



MORNING BRIEFING

July 30, 2018

Why Work?

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

(1) Despite not much slack in labor market, wage inflation likely to remain subdued. (2) A depressing trend: Men without work. (3) Baby Boomers are no longer “prime.” (4) Lots of prime-working-age male dropouts are disabled, ill, and/or on pain meds. (5) Government welfare programs providing incentive not to work. (6) As the proverb states: “Idle hands are the devil’s workshop.” (7) Powell’s justification for gradual tightening: He is hoping more adult men drop back into labor force. (8) No 9-5 jobs for them: Wi-Fi allows Millennials to combine less work with more play. (9) Movie review: “Mission: Impossible—Fallout” (+).

Labor Force I: Bottom Line. For a change of pace from the daily grind of Trump World, Melissa and I decided to update our demographic analysis of the US labor force today. The bottom line is we don’t expect that the many prime-working-age males (PWAMs) who’ve dropped out of the labor force will be coming back. So the low unemployment rate accurately reflects the tight labor market.

Yet we believe wage inflation may remain subdued. As we explained last week, lots of Baby Boomers are staying in the labor force well beyond the traditional retirement age of 65, and they aren’t demanding or getting any meaningful pay increases. Many Millennials are minimalists without much affinity for the traditional work model (a.k.a. “rut”) of toiling 9-5 for the same company. Instead, thanks to Wi-Fi, they can work whenever and anywhere they like, and they enjoy that freedom. The quid pro quo for this easy-going lifestyle is relatively low pay and small pay increases. They won’t be advancing in status and pay from AVP, to VP, to SVP in a corporate business setting—and don’t care.

Labor Force II: Prime-Working-Age Male NILFs. According to Urban Dictionary, the phrase “Man up!” means “to fulfill your responsibilities as a man, despite your insecurities.” More and more adult American men seem to need someone to tell them: “Why don’t you man up?” Unfortunately, some may be too depressed, disabled, or ill to do so.

“The progressive detachment of ever-larger numbers of adult men from the reality and routines of regular paid labor poses a self-evident threat to our nation’s future prosperity. It can only result in lower living standards, greater economic disparities, and slower economic growth than we might otherwise expect.” That quote comes from a 1/30 [essay](#) titled “Men Without Work,” written by Nicholas Eberstadt for the conservative American Enterprise Institute. In the essay, the economist and demographer summarizes and updates the findings from his September 2016 book with the same title.

Eberstadt’s research chronicles a depressing trend: Over the past several decades, the labor force participation rate for US PWAMs, who are 25-54 years old, has declined significantly ([Fig. 1](#)). During the late 1940s and 1950s, it was around 96%-98%. Since the Great Recession of 2008, it has been mostly around 88%-90%. The number of PWAMs who are not in the labor force (PWAM-NILFs) rose by 1.70 million from January 2008 to a record high of 7.40 million during April 2014 ([Fig. 2](#)). It was down to 6.85 million during June of this year. The percentage of PWAM-NILFs in the PWAM cohort’s population basically doubled from around 6% during the 1970s to 12% during 2014, and is only back down to 11%

recently ([Fig. 3](#)).

The story isn't as bad as it seems when we recognize that the population of the cohort under review has been relatively flat around 65 million people for the past 15 years, after growing rapidly from the 1970s through the 1990s ([Fig. 4](#)). Obviously, that had a lot to do with the Baby Boomers turning "prime" over that period. By 2001, the oldest ones all turned 55 years old, i.e., they weren't prime. By next year, all the Baby Boomers will be 55 years or older.

Melissa and I have been watching for signs that the PWAM-NILFs might rejoin the labor force. (See our [3/21](#) and [6/22 Morning Briefings](#) on the subject.) Fed Chairman Jerome Powell has been waiting for this to happen too. He repeatedly has expressed his hope that PWAM-NILFs will come back, encouraged by the availability of jobs now that the unemployment rate is so low.

If they do so, then there would be more slack in the labor market than suggested by the low jobless rate. Melissa and I discuss Powell's perspective on this subject below. Before going there, let's consider the following questions: Why have prime-age men been dropping out of the labor force? What are the primary characteristics of these men? What are they doing with all their free time? Here goes:

(1) *Disabled, ill, & popping pills.* Disability or illness is the most commonly reported personal situation among PWAM-NILFs. That's according to Didem Tüzemen, an economist at the Federal Reserve Bank of Kansas City who published a 2/21 [paper](#) titled "Why Are Prime-Age Men Vanishing from the Labor Force?" She analyzed the survey-based Current Population Survey (CPS) labor-force flows from 1996 to 2016. During 2016, according to the Fed economist, nearly half—i.e., 48.3%—of PWAM-NILFs reported that they were disabled or ill, 14.6% reported taking care of family, 13.8% reported being in school, 13.2% reported "other situations" as the reason for nonparticipation, and 10.0% reported being retired.

Tüzemen cited the widely referenced research of Alan Krueger, a Princeton University and NBER economist. Krueger's 2017 [paper](#) on NILFs, titled "Where Have All the Workers Gone? An Inquiry into the Decline of the U.S. Labor Force Participation Rate," cites findings that nearly half of prime-working-age NILFs "take pain medication on a daily basis, and in nearly two-thirds of these cases they take prescription pain medication." Krueger concluded: "Labor force participation has fallen more in areas where relatively more opioid pain medication is prescribed, causing the problem of depressed labor force participation and the opioid crisis to become intertwined."

(2) *Lacking incentive, lacking skills.* The "system" may be supporting the unfortunate habits of lots of PWAM-NILFs. They may have less incentive to work because they are supported by government programs. That's according to a 2017 [paper](#) titled "Declining Prime-Age Male Labor Force Participation, Why Demand- and Health-Based Explanations Are Inadequate" by Scott Winship of George Mason University. Using an after-tax income measure adjusted for inflation that includes non-health and non-cash benefits and pools income with cohabitants, Winship found that 76% of PWAM-NILFs have managed to avoid poverty. That may be because the income of the average SSDI recipient about matches the after-tax income of a full-time worker earning minimum wage. Plus, the SSDI recipient gets Medicare benefits.

Winship finds that the increase in PWAM-NILFs labeled "discouraged" job seekers—i.e., reporting that they want work but aren't actively seeking it—accounts for only a quarter of the rise in overall woebegone group since the data became available in 1994. "In contrast, the increase in self-reported disability explains" nearly half of the rise. In other words, the increase in PWAM-NILFs mostly reflects a rise in those of them who aren't interested in work because they say they are disabled.

Controversially, Winship discredits the 2016 [analysis](#) of the Obama administration's Council of Economic Advisers (CEA), which concluded that reductions in the demand for low-skill labor is an "important component of the decline in prime-age male labor force participation." Tüzemen didn't take a position on the CEA's research. Like the CEA, the FRB-KC economist finds that "job polarization" is an issue. More specifically, she states that the "declining demand for middle-skill workers in response to advancements in technology and globalization, has been a key contributor" to the increase in PWAM-NILFs.

(3) *Doing time, catching cheap thrills.* Who are these PWAMs dropping out of the labor force, and what are they doing with their time? Tüzemen wondered "whether the increased share of nonparticipating prime-age men in school could explain the especially dramatic hike in the nonparticipation rate for younger prime-age men." That would neatly explain the 67.0% surge in the nonparticipation rate of younger PWAMs (aged 25-34) from 1996 to 2016. However, the FRB-KC study found that only one-third of the increase in nonparticipating younger PWAMs reflected being in school. Further, Eberstadt noted that most PWAM-NILFs do not have more than a high-school degree. Most of these men are not taking care of children, either. According to Eberstadt, a key characteristic is that most are unmarried with no children. About one in three of all PWAM-NILFs has a criminal record, according to Winship.

So if they are not at work, in school, or taking care of kids, then what are they doing? Nothing very productive, the researchers suggest. PWAM-NILFs devote about eight hours a day to "socializing, relaxing, and leisure," according to Eberstadt, referencing the American Time Use Survey, a nationwide sample survey managed by the Census Bureau. By comparison, men who are unemployed—and looking for work by definition—spend about two hours less a day on these activities. They also gamble, use drugs, and watch more television than working or unemployed men.

It's no wonder that these men report finding "relatively little meaning in their daily activities," observed Krueger. Of course, legitimate health conditions prevent some men from working. But it's hard to ignore Eberstadt's distressing moral conclusion that appears to apply to far too many: "[T]hese men appear to have relinquished what we ordinarily think of as adult responsibilities: not only as breadwinners, but as parents, family members, community members, and citizens."

Labor Force III: Watching Powell Watching PWAM-NILFs. Fed Chairman Jerome Powell has advocated for a "gradual" pace of increases in the federal funds rate despite historically low unemployment. A big reason is the historically low labor force participation rate among those aged 25-54, i.e., the prime-working-age group. Powell has expressed concern about this cohort since the beginning of his tenure as Fed chairman in February.

Powell seems to believe there's a chance that the labor force participation rate for those of prime working age may improve. But he has argued that the problem is not likely to be resolved by the Fed; only fiscal policymakers have the right tools. Nevertheless, the Fed may hesitate to tighten financial conditions to an extent that could cause more discouragement among prime-working-age people. Let's review what Powell has said on the topic since becoming Fed chairman:

(1) *Prime-age NILFs may come back, but unknown.* On 2/27, Powell [testified](#) to the Congress for the first time as Fed chairman, presenting the *Semiannual Monetary Policy Report to the Congress*. During the Q&A [portion](#), Powell observed that the employment-to-population ratio for prime-age workers remains more than one percentage point below its pre-crisis level. He added that the number of NILFs who might rejoin the labor force is largely unknown.

(2) *Labor market tight, but still has room.* Once again, in a 6/20 [speech](#), Powell mentioned that prime-age employment has yet to return to pre-crisis levels: "The labor force participation rate of prime-age

workers has moved up in recent years but remains below pre-crisis levels”; he added that he expects the job market to “strengthen further.” That speech was titled “Monetary Policy at a Time of Uncertainty and Tight Labor Markets.”

(3) *Participation better, but still troubling.* During the [Q&A portion](#) of his *Semiannual Monetary Policy Report to the Congress* on 7/17, Powell stated: “So prime age labor force participation ... has been climbing here in the last couple of years. That’s a very healthy sign because prime-age labor force participation [has] been weak in the United States compared to other countries. So it’s very troubling, and the fact that that’s coming back up ... is a very positive thing.” Those last words suggest Powell thinks prime-age labor force participation could further improve.

(4) *Fed can’t fix it, but won’t worsen it.* During his July testimony, Powell reiterated that “if you look at things like labor force participation, you have seen a decline over 60 years. So [this is an unhealthy trend] in the US economy that [monetary policy makers] don’t have the tools to fix.” Rather, he suggested that it’s the job of legislators to do so and that education is the primary solution. Even so, he sounds averse to exacerbating the PWAM-NILF problem via faster rate increases given his repeated mention of it in connection with his rate-pace reasoning.

(5) *Lots of jobs, but qualified workers MIA.* Powell undoubtedly has read the recent issues of *The Beige Book*, a summary of commentary on current economic conditions from the Federal Reserve Bank Districts. According to the July [issue](#), plenty of jobs are available, with nationwide labor shortages “across a wide range of occupations.” Fed District contacts attributed the labor shortages to a lack of qualified workers. Desperate to attract and retain workers, employers are employing desperate measures to do so, including “relaxing drug testing standards and restrictions on hiring felons to alleviate labor shortages,” per May’s [report](#).

Lowering jobs standards is one tactic. But it seems to us that attracting PWAM-NILFs into the labor pool would take more than that—including rehab, educational, and motivational programs, and a greater financial incentive to get back to work.

Labor Force IV: Millennials Shunning Work. Over the weekend, my wife and I hosted a barbeque. We got to talking to one of our friends about her recently college-graduated daughter’s future plans. “Working isn’t for me,” she seriously told her mom. Last week, by coincidence, the *NY Post* ran an [article](#) titled “Burned-out millennials are quitting lucrative jobs.” That seems to capture a growing lifestyle trend for some of this generation.

The article profiled Sarah Solomon, a successful 20-something publicist who had a great job and lived a “glamorous” New York lifestyle. “But she yearned for something more and resented only having two weeks of vacation a year.” So, last August, she quit her seemingly great job, according to the *NY Post*. Solomon explained: “I wanted to travel more—I didn’t want to have to ask for time off and grovel for extra days, you know?” She now lives in a rental house in Kauai, Hawaii, overlooking the beach. To earn money, she freelances in her field whenever she can get good Wi-Fi.

Solomon’s boyfriend, Tim Mason, is also a “quitter,” notes the article. He left a software consulting firm to live the sort of life that Solomon was after. The two met chasing the same lifestyle dream in Nicaragua before moving to Hawaii. “I do plan to have kids and have somewhat of a normal life again, but it’s not something I’m really worried about now,” says Mason. If he returns to traditional work, he says, “I need to be free to manage myself.”

The article observed: “The traditional concept of employment is the latest thing that the ever-contrarian millennial generation is reinventing. They’re quitting their jobs, without worrying about what they’ll do

next. According to a [2018 Millennial Survey by Deloitte](#), 43 percent of millennials expect to leave their job within two years. The trend is in line with broader shifts. According to the Labor Department, the percentage of workers (of any age) quitting their jobs reached 2.4 percent in May, [the highest level in more than 16 years.](#)"

For another example of this Millennial mindset, watch this 7/13 YouTube [video](#). The apparently intelligent and capable Long Island-born YouTube influencer Katie Carney, 31, explains why she lives in her car: because she wants to. The typical 9-to-5 life isn't for her. About a year and a half ago, she left her apartment and has been on the road ever since. Carney loves to travel and likes the freedom that living in her car gives her. She can wake up on any particular day and stay where she is or just drive someplace else.

In addition to earning money on YouTube, Carney holds a full-time customer service job that allows her to work from her car. She works from her car because she feels it's comfortable, like working from home. On a typical work day, she sets up her laptop on an Amazon-purchased desk that affixes to her steering wheel. For an Internet connection, Carney typically parks by a store that has one she can tap into for free. If not, she uses the hotspot on her iPhone.

Not only is Carney motivated to live and work this way for lifestyle reasons, but she encourages others likewise to eschew convention and live in whatever way might be right for them. No excuses. There are ways of making money other than working in a 9-5 office job, she says.

Movie: "Mission: Impossible—Fallout" (+) ([link](#)). Tom Cruise saves the world from evil doers once again in MI #6, with the help of his colleagues in the IMF—the Impossible Missions Force. The movie is long. However, it really is fast paced, and action packed. The 56-year-old star is a working-age male who remains prime enough to do most of his own stunts. I'm 12 years older and also do most of my stunts, with the help of my colleagues at YRI.

CALENDARS

US. Mon: Dallas Fed General Activity Index 32.0, Pending Home Sales 0.8%. **Tues:** Personal Income & Spending 0.4%/0.4%, Headline & Core PCED 2.3%/2.0% y/y, Consumer Confidence 126.9, Employment Cost Index 0.7%, S&P Corelogic Case-Shiller HPI 0.4%/m/m/6.6%/y/y, Chicago PMI 62.0, FOMC Meeting Begins. (*Wall Street Journal* estimates)

Global. Mon: Eurozone Consumer Confidence 112.0, Germany CPI 0.4%/m/m/2.1%/y/y, UK Gfk Consumer Confidence -9, Japan Industrial Production -0.3%/m/m/0.6%/y/y, Japan Unemployment Rate 2.3%. **Tues:** Eurozone GDP 0.4%/q/q/2.2%/y/y, Eurozone Headline & Core CPI 2.0%/1.0% y/y, Eurozone Unemployment Rate 8.3%, Germany Retail Sales 1.0%/m/m/1.5%/y/y, Germany Unemployment Change & Unemployment Claims Rate -10k/5.2%, Italy GDP 0.2%/q/q/1.3%/y/y, China M-PMI & NM-PMI 51.3/55.0, Japan Consumer Confidence 43.8, Japan Housing Starts 0.960mu, BOJ Rate Decision -0.10%, BOJ 10-Year Yield Target 0.00%, BOJ Outlook Report, Canada GDP 0.3%/m/m/2.3%/y/y, Mexico GDP 0.3%/q/q/2.9%/y/y. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index rose 0.5% last week, ranking 35th out of the 49 markets in a week when 41 countries rose in US dollar terms and the AC World ex-US index increased 1.4% for its fourth straight weekly gain. That compares to the US MSCI's less than 0.1% rise a week earlier, which ranked 28th as 28 markets rose and the AC World ex-US index gained 0.3%. EM Eastern Europe performed best with a gain of 3.8% as all regions rose w/w, and was followed by EM

Latin America (3.1%), EMEA (2.9), BRIC (2.2), and EM Asia (1.8). The underperforming regions relative to the AC World ex-US were EMU (1.1) and EAFE (1.3). Poland was the best-performing country as it rose 5.6%, followed by Pakistan (4.9), Argentina (4.8), and the Philippines (4.4). Of the 23 countries that underperformed the AC World ex-US MSCI last week, Sri Lanka fared the worst as it dropped 2.7%, followed by Colombia (-0.6) and Greece (-0.5). On a ytd basis, the US MSCI improved to a 5.6% gain, but dropped one spot in the ytd performance ranking to 5/49. The US MSCI remains ahead of the AC World ex-US (-2.9) in the ytd period; 35/49 countries and all other regions are in negative territory ytd. EMU leads all regions with a decline of 1.8% so far this year, putting it ahead of EAFE (-1.9). EMEA (-7.4) is the biggest laggard relative to the AC World ex-US's performance, followed by EM Asia (-5.1), BRIC (-4.1), EM Latin America (-3.5), and EM Eastern Europe (-3.4). The best country performers ytd: Colombia (9.2), Israel (8.7), Finland (8.3), Peru (7.1), the US (5.6), and Portugal (5.5). The worst-performing countries ytd: Argentina (-37.5), Turkey (-36.9), Indonesia (-16.9), the Philippines (-16.2), and Hungary (-15.6).

S&P 1500/500/400/600 Performance ([link](#)): LargeCap was the only market-cap index to rise last week as MidCap and SmallCap posted their biggest declines in four weeks. LargeCap's 0.6% gain outperformed MidCap (-1.2%) and SmallCap (-1.4). SmallCap is down 1.7% from its record high on Thursday, while MidCap is 1.7% below its record on July 9. LargeCap is the biggest laggard, down 1.9% from its record high six months ago on January 26. Fifteen of the 33 sectors rose in the latest week, down from 17 rising a week earlier. The best performers in the latest week: LargeCap Energy (2.3), LargeCap Industrials (2.1), and LargeCap Financials (2.0). MidCap Consumer Discretionary (-4.0) was the biggest decliner this week, followed by SmallCap Consumer Discretionary (-3.6), SmallCap Tech (-2.5), and SmallCap Health Care (-2.5). LargeCap is now up 5.4% ytd and surpassed MidCap (3.9) in the latest week, but both are significantly trailing SmallCap's 11.2% gain. Twenty-three sectors are now positive to date in 2018, up from 22 a week earlier and compared to just three in early February. The best-performing sectors ytd: SmallCap Health Care (34.4), MidCap Health Care (24.3), LargeCap Tech (14.1), LargeCap Consumer Discretionary (13.1), and MidCap Energy (11.6). The worst performers ytd: MidCap Telecom (-11.0), LargeCap Telecom (-11.0), LargeCap Consumer Staples (-6.8), and SmallCap Real Estate (-4.2).

S&P 500 Sectors and Industries Performance ([link](#)): Eight sectors rose last week, and eight outperformed the S&P 500's less than 0.1% rise. That compares to four rising a week earlier, when four outperformed the S&P 500's less than 0.1% rise. Energy, with a gain of 2.3%, was the best-performing sector and ahead of the performances of Industrials (2.1%), Financials (2.0), Materials (1.8), Health Care (1.4), Telecom (1.1), Consumer Staples (1.0), and Utilities (0.7). Tech was the biggest underperformer, with a drop of 1.2%, followed by Consumer Discretionary (-0.5) and Real Estate (-0.2). Six sectors are in the plus column so far in 2018, up from four a week earlier and down from nine in early March. Four sectors now have outperformed the S&P 500's 5.4% ytd gain: Tech (14.1), Consumer Discretionary (13.1), Health Care (6.4), and Energy (6.2). The seven ytd underperformers: Telecom (-11.0), Consumer Staples (-6.8), Materials (-1.9), Real Estate (-1.8), Utilities (-0.2), Industrials (0.1), and Financials (0.6).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 1.5% w/w for its first gain in four weeks as 17 of the 24 commodities that we follow moved higher. That compares to the prior week's 1.2% decline when 11/24 commodities rose. Last week's strongest performers: Kansas Wheat (4.7%), Unleaded Gasoline (3.9), GasOil (3.4), and Wheat (2.8). Last week's biggest decliners: Cocoa (-3.8), Sugar (-2.2), Feeder Cattle (-1.5), and Lean Hogs (-0.8). The S&P GSCI commodities index is up 5.0% ytd and near its highest level since December 2014, but remains about 50% below its record high in July 2008 just before the financial crisis. The top performer so far in 2018 is now Kansas Wheat (24.6), followed by Wheat (24.2), Cocoa (18.0), Unleaded Gasoline (17.7), and Crude Oil (13.7). The biggest laggards of 2018 to date: Lean Hogs (-29.1), Sugar (-28.2), Zinc (-21.8), Lead (-13.8), and

Copper (-13.0).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 11/24 commodities, 6/9 global stock indexes, and 13/33 US stock indexes, compared to 17/24 commodities, 6/9 global stock indexes, and 13/33 US stock indexes rising a week earlier. Commodities' average spread rose w/w to -2.1% from -3.1%, and 10 commodities now trade above their 200-dmas, down from 11 a week earlier. Wheat leads all commodities at 12.9% above its 200-dma, while Kansas Wheat (10.7%) performed the best among commodities and all assets last week, rising 4.5ppts. Lean Hogs trades at 28.9% below its 200-dma, the lowest of all commodities and all assets. Cocoa (-2.8) had the worst performance of all commodities last week, tumbling 4.1ppts. The global indexes trade at an average of 1.4% below their 200-dmas, up from -2.1% in the prior week. Five of the nine global indexes trade above their 200-dmas, up from three a week earlier. The UK (3.0) now leads the global indexes, but Germany (0.8) gained 2.4ppts last week for the best w/w improvement among global assets. China (-10.2) remains the biggest laggard among global indexes, but Chile (-2.3) dropped 0.9ppts w/w, the biggest decline among global indexes. The US indexes trade at an average of 4.3% above their 200-dmas, with 26 of the 33 sectors above, down from 4.8% a week earlier, when 27 sectors were above. SmallCap Health Care (18.5) continues to lead the US stock indexes and all assets, but LargeCap Energy (6.6) rose 2.1ppts w/w for the biggest gain among US stock indexes last week. MidCap Telecom (-8.3) continues to trade the lowest among all US stock indexes, but SmallCap Consumer Discretionary (6.7) fell 4.5ppts for the worst performance among US stock indexes and all assets.

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 0.6% 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 a second straight week. The index remained in a Golden Cross (50-dma higher than 200-dma) for an 118th straight week (after 17 weeks in a Death Cross) as the S&P 500's 50-dma relative to its 200-dma rose for the seventh time in eight weeks following 17 straight weekly declines. The current Golden Cross reading of 2.3% is at a 12-week high and up from 2.1% 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 an eighth week, but has fallen in eight of the past 18 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 at the end of June, and rose to 2.1% above its rising 50-dma from 1.8% 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 successfully tested its 200-dma in early April, and rose to a seven-week high of 4.4% above its rising 200-dma from 4.0% a week earlier, but remains slightly below its 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, all but three improved relative to their 50-dmas and 200-dmas: Consumer Discretionary, Real Estate, and Tech. All 11 sectors are trading above their 50-dmas for the first time since early December. That's up from eight sectors above their 50-dmas a week earlier as Energy, Materials, and Telecom 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 9/11 sectors trading above, up from six a week earlier and matching early February's reading. That's up from just four sectors trading above their 200-dmas in early May (which matched the lowest count since January 2016). Financials, Industrials, and Materials moved above their 200-dmas in the latest week after being below since mid-June. Sectors trading the

longest above their 200-dmas: Tech (above 200-dma for 108 straight weeks), Consumer Discretionary (90 straight weeks), and Energy (15 weeks). Those trading below for a long time include Consumer Staples (below for a 23rd week) and Telecom (19th 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 five sectors are in a Golden Cross (with 50-dmas higher than 200-dmas), unchanged from a week earlier. All 11 had been in a Golden Cross in mid-January for the first time since a 26-week streak ended in October 2016. Telecom was out for a 17th week, Consumer Staples for a 19th, and Utilities for a 27th. Nine sectors have rising 50-dmas now, up from six a week earlier as these three turned higher in the latest week: Financials, Industrials, and Telecom. That leaves Energy and Materials as the only sectors with declining 50-dmas and 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, up from six a week earlier (which had tied with a count in February for the lowest since May 2017). Materials' 200-dma turned positive in the latest week, leaving just four sectors in the declining 200-dma club: Consumer Staples, Real Estate, Telecom, and Utilities.

US ECONOMIC INDICATORS

GDP ([link](#)): Real GDP accelerated 4.1% (saar) last quarter, the fastest growth since Q3-2014, and roughly double the upwardly revised (to 2.2% from 2.0) Q1 gain. Growth was broad-based, with only residential investment (-1.1%, saar) and inventory investment (to -\$27.9 billion from \$30.3 billion, saar) detracting from growth. (Real final sales [5.1] growth, which excludes inventories, was a percentage point higher than GDP.) Tax cuts boosted consumer spending at a 14-quarter high of 4.0% (saar), with both goods (5.9%, saar) and services (3.1) consumption accelerating—the latter the fastest in just over three years. Within goods consumption, both durable (9.3) and nondurable (4.2) goods spending were robust. Real capital goods (7.3) investment remained strong last quarter, though slowed from Q1's double-digit rate of 11.5% (saar). Real spending on structures (to 13.3% from 13.9%, saar) virtually matched Q1's double-digit growth, while investment in intellectual property products (8.2 from 14.1) and equipment (3.9 from 8.5) slowed from Q1's pace. Trade added a full percentage point to Q2 growth as exports (9.3) expanded at the fastest pace since Q4-2013, partly reflecting farmers' rush to get soybeans to China ahead of China's 25% retaliatory tariffs, which hit in July. Meanwhile, imports (0.5) were basically flat during the quarter, slowing steadily from Q4's 11.8% (saar). Real government spending accelerated 2.1% (saar), holding around recent highs, as both federal (3.5) and state & local (1.4) picked up.

Contributions to GDP Growth ([link](#)): Real consumer spending was once again the number-one contributor to real GDP growth last quarter, with trade moving up to the number-two spot. (1) Real consumer spending accounted for 2.69ppts of real GDP growth, with both services-related (1.46) and goods (1.24) consumption adding significantly to Q2 growth—the latter by impressive contributions from both durable (0.64) and nondurable (0.59) goods. (2) Trade (1.06) once again is contributing to economic growth, boosted by strong exports (1.12); imports (-0.06) were a slight negative. (3) Nonresidential fixed investment accounted for 0.98ppt of Q2's increase, with structures (0.39ppt), investment in intellectual property products (0.35), and equipment (0.23) all adding to growth. (4) Real government spending added 0.37ppt to growth last quarter, with both federal (0.22) and state & local (0.15) government spending contributing. (5) Residential investment (-0.04) was a slight negative contributor during Q2; it has contributed positively only once in the past five quarters. (6) Inventory investment (-1.00) subtracted a full percentage point from GDP growth during Q2—all nonfarm (-1.02).

Durable Goods Orders & Shipments ([link](#)): Both core capital goods orders and shipments climbed to new cyclical highs last month, while overall durable goods orders rebounded after a two-month decline. Nondefense capital goods orders ex aircraft (a proxy for future business investment) climbed 0.6% in June, while revisions show May's (to 0.7% from -0.2%) decline was revised to an increase and April's

(2.1 from 2.3) gain remained robust. Meanwhile, the comparable shipments measure (used in calculating GDP) jumped at a nine-month high of 1.0%, while revisions show May (0.2 from -0.1) shipments ticked up rather than down, and April's (0.8 from 1.0) gain eased slightly. Core capital goods orders accelerated 10.5% (saar) last quarter, considerably above Q1's 1.5% pace; the comparable shipments measure expanded 4.4% (saar) during the quarter, slightly faster than Q1's 2.9%. Total durable goods orders rebounded 1.0% after a two-month slump of -1.3%. Excluding transportation, billings climbed for the 10th time in 12 months, by 0.4% in June and 9.1% y/y.

Regional M-PMIs ([link](#)): Four Fed districts have now reported on manufacturing activity for July—New York, Philadelphia, Richmond, and Kansas City—all showed continued strong growth. We average the composite, orders, and employment measures as data become available. The composite index (to 22.8 from 23.5) wasn't far from its 14-year high of 25.1 recorded in May. The Philadelphia (to 25.7 from 19.9) region accelerated back toward May's (34.4) vigorous pace—which was the fastest in a year, while New York's (22.6 from 25.0) and Kansas City's (23 from 28) slowed slightly from June's healthy readings; Richmond's (20 from 21) virtually matched June's pace. The new orders gauge (23.2 from 22.1) rebounded back toward its recent high of 27.7 in May—which was the best reading since the end of 2003. A sharp acceleration in orders in the Philadelphia (31.4 from 17.9) region more than offset a deceleration in growth in New York (18.2 from 21.3) and Kansas City (21 from 27); Richmond's (22) gauge matched June's pace. The employment barometer (20.5 from 24.1) eased in July after recording its best showing in the history of the series going back to 2001. The Kansas City (26 from 24) measure was back up at its record high recorded earlier this year, while Richmond (22 from 23) factories hired at roughly the same healthy pace as they did in June. Meanwhile, manufacturers in both the Philly (16.8 from 30.4) and New York (17.2 from 19.0) regions showed slower, but still robust, jobs growth—though Philly's was about half June's rate.

Consumer Sentiment ([link](#)): Consumer sentiment ended July, just above the mid-month reading and not far from March's 14-year high. The Consumer Sentiment Index (CSI) fell for the third time since reaching a cyclical high of 101.4 in March, falling to 97.9 this month—above the 97.1 preliminary estimate. Despite expectations of higher inflation and interest rates during the year ahead, consumer confidence held at high levels due to favorable job and income prospects. What depressed confidence were concerns about tariffs, which accelerated in the July survey: Across all households, 35% spontaneously mentioned that the tariffs would have a negative economic impact in July, up from 21% in June and 15% in May. Still, the report noted that these negative economic expectations could quickly disappear if the trade issues with Europe are promptly settled and immediately followed by agreements with China, Canada, and Mexico. The present situation component fell to 114.4 (vs 113.9 preliminary) after rising from 111.8 to 116.5 in June; it hit a record high of 121.2 in March. The expectations index climbed to 87.3 (vs 86.4) after falling from 89.1 to 86.3 in June—holding around recent highs.

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