



MORNING BRIEFING

May 13, 2019

Trade War & Peace

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

(1) Miss Piggy, Roger Moore, and trade. (2) Tit for tat. (3) Will Chinese change their laws to protect US trade interests? (4) China selling in US almost four times more than US selling in China. (5) Trump's tariffs aimed at moving manufacturing out of China rather than at raising US prices of Chinese imports. (6) Not much inflation showing up in US non-oil imports. (7) Weaker yuan offsetting some of the US tariff effect. (8) Our hawks vs their hawks. (9) The Year of the Swine Flu. (10) Other fronts in Trump's trade war. (11) Movie review: "Tolkien" (+ +).

Trade I: Slower Boat to China. "On a Slow Boat to China" is a popular song by Frank Loesser, published in 1948 and recorded by many artists. In fact, Miss Piggy performed the song with actor Roger Moore in an [episode](#) of *The Muppet Show*.

The song isn't popular with the Trump administration's trade negotiators who expected to close a deal with China by now. Instead, the Chinese last week crossed out some of the lyrics that had been agreed on in principle. President Trump responded by raising the 10% tariff imposed on \$200 billion of Chinese imports last year to 25% this past Friday. He threatened to impose the 25% tariff on the rest of the \$300 billion of goods that the US buys from China. The Chinese threatened to retaliate with tariffs on US goods that they purchase.

Bloomberg [reported](#) that after the latest round of talks ended on Friday in Washington, Chinese Vice Premier Liu He said that in order to reach an agreement the US must remove all extra tariffs, set targets for Chinese purchases of goods in line with real demand, and ensure that the text of the deal is "balanced" to ensure the "dignity" of both nations.

Trump's own negotiators told China it has a month to seal a deal or face tariffs on all its exports to the US. Robert Lighthizer, the US Trade Representative, said the administration would on Monday release details of its plans for tariffs on all imports from China, setting the process in motion for Trump to deliver on his latest threat.

Nevertheless, despite the discord, both sides are still talking about making music together even though they aren't singing from the same song sheet. Our friends Jim Lucier and Kathryn May, of Capital Alpha Partners, explain that the boat to a deal with China started to slow once a draft agreement was formulated:

"We also stand by our theory that the existence of a written draft itself was part of the slowdown. When [Chinese Vice Premier] Liu was talking about an agreement in the abstract, he had more freedom, and Chinese leaders who saw opening up China's economy as being in the Chinese interest had more leverage. With a written text to circulate among elite officials, critics of the deal had concrete points they could object to." Particularly objectionable to them undoubtedly was the demand by Lighthizer for an enforcement mechanism that required publicly visible changes in Chinese law.

In any event, Lucier and May remain cautiously optimistic: “In short, we are still willing to believe in a deal along the cosmetic lines that we have long expected. We have generally been skeptical all along that tariffs were completely going away. A perfect deal to meet Lighthizer’s own bull-case expectations may have been too far to reach from the very beginning.”

Melissa and I agree with this view, though we think that there could be more substance in the deal once it is done. Now let’s look at the data to put all this into some perspective:

(1) *US imports*. During Q1-2019, US nominal GDP totaled \$21.1 trillion (saar). US merchandise imports totaled \$2.5 trillion (saar). The US economy is huge, and such imports are relatively small, amounting to 12% of GDP ([Fig. 1](#)).

Over the past 12 months through March, US data show that imports from China equaled \$522 billion ([Fig. 2](#)). That’s 21% of total US merchandise imports over the same period ([Fig. 3](#)).

Ceteris paribus, a 25% tariff on all Chinese imports would generate \$131 billion in customs duties over a 12-month period ([Fig. 4](#)). The tariffs that Trump imposed early last year have already boosted the 12-month sum of these duties to \$62 billion through April from \$38 billion a year ago.

(2) *US exports*. Over the past 12 months through March, US exports totaled \$1.7 trillion. Over this same period, US exports to China equaled \$114 billion, or 7% of total US exports ([Fig. 5](#)).

The US merchandise trade deficit with China rose to \$408 billion over the 12 months through March, accounting for a whopping 47% of the total US merchandise trade deficit ([Fig. 6](#)).

(3) *Chinese exports*. Chinese data in yuan show that China’s exports to the US accounted for 19% of total Chinese exports over the 12 months through April ([Fig. 7](#)).

(4) *Chinese imports*. Chinese data in yuan show that over the past 12 months through April, Chinese imports from the US equaled 6.5% of total Chinese imports ([Fig. 8](#)).

The data clearly show that while China accounts for a very large portion of the US trade deficit, China has become very dependent on exports to the US, much more so than the US depends on exports to China. Simply put, the US can impose tariffs on the \$522 billion of total imports from China, while China can do the same on the \$139 billion of goods it imports from the US.

Trade II: Are Tariffs Inflationary? But surely US consumers will suffer from the 25% tariffs when they are forced to pay more for goods imported from China as a result. I’m sticking with the position I took on this question in the 10/1/2018 [Morning Briefing](#):

“So Trump may very well raise the ante soon by slapping a permanent 25% tariff on all goods that the US imports from China. The goal isn’t to force concessions out of China but rather to get manufacturers out of China and into either the US (ideally) or to countries such as Mexico that do agree to the terms of bilateral trade deals with the US!

“Of course, manufacturers who stay in China won’t be paying the 25% tariff: US consumers who buy China-made goods will be hit with that price hike. However, to remain competitive in the US, manufacturers are likely to scramble to other countries that can export to the US without having the US dollar price of their goods marked up by 25%.”

Now let's look at the relevant data on US import prices:

(1) *The import price index excluding petroleum* has been relatively volatile on a y/y basis since 2012, but in a flat trend around zero spanning a high of 2.0% and a low of -3.7% ([Fig. 9](#)). It hasn't had much impact on the finished goods PPI excluding food and energy, which has hovered rather steadily around 2.0% since 2012.

The inflation rate of the import price index excluding petroleum tends to have more of an impact on the intermediate goods PPI excluding food and energy.

Over the 12 months through March, the import price index excluding petroleum was down 0.3%, while the core finished and core intermediate PPIs were up 2.5% and 1.0%, respectively.

(2) *The US import price index for Chinese goods* actually declined slightly, by 0.9% y/y through March, despite tariffs imposed on Chinese goods last year ([Fig. 10](#)).

(3) *The trade-weighted dollar* obviously has an impact on import prices. The inflation rate of the US import price index excluding petroleum is inversely correlated with the y/y percent change in the trade-weighted dollar ([Fig. 11](#)). The recent escalation of trade tensions seems to be bullish for the dollar, which offsets some of the inflationary impact of higher tariffs. Some of the increase in US tariffs on Chinese imports has already been offset by the 6.5% y/y drop in the yuan exchange rate relative to the US dollar ([Fig. 12](#)).

Debbie and I have created a proxy for Chinese capital outflows by subtracting the 12-month change in the non-gold international reserves of the People's Bank of China from the 12-month sum of China's trade surplus ([Fig. 13](#) and [Fig. 14](#)). Our proxy shows substantial outflows during 2015 and 2016 that diminished somewhat during 2017 and early 2018. An escalating trade war with the US could worsen China's capital outflows and weaken the yuan even more.

Trade III: Year of the Pig. President Trump has his hawks on trade with China. China's move last week to walk back trade issues with the US that had been agreed to in principle demonstrated that Chinese President Xi Jinping has his hawks on trade as well.

Trump has the benefit of a strong economy with very low unemployment and inflation. However, he is also very sensitive to any significant weakness in US stock prices, which tend to fall on news that negotiations with China are not going well. That is why he claims that everything is just fine whenever the market takes a dive.

Xi is dealing with an economy that is still growing fast, but also slowing. The trade war with the US over the past year is exacerbating some of China's homegrown problems related to rapidly aging demographics, companies with excess capacity and shrinking profits, and weakening manufacturing employment as robotics and automation proliferate at the factories.

A new problem is the swine flu epidemic. Consider the following alarming excerpt from a 5/9 [article](#) in *Foreign Policy* on this subject:

"Under the Chinese zodiac, this is the Year of the Pig, but China has already lost an estimated 134 million pigs out of its 440 million swine and \$128 billion pork industry. Forecasters say a total 2019 pig loss of 134 million—nearly half of China's entire herd—seems likely. Pork products worldwide have been affected: The cost of pork in China is up 21 percent since this time last year, bacon prices spiked 20 percent in Spain in March, and pork shoulders are 17 percent more expensive in Germany. And

other meats are costing more as people switch from high-priced pork to beef or chicken. The economist Arlan Suderman told Bloomberg Businessweek, 'This is an unprecedented situation. This will impact food prices globally.'" Furthermore:

"This, in turn, has had a major impact on the U.S. agriculture industry, which was once the main supplier of the soybeans and corn that China used to feed its pigs. As Chinese farmers have lost or culled their herds, demand for U.S. soybeans and corn has plummeted. By this time in 2018, American farmers had sold 28.7 million tons of soybean meal to China; so far in 2019, they have sold less than half that, 12.9 million tons. In mid-April, U.S. soybean exports sank from 888,700 metric tons one week to 460,700 tons the next—a fall likely due to African swine fever and swine herd losses in China. One commodities expert predicts 2019 and 2020 will both see a drop of 2 billion bushels in U.S. exports to China, dubbing the disease a 'train wreck in slow motion' for the American soybean market."

China's CPI rose 2.5% y/y during April, led by a 6.1% increase in food prices ([Fig. 15](#) and [Fig. 16](#)).

(Let's hope that Miss Piggy doesn't croak!)

Trade IV: Trump's War with the World. Trump needs a win on the trade front. So far, he has only one deal under his belt after two years in office. It's a relatively minor agreement with South Korea that didn't require approval from Congress. Meanwhile, his non-China trade offensives have stalled, as reviewed by a 5/10 Politico [article](#) titled, "Trump's trade agenda on the verge of imploding":

(1) *Canada and Mexico.* "Meanwhile, Trump's update of the 25-year-old North American Free Trade Agreement is stuck in Congress, where even some Republicans are saying they won't vote for it until Trump lifts tariffs on steel and aluminum that are hurting their constituents. Democrats are objecting to labor, environmental and pharmaceutical provisions, and have raised concerns about whether the pact can be enforced.

"Democrats are warning Trump not to submit the new U.S.-Mexico-Canada Agreement to Congress for a vote until those concerns are resolved. That raises the possibility that Trump may follow through on a threat to withdraw from NAFTA to force Congress to decide between his new agreement or none at all."

(2) *Japan, the EU, and the UK.* "Both Trump and Agriculture Secretary Sonny Perdue have raised the possibility of a quick deal on agriculture with Japan by the time the president visits that country at the end of this month to become the first foreign leader to meet the new emperor.

"But before he makes that trip, Trump faces a May 18 deadline on whether to impose tariffs on imports of autos and auto parts from around the world, including Japan, in order to protect U.S. national security, as Commerce Secretary Wilbur Ross is believed to have recommended in [a] confidential report that went to the White House in February. ...

"But persuading Japanese Prime Minister Shinzo Abe to make unilateral concessions on agriculture in time for Trump's visit in late May is a tall order because of an election set for July for the upper house of that country's parliament. ...

"Even if Trump holds off on his auto threat, a long-simmering dispute over the EU's support for Airbus could boil over this summer if the Lighthizer's office follows through on plans to retaliate on \$11 billion worth of EU exports."

Movie. "Tolkien" (+ +) ([link](#)) is a biopic about the life of J.R.R. Tolkien, the author of *The Hobbit* and *The Lord of the Rings*. He had a difficult childhood. His father died when he was young, leaving him, his

younger brother, and mother penniless and dependent on the charity of their local pastor. When his mother died at an early age, the pastor arranged for room, board, and education for the Tolkien brothers. J.R.R. was very bright and was accepted at Oxford, but had to interrupt his studies to fight in the trenches of WWI. The products of his remarkable imagination undoubtedly were inspired by some of his adversities. The human spirit often excels the most when confronted with the most challenging of circumstances.

CALENDARS

US. Mon: None. **Tues:** NFIB Small Business Optimism Index 102.0, Import Prices Total & Ex Petroleum 0.7%/0.1%, Williams, George. (DailyFX estimates)

Global. Mon: Japan Leading & Coincident Indexes 96.3/99.6, Japan Trade Balance ¥838.9b. **Tues:** Eurozone Industrial Production -0.3%/m/-0.8%/y/y, Eurozone ZEW Survey, Germany ZEW Survey Current Situation & Expectations 6.0/5.0, Germany CPI 2.0% y/y, UK Employment Change & Unemployment Rate (3-month) 141k/3.9%, UK Average Weekly Earnings (3-month) 3.4% y/y, Australia Business Confidence. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index fall 2.2% from its record high on May 3, its first since 9/20. That performance ranked 15th of the 49 global stock markets we follow in a week when 4/49 countries rose in US dollar terms. That compares to the prior week's 20/49 ranking, when the US MSCI gained 0.2% as 24 markets rose. The AC World ex-US index fell 3.2% in its biggest decline since late October; that performance compares to a 0.2% gain a week earlier. All of the regions fell last week, with the outperformers led by EAFE (-2.8%) and EM Latin America (-2.9). The regions underperforming last week: BRIC (-5.2), EM Asia (-4.9), EMEA (-4.5), EM Eastern Europe (-3.6), and EMU (-3.3). Jordan was the best-performing country, rising 1.7%, followed by Morocco (1.2), Argentina (0.8), and Denmark (0.4). Of the 24 countries that underperformed the AC World ex-US MSCI last week, Turkey fared the worst, falling 8.1%, followed by China (-6.0), Greece (-5.9), Peru (-5.6), and Poland (-5.6). The US MSCI's ytd ranking improved three places last week to 4/49 last week, with its 15.2% ytd gain ahead of that of the AC World ex-US (8.6). All regions and 37/49 countries are in positive territory ytd. Among the regions, just two are outperforming the AC World ex-US ytd: BRIC (10.2) and EMU (10.0). Regions underperforming the AC World ex-US: EMEA (3.0), EM Latin America (3.5), EM Eastern Europe (7.3), EM Asia (7.8), and EAFE (8.4). The best country performers ytd: Egypt (20.1), Colombia (16.7), Canada (15.9), the United States (15.2), and the Netherlands (14.7). The worst-performing countries so far in 2019: Turkey (-17.0), Sri Lanka (-9.7), Poland (-5.5), Malaysia (-4.6), and Chile (-3.0).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes fell last week as LargeCap's 2.2% drop was only slightly better than the declines recorded by MidCap (-2.4%) and SmallCap (-2.5). LargeCap's decline was its worst since mid-December as the index ended the week 2.2% below its record high at the end of April. MidCap dropped to 5.7% below its August 29 record high, but SmallCap fell back into a correction at 12.2% below its August 29 record. Among the 33 sectors, just one moved higher last week compared to 23 rising a week earlier. The best performers in the latest week: SmallCap Communication Services (1.0), MidCap Utilities (0.0), SmallCap Utilities (-0.2), SmallCap Consumer Staples (-0.3), and LargeCap Consumer Staples (-0.4). SmallCap Materials (-6.0) was the biggest decliner, followed by SmallCap Consumer Discretionary (-3.8), LargeCap Tech (-3.6), SmallCap Tech (-3.4), and MidCap Tech (-3.3). In terms of 2019's ytd performance, all three indexes are still off to a great start. MidCap leads with a gain of 16.3% ytd, ahead of LargeCap (14.9) and SmallCap (14.1). All 33 sectors are positive ytd, with the cyclicals leading the top performers: MidCap

Tech (24.6), LargeCap Tech (22.6), SmallCap Tech (21.5), MidCap Industrials (20.3), and MidCap Communication Services (19.7). LargeCap Health Care (2.6) has the smallest gain so far in 2019, followed by these underperformers: SmallCap Health Care (7.4), MidCap Consumer Staples (7.8), SmallCap Consumer Staples (8.6), and LargeCap Materials (8.9).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 S&P 500 sectors fell last week for the first time in 20 weeks, but six outperformed the S&P 500's 2.2% decline. That compares to seven rising a week earlier, when seven outperformed the S&P 500's 0.2% gain. Consumer Staples was the best-performing sector, albeit with a decline of 0.4%, ahead of Energy (-0.6%), Utilities (-0.7), Real Estate (-0.7), Health Care (-1.5), and Communication Services (-1.9). Last week's biggest underperformers: Tech (-3.6), Materials (-2.8), Industrials (-2.8), Consumer Discretionary (-2.5), and Financials (-2.3). 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 six sectors have outperformed or matched the S&P 500's 14.9% rise ytd: Information Technology (22.6), Consumer Discretionary (19.0), Communication Services (18.4), Industrials (18.4), Real Estate (16.1), and Financials (14.9). The ytd laggards: Health Care (2.6), Materials (8.9), Utilities (9.3), Energy (11.2), and Consumer Staples (12.7).

Commodities Performance ([link](#)): Last week, the S&P GSCI index lost 1.5% as five of the 24 commodities moved higher. That was the index's fourth straight weekly decline and compares to a 1.0% decline a week earlier, when six 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 13.6% below its October high. Natural Gas was the strongest performer for the week, as it rose 3.1%, ahead of Aluminum (0.9%), Gold (0.8), Feeder Cattle (0.3), and Coffee (0.2). Cotton was the biggest decliner, with a drop of 9.6%, followed by Zinc (-5.8), Corn (-5.1), Lead (-4.0), and Soybeans (-3.9). The S&P GSCI commodities index is up 16.0% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Unleaded Gasoline (50.6), Lean Hogs (48.5), Crude Oil (36.0), Brent Crude (29.8), and GasOil (24.0). The biggest laggards in 2019: Kansas Wheat (-20.8), Wheat (-15.6), Live Cattle (-11.5), Coffee (-10.8), and Lead (-10.0).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index fell 2.2% last week and weakened 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 a 13th straight week to a 29-week high, and the index was in a Golden Cross for a seventh 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 3.4% is up from 3.1% 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 14th time in 15 weeks, after falling for 16 straight weeks in its worst downtrend since before the 2016 election. However, the index tumbled to 0.6% above its rising 50-dma from 3.2% 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 15th 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. However, it dropped to a six-week low of 4.0% above its rising 200-dma from a 32-week high of 6.4% 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](#)): Eight of the 11 S&P 500 sectors traded above their 50-dmas last week, down from nine a week earlier, as Materials fell below that moving average for the first

time in 17 weeks. Energy remained below for a third week and Health care for a fifth. 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 eight sectors trading above currently, also down from eight from a week earlier, as Materials turned negative for the first time in seven weeks. Energy was below for a 31st straight week and Health Care for a fifth 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. Financials has been back in a Golden Cross for just two weeks, while Health Care was out for a second week and Energy for a 26th 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, unchanged from a week earlier. Energy's 50-dma fell for a second week and Health Care's for a fifth week after mostly rising since mid-2016. Seven sectors have rising 200-dmas, down from eight a week earlier as Health Care flipped back into a downtrend for the second time in four weeks. Energy, Financials, and Materials have had mostly falling 200-dmas for about eight 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

Merchandise Trade ([link](#)): March's real merchandise trade deficit widened slightly, though was considerably smaller than December's record gap. March's real deficit widened to -\$82.1 billion after narrowing from -\$91.7 billion in December (the biggest gap in the history of the series going back to 1994) to -\$81.6 billion in March. At -\$82.4 billion, Q1's average monthly deficit was noticeably smaller than Q4's average monthly gap of -\$87.4 billion. Real exports rose every month of Q1, up 0.7% in March and 3.5% over the period, after contracting 1.6% in December, while real imports rose 0.7% in March after sliding 2.5% the first two months of the year. Real exports of foods, feeds & beverages (19.4%, ytd) and autos (13.8) posted the biggest gains ytd, followed by consumer goods ex autos (3.8) and capital goods ex autos (1.6); industrial supplies & materials' exports (-0.2) were flat. The same exercise for real imports shows a mixed bag: imports of foods, feeds & beverages (2.7%, ytd) and consumer goods ex autos (1.4) were in the black, while those for industrial supplies & materials (-5.4) and capital goods ex autos (-4.2) were in the red; auto imports (-0.4) were basically flat.

CPI ([link](#)): The core CPI rate ticked up to 2.1% y/y in April, after falling in March back down to the Fed's target rate of 2.0% following 12 months above. The rate for core prices once again remained below July's 2.4% rate—which was the fastest pace since September 2008. Here's a ranking of the core goods rates, lowest to highest: apparel (-3.0% y/y, biggest decline since May 2003), medical care commodities (0.2), used cars & trucks (0.8), new vehicles (1.2), alcoholic beverages (1.2), tobacco & smoking products (4.6)—with only the last one surpassing the total core rate of 2.1%. Here's the same drill for the core services rates: airfares (-1.8), physicians' services (0.3), hospital services (1.2), motor vehicle insurance (1.4), owners' equivalent rent (3.4), rent of primary residence (3.8), and motor vehicle maintenance & repair (3.8)—with only the last one on an accelerating trend. Meanwhile, hospital services and motor vehicle costs are on sharp decelerating trends. Core prices in April rose 0.1% for the third month, after gains of 0.2% in each of the prior five months. The three-month rate eased to a 21-month low of 1.6% (saar), slowing from January's 2.6%—which was the highest since March 2018. The headline CPI rate accelerated slightly during April for the second month, to 2.0% y/y from 1.5% in February—which was the lowest since September 2016; March's rate was nearly a percentage point below its recent high of 2.9% posted in both June and July of last year.

PPI ([link](#)): The Producer Price Index for final demand slowed in April after a spike in goods prices during March generated the biggest monthly gain in the headline measure in five months. Total prices advanced 0.2% last month, one-third March's 0.6% advance; these prices averaged monthly declines of 0.1% the prior four months. Prices for final demand goods rose 0.3%, the third straight gain, though

slowing from March's 1.0%—which was the highest since May 2015; these prices had contracted 1.8% during the three months through January. Energy prices (1.8%) accounted for the increase in final demand goods last month, more specifically gasoline prices (5.9). Food (-0.2) prices fell in April, while core final goods prices were unchanged. As for the uptick in the final demand series, it can be traced to a 5.3% jump in prices for portfolio management. The yearly inflation rate for the headline series was unchanged at 2.2% y/y after easing to a 20-month low of 1.9% in February. The yearly rate for final demand goods accelerated for the third month, to 1.5% y/y, from January's 26-month low of 0.5%; the rate was 4.4% nine months ago. Meanwhile, the rate for final demand services eased for the third time since reaching a series high of 3.0% in December, slowing to 2.4% y/y in April. The rate for finished goods less food, energy & trade services ticked up to 2.2% y/y after slowing to a 19-month low of 2.0% in March; it peaked at 3.1% in June.

GLOBAL ECONOMIC INDICATORS

UK GDP ([link](#)): Real GDP during Q1 accelerated at more than double the pace of Q4, bolstered by big stockpiling in most manufacturing industries—particularly pharmaceuticals—on Brexit concerns. Real GDP expanded 0.5% last quarter, after slowing to 0.2% during Q4 from 0.7% in Q3. All three of the major industry groups rose last quarter—services, production, and construction—though Brexit uncertainty had a greater impact in March, as all three sectors declined that month following gains the first two months of the year. Service industries, which account for about 80% of the private-sector economy, grew 0.3% during Q1, slowing steadily from Q3-2018's 0.6%. Meanwhile, production, which includes manufacturing, rebounded 1.4% last quarter after contracting 0.8% during Q4—boosted by the biggest gain in manufacturing (2.2%) since 1988. (Note: Manufacturing output rose every month of Q1, averaging monthly gains of 1.1%.) Construction jumped 1.0% last quarter after falling 0.5% during the final quarter of 2018. Based on the yearly percent change, real GDP rose at an 18-month high of 1.8% y/y, accelerating from 1.4% during Q4. On this basis, construction (to 2.8% from 0.3% y/y) posted its fastest yearly growth since Q4-2017, while the rebound in manufacturing (1.2 from -1.3), boosted production (0.6 from -0.7) back into positive territory; growth in the services industries held steady at 2.0%.

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