



MORNING BRIEFING

April 29, 2019

Sound of Silence

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

(1) The good old days are back for bonds. (2) Falling in love with bonds again? (3) Turning up the volume. (4) The bond yield's two quirky components. (5) Oil greases the widely followed 10-year expected inflation yield spread. (6) US bond yields still tethered to overseas yields. (7) Bond yields driven by fertility rates? (8) Central banks stuck in a rut. (9) Flat yield curves predicting no change in monetary policies of the Fed, ECB, and BOJ. (10) The TIPS yield is unreal.

Bonds I: There's a Kind of Hush. The good old days always look particularly good when current events are particularly bad. In the US, the political discourse has turned increasingly shrill and ugly. So let's go back to 1967 for a little peace and quiet. Actually, it wasn't a particularly good year for peace and quiet, but the rock band Herman's Hermits had a big hit that year with a very calm and soothing [song](#) titled "There's a Kind of Hush." It was quiet back then, according to the song, because everyone was falling in love. That wasn't historically accurate either, but it felt good to think so.

Today, a kind of hush seems to have fallen over bond markets around the world as investors are falling in love with bonds again. Yields have remained remarkably subdued despite mounting government deficits in the US, Europe, Japan, China, and almost everywhere else. That's because there's a kind of hush all over the world about inflation. It's hard to worry about a problem that has remained a no-show for so many years. The bond markets continue to confirm that subdued inflation is having a much greater bullish impact on bond prices than is the bearish impact of rising government debt. Of course, subdued inflation is also keeping the monetary policies of the major central banks on the easing side. Let's turn up the volume to better hear the [sound of silence](#):

(1) *US Treasury bonds.* The 10-year US Treasury bond yield has traded mostly below 3.00% and above 1.50% since 2011 ([Fig. 1](#)). Most recently, it dropped from last year's high of 3.24% on November 8 to 2.51% on Friday. Most of that 73bps drop was attributable to the 63bps decline in the yield on the 10-year TIPS ([Fig. 2](#)).

According to the Treasury's [website](#), "Treasury Inflation-Protected Securities, or TIPS, provide protection against inflation. The principal of a TIPS increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When a TIPS matures, you are paid the adjusted principal or original principal, whichever is greater. TIPS pay interest twice a year, at a fixed rate. The rate is applied to the adjusted principal; so, like the principal, interest payments rise with inflation and fall with deflation."

In theory, the market price (yield) of this asset class should go up (down) when inflationary expectations are rising (falling). Furthermore, since the TIPS yield is a "real" yield, it should rise when the economy is doing well and fall when it isn't doing so well. Yet it's hard to find much of a correlation between the 10-

year TIPS yield and either the CPI inflation rate or the Citibank Economic Surprise Index (CESI) ([Fig. 3](#) and [Fig. 4](#)).

Just as quirky is the spread between the 10-year US Treasury yield and the comparable TIPS yield ([Fig. 5](#)). The spread is widely deemed to be the “market’s expectation” for the annual rate of inflation over the next 10 years. According to this measure, expected inflation rose from a recent low of 1.68% on January 3 to 1.97% on Friday. There’s not much correlation between this spread and either the CPI inflation rate or the CESI ([Fig. 6](#) and [Fig. 7](#)).

Actually, the expected inflation spread is most highly correlated with the price of a barrel of Brent crude oil ([Fig. 8](#)). Even that doesn’t make much sense since the current price of crude oil can hardly be deemed to be a good predictor of inflation over the next 10 years!

(2) *Global government bond yields.* What makes more sense is that the US bond yield continues to be tethered to comparable bond yields overseas ([Fig. 9](#)). From 2009-2013 (or so), the US 10-year yield stayed close to the pack of other developed countries’ bond yields, including the yields of Canada, France, Germany, Japan, and the UK. Since then, it has remained above the pack, but with the rest of them keeping a fairly steady spread relative to the US yield. Friday’s readings show that the US yield is mighty attractive relative to comparable overseas yields: US (2.51%), Canada (1.68), UK (1.14), France (0.35), Germany (-0.02), and Japan (-0.05).

(3) *Global demography.* One of the major disinflationary forces out there keeping a lid on both inflation and bond yields is the Global Age Wave (GAW). I’ve previously focused on the US Age Wave, i.e., the percentage of the labor force that is relatively young, spanning 16-34 year olds. Similarly, I’ve focused on the US Age Wave before. I construct the GAW as the world population that is five years old or younger divided by the world population that is 65 years old or older ([Fig. 10](#) and [Fig. 11](#)).

As long as the global fertility rate (currently at 2.5%) continues to fall closer to the population replacement rate (2.2)—and probably below it by 2065, according to UN projections—and as long as seniors live longer, my GAW will be falling. This ratio peaked at a record high of 2.9 during 1956. It fell to 1.0 during 2017, and is projected to decline below 0.5 by 2050.

My underlying hypothesis is that the GAW will continue to put downward pressure on global inflation. That means disinflation is here to stay for a while. Deflation is also a possible outcome of the aging GAW. Older people simply have a smaller inflationary footprint than do younger ones, for reasons I’ve discussed many times before.

(4) *Central banks and inflation.* Central bankers still labor under the conceit they learned in grad school: that inflation is a monetary phenomenon, thus under their control. But they can’t boost fertility rates with monetary policy. They can’t stop the relentless pace of technological innovations. They can reduce the servicing cost of debt, but that may have deflationary consequences once debt-to-GDP ratios get too high.

Perversely, near-zero interest rates hurt the purchasing power of seniors who depend on fixed-income investments, exerting downward pressure on their spending and prices. On the other hand, near-zero interest rates reduce the cost of issuing lots of government debt to pay for providing social welfare support programs to seniors. But that debt may crowd out public spending on infrastructure and private-sector borrowing for capital investments—which in any case may be subdued in an economy with an increasingly geriatric profile!

The bottom line is that the central banks may be trying to solve a problem that can’t be fixed with

monetary policy. Nevertheless, they will undoubtedly continue to target inflation at 2.0% with their near-zero interest policies. The European Central Bank (ECB) has been doing just that since January 1, 1998 ([Fig. 12](#)). The Eurozone's core CPI rate has been below 2.0% every month since April 2003—with the exception of March 2008's 2.0%! The Bank of Japan (BOJ) has been targeting 2.0% inflation since 2013 ([Fig. 13](#)). It was just 0.5% y/y during March. The Fed targeted 2.0% inflation since January 2012, yet the PCED inflation rate has held to a 1.3% annual trend line ever since then ([Fig. 14](#)).

(5) *Global yield curves*. Over the past year, there has been lots of noise about the likelihood that a flattening yield curve in the US may be predicting a recession. There has been less chatter about it this year, as US economic growth continues to calm recession fears. In our latest Topical Study #83, dated 4/7 and titled "[The Yield Curve Flattens: It Might Be Different This Time](#)," Melissa and I concluded:

"The yield curve is predicting, first and foremost, the outlook for Fed policy rather than for the next recession. Our research has confirmed this conclusion, as does a recent Fed study. While inverted yield curves don't cause recessions, they may provide a useful market signal that monetary policy is too tight and risks triggering a financial crisis, which can quickly turn into a credit crunch causing a recession. If so, then the Fed's recent decision to be patient and pause its rate hiking may reduce the chances of a recession."

The yield curve spreads between the official central bank rates in Germany and Japan and their respective 10-year government bond yields may also represent the markets' predictions of the monetary policies of the ECB and BOJ ([Fig. 15](#) and [Fig. 16](#)). If so, then the fact that they are flat, as is the US yield curve, suggests that the financial markets are expecting no significant changes in the easy monetary policies of the three major central banks anytime soon—maybe even over the next 10 years!

Bonds II: Not Much Buzz about TIPS. There is rarely much chatter about the TIPS yield. That's because no one has figured out what drives it. As noted above, the yield spread between the 10-year Treasury and the comparable TIPS is highly correlated with the price of oil. This widely followed gauge of the market's inflation expectations over the next 10 years is also highly correlated with the price of copper and the CRB raw industrials spot price index ([Fig. 17](#) and [Fig. 18](#)).

However, these correlations suggest that the market's inflationary expectations over the next 10 years are mostly determined by commodity prices, which historically have been much too volatile to have any predictive value for inflation.

Adding to the confusion is that the TIPS yield is inversely correlated with the price of gold, which tends to track the underlying trend of industrial commodity prices ([Fig. 19](#) and [Fig. 20](#)). This does make sense, since the cost of holding inventories of commodities must be inversely correlated with the real interest rate.

The bottom line is that the conventional view that the bond yield is equal to the real yield plus expected inflation may make sense theoretically, but empirically the TIPS yield and the widely followed proxy for inflationary expectations are not what they seem to be. The TIPS yield may be the real interest cost of holding inventories, but that's not the same as the real interest rate that influences capital spending and other long-term investments. Furthermore, the yield spread that is widely deemed to reflect inflationary expectations may simply mirror the short-term swings in industrial commodity prices.

If you are waiting for a satisfying conclusion from us, don't hold your breath. All we can say conclusively is that the TIPS yield is an imperfect measure of "the" real interest rate. Here are a few more thoughts on the "meaning" of the yield spread between the 10-year and TIPS bonds:

(1) Since 2003, the 10-year inflation spread has been relatively stable, averaging out the volatility in the actual CPI inflation rate, which is mostly attributable to the price of oil ([Fig. 21](#)). This suggests that the spread is in fact a good measure of expected inflation over the next 10 years.

(2) The spread between the actual CPI inflation rate and the 10-year expected inflation rate is highly correlated with the price of oil ([Fig. 22](#)).

(3) All of the above suggests that inflationary expectations tend to be fairly steady in the short term because they only partially discount the inflationary consequences of short-term swings in the price of oil. When forming their inflationary expectations, investors have learned that big increases (decreases) in the price of oil are always followed by big decreases (increases).

CALENDARS

US. Mon: Personal Income & Consumption 0.4%/0.7%, Headline & Core PCED 1.6%/1.7% y/y, Dallas Fed Manufacturing Index 10.0. **Tues:** Consumer Confidence 59.0, Employment Cost Index 0.7%, Pending Home Sales 0.7%, S&P Case-Shiller 20-City Home Price Index 3.1% y/y, Chicago PMI 59.0. (DailyFX estimates)

Global. Mon: Eurozone Economic Confidence 105.0, UK Gfk Consumer Confidence -13. **Tues:** Eurozone GDP 0.3%q/q/1.1%y/y, Eurozone Unemployment Rate 7.8%, Germany Unemployment Change & Unemployment Claims Rate -5k/4.9%, Germany Gfk Consumer Confidence 10.3, Germany CPI 0.5%m/m/1.5%y/y, France GDP 0.3%q/q/1.1%y/y, Italy GDP 0.1%q/q/-0.1%y/y, Canada GDP 0.0%m/m/1.4%y/y, China IHS Markit M-PMI & NM-PMI 50.6/55.0. Poloz. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 1.2% to its first record high since September 20. That performance ranked fifth of the 49 global stock markets we follow in a week when 12/49 countries rose in US dollar terms. That compares to the prior week's 27/49 ranking, when the US MSCI dropped 0.1% as 24 markets rose. The AC World ex-US index fell 0.6%; that performance compares to a 0.3% gain a week earlier. Nearly all of the regions declined last week, with the outperformers led by EM Latin America (0.6%), EAFE (-0.3), and EMEA (-0.5). The regions underperforming last week: EM Asia (-1.7), BRIC (-1.1), EM Eastern Europe (-1.0), and EMU (-0.9). Israel was the best-performing country, rising 2.7%, followed by Brazil (2.3), Egypt (1.6), Malaysia (1.5), and the United States (1.2). Of the 28 countries that underperformed the AC World ex-US MSCI last week, Argentina fared the worst, falling 7.6%, followed by Sri Lanka (-6.3), Turkey (-4.7), Belgium (-3.8), and Korea (-3.5). The US MSCI's ytd ranking jumped to 7/49 from 13/49 a week earlier, with its 17.5% ytd gain ahead of that of the AC World ex-US (11.9). All regions and 43/49 countries are in positive territory ytd. Among the regions, those outperforming the AC World ex-US ytd include: BRIC (15.3), EMU (13.6), EM Asia (12.4), and EM Eastern Europe (12.3). Regions underperforming the AC World ex-US: EM Latin America (8.0), EMEA (8.9), and EAFE (11.4). The best country performers ytd: Egypt (24.1), Colombia (22.2), China (19.9), Greece (19.2), and Belgium (18.5). The worst-performing countries so far in 2019: Argentina (-11.8), Turkey (-8.1), Sri Lanka (-6.4), Morocco (-3.3), Jordan (-2.0), and Malaysia (-1.7).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose for the fourth time in five weeks as LargeCap's 1.2% rise edged out the gains recorded by SmallCap (1.1%) and MidCap (1.0). LargeCap ended the week at a record high for the first time in seven months, but MidCap and SmallCap remain 3.7% and 11.4% below their August 29 records, respectively. Among the 33 sectors, 22 moved higher last week compared to 15 rising a week earlier. The biggest gainers in the latest

week: MidCap Health Care (-5.3), SmallCap Health Care (-5.1), LargeCap Health Care (3.7), and LargeCap Communication Services (2.7). MidCap Energy (-2.1) was the biggest decliner, followed by SmallCap Materials (-1.7), LargeCap Energy (-1.3), and LargeCap Materials (-1.3). In terms of 2019's ytd performance, all three indexes are still off to a good start. MidCap leads with a gain of 18.7% ytd, ahead of LargeCap (17.3) and SmallCap (15.1). All 33 sectors are positive ytd, with the cyclicals leading the top performers: MidCap Tech (30.1), LargeCap Tech (26.7), SmallCap Energy (25.4), MidCap Industrials (23.3), and SmallCap Tech (22.9). LargeCap Health Care (2.9) has the smallest gain so far in 2019, followed by these underperformers: SmallCap Health Care (6.8), SmallCap Utilities (7.9), MidCap Utilities (8.7), and MidCap Consumer Staples (9.1).

S&P 500 Sectors and Industries Performance ([link](#)): Eight of the 11 S&P 500 sectors rose last week, and six outperformed the S&P 500's 1.2% gain. That compares to six rising a week earlier, when six outperformed the S&P 500's 0.1% decline. Health Care was the best-performing sector, with a gain of 3.7%, ahead of Communication Services (2.7%), Consumer Discretionary (1.4), Utilities (1.4), Financials (1.4), and Real Estate (1.3). Last week's biggest underperformers: Energy (-1.3), Materials (-1.3), Industrials (-1.0), and Consumer Staples (0.1). All 11 sectors are higher so far in 2019, compared to just two sectors rising during 2018, when the S&P 500 fell 6.3%. These four sectors have outperformed the S&P 500's 17.3% rise ytd: Information Technology (26.7), Communication Services (22.8), Consumer Discretionary (22.5), and Industrials (20.4). The ytd laggards: Health Care (2.9), Utilities (9.7), Consumer Staples (12.3), Materials (12.9), Energy (15.7), Real Estate (15.8), and Financials (16.2).

Commodities Performance ([link](#)): Last week, the S&P GSCI index lost 1.2% as eight of the 24 commodities moved higher. That compares to a 0.4% decline a week earlier, when 10 commodities moved higher. In the week before that, the index nearly climbed out of a correction, with a drop of just 10.0% from its high in early October after being down as much as 26.9% from that high on December 24. It has since weakened to 11.4% below its October high. Natural Gas was the strongest performer for the week, as it rose 1.8%, ahead of Coffee (1.3%), Gold (1.0), Unleaded Gasoline (0.7), and Lead (0.7). Lean Hogs was the biggest decliner, with a drop of 8.3%, followed by Live Cattle (-6.2), Feeder Cattle (-4.9), and Kansas Wheat (-4.3). The S&P GSCI commodities index is up 19.0% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Unleaded Gasoline (57.2), Lean Hogs (45.6), Crude Oil (39.4), Brent Crude (33.1), and Heating Oil (22.2). The biggest laggards in 2019: Kansas Wheat (-16.6), Natural Gas (-12.2), Wheat (-12.1), Coffee (-7.6), and Live Cattle (-7.1).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 1.2% last week and improved relative to its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma). The index's 50-dma relative to its 200-dma improved for an 11th straight week to a 25-week high, and the index was in a Golden Cross for a fifth week after being in a Death Cross for 16 weeks. It had been in a Golden Cross for 137 weeks through late November, and its previous Death Cross lasted for 17 weeks through April 2016 (when its 50-dma bottomed at a then-four-year low of 4.5% below its 200-dma in March 2016). The current Golden Cross reading of 2.6% is up from 2.1% a week earlier and from -5.2% in early February, which had matched the lowest reading since November 2011. It's still down from a 55-month high of 7.2% in February 2018. The S&P 500's 50-dma rose for the 12th time in 13 weeks, after falling for 16 straight weeks in its worst downtrend since before the 2016 election. The index rose to 3.6% above its rising 50-dma from 3.0% a week earlier, but is down from 6.6% during mid-February, which was its highest since October 2011. That compares to a seven-year low of 12.0% below at the end of December. The 200-dma rose for a 13th week after falling in 11 of the prior 15 weeks in the first downtrend since May 2016, when it had been slowly declining for nine months. The S&P 500 improved to a 31-week high of 6.3% above its rising 200-dma from 5.1% a week earlier. That compares to 14.5% below its falling 200-dma on December 24, which was the lowest since April 2009. However, it remains well below the seven-year high of 13.5% above its rising 200-dma during January

2018.

S&P 500 Sectors Technical Indicators ([link](#)): Nine of the 11 S&P 500 sectors traded above their 50-dmas, down from 10 a week earlier. Energy slipped below for the first time in 15 weeks and Health Care remained below for a third week. Still, that's a dramatic improvement from early January when all 11 were below. The longer-term picture—i.e., relative to 200-dmas—shows nine sectors trading above currently, unchanged from a week earlier, as Energy was below for a 29th straight week and Health Care for a third week. Nine sectors are now in the Golden Cross club (with 50-dmas higher than 200-dmas), unchanged from a week earlier and the highest count since early November. Materials had turned positive a week earlier for the first time in 51 weeks. Among the two laggards, Financials has been out of Golden Cross territory for 28 straight weeks and during 39 of the past 43 weeks, and Energy for 24 weeks. All 11 sectors had been in a Golden Cross in January 2018 (for the first time since a 26-week streak ended in October 2016). Ten sectors now have rising 50-dmas, unchanged from a week earlier, as Health Care's 50-dma fell for a third week after mostly rising since mid-2016. Ten sectors have rising 200-dmas, up from nine a week earlier as Health Care flipped back into its three-year uptrend. Energy and Materials have had falling 200-dmas for seven months now, which compares to just two sectors with rising 200-dmas in early January in what was then the lowest count since all 11 sectors had falling 200-dmas two years before.

US ECONOMIC INDICATORS

GDP ([link](#)): Real GDP growth accelerated 3.2% (saar) during Q1 after slowing steadily from 4.2% during Q2-2018 to 2.2% during the final quarter of last year. Trade gave the biggest boost to Q1 GDP growth, as the real trade deficit (to -\$899.3 billion from -\$955.7 billion) narrowed dramatically from Q4's record gap—as real exports (3.7%, saar) expanded at its fastest pace in three quarters, while real imports (-3.7) posted its biggest (and only third) decline since Q4-2012. Real consumer spending grew at its slowest pace in a year, expanding only 1.2% (saar), as consumer spending on durable goods contracted 5.3%, specifically motor vehicles & parts. Meanwhile, consumer spending on consumer nondurable goods (to 1.7% from 2.1%, saar) and services (2.0 from 2.4) both expanded at their slowest paces in a year. Real capital spending (2.7 from 5.4) was half Q4's rate, as spending on equipment (0.2 from 6.6) was at a standstill, while investment in structures (-0.8 from -3.9) fell for the third quarter, though at a slower rate. In the meantime, spending on intellectual property products (8.6 from 10.7) continued to grow at a robust pace, climbing to a new record high—on widespread strength. Last quarter's real private inventory investment (\$128.4 billion from \$96.8 billion) showed companies accumulated inventories at their best rate since Q2-2015. Real government (2.4 from -0.4) spending moved from contraction to expansion last quarter, as state & local (3.9 from -1.3) spending rebounded; real federal (0.0 from 1.1) spending was flat. Real residential investment (-2.8 from -4.7) contracted for the fifth consecutive quarter.

Contributions to GDP Growth ([link](#)): Trade was the number-one contributor to GDP growth last quarter, pushing consumer spending down to the number-two spot; real residential investment was once again the biggest drag on GDP. Some details: (1) Real net exports of goods & services accounted for 1.03ppt of Q1 GDP as both imports (0.58) and exports (0.45) contributed positively. (2) Real consumer spending added 0.82ppt to growth last quarter, as positive contributions from services (0.96) and nondurable goods (0.24) consumption more than offset the drag from durable goods (-0.38) spending. (3) Inventory investment (0.65) rounded out the top three, with nonfarm (0.67) inventories once again accounting for the entire gain. (4) Real government spending (0.41) contributed to growth last quarter after subtracting at the end of last year; state & local spending (0.41) accounted for the entire gain. (5) Nonresidential fixed investment (0.38) continued to elevate economic growth, driven entirely by intellectual property products (0.39) last quarter; equipment (0.01) and structures (-0.02) investment had little impact. (6) Residential investment (-0.11) subtracted from GDP growth for fifth

consecutive quarter.

Durable Goods Orders & Shipments ([link](#)): Core capital goods orders rose to a new record in March, while core capital goods shipments were stalled at their record high; both had a strong Q1. Nondefense capital goods orders ex aircraft (a proxy for future business investment) rose every month of Q1, accelerating 1.3% in March after gains of 0.1% and 0.9% the prior two months, while core shipments (used in calculating GDP) ticked down 0.2% last month after gains of 0.2% in February and 1.0% in January. During Q1, core capital goods orders rebounded 2.1% (saar) after contracting 3.9% during Q4, while core shipments expanded 4.2% (saar)—more than double Q4's 1.6%. Total durable goods orders jumped 2.7%—its best monthly gain since last August—boosted by orders for volatile commercial aircraft (31.2%) and cars & trucks (2.1). Excluding transportation, orders are fluctuating in a volatile flat trend at cyclical highs, advancing 0.4% in March after small declines in February (-0.2) and January (-0.1).

Regional M-PMIs ([link](#)): The four Fed districts that have now reported on manufacturing activity for April so far—New York, Philadelphia, Kansas City, and Richmond—show a slight deceleration in growth this month after a slight acceleration during the first three months of this year. We average the composite, orders, and employment measures as data become available. The composite index fell to 6.7 in April after slowly improving from 4.7 in December to 9.4 in March—considerably below the 19.2 monthly average of the first four months of 2018. The New York region's composite (10.1 from 3.7) measure posted its best growth so far this year, while Philadelphia's (8.5 from 13.7) slowed a bit, after moving from contraction to expansion in March; meanwhile, gauges for the Kansas City (5.0 from 10.0) and Richmond (3.0 to 10.0) areas are moving down toward the breakeven point. The new orders gauge (7.8 from 4.5) picked up slightly as orders in the Philadelphia (15.7 from 1.9), Kansas City (10.0 from 4.0), and New York (7.5 from 3.0) regions accelerated this month—Philly's for the second month after sinking from 21.3 in January to -2.3 in February. Meanwhile, orders in the Richmond (-2.0 from 9.0) region are contracting again after expanding during February and March. The employment (11.7 from 15.1) index shows hirings continued to grow at a robust pace, as factories in Philadelphia (14.7 from 9.6), Richmond (18.0 from 23.0), and New York (11.9 from 13.8) all added to payrolls at a relatively healthy pace, though only Philadelphia's accelerated this month, while Richmond's was the strongest. Meanwhile, jobs growth in the Kansas City (2.0 from 14.0) region has slowed dramatically. The regions' prices-paid indexes showed inflationary pressures remained on an easing trend, while the prices-received measures were a mixed bag. Here's a look at the prices-paid indexes for April versus their respective peaks during 2018: Philadelphia (to 21.6 from 60.0), Kansas City (15.0 from 52.0), Richmond (3.0 from 5.7), and New York (27.3 from 54.0)—with only Philadelphia showing a slight acceleration this month. Meanwhile, New York's prices-received measure eased for the second month, to 14.0, after accelerating the prior two months from 12.8 to 22.9—nearly matching its recent peak of 23.3 last June. The prices-received index for the Philly region dropped to 20.0 this month, after hovering in a flat trend around 26.0 the prior six months; it peaked at 35.0 last July. Kansas City's prices-received index has been more volatile than the rest; it ticked up to 10.0 this month after dropping from 23.0 to 7.0 the prior two months; it was at 8 at the end of last year. Richmond's (1.8 from 2.8) continued to ease from its 2018 peak. (Note: Richmond prices are not diffusion indexes but rather average annualized inflation rates.)

Consumer Sentiment ([link](#)): Consumer sentiment continued to move sideways in April, stuck in a range between 95.0 and 99.0 for 21 of the past 28 months. "The last time consumer sentiment was as favorable for as long a period of time was during the late stages of the Clinton expansion," according to Richard Curtin, director of the University of Michigan consumer survey. In April, when consumers were asked about their financial prospects for the year ahead, favorable (44%) responses dwarfed unfavorable (8) ones—with the spread the best since 2004. When asked about long-term financial prospects, 60% expected to be better off financially over the next five years! The Consumer Sentiment

Index (CSI) fell for the first time in three months in April, from 98.4 to 97.2 (above the mid-month reading of 96.9)—considerably above its 27-month low of 91.2 at the start of the year. Both the present situation (to 112.3 from 113.3) and expectations (87.4 from 88.8) components dipped last month, with the former below its mid-month reading of 114.2 and the latter above its 85.8 preliminary estimate.

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