



MORNING BRIEFING

May 6, 2019

Productivity Is Making a Comeback!

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

(1) Another Powell gaffe, or just a market overreaction? (2) Still bullish on earnings, a China trade deal, and a rebound in productivity. (3) Word game: From “patient” to “transient.” (4) Powell says persistently low interest rates possible. (5) The pragmatic case for one or two rate hikes before Election Day 2020. (6) Powell says “transient.” We say “persistent.” (7) The “Amazon Effect.” (8) Guiding inflationary expectations. (9) Room to grow if productivity continues to rebound with enough slack in labor market. (10) Productivity growth is looking up.

The Fed: Doves, Hawks & Canaries. Fed Chairman Jerome Powell’s [press conference](#) on Wednesday afternoon (5/1) triggered a selloff in stock prices before the close, which was followed by another drop on Thursday. The two-day decline in the S&P 500 was a modest 1.0%. On Friday, the S&P 500 regained 1.0% on a surprisingly strong 263,000 increase in April’s payroll employment, while wages rose 3.2% y/y, well exceeding price inflation, as Debbie discusses below.

So at 2945.64 as of Friday’s close, the S&P 500 was almost back to the 4/30 record high of 2945.84 ([Fig. 1](#)). Joe and I are still predicting 3100 by the end of this year and 3500 by the end of next ([Fig. 2](#)). Driving the market higher should be better-than-feared earnings during the current earnings season. We are also expecting a US-China trade deal within the next few weeks, as Trump is pushing the Chinese to close the deal by threatening more tariffs. If an agreement is accomplished, that should provide a “peace dividend” to the global economy. Another possible bullish development is a rebound in US productivity, as discussed below.

The Wednesday/Thursday drop reflected the market’s kneejerk reaction that the Federal Open Market Committee (FOMC) had made another significant U-turn from a surprisingly dovish monetary stance at the previous meeting (3/19-20) to a somewhat more hawkish one at the latest meeting (4/30-5/1). In his 3/20 [press conference](#), Powell mentioned the word “patient” or a variation of it 11 times versus just three times at his latest presser. That sparked some chatter about the possibility that the next Fed move might be a rate cut rather than a hike.

The financial markets were most rattled by a new word that he mentioned nine times during his latest post-meeting presser, “transient” (or “transitory”). He used the adjective to describe the recent dip in the inflation rate below the Fed’s 2.0% target. That seemed to dash expectations that the next move by the Fed would be a rate cut.

The two-year US Treasury note yield, which tends to reflect year-ahead market expectations for the federal funds rate, rose from 2.26% on Tuesday to 2.34% on Friday ([Fig. 3](#)). Meanwhile, the yield curve remained relatively flat, suggesting no change in monetary policy anytime soon ([Fig. 4](#)).

The financial press and the stock market completely missed (or ignored) a remarkably dovish statement that Powell made during the same press conference last week. In response to a question, he bluntly

acknowledged that powerful structural forces are keeping a lid on inflation and concluded that interest rates are likely to stay low for a very long time:

“So you're pointing to really the fact that in recent years inflation has moved down and down and, really, many major central banks have struggled to reach their inflation goals from below. And that includes us, although we've actually done—we've come closer, I think, than most others. And it's just a question, I think, of demographic and other large and, in some cases, global forces that are disinflationary to some extent and it creates significant challenges. One, I would say, is it means that interest rates will be lower, will be closer to the effective lower bound more of the time because that means lower interest rates. And that's one of the reasons we're having a review of our monetary policy strategies, tools, and communications this year is to think about that problem.”

Melissa and I are not in the rate-cut camp. On the contrary, we think productivity is making enough of a comeback to sustain economic growth while keeping inflation low. If so, then the FOMC may have some room to raise rates a bit higher over the next year and a half, i.e., before the November 2020 elections.

Why would the committee do so in this ideal scenario? Hiking rates a bit more would provide more room to lower them to avert or to moderate the next recession. Hiking rates might also be necessary in the event of a meltup in stock prices. It could be justified by arguing that better productivity growth should increase the r^* , i.e., the “real interest rate.”

Disinflation I: ‘Transient’ vs ‘Persistent.’ Powell’s repeated use of the words “transitory” and “transient” was clearly premeditated rather than off-the-cuff. During his press conference, the word first appeared in his prepared remarks. After citing the March inflation stats for the Fed’s preferred measure, namely the personal consumption expenditures deflator (PCED), of 1.5% y/y for the headline and 1.6% y/y for the core (excluding food and energy), he said: “We suspect that some transitory factors may be at work.” He added that the Fed expects inflation will return to 2.0% over time ([Fig. 5](#)).

Powell noted that the Fed’s statement of longer-run goals and monetary policy strategy says that “the Committee would be concerned if inflation were running persistently above or below 2.0%.” He explained that “persistent carries the sense of something that’s not transient, something that will sustain over a period of time.”

On the contrary, he sees “good reasons” why the recent “unexpected decrease” in the inflation rate “may wind up being transient.” We agree that inflation could return to 2.0%, but we don’t see it going higher, and it could go even lower. Here’s more behind Powell’s thinking on this subject and ours:

(1) *Powell’s transient categories.* Powell specifically mentioned transient prices in “portfolio management, service prices, apparel prices, and other things.” Later, he said: “There are many little things. So we don’t know ... until we see.” That seems to us like too sweeping a set of important consumption categories to dismiss as experiencing transient price effects.

Powell attributed the recent drop in portfolio management fees to the plunge in the stock market late last year ([Fig. 6](#)). That may be partially true. But as we see it, there’s lots of competition in financial services. Shops like Fidelity are now offering ETFs with no fees. And portfolio managers are feeling the pressure to lower fees all around. So we aren’t sure that this price category is transient, though we wish it were not so since it hits close to home.

Similar arguments can be made about price competition for apparel. Just last year, the “Amazon Effect” on inflation was a topic at the Kansas City Fed’s Economic Policy Symposium. The one [paper](#)

presented on this subject concluded that “online competition has raised both the frequency of price changes and the degree of uniform pricing across locations in the U.S. over the past 10 years.” In the US, online retail sales now account for a record 33% of the sum of online sales and GAFO (i.e., general merchandise, apparel and accessories, furniture, and other sales) ([Fig. 7](#)).

Powell mentioned the recent [methodology](#) changes for apparel. The Bureau of Labor Statistics, which collects and produces data for the CPI measure of inflation, started incorporating “big data,” representing a complete tally rather than a sampling of data, into its assessment of apparel prices during March ([Fig. 8](#)). We think it’s possible that the inflation rate for apparel could remain low as a result of the Amazon Effect.

Even if some of Powell’s transient price declines are reversed, that wouldn’t mean that others won’t come down. During 2017, the FOMC focused on the “transient” drop in wireless telephone services fees ([Fig. 9](#)). They did stop falling briefly in early 2018, but have continued to decrease since then!

(2) *Meet the “Trimmed Mean.”* During the Q&A, Powell brought up an infrequently cited alternative measure of inflation, the Dallas Fed Trimmed Mean PCE inflation rate, in two separate instances ([Fig. 10](#)). In a reach for 2.0%, Powell said that this measure recently “did not go down as much” as the Fed’s typically preferred measure. In fact, it was up 2.0% for the 12 months through March.

The Trimmed Mean cuts off the largest movements to the upside and the downside; in the middle, it considers just the mean movements in inflation of the various product and service categories. The measure isn’t one of our favorites because it consistently excludes what may be important price categories that shouldn’t be excluded.

We aren’t surprised to see Powell citing alternative inflation measures. As we’ve discussed before, a primary goal of the Fed’s series of “Fed Listens” events is to consider all views on how best to manage monetary policy to achieve desired inflation effects.

(3) *Talking up inflationary expectations.* We are coming around to the idea that the use of the word “transitory” was Powell’s intentional attempt to use Fed communication to prop up inflation expectations while the Fed remains dovishly patient. Maybe Powell was just trying to prove that the Fed is “strongly committed” (his words) to the 2.0% objective. Perhaps he realizes that the Fed’s credibility is at stake, as inflation has been at or above 2.0% for only one month since 2012, when that target was first explicitly specified.

Supporting this thought, Powell said during the Q&A that he thinks it’s important that inflation runs close to 2.0% for a sustained period—because if it doesn’t, the risk is that inflation expectations “could be pulled down and that could put downward pressure on inflation and make it harder for us to react to downturns.” He also tried to disassociate the US from the other major central banks that have struggled to meet inflation goals, saying “we’ve come closer” than they have to reviving inflation.

Disinflation II: Room to Grow. Keep in mind that Powell’s stated purpose for using “transitory” was to stress that the Fed is comfortable with current policy and not looking to move “in either direction.” We aren’t convinced that the low inflation rate is transitory. We do, however, agree with Powell that higher productivity gains could contribute to higher growth without causing inflation to “overheat.” Consider the following:

(1) *Technology powering productivity.* Powell observed that productivity is difficult to predict, but seems to be moving in the right direction after remaining low for a number of years. Nonfarm business productivity grew 1.9% last year, which is “much higher,” Powell noted. It is “driven to some extent by

technological developments,” he explained. So that’s “positive” in his view. But he also said, we “don’t know if that level can be sustained.”

(2) *Labor force participation too.* To conclude the press conference, Powell said that the recent uptick in labor force participation “suggests” more room to grow. It suggests that a less tight economy may be part of the explanation for lower inflation.” That would explain why the economy is growing and can continue to grow without showing any signs of “overheating at the moment.”

Disinflation III: Productivity Is Rebounding, Finally. The productivity drought seems to be ending, as Debbie discusses below. Consider the following recent stats:

(1) Real nonfarm business output rose 3.9% y/y during Q1, well outpacing the 3.2% increase in real GDP ([Fig. 11](#)). Meanwhile, hours worked rose 1.5% over the same period. As a result, productivity gains improved significantly.

(2) During Q1, nonfarm business productivity rose 3.6% (saar), the best pace since Q3-2014. On a y/y basis, it was up 2.4%, the fastest growth since Q3-2010.

(3) Debbie and I also monitor the 20-quarter growth of productivity at an annual rate ([Fig. 12](#)). It certainly looks like it is turning up, having risen from a recent low of 0.5% during Q4-2015 to 1.3% during Q1-2019.

While it is widely believed that productivity has been especially weak in services, the data show that much of the weakness has been in manufacturing ([Fig. 13](#)). Even this important category may finally be ready to grow after not doing so since early 2015.

CALENDARS

US. Mon: Harker. **Tues:** Job Openings 7.35m, Consumer Credit \$16.0b, Quarles, Kaplan. (DailyFX estimates)

Global. Mon: Eurozone Retail Sales -0.1%/m/1.6%/y/y, Eurozone, Germany, France, and Italy C-PMIs 51.3/52.1/50.0/50.6, Eurozone, Germany, Italy, and France NM-PMIs 52.5/55.6/50.5/51.8, China NM-PMI 54.2, Poloz. **Tues:** Germany Factory Orders 1.5%/m/-5.4%/y/y, RBA Cash Target Rate 1.25%, BOJ Minutes of March Policy Meeting, EU Commission Economic Forecasts. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 0.2% to its second straight weekly record high, and its first since September 20. That performance ranked 20th of the 49 global stock markets we follow in a week when 24/49 countries rose in US dollar terms. That compares to the prior week’s 5/49 ranking, when the US MSCI gained 1.2% as 12 markets rose. The AC World ex-US index also rose 0.2%; that performance compares to a 0.6% decline a week earlier. Nearly all of the regions rose last week, with the outperformers led by EM Asia (0.8%) and BRIC (0.7). The regions underperforming last week: EM Latin America (-1.3), EMEA (-0.9), EM Eastern Europe (-0.8), EMU (0.1), and EAFE (0.2). Argentina was the best-performing country, rising 9.6%, followed by Ireland (2.3), Hong Kong (2.1), the Philippines (1.8), and Taiwan (1.6). Of the 29 countries that underperformed the AC World ex-US MSCI last week, Colombia fared the worst, falling 4.2%, followed by Hungary (-3.3), Pakistan (-3.2), Austria (-2.7), and Chile (-2.4). In April, the US MSCI rose 3.9% for its best gain since January 2018, ranking 11/44 as the AC World ex-US index rose 2.4% and all regions rose. That

compares to the US MSCI's 1.7% rise in March, which ranked 11/49 and beat the 0.2% gain for the AC World ex-US in March, a month when all the developed market regions rose. The best-performing regions in April: EMU (4.4), EMEA (2.9), EM Eastern Europe (2.9), and EAFE (2.5). April's worst-performing regions: EM Latin America (0.1), BRIC (1.6), and EM Asia (1.8). The US MSCI's ytd ranking remained steady at 7/49 last week, with its 17.8% ytd gain ahead of that of the AC World ex-US (12.1). All regions and 41/49 countries are in positive territory ytd. Among the regions, those outperforming the AC World ex-US ytd include: BRIC (16.2), EMU (13.8), and EM Asia (13.4). Regions underperforming the AC World ex-US: EM Latin America (6.6), EMEA (7.8), EM Eastern Europe (11.4), and EAFE (11.6). The best country performers ytd: Egypt (25.4), China (21.5), Hong Kong (18.7), Belgium (18.7), and the Netherlands (18.1). The worst-performing countries so far in 2019: Turkey (-9.6), Sri Lanka (-5.8), Jordan (-3.8), Argentina (-3.3), and Morocco (-2.9).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose for the fifth time in six weeks as SmallCap's 1.7% rise surge easily beat out the gains recorded by MidCap (0.4%) and LargeCap (0.2). LargeCap ended the week a hair below its record high at the end of April, but MidCap and SmallCap remain 3.4% and 9.9% below their August 29 records, respectively. Among the 33 sectors, 23 moved higher last week compared to 22 rising a week earlier. The biggest gainers in the latest week: SmallCap Health Care (2.7), SmallCap Tech (2.4), SmallCap Industrials (2.3), and SmallCap Materials (2.3). SmallCap Energy (-5.9) was the biggest decliner, followed by MidCap Energy (-5.3), LargeCap Energy (-3.3), and LargeCap Communication Services (-1.8). All three market-cap indexes moved higher in April, as the 3.9% gains for LargeCap and MidCap barely edged out SmallCap's 3.8% rise. Twenty-five of the 33 sectors advanced in April, compared to 19 sectors rising during March. April's best performers: LargeCap Financials (8.8), MidCap Financials (7.9), MidCap Industrials (6.8), SmallCap Tech (6.7), and MidCap Tech (6.7). April's laggards: MidCap Energy (-3.5), LargeCap Health Care (-2.7), MidCap Health Care (-2.4), and SmallCap Communication Services (-1.9). In terms of 2019's ytd performance, all three indexes are still off to a great start. MidCap leads with a gain of 19.1% ytd, ahead of LargeCap (17.5) and SmallCap (17.1). All 33 sectors are positive ytd, with the cyclicals leading the top performers: MidCap Tech (28.9), LargeCap Tech (27.1), SmallCap Tech (25.8), MidCap Industrials (24.3), and SmallCap Materials (23.1). LargeCap Health Care (4.2) has the smallest gain so far in 2019, followed by these underperformers: MidCap Consumer Staples (8.6), SmallCap Consumer Staples (8.9), SmallCap Health Care (9.6), and SmallCap Utilities (9.9).

S&P 500 Sectors and Industries Performance ([link](#)): Seven of the 11 S&P 500 sectors rose last week, and seven outperformed the S&P 500's 0.2% gain. That compares to eight rising a week earlier, when six outperformed the S&P 500's 1.2% gain. Health Care was the best-performing sector, with a gain of 1.3%, ahead of Financials (1.2%), Industrials (1.1), Real Estate (1.0), Consumer Staples (0.8), Tech (0.3), and Utilities (0.3). Last week's biggest underperformers: Energy (-3.3), Communication Services (-1.8), Materials (-0.7), and Consumer Discretionary (-0.3). The S&P 500 rose 3.9% in April as eight of the 11 sectors moved higher and five beat the index. That compares to nine rising and seven beating the S&P 500's 1.8% rise in March. The leading sectors in April: Financials (8.8), Tech (6.4), Communication Services (6.2), Consumer Discretionary (5.7), and Industrials (4.0). April's laggards: Health Care (-2.7), Real Estate (-0.6), Energy (0.0), Utilities (0.9), Consumer Staples (2.3), and Materials (3.6). 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 five sectors have outperformed the S&P 500's 17.5% rise ytd: Information Technology (27.1), Consumer Discretionary (22.1), Industrials (21.8), Communication Services (20.7), and Financials (17.6). The ytd laggards: Health Care (4.2), Utilities (10.1), Energy (11.9), Materials (12.1), Consumer Staples (13.1), and Real Estate (17.0).

Commodities Performance ([link](#)): Last week, the S&P GSCI index lost 1.0% as six of the 24 commodities moved higher. That compares to a 1.2% decline a week earlier, when eight commodities

moved higher. The index nearly climbed out of a correction during mid-April, 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 12.3% below its October high. Lean Hogs was the strongest performer for the week, as it rose 4.5%, ahead of GasOil (3.1%), Corn (2.8), Cocoa (1.9), and Heating Oil (0.9). Sugar was the biggest decliner, with a drop of 5.1%, followed by Feeder Cattle (-4.2), Coffee (-3.7), Lead (-2.9), and Soybeans (-2.9). April saw eight of the 24 commodities climb as the S&P GSCI Commodities index rose 2.8%. That compares to eight rising in March when the S&P GSCI Commodities index rose 1.8%. April's best performers were Unleaded Gasoline (9.8), Brent Crude (6.6), Crude Oil (6.3), Heating Oil (5.4), and GasOil (5.0). April's laggards: Kansas Wheat (-8.4), Wheat (-6.3), Aluminum (-6.1), Nickel (-5.9), and Lead (-4.6). The S&P GSCI commodities index is up 17.8% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Unleaded Gasoline (55.6), Lean Hogs (52.1), Crude Oil (36.4), Brent Crude (31.7), and GasOil (25.9). The biggest laggards in 2019: Kansas Wheat (-17.9), Wheat (-13.0), Natural Gas (-12.7), Coffee (-11.0), and Live Cattle (-8.4).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 0.2% last week and improved relative to its long-term 200-day moving average (200-dma), but weakened relative to its short-term 50-day moving average (50-dma). The index's 50-dma relative to its 200-dma improved for a 12th straight week to a 27-week high, and the index was in a Golden Cross for a sixth 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 3.1% is up from 2.6% 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 13th time in 14 weeks, after falling for 16 straight weeks in its worst downtrend since before the 2016 election. However, the index edged down to 3.2% above its rising 50-dma from 3.6% a week earlier, and 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 14th 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 32-week high of 6.4% above its rising 200-dma from 6.3% 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, unchanged from a week earlier as Energy was below for a second week and Health care for a fourth. 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, also unchanged from a week earlier, as Energy was below for a 30th straight week and Health Care for a fourth 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. However, Financials moved back into a Golden Cross for the first time in 29 weeks as Health Care dipped back below for the first time in nine weeks. Energy remained out of club for a 25th week. 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). Nine sectors now have rising 50-dmas, down from 10 a week earlier, as Energy's 50-dma fell for the first time in 12 weeks and Health Care's 50-dma fell for a fourth week after mostly rising since mid-2016. Eight sectors have rising 200-dmas, down from nine a week earlier as Financials flipped back into a downtrend after four weeks. 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

Employment ([link](#)): April hirings blew past forecasts, as US companies added 78,000 more jobs than expected, and there was a slight upward revision to the prior two-month period. Payroll employment soared 263,000 (vs 185,000 forecast) last month, while revisions show March's (to 189,000 from 196,000) increase was lower and February's (56,000 from 33,000) higher than initially reported, for a net gain of 16,000. April's advance was stronger than 2018's average monthly gain of 223,250. Private payrolls expanded 236,000 in April—below the 275,000 reported by ADP; March's (179,000 from 182,000) increase was lower than first reported, while February's (46,000 from 28,000) was higher, for a net gain of 15,000. April's increase was led by the professional & business services (76,000m/m & 535,000y/y), health care & social assistance (52,600 & 523,900), and construction (33,000 & 256,000) industries. Meanwhile, manufacturing's employment growth has slowed, climbing a total of only 12,000 the past three months, with April contributing 4,000; these payrolls averaged monthly gains of 25,300 the final three months of 2018. Retail trade lost jobs for the third straight month, by 12,000 in April and a total of 41,400 over the period. The breadth of job creation (i.e., the percentage of private industries increasing payrolls) shows the three-month span slipped to 61.4% from 70.9% at the end of last year, while the one-month span climbed to 60.1% after slipping below 60.0% the first three months of this year.

Earned Income Proxy ([link](#)): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, continued to set new highs in April—not posting a decline since February 2016. Our EIP edged up 0.1% last month, after climbing 0.6% in March; it was 4.9% above a year ago. Average hourly earnings (AHE), one of the components of our EIP, rose 0.2% last month, and 3.2% y/y, slowing from 3.4% in February—which was the highest since April 2009. Meanwhile, aggregate weekly hours—the other component of our EIP—ticked down 0.1% after rebounding 0.5% in March following February's 0.3% decline; it was up 1.7% y/y, slowing from 2.4% at the start of this year.

Unemployment ([link](#)): The unemployment rate in April dropped to 3.6%—the lowest since December 1969, as 490,000 left the labor force last month (and 770,000 ytd); the participation rate fell to a seven-month low of 62.8%. The adult unemployment rate sank to 3.2% last month—the lowest since January 1970, while the college-grad rate (2.1%) was a tick above its cyclical low of 2.0%. The volatile teenage rate (12.8) has fluctuated around 13.0% the first four months of this year, after falling to a cyclical low of 12.0% during October and November. The number of workers working part-time for economic reasons (a.k.a. “involuntary part-time workers”) rose 344,000 during the two months through April to 4.7 million (2.9% of the civilian labor force), after slumping 837,000 in February. The sum of the underemployment and jobless rates edged down to 6.5% last month, just above February's 6.4%, which was the lowest rate since December 2000; the U6 rate, which includes marginally attached workers, was unchanged at 7.3% again last month, the lowest since March 2001.

Wages ([link](#)): April wages—as measured by average hourly earnings (AHE) for all workers on private nonfarm payrolls—climbed to another new record high. The wage rate held at 3.2% y/y, slightly below February's 3.4%, which was the highest rate since April 2009; it was at a recent low of 2.3% during October 2017. The wage rate for service-providing industries (3.4% y/y) held near its series high of 3.6%, while the goods-producing rate (2.5) continued to fluctuate in a flat trend between 2.0%-3.0%. Within goods-producing, the manufacturing rate (1.9) is holding around 2.0%, while construction's (3.1) is hovering just above 3.0%; the natural resources (3.4) rate accelerated to nearly a three-year high. Within service-providing, rates for both retail trade (4.7) and information services (5.5) have eased from their series highs of 5.0% and 6.6%, respectively. Rates for wholesale trade (3.5) and leisure & hospitality (3.7) remain on accelerating trends—with the former jumping sharply in March—while rates for financial activities (3.7) and transportation & warehousing (1.5) have been decelerating from recent highs, though both may have found a bottom. Stalled around recent highs are rates for utilities (4.1) and

professional & business services (3.5), with the latter back up at the top of the range.

Productivity & Labor Costs ([link](#)): Nonfarm productivity expanded at the fastest pace in more than four years last quarter—pushing the yearly rate up to its best pace since 2010! Productivity of American workers soared 3.6% (saar) during Q1, the best rate since Q3-2014, as output (4.1%, saar) expanded at a robust pace while hours worked (0.5) increased at a 14-quarter low. Hourly comp increased 2.6% (saar) last quarter, but the jump in productivity pushed unit labor costs down 0.9%. On a year-over-year basis, productivity growth surpassed 2.0% for the first time since Q3-2010, accelerating 2.4% y/y during Q1, while unit labor costs were flat with a year ago. From 2011 to 2016, productivity averaged yearly gains of only 0.6%, moving slightly above 1.0% during 2017 (1.2%) and 2018 (1.3).

Auto Sales ([link](#)): Motor vehicle sales in April slumped to its slowest rate since October 2014. Sales sank to 16.4mu (saar) last month after rebounding from 16.6mu to 17.5mu in March; sales have been below 17.0mu three of the first four months of this year. Domestic light-truck sales have been very volatile in recent months, sliding 7.4% in April to 9.1mu (saar) after jumping 7.4% in March to 9.8mu—which along with December was the fastest pace since July 2005. Meanwhile, domestic car sales remain in a virtual freefall since peaking at 6.1mu (saar) during August 2014, plunging to 3.5mu in April, the lowest since February 2010. Sales of imports, at 3.8mu (saar), continue to fluctuate just below last May's peak of 4.0mu—which was the strongest pace since August 2009.

Non-Manufacturing PMIs ([link](#)): Both the ISM and IHS Markit measures show growth in the US service sector slowed in April, though the former still expanded at a robust pace. ISM's NM-PMI (to 55.5 from 56.1) slowed to a 20-month low, though remains at a relatively high level. Of the four components, the business activity (to 59.5 from 57.4) measure accelerated back toward 60.0, while the new orders (58.1 from 59.0) gauge remained just below 60.0. Meanwhile, the measure for employment (53.7 from 55.9) fell to a two-year low, while supplier deliveries (50.5 from 52.0) is back down near the breakeven point of 50.0. IHS Markit's NM-PMI (53.0 from 55.3) indicates service activity is now expanding at its slowest pace since March 2017, with business expectations the lowest since June 2016. According to the report, new business growth eased to a two-year low, resulting in job creation also slowing to a two-year low. Uncertainty and increased competition, meanwhile, pushed business expectations to the lowest for almost three years, while rates of input-price and output-charge inflation eased to 26- and 18-month lows, respectively.

GLOBAL ECONOMIC INDICATORS

Eurozone CPI Flash Estimate ([link](#)): April's CPI rate remained below 2.0% for the fifth consecutive month, according to the flash estimate, while the core rate moved back above 1.0%. The headline rate climbed to 1.7% y/y last month (from 1.4% in March); it eased steadily from a six-year high of 2.2% in October to a nine-month low of 1.4% in January. Looking at the main components, energy (to 5.4% from 5.3% y/y) once again is expected to record the highest annual rate in April, double the 2.7% rate recorded in January. The remaining components show an acceleration in services (1.9 from 1.1) inflation and a slowing in food, alcohol & tobacco (1.5 from 1.8), while the rate for non-energy industrial goods (0.2 from 0.1) continues to hover just above zero. The core rate—which excludes energy, food, alcohol, and tobacco—is expected to rise to 1.2% y/y after falling to 0.8% in March, which was the lowest since last April.

Global Manufacturing PMIs ([link](#)): Global manufacturing activity was at a near standstill in April as international trade flows remained a significant drag on the sector. JP Morgan's M-PMI is nearing the breakeven point of 50.0 after falling steadily from December 2017's seven-year high of 54.4 to 50.3 in April (the lowest reading since June 2016) as exports contracted for the eighth consecutive month. The emerging nation's M-PMI (to 50.5 from 51.0) deteriorated slightly last month, after improving the prior

two months from January's 49.5 low—which was the first reading below 50.0 since mid-2016. Meanwhile, the M-PMI for the developed nations (50.3 from 49.9) improved slightly after a brief dip below 50.0 in March. The highest national PMI readings were registered in Greece (56.6), the UK (53.1), US (52.6), Ireland (52.5), and Vietnam (52.5). The Netherlands (52.0), Spain (51.8), India (51.8), and Russia (51.8) were also among the best performers, while France (50.0) stopped contracting last month. Meanwhile, the Eurozone's M-PMI (47.9) signaled contraction for the third straight month, largely driven by a steep decline in Germany (44.4); Italy (49.2) and Austria (49.2) are just below the line delineating expansion from contraction. China's PMI (50.2) has bounced between expansion and contraction the past five months.

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

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