



MORNING BRIEFING

August 16, 2018

Consumers Unchained

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

(1) As tax-cut-happy consumers go to town, retailers have been raking it in. (2) Amazon threat? So last year! (3) S&P 500 Consumer Discretionary sector's earnings and revenue forecasts reflect the strength. (4) So do stock valuations, near historical highs, boosted by Amazon and Netflix. (5) In telecom, the 5G race is on—among countries and companies. (6) But does who comes in first really matter?

Consumers: Spending Up a Storm. Consumers are employed, paying lower taxes, and feeling good, so of course they're spending more. It's the American way. The pickup in spending boosted July's retail sales report, which rose a larger-than-expected 0.5%, its sixth consecutive gain in sales, as Debbie discusses below ([Fig. 1](#)). Core retail sales—which excludes autos, gasoline, building materials, and food services—also rose 0.5% last month.

The report continued the drumbeat of positive news surrounding the consumer. The National Retail Federation (NRF) said retail sales rose 4.8% y/y in the first half of 2018, and it expects continued strength in the back half of the year. So the NRF has increased its 2018 sales growth forecast to 4.5%, up from 3.8%-4.4% in February, the industry association's 8/13 [press release](#) noted.

Investors appear to have anticipated the improved spending environment, as the S&P 500 Consumer Discretionary stock price index is the second-best performer ytd of the 11 sectors in the S&P 500. Here's where the sectors' ytd performances stood through Tuesday's close: Tech (16.4%), Consumer Discretionary (14.7), Health Care (8.9), S&P 500 (6.2), Energy (2.9), Utilities (0.6), Real Estate (0.0), Financials (-0.2), Industrials (-1.0), Materials (-3.2), Consumer Staples (-6.4), and Telecom Service (-7.9) ([Fig. 2](#)).

Last year's concern that Amazon was going to put bricks-and-mortar retailers out of business was quickly replaced at the start of 2018 by strains of "Happy days are here again!" Looking at the retailing industries within the Consumer Discretionary sector, the S&P 500 Department Stores industry's stock price index is up 45.2% ytd. The S&P 500 Apparel Accessories & Luxury Goods industry's index has added 20.4% so far this year, while the Apparel Retail index has gained 12.7% ytd. Not far behind ytd are General Merchandise Stores (11.3%) and Specialty Stores (10.5) ([Fig. 3](#)).

Stronger consumer spending combined with lower corporate tax rates have improved retailers' top and bottom lines. The S&P 500 Consumer Discretionary sector is forecast to grow revenue by 7.3% this year and 5.9% in 2019 ([Fig. 4](#)). Even more impressively, the sector's earnings per share are expected to soar 18.7% this year and 12.1% in 2019 after decidedly positive net earnings revisions for the past seven months ([Fig. 5](#) and [Fig. 6](#)).

All of this positive news has boosted the sector's forward P/E to 20.9 as of August 9, at the high end of where it has been over the past 20 or so years ([Fig. 7](#)). Without Amazon and Netflix, that forward P/E would decline to 14.6 ([Fig. 8](#)).

However, the market may have moved a bit too far too fast. On Wednesday, a number of retailers' stocks sold off despite a continuation of strong earnings reports. Let's take a look at recent earnings out of Home Depot and Macy's:

(1) *Enjoying the bounce-back.* Sometimes, you really can blame the weather. Home Depot's Q2 sales came springing back when gardeners and do-it-yourselfers got back to work after poor weather in Q1. The retailer's total sales rose 8.4% in Q2, and earnings per share jumped 35.6%, helped by a tax rate that fell to 24.7% from 36.6% a year ago.

Home Depot's comparable-stores sales rose 8%, boosted by a 4.9% increase in the average ticket price and a 2.9% increase in the number of transactions. The average ticket price was boosted by 1.19ppts by the uptick in prices for lumber, building materials, and copper.

"In addition to core commodity inflation, we are now experiencing inflation in other areas. These inflationary pressures come in many forms, including rising raw material costs and transportation costs along with recently enacted tariffs; however, as the customer's advocate for value, it is our job to work with our partners throughout the value chain to manage these pressures," said Ted Decker, Home Depot's executive vice president, merchandising on the earnings [conference call](#).

There are a number of reasons to expect inflationary pressure could abate in upcoming months. For example, tariffs on washing machines were felt in Q2, but "as the Korean manufacturers get their facilities up and running in Tennessee and South Carolina respectively, that tariff pressure will mitigate because they will be producing all their machines here domestically," said CEO Craig Menear. In addition, lumber and copper prices have dropped in recent weeks ([Fig. 9](#) and [Fig. 10](#)). Framing lumber is now just 4% higher than it was last year vs 40% higher y/y at the peak.

Home Depot continued to benefit from growth in its online operation, up 26% y/y, and its new small-parcel express delivery service, which makes deliveries from stores to locations in all major US markets.

Consumers on average shop at just 9 different retailers, CEO Menear said on the call, which has dropped over the past four years from 13. So why shouldn't they buy more of their home goods through Home Depot? That was part of the thinking behind buying The Company Store at the end of last year.

Reflecting the strong first-half results, Home Depot boosted its fiscal-year 2018 diluted earnings per share estimate to \$9.42 from \$9.31.

(2) *Buy the rumor, sell the news.* It's one of Wall Street's wisest adages, and it certainly came to mind when Macy's shares fell roughly 16% Wednesday in the wake of an earnings report that beat analysts' forecasts.

Q2 same-store sales, on an owned and licensed basis, rose 0.5% y/y, compared to expectations that sales would drop 0.9%, a 8/15 *WSJ* [article](#) reported. Excluding the shift of a promotional event to Q1, same-store sales would have risen 2.9% including licensed departments.

Total sales fell 1.1% to \$5.6 billion, hurt by the closure of stores last year. However, the company's adjusted earnings per share came in at 70 cents, above the 51 cents analysts expected and the year-earlier 46 cents. The company raised its 2018 earnings forecast by 20 cents a share.

While warnings about the risk of Macy's demise may have been wildly exaggerated last year, it's still

tough to see how the company grows as a department store. Department store retail sales have stopped falling, but they don't seem to be rising, either ([Fig. 11](#)). And that won't appease investors anymore.

Telecom: Race to 5G. There's a lot of breathlessness in the telecom world as speculation grows about which countries will be first to host 5G services and which equipment companies will have the first 5G phones. The 3/1 [Morning Briefing](#) had a primer on 5G, but things are moving so quickly that it's already time for an update:

(1) *Fears of falling behind.* Deloitte captured headlines recently with a [report](#) warning that the US lagged China in preparing for a 5G rollout: "Since 2015, China outspent the United States by approximately \$24 billion in wireless communications infrastructure and built 350,000 new sites, while the United States built fewer than 30,000. Looking forward, China's five-year economic plan specifies \$400 billion in 5G-related investment. Consequently, China and other countries may be creating a 5G tsunami, making it near impossible to catch up."

Other researchers have arrived at a similar conclusion. "David Abecassis, Partner in Analysys Mason said, 'Our research shows China with a slight lead in 5G readiness, with South Korea and the U.S. close behind. The U.S. led the world in 4G, and the U.S. wireless industry is leading global 5G research and development with aggressive commercial 5G deployment plans that will benefit U.S. consumers,'" according to a 4/16 CTIA [press release](#).

If the US loses the 5G race, it could also fall behind on developing other related technologies that depend on access to a 5G telecommunications network. Being first in 4G added nearly \$100 billion to US GDP and led to an 84% increase in wireless-related jobs. It meant the US had a leading position in the global wireless ecosystem, including the app economy. Conversely, when Japan and Europe lost their leadership positions in wireless, they experienced job losses and contraction in their domestic wireless industries, the CTIA piece stated.

(2) *Not everyone agrees.* That said, some think concerns about who comes in first are overhyped. "Telecommunications industry analyst Jeff Kagan says the competition between the US and China keeps the US motivated to push 5G forward, but he doesn't believe that it will make a big difference to the US economy in the long term if the US is second or third. 'I don't think it's ever been more than a battle over the ego over which country is first,'" he told *Wired Magazine* in a 6/6 [article](#).

The periodical goes on to note that the US doesn't have the fastest home broadband speeds today, nor does it have the most widely available 4G networks. Finland, Japan, and South Korea often best the US in those metrics. "Europe was quicker to roll out 2G, and Japan was the first with 3G, but that hardly deterred Apple and Google from dominating the smartphone market," the article notes.

But if China beats the US by a couple of years, that could trigger a bigger problem, as the country's massive population will generate tons of data that then can be used by corporations to develop applications and services. Just as Apple, Google, and Facebook benefited from US access to 4G, "[t]he concern is that if China delivers widespread access to 5G first, its companies will get a head start on creating the next generation of high-tech products and services," *Wired* explains.

(3) *The standings.* So who's in the lead, and who's behind? Qatar's telecom carrier, Ooredoo, announced in May that it launched a commercial 5G service, but hardware wasn't available until June, and mobile hardware is not available until 2019. In June, Finnish carrier Elisa said it too had launched commercial 5G. Elisa does have terminal devices and is selling subscriptions.

The US still needs to get the proper wireless spectrum into the hands of its carriers. It's holding auctions of its 28 GHz millimeter wave band in November, followed by auction of the 24 GHz band. More auctions are expected next year.

The US also needs the creation of many small cell spots for 5G to work. "While there are currently some 300,000 cell towers operating in the U.S., 5G is likely to involve a vastly larger number of much smaller cells. Since there may well be multiple 5G cells within a single building (or even within a single room) in areas with high demand for service, installing these cells will involve getting permission from not only thousands of municipal governments but potentially from millions of individual landlords. Cooperation among all the parties involved will be essential, but new regulation may be needed to ensure that these gatekeepers don't become bottlenecks," a 7/13 Recode [article](#) noted.

The Chinese government doesn't have to worry about cantankerous local governments. According to the Deloitte report, "China Tower is the leading provider of sites and owns approximately 96 percent of macro towers, small cells and DAS sites that serve China's wireless carriers. China Tower has invested \$17.7 billion in capital and added more than 350,000 sites since 2015." The country has 14.1 wireless sites per 10,000 people compared to 4.7 in the US.

A successful 5G rollout also requires the development of new cell phones, which is underway. "Hardware is a problem for all prospective 5G carriers: Apart from early and arguably prototype devices made by Huawei and Samsung, actual 5G smartphones aren't expected to be available in large quantities until early next year. However, Samsung has produced 5G broadband modems for home use, which Verizon plans to sell in several U.S. markets later this year. Rival AT&T says it will offer 5G mobile hotspots from an unnamed supplier in a dozen markets," a 6/28 [article](#) on VentureBeat reported.

In the US, Verizon is rolling out 5G residential broadband in Houston, Los Angeles, Sacramento, and Indianapolis later this year. It plans to roll out 5G mobile services next year. Motorola released the Moto Z3, a phone that has an accessory, the 5G Moto Mod, to tap into Verizon's 5G network.

Sprint is partnering with LG to deliver a 5G smartphone in the first half of 2019. "While details remain a mystery, Sprint promised its 5G network will be capable of full-length HD movie downloads in 'seconds instead of minutes' and the ability to play games without any 'delays, hiccups or lag-time. Sprint will launch its 5G network in Atlanta, Chicago, Dallas, Houston, Kansas City, Los Angeles, New York City, and Washington next year before expanding into other parts of the country," reported an 8/14 *USA Today* [article](#).

Sprint is also in the midst of attempting to merge with T-Mobile. Part of the rationale behind the deal, which combines the country's third- and fourth-largest telecom companies, is that together they'll be better positioned to fund the 5G rollout than they'd be separately. They plan to invest \$40 billion in network improvements that would help Sprint and T-Mobile become a leader in 5G. The deal is still awaiting FCC approval.

Lastly, AT&T has announced plans to roll out 5G in six cities shortly—Oklahoma City, Charlotte, Raleigh, Atlanta, Dallas, and Waco, Texas—and a dozen by year-end. AT&T's initial offering will involve 5G service aimed at hot-spot devices, but not phones, that deliver 5G broadband wirelessly into homes. The race is on.

CALENDARS

US. Thurs: Housing Starts & Building Permits 1.271mu/1.307mu, Jobless Claims 215k, Philadelphia Fed Manufacturing Index 22.5, EIA Natural Gas Report. **Fri:** Leading Indicators 0.4%, Consumer

Sentiment Index 97.9, E-Commerce Retail Sales, Baker-Hughes Rig Count. (*Wall Street Journal* estimates)

Global. Thurs: Eurozone Trade Balance €15.5b, UK Retail Sales Including & Excluding Auto Fuel 2.9%/2.7% y/y, Australia Employment Change & Unemployment Rate 15k/5.4%, RBA Governor Semiannual Testimony. **Fri:** Eurozone Headline & Core CPI 2.1%/1.1% y/y, Canada CPI 0.1% m/m/2.5% y/y. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators ([link](#)): Our Bull/Bear Ratio (BBR) climbed to 3.11 this week—its first reading above 3.00 in nine weeks as bullish sentiment jumped to a seven-month high. Both bullish sentiment and the correction count recorded big moves this week, after showing little movement the previous three weeks. Bullish sentiment jumped 2.4ppts (to 57.3% from 54.9%), while the correction count fell -2.2ppts (24.3 from 26.5); it was the highest reading for the former and the lowest reading for the latter since the final week of January. Six weeks ago, bullish sentiment was at 47.1%, while the correction count was at 34.3%. Meanwhile, bearish sentiment was little changed at 18.4% this week from 18.6% last week; it has fluctuated in a narrow band between 17.6% and 18.8% the past 11 weeks. The AAI Ratio climbed to 54.0% last week after falling the prior three weeks from 59.6% to 47.6%. Bullish sentiment jumped to 36.4% last week, sliding from 43.1% to 29.1% the previous three weeks, while bearish sentiment slipped to 31.0% after rising from 24.9% to 32.1% the prior two weeks.

S&P 500 TCJA Earnings Leaders & Laggards ([link](#)): The 2018 earnings forecast for the S&P 500 has surged 10.6% in the 35 weeks since the TCJA was signed into law on December 22. This outstanding performance has no comparison over the years since consensus earnings forecasts were first derived in 1978. The rate of change in the consensus forecasts has slowed since the Q1 earnings season as analysts appear to have fully incorporated lower tax rates into their estimates. The top sector gainers since the TCJA was passed: Energy (39.1%), Telecom (20.4), Financials (13.2), Materials (13.0), and Industrials (11.4). Consumer Staples is now the smallest gainer, with an increase of 1.2%; also underperforming the S&P 500 are Real Estate (1.8), Utilities (2.4), Consumer Discretionary (7.4), Health Care (8.2), and Tech (8.4). Higher oil prices have contributed heavily to the improvement in Energy's 2018 earnings forecast.

S&P 500 Earnings, Revenues & Valuation ([link](#)): S&P 500 consensus-per-share forecasts for forward revenues and earnings rose to record highs again last week. As more weight is placed on the lower 2019 y/y growth expectations for revenues and earnings, their forward growth rates will likely continue to fall. Indeed, the forward revenues growth forecast edged down 0.1ppt w/w to a six-month low of 5.8%, and forward earnings growth slipped less than 0.1ppt to a seven-month low of 13.3%. Forward revenues growth of 5.8% is little changed from an 80-month high of 6.3% at the end of February, and compares to a cyclical low of 2.7% in February 2016. The annual 2018 revenues growth forecast edged up 0.1ppt to 8.2%, and 2019's remained steady at 5.1%. Forward earnings growth of 13.3% is down from 16.9% in February, which was the highest since October 2010. Still, that's up 2.2ppts from 11.1% prior to the passage of the TCJA, and up 8.5ppts from the cyclical low of 4.8% in February 2016. Turning to annual earnings growth expectations, the 2018 forecast rose 0.1ppt to 23.0%, and the 2019 forecast was steady at 10.2%. The forward profit margin remained steady at a record high of 12.3%, which is up from 11.1% prior to the passage of the TCJA in December and from a 24-month low of 10.4% in March 2016. The S&P 500 ex-Financials forward revenues growth forecast edged down 0.1ppt to 6.0%, and the forward earnings growth forecast remained steady at 12.7%. The S&P 500 ex-Financials forward profit margin remained steady at a record high of 11.4%, and is up from 10.4% before the TCJA. Valuations were lower w/w primarily due to the strong gain in forward estimates. The S&P 500's forward P/E rose to 16.8 from 16.5, but is down from an 18-week high of 16.9 in late July.

That compares to a 16-year high of 18.6 at the market's peak in late January and its recent low of 16.0 in early May. The S&P 500 price-to-sales ratio rose 0.03ppt to a 27-week high of 2.07, which compares to late January's record high of 2.16 and early May's low of 1.95.

S&P 500 Sectors Earnings, Revenues & Valuation ([link](#)): Consensus forward revenue forecasts rose w/w for 6/11 of the sectors and forward earnings rose for 7/11 sectors. These four sectors had both measures rise w/w: Financials, Industrials, Materials, and Telecom. The per-share measures for forward revenues and earnings are at or around record highs for 4/11 sectors: Consumer Discretionary, Health Care, Industrials, and Tech. Forward margins are at record highs for 8/11 sectors, all but Energy, Health Care, and Real Estate. Energy's forward revenues and earnings are back on uptrends after stalling during 2016-2017, and its earnings has about tripled from its 18-year low in April 2016. Looking at last week's readings for forward revenue growth among the 11 sectors, just two had a w/w improvement in their forward revenues growth forecast (Energy and Materials) and these five edged down: Consumer Discretionary, Financials, Industrials, Real Estate, and Utilities. STEG revisions activity was mostly steady last week as three sectors rose (Energy, Tech, and Telecom) and these two fell: Consumer Discretionary and Real Estate. Forward P/S and P/E ratios remain below their recent highs in early 2018 for all sectors. In the latest week, all but three sectors improved (Energy, Materials, and Real Estate). Energy's valuations remain elevated relative to historical levels, but are slowly returning to normal now after soaring in 2016 when revenues and earnings collapsed. Energy's P/S ratio of 1.25 compares to a record high of 1.56 in May 2016, and its P/E of 16.8 is down to a 44-month low now from a record high of 57.5 then. Due to the TCJA, higher margins are expected y/y in 2018 for all sectors but Real Estate, but that sector's forward earnings includes gains from property sales and typically improves as the year progresses. Telecom was the only sector to have its forward profit margin rise w/w as Energy and Real Estate moved lower. Here's how the sectors rank based on their current forward profit margin forecasts: Information Technology (22.9%), Financials (18.9), Real Estate (16.0), Telecom (14.0), Utilities (12.6), S&P 500 (12.3), Materials (11.3), Health Care (10.7), Industrials (10.3), Consumer Discretionary (8.1), Consumer Staples (7.6), and Energy (7.4). Energy's forward profit margin remains near the highest level since December 2014. Among the remaining 10 sectors, all but two (Real Estate and Health Care) are at or near recent record highs.

S&P 500 Q2 Earnings Season Monitor ([link](#)): With Q2 earnings beginning to stream in for the retailers, results are now in hand for over 91% of the S&P 500 companies. We're finding a higher percentage of companies reporting positive surprises than at the same point during the Q1 earnings season but a lower overall percentage surprise. Year-over-year growth rate metrics for the Q2 reporters to date are close to Q1's historically high levels. More specifically, of the 457 companies in the S&P 500 that have reported through mid-day Tuesday, 80% exceeded industry analysts' earnings estimates by an average of 5.2%; they have averaged a y/y earnings gain of 26.5%. At the same point during the Q1-2018 reporting period, a lower percentage of companies (79%) in the S&P 500 had beaten consensus earnings estimates by a higher 7.3%, and earnings were up a lower 24.9% y/y. On the revenue side, 72% of companies beat their Q2 sales estimates so far, with results coming in 1.6% above forecast and 10.0% higher than a year earlier. At this point in the Q1 season, a higher 76% of reporting companies had exceeded revenue forecasts by a lower 1.1%, and sales had risen by a lower 8.4% y/y. Q2 earnings results are higher y/y for 84% of companies, vs a higher 86% at the same point in Q1, and Q2 revenues are higher y/y for 86% vs a higher 87% a quarter ago. These results are very encouraging, particularly the percentage of companies growing revenues y/y and their Q2 surprise. Q2-2018 marks the eighth straight quarter of positive y/y earnings growth and among the highest growth since Q4-2010. The strong results are mostly due to lower tax rates and improved business conditions.

US ECONOMIC INDICATORS

Retail Sales ([link](#)): Consumers continued their shopping spree in July, pushing retail sales up to yet

another new record high. Sales expanded a larger-than-expected 0.5% last month, following a downwardly revised (to 0.2% from 0.5%) gain during June. It was the sixth consecutive advance in sales, which had stalled in December and January. Meanwhile, core retail sales also climbed 0.5% last month—after a slight downward revision to June from unchanged to -0.1%, which was the first decline in five months. (The BEA uses this core retail sales measure to estimate personal consumption expenditures each month.) Real retail sales expanded for the fifth time in six months, according to our estimates, advancing 0.5% in July after a 0.1% uptick in June. These sales accelerated 6.9% (saar) during the three months through July, based on the three-month average—the best three-month pace since March 2015—after contracting early this year. We estimate real core retail sales rebounded 0.4% in July, more than reversing June's -0.2% decline. Meanwhile, its comparable three-month growth rate slowed to 4.6% (saar) from 5.8% in June; that's robust compared to the declines in February and March. Nine of the 13 major nominal sales categories rose in July. Clothing stores (1.3%) and restaurants (1.3) posted the largest gains, followed by department stores (1.2), internet retailers (0.8), and gasoline service stations (0.8). Amazon's annual Prime Day helped drive online sales last month. Meanwhile, sales fell for sporting goods (-1.7), furniture (-0.5), health & personal care (-0.4), and miscellaneous (-0.3) store retailers.

Business Sales & Inventories ([link](#)): Nominal business sales in June and real business sales in May both reached new record highs. The details: Nominal manufacturing & trade sales (MTS) advanced for the 12th time in 13 months, rising 0.3% m/m and a vigorous 8.8% over the period. Inflation-adjusted MTS more than reversed January's -1.0% drop, advancing 1.2% during the four months through May, surpassing December's previous record high. Real sales of both retailers and wholesalers reached new record highs in May, while real manufacturers' sales remained stalled at their cyclical high, dipping the past two months. Except for a temporary blip earlier this year, the real inventories-to-sales ratio has been on a fairly steady downtrend since reaching a cyclical high of 1.47 at the start of 2016, falling to 1.42 in May. June's nominal inventories-to-sales ratio continues to fall, dropping to 1.33—the lowest since the November 2014 and considerably below the seven-year high of 1.43 posted two years ago.

Industrial Production ([link](#)): Headline production in July was weaker than expected on declines in utilities (-0.5%) and mining (-0.3) output; factory production reached a new cyclical high. Total production ticked up 0.1% last month, while revisions show June's (to 1.0% from 0.6%) increase was higher than previously reported, while May's (-0.8 from -0.5) decrease was steeper. Meanwhile, manufacturing production rose 0.3%, following an unrevised 0.8% gain in June and a slightly smaller loss in May (-0.9 from -1.0). Production of business equipment expanded for the fifth time in six months, by 0.8% in July and 2.5% over the period—to its highest level since March 2015. Output of information processing equipment rose for the sixth time this year, climbing 5.9% ytd to a new record high, while transit equipment production rebounded 8.8% during the two months through July to its best reading since fall 2015. Output of industrial equipment remains in a volatile flat trend, climbing 0.6% during the two months ending July after sliding -0.9% in May. Consumer goods production has recovered 1.0% during the two months through July, after plummeting -2.5% from April's cyclical high in May, with most of the volatility occurring in consumer nondurable goods; consumer durable goods production continues to move sideways.

Capacity Utilization ([link](#)): The headline capacity utilization rate in July was unchanged at 78.1%, holding just below April's 78.3%—which was the highest reading since February 2015. Still, it's 1.7ppts below its long-run (1972-2017) average. Manufacturing's capacity utilization rate rose for the second month to 75.9% in July—just shy of April's 32-month high of 76.0%. July's rate was 2.4ppts below its long-run average. The utilization rate for mining fell to 92.0%, which is 5.0ppts higher than its long-run average, while the rate for utilities fell to 77.5%, nearly 8ppts below its long-run average.

Regional M-PMI ([link](#)): The New York Fed—the first district to report on manufacturing for this month—

says business activity grew in August at its fastest pace in 10 months. The composite index climbed from 22.6 to 25.6 this month, to within 2.5 points of last October's 37-month high of 28.1. Shipments (to 25.7 from 14.6) accelerated at a fast pace this month, while new orders (17.1 from 18.2) held around June's robust rate. Labor market indicators continued to point to solid gains in employment (13.1 from 17.2) and longer workweeks (8.9 from 5.6), though hirings slowed a bit. Meanwhile, delivery times (10.4 from 6.0) lengthened, and inventories (0.0 from -4.2) held steady. Price increases remained elevated: The prices paid index (45.2 from 42.7) inched up, while the prices received index (20.0 from 22.2) edged down. Firms remained moderately optimistic about the six-month outlook, though less so than earlier this year. The index for future business conditions climbed 3.7 points to 34.8; it was at 50.5 during February of this year.

Productivity & Labor Costs ([link](#)): Nonfarm productivity during Q2 grew at its fastest pace in over three years, while unit labor costs fell for the first time in a year—posting its biggest decline since Q3-2014. Productivity accelerated 2.9% (saar) after showing virtually no growth during Q1, as output (4.8%, saar) increased at more than double the pace of hours worked (1.9). Unit labor costs (-0.9) fell at its fastest pace in nearly four years, as the acceleration in productivity growth, along with a slowing in hourly compensation (2.0) pushed costs lower. On y/y basis, productivity expanded 1.3% last quarter, in line with 2017's 1.1% annual increase. Output rose 3.5% y/y during Q2, while hours worked was 2.2% above a year ago; meanwhile, unit labor costs rose 1.9% y/y as hourly comp advanced 3.2%. (Note: Details regarding the 2018 Comprehensive Update of the National Income and Product Accounts, released by the Bureau of Economic Analysis of the U.S. Department of Commerce on July 27, 2018, can be found in the "Revised measures" section on page 2 of this [press release](#).)

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