Yardeni Research

MORNING BRIEFING
September 10, 2018

US Stocks' Boon Is Global Stocks' Bane

See the collection of the individual charts linked below.

(1) More good news for US economy, which is bad news for other economies. (2) US economic strength giving confidence to Trump to escalate trade war and to Powell to raise rates. (3) Three whammies for emerging market economies. (4) New factory orders tumbling in Germany. (5) Wage inflation unnerves bond yield, which remains a tad below 3.00%. (6) US yield would be higher but for global influences. (7) No weakness yet in global forward revenues. (8) Global M-PMI is down since late last year. (9) Commodity prices also signaling global weakness.

Strategy: Strength Here, Weakness There. After Friday's strong employment report, the 9/5 GDPNow estimate for Q3's real GDP growth is likely to be raised a bit from 4.4% when it is revised tomorrow. It follows a 4.2% increase during Q2. If the 9/5 estimate is on target, real GDP rose 3.3% y/y during Q3, the best such growth rate since Q2-2015 (*Fig. 1*). That's obviously good news for the US economy. Less obvious is that this is bad news for the rest of the global economy. Here's why:

(1) *Trump has a winning hand.* President Donald Trump's tax cuts clearly have boosted the US economy, and given him more confidence that he can escalate his trade war with our major trading partners without damaging the US economy. So far, the evidence suggests that Trump's blustering that "trade wars are good, and easy to win" may not be as farfetched as widely believed, especially by almost all economists.

(2) *Powell wants to normalize.* The strength of the US economy is also giving Fed Chairman Jerome Powell and his colleagues confidence that they can continue to raise the federal funds rate. They want to "normalize" monetary policy by raising this rate to 3.00% by the end of next year. On Friday, the two-year US Treasury note yield rose to 2.71% (*Fig. 2*). It tends to be a good proxy for the market's expectation for the federal funds rate a year from now.

(3) *Emerging markets get hit by triple whammy.* The problem is that the rest of the world, particularly emerging market economies, became dependent on the abnormally low rates at which dollars could be borrowed and borrowed lots of funds in dollars. Now they are getting hit by the triple whammy of rising US interest rates, weaker local currencies relative to the dollar, and capital outflows. The Emerging Markets MSCI currency ratio is down 7.7% through Friday since peaking this year on January 25 (*Fig. 3*). The Emerging Markets MSCI stock price index is down 13.9% (in local currencies) and 23.5% (in dollars) over this same period (*Fig. 4*).

(4) *European Union under stress.* Meanwhile, as we discussed last Wednesday, the European Union (EU) is struggling with a number of issues. A new Italian government is pushing to bust the EU rule prohibiting fiscal deficits from exceeding 3% of GDP. Italian bond yields have been soaring in recent weeks (*Fig. 5*). The UK pound has tumbled 4.3% since the start of this year on mounting concerns of a "hard" Brexit (*Fig. 6*). Trump's trade war and the emerging markets crisis are weighing on Germany's factory orders, which dropped 8.1% from their record high at the end of last year through July, led by an

11.9% drop in foreign orders (*Fig. 7*).

The bottom line is that Stay Home continues to outperform Go Global. The ratio of the US MSCI stock price index to the All Country World MSCI ex US MSCI stock price index has been soaring in both dollars and local currencies since Trump launched his trade war in early February of this year (*Fig. 8*). Here is the ytd performance derby of the major MSCI stock price indexes in local currencies: US (7.5%), EMU (-4.3), UK (-5.6), Emerging Markets (-6.0), and Japan (-6.7) (*Fig. 9*). Furthermore, the trade-weighted dollar is up 4.1% ytd.

US Economy: Over Here. The 10-year US Treasury bond yield rose on Friday by 6 bps to 2.94% following the employment report. That still leaves the yield in the remarkably narrow and subdued range mostly just south of 3.00% since the start of this year (*Fig. 10*). Let's see why the bond yield remains so listless:

(1) *Employment.* As Debbie discusses below, payrolls rose 201,000 during August, but the previous two months' gains were revised down by 50,000 in total (*Fig. 11*). The past three months registered average gains of 185,300, i.e., not too hot and not too cold. The more volatile household measure of employment fell 423,000 during August following a gain of 389,000 the previous month.

(2) *Wages.* It was the 2.9% y/y increase in the average hourly earnings measure of wage inflation for all workers that triggered the selling pressure in the bond market (*Fig. 12*). That was the highest reading since June 2009. However, it remains stubbornly below 3.0%, as does the measure for production and nonsupervisory workers, which stood at 2.8% last month. Here is the derby for the Bureau of Labor Statistics' major industry groupings: utilities (4.8% y/y), financial activities (4.7), information services (3.4), construction (3.3), retail trade (3.2), leisure & hospitality (3.2), professional & business services (3.0), education & health services (2.6), durable goods manufacturing (2.3), transportation & warehousing (2.3), wholesale trade (2.0), mining & logging (1.5), and consumer nondurable manufacturing (0.9).

By the way, our Earned Income Proxy for private-sector wages and salaries rose solidly by 0.6% m/m during August, and 5.2% y/y This augurs well for consumer spending, and should raise the 9/11 GDPNow revised estimate for Q3 real GDP (*Fig. 13*).

(3) *Global issues.* Meanwhile, German and Japanese 10-year government bond yields remain close to zero. We've previously noted that the globalization of the US bond market explains why US bond yields haven't risen more and why the yield curve has flattened (*Fig. 14*). Now the emerging markets crisis may also be triggering risk-off portfolio moves that favor US bonds.

The Fed is widely expected to hike the federal funds rate from 1.75%-2.00% to 2.00%-2.25% at the September 25-26 meeting of the FOMC. It will be interesting to see whether the US 10-year yield can break above 3.00% as that meeting approaches or right after it. Our hunch is that the yield will rise just above 3.00%, then remain awfully close to this level over the remainder of the year even if the FOMC hikes again to 2.25%-2.50% at its December 18-19 meeting.

Global Economy: Over There. Confirming the strength in the US economy is the recent record high in the forward revenues of the US MSCI (*Fig. 15*). Lagging behind, but also at a record high, is the forward revenues of the All Country World ex US MSCI (in local currencies). By the way, so far, there is no sign that the troubles of the emerging market economies are depressing the forward revenues of the EM MSCI (in local currencies) (*Fig. 16*).

Then again, there are plenty of signs of a global economic slowdown in the global M-PMI and NM-PMI indexes, as Debbie discusses below. Notably, the global M-PMI most recently peaked at 54.5 during December, and fell to 52.5 during August, the lowest reading since November 2016 (*Fig. 17*).

Furthermore, the CRB raw industrials spot price index has declined in recent weeks to the lowest readings since late 2016 when it was recovering from the global growth recession of 2015 (*Fig. 18*).

CALENDARS

US. Mon: Consumer Credit $14.0b, Bostic. **Tues:** NFIB Small Business Optimism Index 108.2, Job Openings 6.665m. (Econoday estimates)

Global. Mon: UK GDP (monthly) 0.1%, UK Headline & Manufacturing Industrial Production 1.1%/1.4% y/y, UK Trade Balance £2100, China New Yuan Loans 1370.0b, China Aggregate Financing 1298.4b, China CPI & PPI 2.1%/40.% y/y. **Tues:** Germany ZEW Survey Current Situation & Expectations 72/-13.5, UK Employment Change & Unemployment Rate (3-month) 9k/4.0%, Mexico Industrial Production 1.0% y/y. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): The US MSCI index fell 1.1% last week following a 0.9% gain a week earlier, but has risen in 12 of the past 16 weeks. The index ranked ninth out of the 49 markets in a week when just four countries rose in US dollar terms. That's the fewest countries to rise w/w since all 49 fell in early February and compares to the prior week's 13/49 ranking when 22 markets rose. The AC World ex-US index tumbled 2.9% for its worst decline since early March vs a 0.3% gain a week earlier. EM Latin America performed the best among markets abroad, albeit with a decline of 0.4%, followed by EMEA (-2.8%) and EAFE (-2.9). Regions underperforming the AC World ex-US last week: EM Eastern Europe (-3.8), EM Asia (-3.3), BRIC (-3.2), and EMU (-3.0). Turkey was the best-performing country as it rose 3.7%, followed by Argentina (2.1), Brazil (1.4), Jordan (0.8), and Italy (0.4). Of the 23 countries that underperformed the AC World ex-US MSCI last week, Greece fared the worst, falling 7.6%, followed by South Africa (-6.4) and New Zealand (-6.0). With a gain of 7.5% ytd, the US MSCI remains way ahead of the AC World ex-US (-8.2); 44/49 countries and all other regions are in negative territory ytd. EAFE (-7.1) and EMU (-7.6) lead the AC World ex-US. EMEA (-13.8) is the biggest laggard relative to the AC World ex-US's performance, followed by EM Latin America (-13.2), BRIC (-12.1), EM Asia (-9.8), and EM Eastern Europe (-9.7). The best country performers ytd: Israel (8.5), the US (7.5), Finland (7.2), Taiwan (0.5), and Norway (0.1). The worst-performing countries ytd: Turkey (-53.5), Argentina (-52.0), South Africa (-26.2), Greece (-25.1), and Indonesia (-20.3).

S&P 1500/500/400/600 Performance (*link*): All three of these market-cap indexes moved lower last week in their biggest decline in 10 weeks. MidCap (-0.9%) fell the least, ahead of LargeCap's (-1.0) and SmallCap's (-1.6) declines. MidCap ended the week down 1.1% from its record high on August 29, ahead of LargeCap (-1.5, August 29) and SmallCap (-1.6, August 31). Ten of the 33 sectors rose in the latest week, the lowest count in 10 weeks and down from 18 rising a week earlier. The best performers in the latest week: SmallCap Telecom (1.8), SmallCap Utilities (1.2), MidCap Utilities (1.0), LargeCap Utilities (1.0), and LargeCap Consumer Staples (1.0). MidCap Energy was the biggest decliner last week, falling 6.7%, and followed by SmallCap Energy (-5.7), SmallCap Tech (-3.3), LargeCap Tech (-2.9), and SmallCap Consumer Discretionary (-2.5). LargeCap is now up 7.4% ytd; it has been beating MidCap (6.7) on a ytd basis in recent weeks after trailing it for much of the year, but both are significantly trailing SmallCap's 15.5% gain. Twenty-eight sectors are now positive to date in 2018, down from 29 a week earlier and compared to just three in early February. The best-performing sectors ytd: SmallCap Health Care (45.6), MidCap Health Care (31.2), SmallCap Telecom (20.8), LargeCap Consumer Discretionary (16.9), and LargeCap Tech (16.5). The worst performers ytd: LargeCap

Telecom (-7.2), LargeCap Consumer Staples (-5.2), LargeCap Materials (-2.5), MidCap Materials (-1.2), and SmallCap Real Estate (-0.4).

S&P 500 Sectors and Industries Performance (*link*): Four sectors rose last week, and seven outperformed the S&P 500's 1.0% decline. That compares to seven rising a week earlier, when three outperformed the S&P 500's 0.9% gain. Utilities and Consumer Staples, with gains of 1.0%, were the best-performing sectors and beat the performances of Industrials (0.6%), Telecom (0.1), Financials (-0.1), Health Care (-0.3), and Materials (-0.6). Tech was the biggest underperformer, with a drop of 2.9%, followed by Energy (-2.3), Real Estate (-1.2), and Consumer Discretionary (-1.2). Eight sectors are in the plus column so far in 2018, unchanged from a week earlier and down from nine in early March. However, just three sectors are outperforming the S&P 500's 7.4% ytd gain: Consumer Discretionary (16.9), Tech (16.5), and Health Care (11.7). The eight ytd underperformers: Telecom (-7.2), Consumer Staples (-5.2), Materials (-2.5), Energy (0.3), Real Estate (1.0), Financials (1.0), Industrials (1.9), and Utilities (1.9).

Commodities Performance (*link*): Last week, the S&P GSCI index dropped 1.6% w/w for seventh decline in 10 weeks as seven of the 24 commodities that we follow moved higher. That compares to the prior week's 1.1% gain when 14/24 commodities rose. Last week's strongest performers: Lean Hogs (10.4%), Sugar (3.9), Feeder Cattle (2.6), Live Cattle (1.1). Last week's biggest decliners: Kansas Wheat (-7.0), Wheat (-6.3), Natural Gas (-4.8), and Nickel (-3.5). The S&P GSCI commodities index is up 4.2% ytd and near its highest level since December 2014, but is down 6.9% from its high in May and remains at half the level of its record high in July 2008 just before the financial crisis. The top performer so far in 2018 is Kansas Wheat (20.5), followed by Wheat (19.7), Cocoa (19.4), Brent Crude (14.9), and GasOil (12.5). The biggest laggards of 2018 to date: Sugar (-27.4), Zinc (-27.2), Lean Hogs (-22.5), Coffee (-18.8), and Copper (-18.1).

Assets Sorted by Spread w/ 200-dmas (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 8/24 commodities, 0/9 global stock indexes, and 12/33 US stock indexes, compared to 9/24 commodities, 3/9 global stock indexes, and 31/33 US stock indexes rising a week earlier. Commodities' average spread fell w/w to -4.8% from -3.5%, and seven commodities trade above their 200-dmas, down from 10 a week earlier. GasOil now leads all commodities at 8.3% above its 200-dma, followed by Brent Crude (7.6). Lean Hogs (-20.8) trades the lowest of all commodities and all assets, but improved 8.9ppts w/w for the best performance among all assets. Nickel (-8.7) performed the worst among commodities last week, falling 6.4ppts. The global indexes trade at an average of 4.7% below their 200-dmas, down from -2.7% in the prior week. Just two of the nine global indexes trade above their 200-dmas, unchanged from a week earlier. Even though Canada (0.8) barely trades above its 200-dma, it now leads the global indexes in this respect. Brazil's 0.1ppt decline w/w to -4.2% below its 200-dma was the best performance among global assets last week. China (-14.6) trades at the lowest point relative to its 200-dma among global assets, but Germany (-5.5) fell 4.1ppts for the worst w/w performance among global assets. The US stock indexes trade at an average of 6.0% above their 200-dmas, with 29 of the 33 sectors above, down from 6.8% a week earlier, when 31 sectors were above. SmallCap Health Care (21.2) continues to lead the US stock indexes and all assets, but SmallCap Utilities (7.4) rose 2.3ppts w/w for the biggest gains among US stock indexes last week. SmallCap Energy (-2.6) now trades the lowest among all US stock indexes relative to 200-dmas, but MidCap Energy (4.2) dropped 8.3ppts last week for the worst performance among US stock indexes and all assets.

S&P 500 Technical Indicators (*link*): The S&P 500 price index dropped 1.0% last week and weakened relative to both its short-term 50-day moving average (50-dma) trend line and its long-term 200-dma for the first time in four weeks. The index remained in a Golden Cross (50-dma higher than 200-dma) for a 124th 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 13th time in 14 weeks following 17 straight weekly declines. The current Golden Cross reading of 3.3% is at a 22-week high and up from 2.9% 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 15th week after mostly declining from late March to late May-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, but dropped to a nine-week low of 1.4% above its rising 50-dma from a 12-week high of 3.1% 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 a pace near its slowest since October 2011. The S&P 500 successfully tested its 200-dma in early April, but ended the week at a four-week low of 4.8% above its rising 200-dma from a 24-week high of 6.1% a week earlier. That compares to 0.6% below the index's rising 200-dma on April 3 (the lowest reading since June 2016) and a seven-year high of 13.5% above its 200-dma on January 29.

S&P 500 Sectors Technical Indicators (*link*): Among the 11 S&P 500 sectors, just two improved relative to their 50-dmas last week and four relative to their 200-dmas. Consumer Staples and Utilities improved relative to both measures in the latest week. Ten of the 11 sectors are trading above their 50-dmas, unchanged from a week earlier and leaving Energy as the only sector trading below its 50-dma. All 11 sectors were trading above their 50-dmas in late July, the most since early December. Just a few months prior, the picture was the opposite: All 11 sectors were 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 currently, down from 10 a week earlier as Energy fell below in the latest week. That's up from just four sectors trading above their 200-dmas in early May (which matched the lowest count since January 2016). Materials remained below for the 11th time in 12 weeks. Sectors trading the longest above their 200-dmas: Tech (above 200-dma for 114 straight weeks), Consumer Discretionary (96 straight weeks), and Health Care (15 weeks). All 11 sectors had been above both their 50-dmas and 200-dmas briefly in mid-December (for the first time since July 2016). Six 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. Consumer Staples was out for a 25th week, followed by: Telecom (out for 23 weeks), Materials (19), Industrials (15), and Financials (11). Ten sectors have rising 50-dmas now, a count that's unchanged from a week earlier as Energy continued a descent begun in mid-July. 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, down from nine a week earlier and compared to six in mid-July (which was tied with a count in February for the lowest since May 2017). The 200-dma for Real Estate and Telecom 200-dma turned back down in the latest week, joining Consumer Staples and Utilities in the declining 200-dma club.

US ECONOMIC INDICATORS

Employment (*link*): Employment growth in August was slightly stronger than expected, though there were major downward revisions to prior months. Last month, 201,000 were added to payrolls (vs a 195,000 consensus estimate), while gains for both July (to 147,000 from 157,000) and June (208,000 from 248,000) were revised lower, for a net loss of 50,000. Private payrolls added 204,000 jobs last month—considerably above ADP's count of 163,000—following downwardly revised increases to both July (153,000 from 170,000) and June (192,000 from 234,000), for a net loss of 59,000. The industries boosting August payrolls once again were a combination of service-providing and goods-producing companies, though manufacturing companies posted their first decline in 13 months, falling -3,000, after a 12-month gain of 296,000 (averaging 25,000 per month). Professional & business services (53,000) and health care & social assistance (40,700) once again finished one-two, boosting payrolls by

519,000 and 386,000, respectively, the past 12 months. Construction (23,000) companies continued to post impressive gains, adding nearly 300,000 jobs since last August. Wholesale trade and transportation & warehousing companies added 22,400 and 20,200, respectively, last month, and 98,900 and 172,700 over the past year. Meanwhile, the breadth of job creation (i.e., the percentage of private industries increasing payrolls) remained elevated last month, with the three-month span (63.4%) remaining above 60.0%, though easing from June's 72.1%, and the one-month span (60.7) moving back above 60.0%.

ADP Employment (*link*): In August, private industries added a smaller-than-expected 163,000 to payrolls, following small downward revisions to both July (to 217,000 from 219,000) and June (178,000 from 181,000) counts, for a net loss of 5,000. The report notes that despite the slowdown, "The job market is hot. Employers are aggressively competing to hold onto their existing workers and to find new ones. Small businesses are struggling the most in this competition, as they increasingly can't fill open positions." Last month, service-providing industries rose 139,000, while goods-producing industries climbed 24,000—both slowing from gains of 177,000 and 41,000, respectively, in July. Latest data show manufacturing (19,000) and construction (5,000) companies continued to add to payrolls, though at a slower pace; over the past 21 months, they've boosted payrolls by 336,000 and 369,000, respectively. Within service-providing industries, the increase was broad based, with professional & business services (38,000), educations & health services (31,000), and leisure & hospitality (25,000) once again leading the pack. By company size, medium-sized companies (111,000) remained at the top of the leader board, accounting for over two-thirds of August's gain, with 98,000 service-providing and 13,000 goods-producing. Large companies moved up to the second position, adding 31,000 jobs, with service-providing (21,000) companies hiring at double the pace of goods-producing (10,000) ones. Small companies returned to the cellar, adding just 21,000 to payrolls—an 11-month low—with service-providing (20,000) accounting for virtually all of August's gain.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, continued to climb to new record highs in August. Our EIP rose 0.6% in August—just above the 0.5% average monthly gain the past six months, and 5.2% y/y. Average hourly earnings (AHE), one of the components of our EIP, posted its best monthly gain so far this year, up 0.4%, and its best yearly gain since June 2009, at 2.9%. Over the past three months through August, wages accelerated 3.3% (saar). Meanwhile, aggregate weekly hours—the other component—rebounded by 0.2% last month, after falling by that amount in July; it was up 2.3% y/y.

Unemployment (*link*): August's unemployment rate was unchanged at 3.9%, holding near May's 18-year low of 3.8%—which was tied for the lowest jobless rate since 1969. Meanwhile, the participation rate slipped from 62.9% to 62.7% last month—continuing to fluctuate in a narrow band the past 2.5 years. The adult unemployment rate was unchanged at 3.5% last month, just above its cyclical low of 3.4%, while the college-grad rate fell for the second month from 2.3% in June to 2.1% in August, just above its cyclical low of 2.0%. Meanwhile, the volatile teenage rate ticked down to 12.8% after rising from 12.6% to 13.1% in July, remaining near its cyclical low. Those working part-time for economic reasons (a.k.a. "involuntary part-time workers") declined for the sixth straight month, by 781,000, to 4.4 million (2.7% of the civilian labor force). The sum of the underemployment and jobless rates (6.6%) and the U6 rate (7.4)—which includes marginally attached workers—both fell to their lowest readings since spring 2001.

Wages (*link*): August wage inflation—as measured by the average hourly earnings (AHE) rate for all workers on private nonfarm payrolls—climbed to 2.9% y/y, the best rate since June 2009; it was at a recent low of 2.3% in October. The wage rate for service-providing industries (3.0% y/y) broke out of its volatile flat trend—accelerating to its highest reading since April 2009—while the goods-producing rate (2.4) rose to a high for this year, though remained subdued. Within goods-producing, the manufacturing rate (1.8) held near recent lows, while the construction rate (3.3) remained near recent highs; the natural resources rate (1.5) held just above 1.0%. Within service-providing, rates for retail trade (3.2, the highest since December 2015), wholesale trade (2.0), and utilities (4.8) are on accelerating trends, while the rate for professional & business services (3.0) bounced off recent lows. Stalled around recent highs are rates for financial activities (4.7) and education & health services (2.6), while rates for information services (3.4), transportation & warehousing (2.3), and leisure & hospitality (3.2) remain around recent lows.

GLOBAL ECONOMIC INDICATORS

Global Composite PMIs (*link*): Global economic activity eased again in August, falling to a five-month low. The JP Morgan Global Composite Output Index (C-PMI) fell for the second month to 53.4 last month, after climbing the prior three months from 53.3 in March to 54.2 in June—which wasn't far from February's 3.5-year high of 54.8. The NM-PMI slipped to a five-month low of 53.5 after advancing steadily from 53.2 in March to 54.6 in June. Meanwhile, the M-PMI fell for the seventh time this year, sinking from 54.5 in December to a 21-month low of 52.5 in August. The US C-PMI (to 54.7 from 55.7) showed it remained the main driver of the global economic expansion last month, though it did ease to a five-month low. Meanwhile, C-PMIs accelerated in the Eurozone (54.5 from 54.3), UK (54.2 from 53.5), Japan (52.0 from 51.8), and Russia (52.1 from 51.7). Within the Eurozone, Ireland's C-PMI (58.4, 7-month high), topped the leader board, followed by those of Germany (55.6, 6-month high), France (54.9, 2-month high), Spain (53.0, 2-month high), and Italy (51.7, 22-month low)—with only the latter's growth rate slowing. C-PMIs also show an easing in growth in China (52.0 from 52.3), India (51.9 from 54.1), and Australia (52.0 from 52.3), with only Brazil's (47.8 from 50.4) contracting during the month.

Global Non-Manufacturing PMIs (*link*): The global service sector in August eased for the second month, coming in below its long-run average (54.2) for the second straight month. JP Morgan's NM-PMI fell to 53.5 last month after climbing from 53.2 in March to 54.6 in June, which was the second-highest rate of the past three years—February's 54.8 being the highest. NM-PMIs show service-sector growth improved modestly in the Eurozone (to 54.4 from 54.2), as faster expansions in Germany (55.0 from 54.1), France (54.9 from 54.4), Spain (52.7 from 52.6), and Ireland (58.0 from 57.4) more than offset a slower pace in Italy (52.6 from 54.0); NM-PMIs for Japan (51.5 from 51.3) and the UK (54.3 from 53.5) also showed accelerations in activity. Growth remained solid in the US (54.8 from 56.0), though its NM-PMI fell to a four-month low. Emerging economies' NM-PMIs show service-sector growth in Russia (53.3 from 52.8) expanded at a three-month high, while rates of expansion in China (51.5 from 52.8) and India (51.5 from 54.2) slowed to their weakest readings in 10 and three months, respectively; Brazil's (46.8 from 50.4) service sector was the only one to contract last month.

US Non-Manufacturing PMIs (*link*): The ISM measure shows growth in the service sector accelerated in August after slowing to an 11-month low in July, while the IHS Markit measure eased to a four-month low. ISM's NM-PMI rebounded to 58.5 last month after sliding from 59.1 to 55.7 in July; it's within 1.4 points of January's 59.9—which was the fastest rate since August 2005. All four components of the NM-PMI accelerated last month, with NM-PMIs for business activity (60.7 from 56.5) and new orders (60.4 from 57.0) bouncing back above 60.0, while the employment (56.7 from 56.1) and supplier deliveries (56.0 from 53.0) gauges were the highest in seven and three months, respectively. IHS Markit's NM-PMI fell for the third month since reaching a three-year high of 56.8 in May, slipping to 54.8 last month. According to the report, new business increased at the slowest rate in eight months, while job creation dipped to a seven-month low, with firms reporting difficulties finding suitable candidates. Meanwhile, business confidence was strongly positive, with optimism rising from July's recent low.

Germany Manufacturing Orders (*link*): Factory orders in July contracted—rather than expanded as forecast—on trade fears. "Order intake in the manufacturing sector has slowed noticeably since the beginning of the year after a very dynamic second half of 2017," the ministry said. "The worldwide uncertainty caused by trade conflicts probably played a role here," it added. Billings fell for the sixth time this year in July, sinking -0.9% m/m and -8.1% ytd, to its lowest level since January 2017; orders were expected to increase 1.8% in July. Foreign orders plunged -8.0% during the two months through July, with orders from both inside (-5.8) and outside (-9.3) the Eurozone tanking over the period; so far this year, these orders are down -11.7% and -12.0%, respectively. Domestic orders continue their up-and-down pattern, climbing 2.4% in July after a -2.6% loss and a 4.2% gain the prior two months; these orders are down -2.6% ytd. Here's a monthly and ytd performance list by market group: Capital goods is the weakest, led by sharp losses in foreign orders from both inside (-6.9%m/m, -21.4%y/y) and outside (-6.2, -14.3) the Eurozone, while domestic (4.1, -3.4) billings were up in July but down ytd. Intermediate goods orders rose across the board in July, though remained weak ytd. The biggest drag on intermediate goods orders so far this year is in orders from outside (1.3, -6.5) the Eurozone; orders from within (2.1, -0.4) were barely negative ytd. Meanwhile, domestic orders for intermediate goods expanded for the second time in three months by a total of 4.4%. The story for consumer goods is the sharp drop in foreign orders from outside the Eurozone—plunging -10.1% ytd, with durable and nondurable goods orders tumbling -11.0% and -9.8%, respectively.

Germany Industrial Production (*link*): German industrial production fell unexpectedly in July, dropping for the second month, though remains in a volatile flat trend around record highs. Germany's headline production—which includes construction—fell -1.1% following a revised -0.7% (from -0.9%) decline in June and a 2.2% jump in May. Excluding construction, output fell -1.8% in July after a -0.6% loss and a 2.2% gain the prior two months. The sector breakdown shows only construction (2.6%) posted a gain in July, while manufacturing (-1.9) production fell for the second month. The main industrial groupings showed widespread weakness for the second month, with production of capital (-2.5) consumer durable (-2.5), intermediate (-1.4), and consumer nondurable (-0.6) goods all in the red last month. While July's report was disappointing, industrial production remained 1.1% above a year ago, though was near zero excluding construction (0.6). Looking ahead, Germany's M-PMI in August (to 55.9 from 56.9) fell back down to June's 18-month low—still a healthy reading, though below December's 63.3. August's report notes that Germany's manufacturing sector saw robust increases in both output and employment last month; the weakness was in new orders—new export orders in particular, which showed their weakest rise in over two years.

Contact us by email or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-775-6823