



MORNING BRIEFING

June 17, 2019

The Mice That Roared

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

(1) A big mess from one end of the globe to the other. (2) The world's economy is flat. (3) Why are stocks holding up so well? (4) Donald Trump vs Peter Sellers: US roars back at all the roaring mice. (5) The Fed is ready to help if need be. (6) Inflation is still MIA. (7) Industry analysts remain mostly upbeat on revenues and earnings. (8) Q2 earnings estimates down y/y, but not by much. (9) American consumers doing what they do best. (10) The Fed is listening mostly to academics.

Geopolitics: Lots of Commotion. What a geopolitical mess! The US and China are in a trade war that is really all about superpower rivalry. Oil tankers are targets of Iranian-backed saboteurs in the Strait of Hormuz, sending the price of a barrel of Brent up 3.4% to \$62.01 since Wednesday. Li'l Kim continues to lob medium-range missiles over Japan to get attention.

Over in Europe, Brexit is on course for either a hard-deal or no-deal denouement this fall. After the latest elections for the European Parliament, the legislative body is likely to be torn by dissension between factions that are for and against European unification. In the US, the 2020 presidential campaign is likely to be the nastiest ever. There is likely to be more Russian interference and charges of collusion with foreign actors on both sides of the political divide. Just as divisive is likely to be the immigration issue, as illegal immigrants continue to stream across the Mexico-US border despite promises by Mexico to stem the tide. Venezuela continues to implode.

Reflecting the adverse consequences on global economic growth of all this geopolitical turmoil are falling commodity prices. The nearby futures price of a barrel of Brent crude oil is down 17% from this year's high of \$74.57 to \$62.01 on Friday ([Fig. 1](#)). It did increase \$2.04 since the two oil tankers were hit late last week. The CRB raw industrials spot price index fell on Friday to the lowest reading since 9/26/16 ([Fig. 2](#)).

So why is the S&P 500 down only 2.0% from its 4/30 record high of 2945.83 ([Fig. 3](#))? All 11 sectors of the S&P 500 are up so far in June ([Fig. 4](#)). Here is the month's performance derby through Friday: Materials (9.6%), Consumer Discretionary (6.5), Consumer Staples (5.8), Information Technology (5.8), S&P 500 (4.9), Industrials (4.6), Financials (4.6), Health Care (4.5), Utilities (4.1), Energy (3.6), Real Estate (3.2), and Communication Services (2.3).

Notice that Materials is leading the way despite the weakness in commodity prices, as we reviewed last Thursday. The other cyclical sectors are also doing well so far this month despite more signs of slowing global economic growth. The latest one: April's OECD leading indicators fell to the lowest since September 2009, corroborating the weakness in commodity prices ([Fig. 5](#)).

In some ways, the current geopolitical situation reminds me of the 1959 Peter Sellers classic movie, "The Mouse That Roared," based on Leonard Wibberley's satirical novel by the same name. The fictitious European Duchy of Grand Fenwick declares war on the US, fully expecting to be defeated quickly and to be rebuilt through an aid program that the US always provides its vanquished enemies.

Plenty of mice like Duchy are roaring at the US these days. President Donald Trump is using the power of the US economy and military to roar back at China, North Korea, Iran, Mexico, and Venezuela. He has even started roaring at Germany and Russia over their plan to complete a gas pipeline, making Europe even more dependent on Russian gas. Apparently, stock investors are betting that Trump's roar will drown out the roars of all the pesky mice.

The resilience of the stock market also reflects the following developments:

(1) *The Fed is ready to help if need be.* 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 if trade negotiations deteriorate. 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."

In our opinion, this suggests that the FOMC won't cut the federal funds rate, as widely expected at this week's meeting, especially since Q2 GDP estimates are rising, as noted below. However, Trump might escalate the US trade war with China if no progress is made at the G20 meeting at the end of June. If so, then the FOMC might act at the 7/30-7/31 meeting.

The 2-year US Treasury note yield tends to be a good year-ahead indicator of market expectations for the federal funds rate ([Fig. 6](#)). It was 1.84% on Friday, down from 2.48% at the start of the year. The federal funds 12-month forward futures is down to 1.54%. The current federal funds rate range is 2.25%-2.50%. The spread between the 10-year US Treasury yield and the federal funds rate was minus 29bps on Friday ([Fig. 7](#)). That strongly suggests that the market expects the Fed will be easing soon, as Melissa and I discussed in our [Topical Study #83](#), "The Yield Curve: What Is It Really Predicting?"

(2) *Inflation remains subdued in the US.* Providing room for the Fed to ease, if need be, is subdued inflation. On Friday, the yield spread between the 10-year Treasury and the comparable TIPS fell to 1.63%, the lowest since 10/13/16. It is widely deemed to be a measure of the market's annual expected inflation rate over the next 10 years ([Fig. 8](#)).

May's CPI inflation rate remained subdued, with the headline rate at 1.8% y/y and the core at 2.0%—implying not much change in May's comparable PCED inflation readings from April's 1.5% and 1.6% ([Fig. 9](#) and [Fig. 10](#)). May's import price index, which excludes the cost of tariffs, fell 1.5% y/y (1.4% y/y excluding petroleum). The price index for Chinese imports fell 1.4% y/y, while the yuan fell 8.0% y/y, offsetting most of the 10% tariff on \$200 billion of Chinese imports over that period.

Last year, we frequently observed that there were lots of good reasons to be bearish on bonds, including the rapid growth in nominal GDP and mounting federal deficits. However, we remained relatively bullish on US bonds, observing that they were likely to remain "tethered" to the comparable bond yields in Germany and Japan, which were around zero. On Friday, they were -0.25% and -0.11%, respectively ([Fig. 11](#)).

Here is a sampling of 10-year government bond yields around the world on Friday and at the beginning of this year: Australia (1.37%, down from 2.33%), Canada (1.44, 1.97), France (0.09, 0.71), Germany (-0.25, 0.25), Greece (2.74, 4.38) Italy (2.34, 2.77), Japan (-0.11, 0.01), Portugal (0.62, 1.72), Spain

(0.50, 1.42), Sweden (0.05, 0.47), UK (0.84, 1.27), and US (2.09, 2.69).

The US still stands out with the highest bond yield. Lower bond yields tend to boost valuation multiples for stocks.

(3) *Industry analysts remarkably upbeat.* As we've been noting lately, industry analysts who cover the S&P 500 remain surprisingly cheery despite all the geopolitical commotion. Granted, during the 6/6 week they estimated a 0.8% y/y drop in Q2 earnings per share ([Fig. 12](#)). However, a typical upside "hook" during the earning season—as actual results beat expectations—could turn that into a positive growth rate, as it did during Q1. That may be more challenging, though, given that the tariff war with China escalated during May and oil prices dropped.

Weekly S&P 500 forward revenues per share has been stalled since early May through early June but at a record high, implying that quarterly revenues could also be at a record high during Q2 ([Fig. 13](#)). Honestly, we are skeptical about that happening, but we have been impressed since early last year by the resilience of revenues in the face of all the grim headlines about the global economy.

Also remarkably resilient is S&P 500 forward earnings, which is back at last year's record high after a small dip late last year. The forward profit margin has been similarly edging higher and stood at 12.2% during the 6/6 week.

It is also remarkable to see that S&P 500 consensus expected earnings growth for 2019 has plunged from 7.6% at the start of this year to only 2.1% currently, yet stock prices remain near record highs ([Fig. 14](#)). On the other hand, 2020 expected earnings growth is currently 11.1%.

(4) *The US consumer is still consuming.* Debbie and I have been long-time fans of America's consumers. We certainly don't like to bet against them, especially when jobs are expanding, real wages are rising, and their confidence is swelling. We attributed the weakness in retail sales earlier this year mostly to really bad winter weather. So we were pleased to see that retail sales grew 0.5% m/m during May and that April's growth was revised from -0.2% to +0.3%.

As a result, the Atlanta Fed's [GDPNow](#) model boosted Q2's real personal consumption expenditures growth from 3.2% to 3.9% ([Fig. 15](#)). The estimate for real GDP rose from 1.4% to 2.1%. There certainly is no recession in these estimates! We wouldn't be surprised if May's retail sales is revised higher, further boosting real GDP. In this light, it's very unlikely that the Fed will cut the federal funds rate this week. A cut at the end of July will depend on trade talk developments.

Fed: Back to the Drawing Board. Low and stable inflation is one of the Federal Reserve's two key mandates set by Congress. The rate of inflation has been below the Fed's target of 2.0% since that goal was set in 2012. Meanwhile, the Fed's other mandate—maximum employment—has been achieved and even exceeded by some measures.

Yet the Philips Curve theory posits an inverse relationship between unemployment and inflation. So according to it, the current state of stable low inflation *and* maximum employment shouldn't exist—the rate of inflation should have rebounded by now.

The fact that it hasn't presents a problem for monetary policymakers because having persistently low inflation when interest rates are at historical lows means that the Fed has less room to maneuver in the event of an economic downturn. Fed officials also fear that keeping interest rates so low could create unwanted asset bubbles in some markets.

The conundrum of low inflation in a low-interest-rate world is the primary reason the Fed launched its series of *Fed Listens* events, gathering for the most recent on 6/5, where Powell suggested he was ready to ease if the US-China trade war escalates. These town-hall-type events provide the Fed with an opportunity to hear the perspectives of academics, policymakers, and others with educated views on monetary policy. Up for discussion is the Fed's current approach to achieving its dual mandate.

Melissa and I read through the papers and discussions from the 6/5 conference posted to the Fed's [website](#) and found the conclusions and recommendations to be underwhelming. Many of the studies suggested that more work needs to be done to understand today's inflation dynamics. But we did find it interesting that most of the papers directly or indirectly supported the notion that the Fed ought to remain aggressive with interest-rate policy to *stimulate* inflation. However, there was lots of discussion disputing that notion. Consider the following two key papers presented:

(1) *Defending aggressive policy*. The first academic [paper](#) presented—"The Federal Reserve's Current Framework for Monetary Policy: A Review and Assessment"—drew six conclusions about monetary policy effectiveness based on a historical scenario analysis of the US economy through the expansion since 2009.

The sixth conclusion is most relevant to our discussion today: "[T]he current suite of policies would have led to a substantially faster recovery and a rate of inflation closer to target had the Fed inherited higher nominal interest rates and inflation rates consistent with a higher inflation target." In other words, had the Fed targeted a rate of inflation higher than 2.0% following the downturn, US employment would have recovered faster, and reflation would have occurred.

If nominal interest rates, inflation rates, and the inflation target were 1.0ppt higher than they actually were, the authors' modeling suggests, the unemployment rate would have fallen below the CBO natural rate of unemployment seven quarters earlier than it did. Assuming 2.0ppts higher than actual, the unemployment rate would have surpassed the CBO natural rate 10 quarters earlier. That would have allowed the Fed to resume interest-rate hikes in 2014 rather than December 2015.

Now, the authors admit that these assumptions come with the benefit of hindsight because the macroeconomic effects of more aggressive policies could not have been known at the time "and are still quite uncertain." At the time, Fed officials were concerned "that the expansion of the balance sheet was setting the stage for a surge in inflation." Of course, we can only know now that the "surge never transpired."

(2) *Defending rule-based policy*. John Taylor, the father of the Taylor Rule, was selected to provide a [counterpoint](#) to the paper's findings at the conference. The Taylor Rule prescribes a value for the federal funds rate dependent on variables for inflation and economic slack, such as the output gap or unemployment gap.

On the Atlanta Fed's website, the [Taylor Rule Utility](#) provides the rate prescribed in the current environment assuming standard variables. Currently, the prescription would be set at 3.57%, but obviously the Fed has opted not to follow this simple rule, as the rate is presently set at 2.25%-2.50%. Large deviations from rule-based policy began following the most recent recession.

Nevertheless, Taylor stuck to his rule-based approach in the discussion, disagreeing with the paper's findings. Taylor said that the Fed should continue with normalization, rejecting notions that it should raise its inflation target or accept opportunistic reflation. Central banks should aim for "rule-like" policy, in his view.

(3) *Defending labor market slack.* Another academic [paper](#)—“How Tight is the Labor Market?”—posited that the reason that inflation has not overheated while the unemployment rate is so low is that the unemployment rate is a poor yardstick of labor-market slack. The paper aims to establish a new measure based on “effective job searchers” and “effective labor market vacancies” because not all of the unemployed are searching intensively for work nor do all job vacancies represent employers intensively recruiting. By their adjusted model, the authors found that, at year-end 2018, “generalized measures of tightness imply substantially less tightness than standard measure.”

Future research will tackle explaining wage and price growth against the performance of alternative measures of labor market tightness. The hypothesis: “If labor markets [are] not as tight as implied by [the] standard measure, [it is] easier to reconcile [the] lack of wage and price pressure from the labor market.” If that presumption is borne out, it would seem to us to justify the Fed holding interest rates lower for longer.

(4) *Defending the “innocent.”* Jared Bernstein—presumably selected to [counter](#) the paper's points—did poke holes in the research, finding more work needs to be done. But overall, he seemed to agree with the bottom line. Borrowing from a conclusion that he made in 5/15 Center on Budget and Policy Priorities [paper](#), Bernstein said: “[I]t is perhaps not too optimistic ... to suggest that there has occurred a flip in the internal consensus among some monetary policy makers. ... [F]rom the perspective of accelerating inflation, high-pressure labor markets, once viewed as guilty until proven innocent, are now viewed as innocent until proven guilty.”

By the way, Bernstein was Vice President Biden's chief economist and an architect of President Barack Obama's fiscal stimulus program, which delivered far fewer jobs than he had predicted.

CALENDARS

US. Mon: Empire State Manufacturing Index 11.0, NAHB Housing Market Index 67, Treasury International Capital Flows. **Tues:** Housing Starts & Building Permits 1.235mu/1.290mu. (DailyFX estimates)

Global. Mon: Draghi. **Tues:** European Car Sales, Eurozone Headline & Core CPI 1.2%/0.8% y/y, Germany ZEW Current Situation & Expectations 6.1/-5.8, RBA Minutes of June Policy Meeting, Draghi, Carney. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 0.5% and end the week 2.0% below its 5/3 record high. The AC World ex-US was flat for the week and 15.5% below its record high in January 2018. The US MSCI's weekly performance ranked 17th among the 49 global stock markets we follow in a week when 23/49 countries rose in US dollar terms. That compares to the prior week's 9/49 ranking, when the US MSCI soared 4.4% for its biggest gain since late November as 44 markets rose. EMEA was the best performer last week with a gain of 0.9%, followed by EM Asia (0.8%), BRIC (0.8), EM Eastern Europe (0.4), and EM Latin America (0.3). The regions underperforming last week: EMU (-0.8) and EAFE (-0.3). Argentina was the best-performing country, soaring 14.0% for its best gain since last September, followed by Egypt (2.5), Singapore (1.8), and Greece (1.8). Of the 26 countries that underperformed the AC World ex-US MSCI last week, Turkey fared the worst, falling 5.6%, followed by Pakistan (-4.7), Hungary (-3.5), and Portugal (-2.9). The US MSCI's ytd ranking remained steady last week at 7/49, with its 15.4% 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 (16.7), EMEA (10.3),

EMU (9.4), and EAFE (8.7). Regions underperforming the AC World ex-US: EM Asia (4.1), EM Latin America (7.3), and BRIC (7.8). The best country performers ytd: Russia (24.6), Greece (24.0), Egypt (23.1), Argentina (20.2), Switzerland (16.6), and Canada (16.2). The worst-performing countries so far in 2019: Turkey (-11.1), Pakistan (-10.0), Sri Lanka (-9.7), Chile (-6.3), and Morocco (-4.3).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose for a second week following four straight declines. LargeCap's 0.5% gain was a tad better than the 0.4% increases for MidCap and SmallCap. LargeCap ended the week 2.0% below its record high at the end of April, and MidCap improved to 7.3% below its 8/29 record high. SmallCap remained in a correction at 15.9% below its 8/29 record after narrowly averting a bear market at the end of May. Twenty-four of the 33 sectors moved higher last week compared to 32 rising a week earlier. The best performers in the latest week: LargeCap Consumer Discretionary (2.4%), MidCap Consumer Staples (2.1), MidCap Consumer Discretionary (1.6), and SmallCap Utilities (1.5). SmallCap Energy (-6.2) was the biggest decliner, followed by MidCap Energy (-5.2), and LargeCap Energy (-0.5). 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 15.2% ytd, ahead of MidCap (14.2) and SmallCap (9.3). Thirty-one of the 33 sectors are positive ytd, with the LargeCap cyclicals leading the top performers: LargeCap Tech (22.3), MidCap Tech (21.8), LargeCap Real Estate (20.7), LargeCap Consumer Discretionary (19.8), and MidCap Industrials (17.9). MidCap Energy (-10.6) and SmallCap Energy (-9.0) are the sole decliners so far in 2019, followed by these underperformers: SmallCap Communication Services (3.6), SmallCap Health Care (3.6), LargeCap Health Care (5.1), LargeCap Energy (5.5), and SmallCap Consumer Staples (5.5).

S&P 500 Sectors and Industries Performance ([link](#)): Eight of the 11 S&P 500 sectors rose last week as six outperformed the S&P 500's 0.5% rise. That compares to all 11 rising a week earlier, when four outperformed the S&P 500's 4.4% rise. Consumer Discretionary was the best-performing sector with a gain of 2.4%, ahead of Communication Services (1.4%), Utilities (1.2), Consumer Staples (0.6), Real Estate (0.5), and Materials (0.5). Last week's biggest underperformers: Energy (-0.5), Industrials (-0.4), Tech (-0.2), Health Care (0.2), and Financials (0.4). 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 15.2% rise ytd: Information Technology (22.3), Real Estate (20.7), Consumer Discretionary (19.8), Industrials (16.7), Communication Services (16.1), and Consumer Staples (15.5). The ytd laggards: Health Care (5.1), Energy (5.5), Financials (13.8), Utilities (13.9), and Materials (14.0).

Commodities Performance ([link](#)): Last week, the S&P GSCI index edged down less than 0.1% as 15 of the 24 commodities moved higher. That compares to 10 rising a week earlier when the index dropped 0.1%. 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. Corn was the strongest performer for the week, as it rose 9.8%, ahead of Kansas Wheat (8.2%), Wheat (7.2), and Soybeans (7.2). Coffee was the biggest decliner, with a drop of 3.4%, followed closely by Lean Hogs (-3.3), and Brent Crude (-3.3). The S&P GSCI commodities index is up 8.7% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Lean Hogs (32.2), Unleaded Gasoline (31.1), Corn (22.2), Crude Oil (16.2), Brent Crude (13.4), and Nickel (11.1). The biggest laggards in 2019: Natural Gas (-19.0), Live Cattle (-15.8), Cotton (-8.9), Feeder Cattle (-7.6), and Lead (-7.6).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 0.5% 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 17th time in 18 weeks to a 35-week high, forming a Golden Cross for a 12th 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 3.9% is up from 3.8% 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 turned slightly last week, but improved to 0.5% above its 50-dma from a hair above its rising 50-dma a week earlier, and is up from a 22-week low of 4.2% below its falling 50-dma the week before that. 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 rose for the first time in four weeks. It had been rising for 16 weeks through mid-May after falling from October to February in the first downtrend since May 2016 (when it had been slowly declining for nine months). The index traded above its 200-dma for a second week, improving to 4.4% above its now-rising 200-dma from 3.9% above its falling 200-dma a week earlier. The week before that, it had traded at a 16-week low of 0.6% below its falling 200-dma. That's still 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](#)): Seven of the 11 S&P 500 sectors traded above their 50-dmas last week, up from six above their 50-dmas a week earlier. These four sectors are trading below their 50-dmas: Communication Services, Energy, Industrials, and Tech. All 11 sectors 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, unchanged from a week earlier, as Energy was below its 200-dma for a 36th 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 eight weeks, while Health Care was out for a seventh week and Energy for a 31st 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). Six sectors have falling 50-dmas now compared to only two with falling 50-dmas a week earlier. These four sectors had their 50-dma start falling again in the latest week: Communication Services, Industrials, Materials, and Tech. Energy's 50-dma fell for a seventh week, and Health Care's for a tenth week after mostly rising since mid-2016. Six sectors have rising 200-dmas, up from five a week earlier as Consumer Discretionary turned higher in the latest week. Health Care fell for a sixth week and Industrials for a fifth week. Among the remaining laggards: Energy, Financials, and Materials have had mostly falling 200-dmas for more than 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

Retail Sales ([link](#)): Consumers are still shopping! Both headline and core retail sales—which excludes autos, gasoline, building materials, and food services—climbed to new record highs in May, while April sales were revised to show an increase. Core retail sales advanced 0.5% last month, following a revised 0.4% increase in April (first reported as flat), while total sales also rose 0.5% in May, and April's (to 0.3% from -0.2%) loss was revised to a gain. It was the fourth increase for both measures this year, with ytd gains a robust 3.6% and 3.1%, respectively. (The BEA uses the core retail sales measure to estimate personal consumption expenditures each month.) We estimate core retail sales climbed 0.5% in May after no change in April and a 0.6% advance in March, while our estimates for real total sales show a 0.6% increase after a 0.1% downtick and a 1.1% jump the prior two months. Over the three months through May, we calculate core retail sales accelerated 4.3% (saar), based on the three-month average, just shy of March's 4.6%—which was the strongest since August 2017. Real headline sales expanded 5.0% (saar) over the comparable three-month period, improving steadily since dipping into negative territory in February. In May, 10 of the 13 major nominal sales categories rose, while only two fell—miscellaneous (-1.3%) and food & beverage (-0.1) retailers; clothing store sales were unchanged.

Leading May's sales gain were nonstore (1.4%), sporting goods (1.1), and electronic & appliance (1.1) retailers—all showing gains above 1.0%; motor vehicle, general merchandise, and restaurant sales were also solid, with all up 0.7% in May.

Consumer Sentiment Index ([link](#)): Consumers were not as confident in mid-June as they were last month, as tariff concerns and slowing employment gains lowered expectations. The Consumer Sentiment Index (CSI) sank to 97.9 in mid-June after jumping from 97.2 in April to 100.0 last month, as the expectations component dropped 4.9 points to 88.6, after soaring to 93.5 in May—which was the best reading since January 2004. The present situation component rose to 112.5 this month, after falling from 113.3 to 110.0 the prior two months. Some of June's decline in the CSI was due to expected tariffs on Mexican imports (which were reversed after the survey was taken), though the survey notes most of the concern was with the 25% tariffs on nearly half of all Chinese imports. Negative mentions of tariffs were spontaneously made by 40% of all consumers in early June, up from 21% in May and the prior high of 35% in July 2018. The sole measure of the CSI that improved in early June was buying plans for large household durables. "That improvement, however, was due to consumers favoring tariff induced buy-in-advance price rationales," according to the survey, which was mentioned spontaneously by 19% of respondent in June, up from 12% in May, and just below the 21% in March 2018 (when Trump first announced tariffs on home appliances). The survey also revealed that consumers anticipated the lowest long-term inflation rate in the history of the series, falling to 2.2%.

Business Sales & Inventories ([link](#)): Nominal business sales in April were stalled at record highs, while real business sales reached a new record high in March. Nominal manufacturing & trade sales (MTS) slipped 0.2% in April after expanding 1.7% the first three months of the year to a new record high, while real business sales grew 1.9% during the five months through March. Real sales of both wholesalers and retailers climbed to new record highs in March, while manufacturers' remained stalled just below January's cyclical high. April's nominal inventories-to-sales ratio is back up at its recent high of 1.39, recorded from October through February, after dipping to 1.38 in March. Meanwhile, the real inventories-to-sales ratio is up from recent lows, remaining at 1.44 in March.

Industrial Production ([link](#)): Industrial production in May posted its biggest gain in six months, though remains below its record high posted at the end of last year, as manufacturers continue to face headwinds from trade tensions and a global slowdown. Headline production climbed 0.4% last month, though is down 0.9% ytd, while factory output rose 0.2% and fell 1.5%, respectively, over the comparable periods. May's gain was widespread, led by a 7.5% jump in light-truck assemblies and a weather-related 2.1% increase in utilities output. Consumer goods production rose 0.5% last month, while business equipment's was 0.2% higher; both are down 1.6% ytd. Looking at the market groups, business equipment had both the strongest and weakest category, with information processing equipment (0.3% m/m & 2.6% ytd) the only category to post an increase in production both in May and ytd, while transit equipment (-2.2 & -6.7) was the only one to record declines over both periods. Meanwhile, output of industrial equipment (1.4 & -1.1) was strong in May, but still in the red ytd. Looking at consumer goods, durable goods (2.0 & -3.0) output rebounded in May, though not enough to offset the steep decline the first four months of this year, while nondurable goods (0.1 & -1.3) production was little changed last month, though its ytd decline is one of the smallest among the market groups.

Capacity Utilization ([link](#)): The headline capacity utilization rate rose in May for the first time in six months, to 78.1%, after falling from a cyclical high of 79.6% in November to a 14-month low of 77.9% in April. It was 1.7ppt below its long-run (1972-2018) average of 77.9%. Manufacturing's rate ticked up to 75.7% last month, after sliding from 76.9% in November to a 15-month low of 75.6% in April; it was 2.6ppts below its long-run average. Meanwhile, the utilization rate for mining dipped to 91.3%, remaining well above its long-run average of 87.1%, while the operating rate for utilities rose to

77.5%—8.0ppts below its long-run average.

Import Prices ([link](#)): Import prices in May fell by the most in five months, on widespread declines. Prices sank 0.3% last month, the first decline since December, after climbing 1.8% the first four months of this year. Petroleum prices dipped 0.8% in May, following a 32.0% surge during the four months through April. Meanwhile, nonpetroleum prices declined for the third time this year, slumping 0.3% last month. Versus a year ago, import prices fell 1.5%, matching January's rate—which was the largest yearly decline since August 2016. The yearly rate for petroleum prices is negative again, dropping 1.9% y/y, after turning positive in March for the first time since November. The rate for nonpetroleum prices was -1.4% y/y in May, the steepest decline since June 2016. The rate for capital goods imports (-1.3% y/y) remained in negative territory in May, while the rate for industrial materials & supplies (-2.9) fell back below zero, after moving above zero in March following three months below. Prices for consumer goods ex autos (-0.7) remained below year-ago levels, while the yearly changes in auto prices were fractionally below zero for the fifth month. The rate for food prices (-0.2% y/y) dipped back below zero after turning positive in April for the first time since last May. Looking at our Asian trading partners, we're importing more deflation than inflation, with import prices for goods from China (-1.4% y/y) and the NICs (-1.4) falling, while Japan's were flat with a year ago. Meanwhile, there's no sign of inflation in EU (-0.1% y/y) import prices, decelerating sharply from last May's 4.0%, while import prices for goods from Latin America (-2.8) were negative for the sixth month.

GLOBAL ECONOMIC INDICATORS

Eurozone Industrial Production ([link](#)): Output in the Eurozone contracted again in April, though remains at a relatively high level. Industrial production (excluding construction) fell 0.9% during the two months ending April, after no change in February and a 2.0% rebound in January; output was 0.4% below a year ago. April's decline was fairly broad based, with only energy and nondurable goods output in the plus column, though only the latter was above year-ago levels. Here's a look at the industrial groupings' percent changes on both a monthly and yearly basis: Energy (1.4% m/m & -0.1% y/y), consumer nondurable goods (0.2 & 1.7), intermediate goods (-1.0 & -1.2), capital goods (-1.4 & -1.2), and consumer durable goods (-1.7 & -0.8). April data are available for the top four Eurozone economies, and show German output plunged 2.3%—the biggest monthly decline among all the Eurozone countries. Italy saw production fall 0.7% in April and 1.7% the past two months, while output in Spain rebounded 1.7% after a two-month loss of 2.2%; production in France advanced 0.4% following a 1.1% drop in March. April production in Spain (1.4% y/y) and France (1.0) were above year-ago levels, while Germany (-3.4) and Italy (-1.5) were below. Over the past year, production in Germany was the weakest, followed by the Netherlands (-2.7) and Latvia (-2.4), while output in Lithuania (13.8) and Ireland (6.9) was the strongest.

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