



MORNING BRIEFING

September 17, 2018

Countering a Rash of Pessimism

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

(1) Rash of articles about 2008 financial crisis. (2) Feldstein confident that a bear market is coming. (3) Latest price inflation news fairly benign. (4) Trump's trade war isn't boosting import prices so far. (5) Productivity growth finally making a comeback? (6) Trump's tax cuts making America a great place to do business. (7) Lots of minimalists are bullish for economy and stocks. (8) US federal deficit balloons along with entitlement outlays, defense spending, and interest payments. (9) S&P 500 forward revenues and earnings continue to set records. (10) Outlook for long-term stock returns depends on starting point.

Strategy I: US Going to the Supply Side? Lehman Brothers imploded on September 15, 2008. So naturally, there has been a rash of 10-year anniversary articles on the financial crisis of 2008. I posted a seven-part series on the subject on LinkedIn. It is based on Chapter 8 of my book, [Predicting the Markets](#). There has also been a rash of pessimistic articles about the outlook for the US economy and the stock market.

Our accounts have been sending me more emails lately asking me to respond to such articles as “What Next for the US Stock Market?” The 8/28 [article](#) by Martin Feldstein—a paragon of financial conservatism and chair of the Reagan administration’s Council of Economic Advisers—warned: “My judgment is that the greatest risk to the stock market is the future increase in long-term interest rates.” He sees higher inflation, attributable to tighter labor markets, forcing the Fed to raise the federal funds rate more aggressively. In his opinion, the major bearish factor for bonds, and therefore stocks, is the massive federal deficit. He observes: “The Congressional Budget Office projects that the federal debt held by the public will grow from 78% of GDP now to nearly 100% over the next decade.”

Feldstein concluded: “The rise in long-term rates will reduce the present value of future corporate profits and provide investors with an alternative to equities. The result will be a decline in share prices. I don’t know when that will happen, but I am confident that it will.”

A similarly bearish [cover story](#) in this week’s *Barron’s* by Jack Hough is titled “‘We’re Using the Future for a Fiscal Dumping Ground.’ Beware Trillion-Dollar Deficits.” It too focuses on the mountain of mounting federal debt as a looming threat to the bond and stock markets as well as the economy. After convincingly and thoroughly making his case about the alarming trajectory of US federal debt, Hough quoted a couple of economists who agree that it is a worrisome problem but also that it may be too early to worry. I agree. Consider the following:

(1) *Wage & price inflation*. I would be much more worried now if I believed that inflation was about to spurt higher. August’s batch of price inflation data arrived last week. Despite signs that wage inflation is finally picking up, price inflation remains fairly subdued. The labor market is very tight, as confirmed by July’s quit rate, which was the highest since April 2001 ([Fig. 1](#) and [Fig. 2](#)). August’s average hourly earnings for all employees was 2.9% y/y, the highest since June 2009. It was 2.8% for production and

nonsupervisory workers.

Yet the core CPI inflation rate edged down to 2.2% y/y during August ([Fig. 3](#)). It has remained range-bound between 1.6% and 2.4% since 2012. There has been upward pressure on the PPI finished goods inflation rate since early 2016, which is also visible in the CPI goods inflation rate ([Fig. 4](#)). However, most of the uptrend since then is attributable to the surge in oil prices.

Trump's trade war has yet to show up in the US import price index's inflation rate. Excluding petroleum, it was down to 1.0% y/y during August, the lowest since August 2017 ([Fig. 5](#)). The strong dollar may be offsetting some of the tariffs already imposed by the Trump administration. If Trump proceeds to slap tariffs on all Chinese imports, there could be some upward pressure on import prices.

(2) *Productivity & technology*. Last week, in meetings with some of our accounts in Philadelphia, Wilmington, Baltimore, and Washington DC, I was frequently asked why I'm not convinced that labor costs will rise much more rapidly, and if they do why that won't boost price inflation. I'm betting that economic growth will remain strong and force companies to use more technology to overcome labor shortages. In other words, I think productivity growth finally may be making a comeback. I believe that companies remain very focused on maintaining their record-high profit margins. That means they will have to push for more productivity as competitive forces limit their ability to pass on costs into prices.

Debbie and I monitor the 20-quarter annualized growth rate of productivity ([Fig. 6](#)). It may have bottomed at 0.5% during Q4-2015, rising to 1.0% during Q2-2018. This is actually a remarkable performance given that the growth rate of manufacturing productivity, measured the same way, has been slightly negative since mid-2015.

The widespread view is that services productivity has been the drag on overall productivity. The data clearly show that manufacturing is the drag. I've previously attributed that to US manufacturers moving overseas and letting their remaining capacity in the US languish. (And that's why Trump won the presidential election!) That may be about to change.

By the way, if productivity growth rebounds, so will the comparable growth rate in real hourly compensation ([Fig. 7](#)). This creates a virtuous cycle whereby better productivity growth boosts consumer spending, which boosts productivity.

(3) *Corporate tax rate & robots*. Change may be coming as manufacturing and other businesses are attracted to expand in the US by the 20% corporate tax rate enacted at the end of last year. That makes the US one of the lowest-cost countries for doing business. So does the ample supply of natural gas and oil. Labor costs are rising all around the world, so that issue may no longer favor moving out of the US. Global labor shortages attributable to demographic factors are stimulating a worldwide automation/robotics/AI revolution. Robots are just as efficient when they operate in the US as anywhere else around the world. 3D manufacturing technologies mean that supply chains can be kept very local, with necessary parts made at home rather than overseas.

(4) *Demography*. In the 8/28 [Morning Briefing](#), Melissa and I wrote: "[Millennials] are [mostly single] minimalists who aren't big earners or spenders because they need only support themselves. The Baby Boomers were big spenders when they were getting married and having kids. They too are turning into minimalists as they trade down to smaller houses and apartments now that they are empty nesters. These demographic trends suggest that the pace of consumer spending growth will remain lower than during the heydays of the Baby Boomers. If so, this may keep a lid on economic growth and reduce the likelihood of a boom. If there is no boom, there is less likelihood of a bust."

(5) *Bonds & debt*. In the 8/1 [Morning Briefing](#), I opined as follows: “Why aren’t bond yields rising in anticipation of all the debt that will need to be financed? There is already a record amount of debt everywhere, and more coming can’t be good for bonds. There is also a record amount of wealth in the world. Some of it tends to be managed with a risk-off bent. Ironically, people who expect that ‘this will all end badly’ tend to buy government bonds because they are deemed to be among the safest assets.”

You may be starting to suspect that I am turning into a supply-sider. I’ve often noted that YRI’s analysis is fact-based rather than faith-based. If the data continue to suggest that the tax cuts, along with technological and demographic factors, are boosting productivity and real compensation while keeping a lid on inflation—and also partly paying for themselves with higher tax revenues—then yes, I will be a supply-side believer.

For the here and now, the facts about the federal deficit are showing no beneficial supply-side effects so far. The 12-month sum of the budget shortfall jumped to \$890 billion during August, the widest gap since March 2013 ([Fig. 8](#)). The 12-month sum of net interest paid by the federal government soared to a record \$320 billion last month ([Fig. 9](#)).

Federal outlays over the past 12 months rose to a record high of \$4.2 trillion through August, while receipts have flattened out following the tax cut at the end of last year ([Fig. 10](#)). The former has been boosted by record spending on Medicare and Social Security as spending on defense has started to rebound under Trump ([Fig. 11](#)). Weighing on receipts, of course, is the cut in the corporate tax rate ([Fig. 12](#)).

So why is the 10-year US Treasury yield still hovering around only 3.00%? Perhaps the best explanation remains that it is tethered to comparable yields in Germany and Japan, which remain near zero ([Fig. 13](#)).

(6) *Corporate revenues & earnings*. Given the mounting concerns about the federal deficit, why are US stocks in record-high territory? Stock investors are probably nervously watching the bond market. As long as bond yields remain subdued, they can remain bullish on earnings.

The latest indicators for S&P 500 revenues and earnings remain upbeat. S&P 500 forward revenues continues to rise into record territory and is a great weekly coincident indicator of actual quarterly results ([Fig. 14](#)). S&P 500 forward earnings likewise is still climbing to record highs and is a great leading indicator of actual operating earnings ([Fig. 15](#)).

Strategy II: Subpar Returns Ahead? It’s logical: Periods of above-average returns should be followed by periods of subpar returns. Returns have been great during the current bull market, so they are likely to be weak in coming years. The problem with this simplistic insight is that it is simplistic.

If you had gotten out of the S&P 500 just before the previous bear market started, gotten back in during March 2009, when the bull market began, and remained in through August of this year, your annualized simple average annual return over the past nine years and five months would be 29.5%, or 15.1% compounded ([Fig. 16](#)). That should be hard to match, let alone beat, over the next comparable period.

If you had become fully invested during August 2008, when the financial crisis was about to be worsened by the collapse of Lehman, and remained so until now, your 10-year average return would be 13.5%, or 8.9% compounded ([Fig. 17](#)).

I think this means that to enjoy the kind of returns we have had over the past nine years and five months, we need to get out just prior to the next bear market and get back in right at the bottom. I did

tell everyone to get into stocks during March 2009. While I did turn bearish on Financials during June 2007, I forgot to tell everyone to sell everything during October 2007. I'll try to do better next time.

CALENDARS

US. Mon: Empire State Manufacturing Index 23.0. **Tues:** Housing Market Index 67, Treasury International Capital. (Econoday estimates)

Global. Mon: Eurozone Headline & Core CPI 2.0%/1.0% y/y. **Tues:** Japan Trade Balance ¥483.2b, RBA Meeting Minutes, Draghi. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index rose 1.2% last week following a 1.1% decline a week earlier, and has risen in 13 of the past 17 weeks. The index ranked 27th out of the 49 markets in a week when 31 countries rose in US dollar terms, compared to the prior week's 9/49 ranking when five markets rose. The AC World ex-US index rose 1.4% for the week compared to a 2.9% decline a week earlier, which was its worst weekly decline since early March. EM Eastern Europe performed the best among markets abroad with a gain of 2.8%, followed by EMEA (2.4%), EMU (2.1), and EAFE (1.8). Regions underperforming the AC World ex-US last week: EM Latin America (-0.7), BRIC (-0.1), and EM Asia (0.5). Turkey was the best-performing country as it rose 6.7%, followed by Colombia (4.6), Russia (4.2), Austria (3.7), and Norway (3.7). Of the 23 countries that underperformed the AC World ex-US MSCI last week, Argentina fared the worst, falling 4.7%, followed by Sri Lanka (-4.2), Brazil (-4.0), the Philippines (-3.0), and Egypt (-2.8). With a gain of 8.8% ytd, the US MSCI ranks 3/49 and remains way ahead of the AC World ex-US (-6.9); 39/49 countries and all other regions are in negative territory ytd. EAFE (-5.5) and EMU (-5.7) lead the AC World ex-US. EM Latin America (-13.9) is the biggest laggard relative to the AC World ex-US's performance, followed by BRIC (-12.2), EMEA (-11.8), EM Asia (-9.3), and EM Eastern Europe (-7.2). The best country performers ytd: Israel (12.1), Finland (8.9), the US (8.8), Norway (3.8), and Colombia (3.1). The worst-performing countries ytd: Argentina (-54.3), Turkey (-50.4), Greece (-26.5), South Africa (-25.7), and Brazil (-22.1).

S&P 1500/500/400/600 Performance ([link](#)): All three of these market-cap indexes moved higher last week following their biggest decline in 10 weeks a week earlier. LargeCap (1.2%) rose the most, ahead of MidCap's (1.0) and SmallCap's (0.5) gains. MidCap ended the week down 0.2% from its record high on August 29, ahead of LargeCap (-0.3, August 29) and SmallCap (-1.1, August 31). Twenty-eight of the 33 sectors rose in the latest week, up from 10 a week earlier, which had been the lowest count in 10 weeks. The best performers in the latest week: MidCap Telecom (4.9), MidCap Energy (4.4), LargeCap Telecom (2.9), and LargeCap Energy (2.0). SmallCap Real Estate was the biggest decliner last week, falling 0.9%, and followed by MidCap Financials (-0.5), LargeCap Financials (-0.4), and SmallCap Financials (-0.3). LargeCap is now up 8.7% ytd; it has been beating MidCap (7.7) on a ytd basis in recent weeks after trailing it for much of the year, but both are significantly trailing SmallCap's 16.0% gain. Twenty-eight sectors are now positive to date in 2018, unchanged from a week earlier and compared to just three in early February. The best-performing sectors ytd: SmallCap Health Care (45.6), MidCap Health Care (32.9), SmallCap Telecom (21.5), LargeCap Tech (18.6), LargeCap Consumer Discretionary (18.3), and SmallCap Industrials (16.9). The worst performers ytd: LargeCap Consumer Staples (-4.6), LargeCap Telecom (-4.5), LargeCap Materials (-1.9), SmallCap Real Estate (-1.3), and MidCap Materials (-0.8).

S&P 500 Sectors and Industries Performance ([link](#)): Ten sectors rose last week, and five outperformed the S&P 500's 1.2% gain. That compares to four rising a week earlier, when seven outperformed the S&P 500's 0.9% gain. Telecom (2.9%) was the best-performing sector, beating the

decent gains achieved by Energy (2.0), Industrials (1.9), Tech (1.8), and Consumer Discretionary (1.2). Financials was the biggest underperformer, with a drop of 0.4%, followed by Real Estate (0.2), Utilities (0.4), Materials (0.6), Consumer Staples (0.6), and Health Care (1.0). 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 8.7% ytd gain: Tech (18.6), Consumer Discretionary (18.3), and Health Care (12.8). The eight ytd underperformers: Consumer Staples (-4.6), Telecom (-4.5), Materials (-1.9), Financials (0.7), Real Estate (1.2), Utilities (2.3), Energy (2.3), and Industrials (3.8).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 0.7% w/w for only its fourth gain in 11 weeks as 12 of the 24 commodities that we follow moved higher. That compares to the prior week's 1.6% decline when 7/24 commodities rose. Last week's strongest performers: Sugar (9.2%), Live Cattle (6.6), Feeder Cattle (3.6), Nickel (2.7), and Lean Hogs (1.8). Last week's biggest decliners: Corn (-4.2), Zinc (-3.7), Coffee (-2.7), Cocoa (-1.8), and Lead (-1.7). The S&P GSCI commodities index is up 5.0% ytd and near its highest level since December 2014, but is down 6.2% from its high in May and remains at half the ytd performance of its record high in July 2008 just before the financial crisis. The top performer so far in 2018 is Kansas Wheat (20.8), followed by Wheat (19.8), Cocoa (17.3), Brent Crude (16.1), Crude Oil (13.8), and GasOil (12.9). The biggest laggards of 2018 to date: Zinc (-29.9), Lean Hogs (-21.1), Coffee (-21.0), Sugar (-20.7), Lead (-18.0), Silver (-17.5), and Copper (-17.5).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 10/24 commodities, 7/9 global stock indexes, and 26/33 US stock indexes, compared to 8/24 commodities, 0/9 global stock indexes, and 12/33 US stock indexes rising a week earlier. Commodities' average spread rose w/w to -4.1% from -4.5%, and eight commodities trade above their 200-dmas, up from seven a week earlier. Brent Crude now leads all commodities at 8.5% above its 200-dma, but Sugar (-2.7) improved 8.7ppts w/w for the best performance among all assets. Zinc (-23.5) trades the lowest of all commodities and all assets, but Corn (-5.4) fell 4.ppts w/w for the worst performance among all assets. The global indexes trade at an average of 3.7% below their 200-dmas, up from -4.7% in the prior week. Just two of the nine global indexes trade above their 200-dmas, unchanged from a week earlier. Japan (3.0) jumped 3.5ppts w/w for the best performance among global assets and now leads the global indexes. China (-14.6) trades at the lowest point relative to its 200-dma among global assets, but Brazil (-5.5) fell 1.3ppts for the worst w/w performance among global assets. The US stock indexes trade at an average of 6.5% above their 200-dmas, with 29 of the 33 sectors above, up from 5.7% a week earlier, when 29 sectors were above. SmallCap Health Care (19.8) continues to lead the US stock indexes and all assets, but dropped 1.2ppts last week for the worst performance among US stock indexes. MidCap Telecom (12.3) rose 4.9ppts w/w for the biggest gains among US stock indexes last week. SmallCap Energy (-1.5) trades the lowest among all US stock indexes relative to 200-dmas.

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 1.2% last week and improved relative to both its short-term 50-day moving average (50-dma) trend line and its long-term 200-dma for the eighth time in 11 weeks. The index remained in a Golden Cross (50-dma higher than 200-dma) for a 125th 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 14th time in 15 weeks following 17 straight weekly declines. The current Golden Cross reading of 3.6% is at a 23-week high and up from 3.3% 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 16th 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 successfully tested its 50-dma at the end of June, and rose to 2.0% above its rising 50-dma from a nine-week low of 1.4% above its rising 50-dma a week earlier. That compares to a 25-month low of 5.6% below its falling 50-dma near the end of

March and a two-year high of 6.2% above its rising 50-dma on January 29. The 200-dma continued to rise last week, 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. It ended the week at a 5.7% above its rising 200-dma, up from 4.8% a week earlier but down from a 24-week high of 6.1% at the end of August. 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, nine improved relative to their 50-dmas last week and ten relative to their 200-dmas. Real Estate weakened relative to its 50-dma last week, and Financials dropped relative to both measures. Ten of the 11 sectors are trading above their 50-dmas now—all but Energy—a count unchanged from a week ago. 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 10/11 sectors trading above currently, up from nine a week earlier as Energy rose back above 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 12th time in 13 weeks. Sectors trading above their 200-dmas for the longest timespans: Tech (115 straight weeks), Consumer Discretionary (97), and Health Care (16). All 11 sectors had been above both their 50-dmas and 200-dmas briefly in mid-December (for the first time since July 2016). Seven sectors now are in a Golden Cross (with 50-dmas higher than 200-dmas), up from six a week earlier, as Consumer Staples' 50-dma moved above its 200-dma for the first time in 26 weeks. All 11 sectors had been in a Golden Cross back in mid-January (for the first time since a 26-week streak ended in October 2016). Telecom was out for a 24th week, followed by Materials (20), Industrials (16), and Financials (12). Ten sectors have rising 50-dmas now, the same number as 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). Nine sectors now have rising 200-dmas, up from seven a week earlier and compared to six in mid-July (which was tied with a count in February for the lowest since May 2017). Real Estate's and Telecom's 200-dma turned back up last week, leaving Consumer Staples and Utilities as the only members of the declining 200-dma club.

US ECONOMIC INDICATORS

Retail Sales ([link](#)): Consumers spent at their slowest pace in six months in August, though retail sales still reached a new record high. Sales rose 0.1% last month after an upwardly revised gain of 0.7% (from 0.5%) in July and an unrevised rise of 0.2% in June. It was the seventh consecutive advance in sales, which had stalled in December and January. Meanwhile, core retail sales also edged up 0.1% last month—after an upward revision to July (to 0.9% from 0.5%) and an unrevised -0.1% decline in June, 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 ticked down -0.1% in August after gains of 0.6% and 0.1% the prior two months. These sales expanded 4.8% (saar) during the three months through August, based on the three-month average, slowing from July's 7.2%—which was the best three-month pace since March 2015; sales had contracted early this year. We estimate real core retail sales also ticked down -0.1% in August after a 0.9% gain in July—which was double the initial estimate. Meanwhile, its comparable three-month growth rate eased for the second month, to 3.3% (saar) from 5.8% in June; that's robust compared to the declines in February and March. In August, eight of the 13 major nominal sales categories rose, led by miscellaneous (2.3), gasoline (1.7), and nonstore (0.7) retailers; three declined: clothing & accessories (-1.7%), motor vehicles (-0.8), and furniture (-0.3); and two were unchanged: building materials and food & beverage.

Consumer Sentiment ([link](#)): Consumer sentiment in mid-September reached its second-highest

reading since 2004, second only to this March's high. The Consumer Sentiment Index (CSI) rebounded to 100.8 this month after falling from a 14-year high of 101.4 in March to 96.2 by August. The expectations index climbed to 91.1 in mid-September—its highest reading since July 2004—largely due to more favorable prospects for jobs and income. Meanwhile, the present situation index recovered to 116.1 this month, after dropping from a record high of 121.2 in March to a 21-month low of 110.3 in August. According to Richard Curtin, the Survey of Consumers chief economist, "The largest problem cited on the economic horizon involved the anticipated negative impact from tariffs. Concerns about the negative impact of tariffs on the domestic economy were spontaneously mentioned by nearly one-third of all consumers in the past three months, up from one-in-five in the prior four months."

Business Sales & Inventories ([link](#)): Nominal business sales in July and real business sales in June both reached new record highs. Nominal manufacturing & trade sales (MTS) advanced for the 13th time in 14 months, rising 0.2% m/m and a vigorous 8.9% over the period. Inflation-adjusted MTS more than reversed January's -1.0% drop, advancing 1.3% during the five months through June, surpassing December's previous record high. Real sales of both retailers and wholesalers were at record readings in June, while real manufacturers' sales remained stalled at their cyclical high, though did advance in June. 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 in early 2016, falling to 1.42 in June. July's nominal inventories-to-sales ratio was little changed at 1.34, after falling from a seven-year high of 1.43 two years ago to 1.33 in June—which was the lowest since November 2014.

Industrial Production ([link](#)): Headline production in August rose for the third consecutive month, boosted by auto and utilities output. Total production expanded a better-than-expected 0.4% in August, following an upwardly revised gain to July (to 0.4% from 0.1%) and a downwardly revised one to July (0.6 from 1.0). Industry groupings show utilities (1.2%) and mining (0.7) output registered solid gains in August, while manufacturing production rose 0.2%, easing from 0.3% and 0.7% the prior two months. By market grouping, production of business equipment expanded for the fourth time in five months, by 1.2% in August and 2.6% over the period—to its highest level since March 2015. Output of information processing equipment slipped -0.8% after reaching a new record high in July, expanding 4.0% ytd. Meanwhile, transit and industrial equipment production were up 9.9% and 2.1%, respectively, during the three months through August to their highest readings since November 2015 and March 2015. Consumer goods production recovered 1.4% during the three months through August, after plummeting -2.6% from April's cyclical high in May, with most of the volatility occurring in consumer nondurable goods; consumer durable goods production continued to move sideways around its cyclical high.

Capacity Utilization ([link](#)): The headline capacity utilization rate in August climbed from 77.9% to 78.1%, holding just below April's 78.2%—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 third month to 75.8% in August—just shy of April's 32-month high of 75.9%. August's rate was 2.5ppts below its long-run average. The utilization rate for mining rose for the seventh month to a new cyclical high of 92.0%, considerably above its long-run average, while the rate for utilities rose for the first time in four months to 78.0%, more than 7ppts below its long-run average.

CPI ([link](#)): The core CPI rate in August slowed for the first time this year, though remained above the Fed's target rate of 2.0% y/y for the sixth straight month. August's rate eased to 2.2% y/y, after climbing from 1.7% in November to 2.4% in July—which was the fastest pace since September 2008. Meanwhile, the three-month rate was back below 2.0%, at 1.9% (saar), after moving back above in July for the first time in four months. On a monthly basis, core prices ticked up 0.1%—the smallest increase since April—after rising 0.2% during each of the prior three months. Along with the shelter index, prices for air fares and used cars & trucks were among those that increased last month, while an array of prices declined, including apparel, medical care, communication, recreation, and personal care. The

headline CPI rate slowed to 2.7% y/y from 2.9% the prior two months—which was the highest since February 2012; the headline rate has been mostly trending upward since falling to 1.6% in June 2017.

Import Prices ([link](#)): Import prices fell in August for the second month. Total import prices sank 0.6% last month, the biggest monthly decline since January 2016—after slipping 0.1% in July. Petroleum prices sank -3.9% last month after a four-month surge of 16.0%. Meanwhile, nonpetroleum prices fell for the third month, by -0.2% m/m and -0.6% over the period. The yearly rate for import prices in August was 3.7% y/y, slowing from July's 4.9%—which was the highest since February 2012—as yearly rates for both petroleum (to 33.0% from 44.7% y/y) and nonpetroleum (1.0 from 1.3) imports eased—with the latter the lowest since last August. The rate for capital goods imports (0.1% y/y) eased for the fourth month after a steady acceleration from -2.5% at the end of 2015 to 1.1% during March and April of this year, while the rate for industrial materials & supplies (16.1) eased from July's 17-month high of 21.2%. Meanwhile, the rate for consumer goods ex autos (0.6) continued to bounce around recent highs just below 1.0%, while autos' (0.2) remained in a volatile flat trend around zero; the rate for food prices (-3.4) turned negative in June for the first time in two years, and continued to decline in August.

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