



MORNING BRIEFING

June 10, 2019

Paris, Maine

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

(1) Watching mountains. (2) Absurd policies possible in the New Abnormal. (3) A deal with Mexico. (4) He said, Xi said. (5) Another panic attack rather than start of bear market? (6) Plenty of job openings, while labor force is shrinking. (7) Wage gains outpacing price increases, as productivity is rebounding. (8) A happy version of the New Abnormal. (9) The 4Ds keeping a tight lid on inflation. (10) Pity the impotent central bankers.

New Abnormal I: Trade. I spent the weekend at the annual investment strategy retreat hosted by Gary Bahre and his parents, Bob and Sandy, at their family compound in Paris, Maine. Bob owned and operated New Hampshire International Speedway in Loudon, New Hampshire. He sold it to Speedway Motorsports back in 2008. Bob has an amazing [collection](#) of classic cars on his property. Along with a few other investment strategists and Gary's money managers, we all discussed the investment outlook in the Car Barn surrounded by the amazing collection of cars.

Friday's surprisingly weak employment report weighed on our discussion, with some participants concerned that there is mounting evidence of an impending recession. These folks are convinced that the Fed will have to lower the federal funds rate soon. A few of them are not convinced it will work. So they weren't impressed by last week's 4.4% rally in the S&P 500, figuring that a bear market is coming once it is widely recognized that Fed easing has lost its mojo.

This can only be described as the "New Abnormal" scenario. In normal times, it would be inconceivable that the Fed would lower the federal funds rate when the unemployment rate was down to only 3.6%, as it was in May, while the S&P 500 is only 2.5% below its 4/30 record high of 2945.83 ([Fig. 1](#) and [Fig. 2](#)).

But these aren't normal times given President Donald Trump's escalating trade war. Fed officials have suggested that they might ease monetary policy if Trump's tariffs depress the US economy. In a Tuesday 6/4 [speech](#) at the *Fed Listens* event in Chicago, Federal Reserve Chairman Jerome Powell seemed to suggest that he is ready to cut interest rates. In the second paragraph of his talk, he said:

"I'd like first to say a word about recent developments involving trade negotiations and other matters. We do not know how or when these issues will be resolved. We are closely monitoring the implications of these developments for the U.S. economic outlook and, as always, we will act as appropriate to sustain the expansion, with a strong labor market and inflation near our symmetric 2 percent objective."

But hold on: On Friday evening, the President said that Mexico agreed to a deal on both immigration and trade in order to avoid his tariffs that were scheduled to go into effect on Monday. Trump said that Mexico will take "strong measures" to stop illegal migration from coming through the US southern border.

Last Monday, we wrote: “For now, we’re sticking with our view that all sides in Trump’s trade disputes need deals. If we are wrong about that, then mounting recessionary pressures will most likely be offset by Fed easing, as suggested by Fed Vice Chairman Richard Clarida in a speech last week.” We got almost instant confirmation of our assessment by the end of last week.

But what about the escalating US-China trade war? At the end of last week, Reuters [reported](#):

“Chinese President Xi Jinping on Friday called U.S. President Donald Trump his friend and said he believed the United States was not interested in rupturing economic ties with China. Speaking in the Russian city of St Petersburg at an economic forum, Xi said there were strong trade and investment connections between China and the United States. ‘It’s hard to imagine a complete break of the United States from China or of China from the United States. We are not interested in this, and our American partners are not interested in this. President Trump is my friend and I am convinced he is also not interested in this,’ Xi said in Chinese, interpreted into Russian and then translated into English by Reuters.”

During May, Joe and I characterized the latest stock market swoon as Panic Attack #63 ([Fig. 3](#)). We don’t think it is the start of a bear market, so we were pleased by last week’s rally. However, anxiety about a recession remains high, though I personally felt very calm over the weekend at the Bahre’s family residence at the foothills of the Presidential Mountain Range, with snow-capped Mt. Washington visible in the distance.

New Abnormal II: Employment. The FOMC meets on 6/18-6/19. The committee is unlikely to lower the federal funds rate at this upcoming meeting given that Trump’s trade wars might be deescalating. But what about Friday’s anemic 75,000 increase in May payrolls? It could reflect a rapid slowdown in the US economy. On the other hand, it is very possibly a sign that all the anecdotal evidence of labor shortages is finally showing up in the payroll data, setting the stage for a rebound in productivity growth. Consider the following:

(1) *Employment.* Payroll employment, which counts the number of jobs rather than the number of workers, rose 164,000 per month on average during the first five months of this year, down from 223,250 per month last year ([Fig. 4](#)). The household measure of employment, which counts the number of full-time and part-time workers, fell 37,400 per month on average during the first five months of this year, after rising 240,000 per month last year ([Fig. 5](#)).

(2) *Labor force.* During the first five months of this year, the labor force fell by 119,000 per month on average, compared with last year’s average gain of 217,000 per month ([Fig. 6](#)).

(3) *Job openings.* The latest JOLTS data show that there were 7.5 million job openings and 6.2 million unemployed workers in March ([Fig. 7](#)). There are plenty of jobs to hire everyone who is looking for one. However, the job seekers may not have the skill sets and the geographic proximity for the available positions.

(4) *Wages.* If the labor market remains tight, as Debbie and I believe, then why aren’t wages rising faster? Average hourly earnings rose 3.1% y/y for all workers (and 3.4% for production and nonsupervisory workers) during May ([Fig. 8](#)). That’s actually quite a good pace, since it is continuing to outpace the consumer price inflation rate using the PCE deflator. The inflation-adjusted wage for production and nonsupervisory workers rose to yet another record high last month, up 1.8% y/y ([Fig. 9](#) and [Fig. 10](#)).

(5) *Productivity.* The icing on this happy version of the New Abnormal cake is that productivity may be

starting to make a comeback. That would make sense: If you can't find workers, then you use technology to boost productivity. The 20-quarter average annual growth rate of nonfarm productivity was 1.3% through Q1-2019, up from a recent low of only 0.5% through Q4-2015 ([Fig. 11](#)).

A rebound in productivity growth is long overdue and would be a very welcome development. It would allow the economy to grow despite the shortage of workers. It would keep a lid on price inflation, while allowing wages to rise faster than prices. Real wage gains would provide workers with the means to increase consumer spending and their own standard of living. In other words, the New Abnormal could be a very wholesome scenario for the economy and bullish for stocks.

New Abnormal III: Inflation. In the New Abnormal, several powerful forces are keeping a lid on price inflation. They include the 4Ds: Demography, Debt, Disruption, and Deflation. We discussed them in our 3/26 [Morning Briefing](#) as follows:

"The 4Ds are inter-related. Aging demographic trends are causing governments to spend more on social security (including health care). Since the ratio of seniors to working-age adults is rising globally, governments are forced to borrow more to support more seniors; tax revenues alone can't keep up with seniors' needs. Old people tend to downsize. Young people, burdened by high taxes, tend to be minimalists. Facing labor shortages, companies are spending more on labor-saving technologies, which tend to be deflationary."

While these are long-term trends, they've already been keeping a lid on inflation for quite some time. Consider the latest developments:

(1) *Purchasing managers.* The prices-paid indexes in May's ISM M-PMI and NM-PMI surveys were relatively subdued at 53.2 and 55.4, respectively, down from 79.5 and 63.7 a year ago ([Fig. 12](#)). The same can be said about the average prices-paid and prices-received indexes of the business surveys conducted by five regional Fed districts ([Fig. 13](#)).

(2) *PCED.* Both the headline and core PCED inflation rates remain below the Fed's 2.0% target. The former was up 1.5% y/y through April, while the latter was up 1.6% ([Fig. 14](#)). Among the most subdued goods and services inflation rates are the ones for medical care: total (1.2%), hospitals (2.0), physician services (0.5), and drugs (0.6) ([Fig. 15](#)).

(3) *Unit labor costs.* Helping to keep a lid on price inflation is that unit labor cost inflation has been fluctuating around 2.0% since the mid-1990s. We are using the ratio of the employment cost index (ECI) in private industry to nonfarm business productivity. This measure was up a scant 0.3% y/y during Q1 ([Fig. 16](#)). (The ECI is a less volatile measure of labor cost than is nonfarm hourly compensation.)

The bottom line: It is our view that instead of labor costs driving inflation, the 4Ds are keeping a lid on price inflation. That's calming wage demands even in a very tight labor market and increasingly forcing companies to boost productivity, particularly as labor shortages worsen.

New Abnormal IV: Central Banks. Meanwhile, the major central bankers are frustrated that their ultra-easy monetary policies haven't been working to achieve their 2.0% inflation targets. Since January 2012 when the Fed publicly announced this target, the PCED has been tracking at an annualized rate of 1.3% ([Fig. 17](#)). In the Eurozone, the headline and core CPI inflation rates were only 1.2% and 0.8%, respectively, during May ([Fig. 18](#)). Here are Japan's numbers through April: 0.9% headline and 0.5% core-core ([Fig. 19](#)). And here is how the central bankers are dealing with their frustration:

(1) *Fed.* In a 6/6 [speech](#), FRBNY President John Williams bemoaned that inflation is too low. He said:

“Persistently low inflation creates a vicious circle, where expectations of low inflation drag down current inflation. If inflation falls, central banks will have even less room to maneuver when faced with a slowdown.”

Furthermore, he observed: “This poses significant challenges for monetary policy. When interest rates are low, central banks don’t have much room to maneuver to deal with a crisis. They will only be able to cut interest rates by a small amount before they hit zero—or as economists call it, the ‘zero lower bound.’ Of course, central banks can, and have, used negative rates to stimulate growth, but they bring with them a separate set of challenges.”

His solution to the problem is fairly lame: “Starting with monetary policy, central banks should reassess their strategies, goals, and the tools they use to achieve them. This might include things like reassessing how we achieve our 2 percent goal.” He calls on “fiscal and other economic policies” to address the problem of slow growth and low inflation.

(2) *ECB*. After last Thursday’s meeting of the European Central Bank’s (ECB) policy-making Governing Council, Mario Draghi, the president of the central bank, ruled out raising interest rates in the next year and even opened the door to cutting them or buying more bonds: “Several members raised the possibility of further rate cuts. Other members raised the possibility of restarting the asset purchase programme or further extensions in the forward guidance.”

The ECB said it would give banks credit at rates just 10 basis points above its minus 0.4% deposit rate—paying them to take its money, in other words—provided that they beat the ECB’s lending benchmarks in a new targeted longer-term refinancing operation, or TLTRO.

(3) *BOJ*. The 6/7 Bloomberg [reported](#): “The Bank of Japan will lower its short-term interest rate to -0.3% from -0.1% in September to head off risks posed by an expected Federal Reserve rate cut, JPMorgan Chase & Co. said in a research note. ... That will pressure the BOJ to act to prevent a narrowing of the rate spread with the Fed at a time when the yen will be strengthening and economic growth and inflationary pressures deteriorating.”

CALENDARS

US. Mon: Job Openings 7.496m. **Tues:** NFIB Small Business Optimism Index 101.9, PPI-FD Total, Core, and Core Ex Trade Services 0.1%/0.2%/0.2%. (DailyFX estimates)

Global. Mon: UK GDP -0.1%/m/m/0.4%(3m3m), UK Headline & Manufacturing Industrial Production 0.9%/2.0% y/y, UK Trade Balance £4700m, Canada Housing Starts 205k, China Trade Balance ¥136b. **Tues:** UK Employment Change & Unemployment Rate (-1k [3m/3m]/3.8% [3m]), UK Average Weekly Earnings Total & Ex Bonus (3m) 3.0%/3.1% y/y, UK Jobless Claims Change & Claimant Count Rate, China Direct Investment, Mexico Industrial Production. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index soar 4.4% for its biggest gain since late November; it ended the week 2.5% below its 5/3 record high. The US MSCI’s weekly performance ranked ninth among the 49 global stock markets we follow in a week when 44/49 countries rose in US dollar terms. That compares to the prior week’s 41/49 ranking, when the US MSCI fell 2.6% as 18 markets rose. EMU was the best performer last week with a gain of 4.2%, followed by EAFE (3.2%), and EM Eastern Europe (3.0). The regions underperforming last week, albeit with gains: EM Asia (0.6), BRIC (0.6), EMEA (2.0), and EM Latin America (2.3). Portugal was the best-performing

country, soaring 6.5% for its best gain in 40 months, followed by Sweden (5.0), Colombia (5.0), Argentina (5.0), and Italy (4.7). Of the 21 countries that underperformed the AC World ex-US MSCI last week, Greece fared the worst, falling 0.8%, followed by Jordan (-0.3), India (-0.2), and Taiwan (-0.1). The US MSCI's ytd ranking rose three places last week to 7/49, with its 14.9% ytd gain still nearly double that of the AC World ex-US (8.3). All regions and 40/49 countries are in positive territory ytd. Among the regions, four are outperforming the AC World ex-US ytd: EM Eastern Europe (16.2), EMU (10.4), EMEA (9.2), and EAFE (9.1). Regions underperforming the AC World ex-US: EM Asia (3.3), BRIC (7.0), and EM Latin America (7.0). The best country performers ytd: Russia (23.3), Greece (21.9), Egypt (20.1), Switzerland (16.8), and Canada (16.5). The worst-performing countries so far in 2019: Sri Lanka (-9.4), Chile (-7.4), Turkey (-5.8), Pakistan (-5.5), and Morocco (-4.1).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose for the first time in five weeks. MidCap's 4.5% gain was a tad better the LargeCap's 4.4% rise, and both were easily ahead of SmallCap (3.5%). LargeCap ended the week 2.5% below its record high at the end of April, and MidCap exited a correction last week at 7.7% below its 8/29 record high. SmallCap remained in a correction at 16.2% below its 8/29 record after narrowly averting a bear market a week earlier. Thirty-two of the 33 sectors moved higher last week, the broadest gain since mid-January and compared to all 33 falling a week earlier when all three indexes dropped for a fourth straight week—the first time that's happened since August 2011. The best performers in the latest week: LargeCap Materials (9.1%), MidCap Tech (6.3), MidCap Materials (6.1), SmallCap Materials (6.0), and LargeCap Tech (6.0). MidCap Energy (-0.3) was the sole decliner, followed by small gains for SmallCap Energy (0.8), LargeCap Communication Services (0.9), SmallCap Communication Services (1.4), and SmallCap Real Estate (1.6). In terms of 2019's ytd performance, all three indexes are still off to a healthy start for the year. LargeCap leads with a gain of 14.6% ytd, ahead of MidCap (13.8) and SmallCap (8.9). Thirty-one of the 33 sectors are positive ytd, with the LargeCap cyclicals leading the top performers: LargeCap Tech (22.5), MidCap Tech (22.2), LargeCap Real Estate (20.1), LargeCap Industrials (17.2), and MidCap Industrials (17.1). MidCap Energy (-5.7) and SmallCap Energy (-3.0) are the sole decliners so far in 2019, followed by these underperformers: SmallCap Health Care (3.7), MidCap Consumer Staples (3.9), and SmallCap Communication Services (3.9).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 S&P 500 sectors rose last week as four outperformed the S&P 500's 4.4% rise. That compares to all 11 falling a week earlier, when seven outperformed or matched the S&P 500's 2.6% decline. Materials was the best-performing sector with a gain of 9.1%, ahead of Tech (6.0%), Consumer Staples (5.2), and Industrials (5.1). Last week's biggest underperformers, albeit with gains: Communication Services (0.9), Real Estate (2.6), Utilities (2.9), Consumer Discretionary (4.0), Energy (4.1), Financials (4.2), and Health Care (4.3). All 11 sectors are still 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 14.6% rise ytd: Information Technology (22.5), Real Estate (20.1), Industrials (17.2), Consumer Discretionary (16.9), and Consumer Staples (14.8). The ytd laggards: Health Care (4.9), Energy (6.0), Utilities (12.6), Financials (13.3), Materials (13.4), and Communication Services (14.6).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 0.1% as 10 of the 24 commodities moved higher. That compares to eight rising a week earlier when the index dropped 4.5% in its worst decline since mid-December. The index had 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 12/24. It has since weakened to 19.0% below its October high. Sugar was the strongest performer for the week, as it rose 3.8%, ahead of Silver (3.3%), Cocoa (3.2), Feeder Cattle (3.1), and Gold (2.7). Natural Gas was the biggest decliner, with a drop of 4.8%, followed by Kansas Wheat (-4.5), Cotton (-3.7), and Nickel (-3.4). The S&P GSCI commodities index is up 8.8% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Lean Hogs (36.7), Unleaded Gasoline

(33.1), Crude Oil (19.0), Brent Crude (17.2), and Corn (11.3). The biggest laggards in 2019: Natural Gas (-20.6), Live Cattle (-16.6), Lead (-9.3), and Cotton (-9.2).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index surged 4.4% last week and appears to have successfully tested 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 rose for 16th time in 17 weeks to a 34-week high, forming a Golden Cross for an 11th week after 16 weeks in a Death Cross formation. The index 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 3.8% is up from 3.7% 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 16th time in 17 weeks to a hair above its 50-dma from a 22-week low of 4.2% below its falling 50-dma a week earlier. That's down from 6.6% during mid-February, which was its highest since October 2011 and compares to a seven-year low of 12.0% below at the end of December. The 200-dma fell for a third week after rising for 16 weeks. It had been falling from October to February in the first downtrend since May 2016, when it had been slowly declining for nine months. However, the 200-dma turned positive w/w as it improved to 3.9% above its falling 200-dma from a 16-week low of 0.6% below its falling 200-dma a week earlier. That's down from a 32-week high of 6.4% at the beginning of May and compares to 14.5% below its falling 200-dma on 12/24, which was the lowest since April 2009. 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](#)): Six of the 11 S&P 500 sectors traded above their 50-dmas last week, compared to 10 below their 50-dmas a week earlier. All 11 had been above in early April, and all 11 were last below in early January. The longer-term picture—i.e., relative to 200-dmas—shows 10 sectors trading above currently, up from six a week earlier, as Energy was below its 200-dma for a 35th week. Nine sectors are 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 six weeks, while Health Care was out for a sixth week and Energy for a 30th 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). Just two sectors have falling 50-dmas now compared to only two with rising 50-dmas a week earlier. Energy's 50-dma fell for a sixth week, and Health Care's for a ninth week after mostly rising since mid-2016. Five sectors have rising 200-dmas, up from four a week earlier as Tech turned higher in the latest week. Health Care fell for a fifth week, Industrials for a fourth week, and Consumer Discretionary for a second week. Among the remaining laggards: 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

Employment ([link](#)): May hirings were considerably below forecasts, as US companies added 105,000 fewer jobs than expected; there were downward revisions to both April and March payrolls, as a tight labor market depressed job growth. February's (56,000) gain was also below 100,000. Payroll employment climbed only 75,000 (vs the consensus estimate of 180,000) last month, following downwardly revised gains of 224,000 (from 263,000) in April and 153,000 (189,000) in March, for a net decline of 75,000. Private payrolls added only 90,000 jobs—above the 27,000 reported by ADP earlier last week; both April (205,000 from 236,000) and March (153,000 from 179,000) gains were revised lower, for a net loss of 57,000. The list of companies showing little change in employment in May's Bureau of Labor Statistics report was very long. Meanwhile, job gains in professional & business

services (33,000), health care (16,000), and construction (4,000) continued to trend higher, adding 498,000, 391,000, and 215,000 jobs, respectively, the past 12 months. The breadth of job creation (i.e., the percentage of private industries increasing payrolls) shows the one-month span dropped to 54.8%—the lowest since May 2017—while the three-month span ticked up to 62.4%, below the 70.9% reading at the end of last year.

Earned Income Proxy ([link](#)): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, continued to set new highs in May—not posting a decline since February 2016. Our EIP rose 0.3% last month, after climbing 0.1% in April and 0.6% in March; it was 4.6% above a year ago. Average hourly earnings (AHE), one of the components of our EIP, rose 0.2% last month, and 3.1% 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 up 0.1% after ticking down 0.1% in April; it was up 1.5% y/y, slowing from 2.4% at the start of this year.

Unemployment ([link](#)): The unemployment rate in May remained at 3.6%—the lowest since December 1969; the participation rate held at April's seven-month low of 62.8%. The adult unemployment rate ticked up to 3.3% last month after falling to 3.2% in April—which was the lowest since January 1970—while the college-grad rate (2.1%) remained a tick above its cyclical low of 2.0%. The volatile teenage rate (12.7) has fluctuated around 13.0% the first five 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”) fell 299,000 in April to 4.4 million (2.7% of the civilian labor force), after climbing 344,000 during the two months through April. The sum of the underemployment and jobless rates fell to 6.3% last month, while the U6 rate, which includes marginally attached workers, dropped to 7.1%. Both were the lowest since December 2000.

Wages ([link](#)): May wages—as measured by AHE for all workers on private nonfarm payrolls—climbed to another new record high. The wage rate ticked down to 3.1% 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 (3.2% y/y) has eased from its series high of 3.6% recorded in February, while the goods-producing rate (2.7) continued to fluctuate in a flat trend between 2.0%-3.0%. Within goods-producing, the manufacturing rate (2.2) is on a modest uptrend, while construction's (3.1) remains just above 3.0%; the natural resources (3.9) rate accelerated to a three-year high. Within service-providing, rates for both retail trade (4.1) and information services (5.3) continued to ease from their series highs of 5.0% and 6.6%, respectively, while rates for wholesale trade (3.5) and leisure & hospitality (3.8) remained on accelerating trends. Meanwhile, the rate for transportation & warehousing has been accelerating after hitting bottom earlier this year, while the rate for financial activities (3.6) appears to have found a bottom. Stalled around recent highs are rates for utilities (4.0) and professional & business services (3.1).

Productivity & Labor Costs ([link](#)): Nonfarm productivity for Q1 expanded at roughly the same robust pace as first reported, while unit labor costs contracted at nearly double the initial rate. Meanwhile, the change in Q4 unit labor costs was revised from a positive to a negative. Revisions show Q1 productivity (to 3.4% from 3.6%, saar) still expanded at the fastest pace since Q3-2014, following an unrevised 1.3% gain during Q4. Output rose 3.9% (saar) during Q1, not far from the initial estimate of 4.1%, while hours worked was unchanged at 0.5%. Meanwhile, the decline in Q1 unit labor costs (-1.6% from -0.9%) was steeper than first thought, as the gain in hourly compensation (1.8 from 2.6) was smaller; Q4 revisions swang the initial increase in unit labor costs (-0.4 from 2.5) to a decrease, as the gain in hourly comp (3.9 from 0.9) was revised dramatically lower. On a y/y 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 0.8% below a year ago. From 2011 to 2016, productivity averaged yearly gains of only 0.6%, moving slightly above 1.0% during 2017 and 2018.

Merchandise Trade ([link](#)): The real merchandise trade deficit narrowed slightly in April after widening slightly in March. Since reaching a record gap of -\$91.2 billion at the end of last year, the deficit has narrowed during three of the first four months of this year, to -\$81.9 in April, suggesting that trade will likely contribute positively to real GDP again this quarter. April's gap is below Q1's average monthly deficit of -\$82.7 billion. In April, both real exports (-3.4%) and real imports (-2.6) contracted; it was the first decline for exports and the third for imports this year. April's drop in real exports was driven by autos (-5.5%), capital goods ex autos (-5.6%), and consumer goods ex autos (-3.2)—which had increased 11.0%, 1.0%, and 3.8%, respectively, during the three months through March. Meanwhile, the weakness in real imports is widespread, both monthly and ytd: Autos (-2.8% m/m & -2.8% ytd), capital goods ex autos (-2.6 & -6.2), industrial materials & supply (-1.7 & -6.7), consumer goods ex autos (-1.7 & -2.1), and foods, feeds & beverages (-5.3 & -2.4).

GLOBAL ECONOMIC INDICATORS

Germany Manufacturing Orders ([link](#)): German factory orders took another step forward in April, as in March, after plunging the first two months of this year. Orders climbed 0.3% in April, following an upwardly revised 0.8% (from 0.6%) increase in March; billings had contracted 6.0% the first two months of the year. Foreign orders rebounded 6.0% during the two months through April, while domestic orders sank 5.4% over the period. Orders from outside the Eurozone soared 10.1% over the two-month span, while those from within the Eurozone were little changed, as March's 5.8% increase was wiped away by a 5.9% decline in April. The bounce-back in billings from outside the Eurozone was widespread over the two-month period, with both consumer (15.4%) and capital (12.2) goods orders posting double-digit gains, while the advance in intermediate (3.1) goods billings was more modest. Meanwhile, the jump in consumer goods orders over the same period was led by an 18.6% jump in nondurable goods—durable goods orders climbed 6.7%. Here's a look at the two-month performance in orders from within the Eurozone: Consumer goods rose 4.9% as a gain in nondurable (12.0%) goods orders more than offset a loss in durable (-10.9) goods orders; billings for capital goods orders dropped 2.0%, while intermediate goods billings ticked up 0.7%. Domestic orders were weak across the board during the two months though, with capital (-6.2) and intermediate (-5.3) goods orders sliding while consumer (-0.3) goods orders showed no growth.

Germany Industrial Production ([link](#)): Factory output in April posted its biggest decline in nearly four years, falling to its lowest level since March 2017, impacted by weak global demand. Germany's headline production—which includes construction—plunged 1.9% in April, more than reversing the 1.5% gain posted during the four months through March. Excluding construction, April's decline was even steeper, at 2.3%, after a 0.6% increase in March and declines of 0.2% during both February and January. Manufacturing output plummeted 2.5% in April, the steepest decline since August 2015, after a two-month uptick of 0.6%. Within the main industrial groupings, consumer durable (-3.7%), capital (-3.3), and intermediate (-2.1) goods production all posted big declines in April, while consumer nondurable goods output was flat. Data for May show Germany's manufacturing sector remained stuck in contraction, according to IHS Markit's latest report, with the M-PMI down fractionally from 44.4 in April to 44.3 last month—one of its lowest readings since mid-2012. The rate of decline in output eased for the second consecutive month in May, to show the softest drop in production since February. Underpinning this was a combination of stronger growth in the consumer goods sector and a slower decline at capital goods firms. Meanwhile, manufacturers of intermediate goods recorded a sharper reduction in production.

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