "involuntary part-time workers") declined 417,000 the past four months to 4.7 million (2.9% of the civilian labor force). The sum of the underemployment and jobless rates (6.9) remained at its lowest level since May 2001, while the U6 rate (7.8)—which includes marginally attached workers—moved up from its 17-year low of 7.6% in May.

Wages (*link*): June wage inflation—as measured by the average hourly earnings (AHE) rate for all workers on private nonfarm payrolls—remained at 2.7% y/y. That's a tick up from the 2.6% rate posted from February to May and a tick below the 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 seventh month, while the service-providing rate (2.9) remained in a volatile flat trend at the top of its range. Within goods-producing, the manufacturing rate (1.7) wasn't far from April's 34-month low of 1.4%, while the construction rate (3.0) remained near April's 19-month high of 3.5%; the natural resources rate (2.0) is holding around recent highs. Within service-providing, the rates for financial activities (4.6) and retail trade (2.4) have stalled after being on steep accelerating trends, while the rates for leisure & hospitality (3.4) and wholesale trade (1.8) have moved up from recent lows. The rates for utilities (3.2), professional & business services (2.7), and education & health services (2.9) continued to move sideways, with the latter moving to the top of its range. The information services rate (3.1) is in a volatile flat trend near the bottom of its range, while the rate for transportation & warehousing (1.7) sank to a two-year low.

Auto Sales (*link*): Motor vehicle sales in June accelerated after a two-month decline. Sales rebounded to 17.5mu (saar), reversing the 0.6mu drop the prior two months to a nine-month low of 16.9mu. 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, ticking up to 4.0mu (saar) last month, barely budging from May's 3.9mu—which was the lowest reading since November 2010. These sales have been in a virtual freefall since peaking at 6.1mu (saar) in August 2014. Meanwhile, June light-truck sales rebounded from 9.1mu to 9.6mu (saar)—nearly matching September's 9.7mu peak, which was the strongest showing since the summer of 2005. Sales of imports held at 3.9mu (saar), just shy of April's 4.0mu, which was the strongest pace since summer 2009.

Merchandise Trade (*link*): The real merchandise trade deficit narrowed in May for the third straight month from a February level representing the largest trade deficit since January 2006; this suggests that trade will boost real GDP this quarter. More specifically, May's deficit narrowed to a 14-month low of -$75.3 billion, after widening steadily from -$76.1 billion last June to -$85.4 billion this February. The April/May average deficit of -$76.4 billion was considerably below Q1's average monthly deficit of -$82.5 billion. Real merchandise exports climbed in May for the third time in four months, by 1.7% m/m and 6.8% over the period to a new record high. Real merchandise imports remained in a flat trend around its record high, ticking up 0.2% in May—showing little change the past four months. Real exports were mixed, with food (13.3%), capital goods ex autos (4.3), and consumer goods ex autos (3.5) all in the plus column at record highs, while exports of industrial supplies & materials (-4.9) and autos (-2.6) fell—though remained around record levels. Real imports were also mixed, with capital goods ex autos (3.6) and food (0.5) rising to new record highs, while exports of consumer goods ex autos (-1.1), industrial supplies & materials (-1.0), and autos (-0.9) were in the red.

GLOBAL ECONOMIC INDICATORS

Germany Manufacturing Orders (*link*): German factory orders rose for the first time this year, boosted by both domestic and foreign orders. May billings rebounded 2.6% after contracting -6.2% the first four months of 2018. Domestic orders jumped 4.3% after falling -6.3% during the four months ending April, while foreign orders rose for the third time this year, up 1.6% m/m but down -4.7% ytd. Within foreign orders, the May increase was driven by a surge in orders from inside (6.8%) the Eurozone, which more than offset a decline (-1.3) in billings from outside the Eurozone; these orders are both down ytd, by -5.9% and -3.9%, respectively. The increase in billings from inside the Eurozone was widespread, with capital (7.5%), consumer (6.2), and intermediate (5.8) goods orders all posting sizeable gains.

Meanwhile, the decline in orders from outside the Eurozone was all intermediate goods (-12.4); capital goods orders rose 3.5%, following a 1.3% increase in April, while consumer goods (-0.2) billings were flat. Breaking down domestic orders, both capital (4.3) and intermediate (3.5) goods orders rebounded after sharp declines in April, while consumer goods orders expanded for the fourth time this year, soaring 7.9%m/m and 10.8% ytd—driven by gains of 19.3% and 28.3%, respectively, in consumer durable goods orders.

Germany Industrial Production (*link*): German industrial production in May rebounded along with orders. The ministry said in a statement: "The combination of a healthy backlog as well as a comprehensive level orders in May signal that the development in the manufacturing sector remains modestly positive." Germany's headline production—which includes construction—jumped 2.6%, following a -1.3% loss and a 1.4% gain the previous two months. Excluding construction, output jumped 2.5% after contracting -1.8% in April and expanding 1.5% in March. Manufacturing output posted its best gain this year, accelerating 2.8% to a new record high. May's gain was widespread, with consumer nondurable (6.7%) and durable (5.0) goods production leading the comeback; intermediate (3.0) and capital (0.9) goods output also moved higher. Meanwhile, Germany's M-PMI in June fell to an 18-month low of 55.9—still a respectable reading but one that pales in comparison to December's 63.3.

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