



MORNING BRIEFING

June 27, 2019

Turbulence for FedEx

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

(1) Fed's Powell confirms our thinking: Don't bank on a rate cut just yet. (2) "Appropriate" doesn't mean imminent. (3) FedEx's Smith frowns upon the US's and China's trade behavior. (4) FedEx hurt by slowing trade, but more's afoot too. (5) S&P 500 Air Freight & Logistics industry has crashed so far it may be a bargain. (6) Shopify disrupting retail by helping little guys compete. (7) Planning to visit the "Most Interesting Store in the World."

Fed: Rate Cut Not a Slam Dunk. On Tuesday, at the Council on Foreign Relations in New York, Fed Chairman Jerome Powell [spoke](#) on the economic outlook and monetary policy. "The things I say about monetary policy here today are intended to be fully consistent with the message that I delivered" last week, he [said](#), referring to his [presser](#) following the FOMC's 6/19 decision to leave rates unchanged.

Intentions aside, he seemed to add new color to his message, which some previously took to mean that the Fed is getting set to lower interest rates. Melissa and I took a contrarian view in Monday's [Morning Briefing](#), telling readers, "[D]on't bank on a rate cut just yet. On the other hand, the likelihood of a rate hike anytime soon is close to zero."

We don't normally get immediate confirmation of our research assessments, but we did during Powell's Tuesday speech: "Many FOMC participants judge that the case for somewhat more accommodative policy has strengthened. But we are also mindful that monetary policy should not overreact to any individual data point or short-term swing in sentiment. Doing so would risk adding even more uncertainty to the outlook." Here's more:

(1) *Interpreting appropriately.* Some Fed watchers based their assumption that rate cuts are imminent on the Fed's replacement of the word "patient" with "appropriate" to describe its policy approach in the latest FOMC [statement](#). Additionally, the Fed's [Summary of Economic Projections](#) showed that eight Fed officials saw an interest-rate cut as likely for the remainder of 2019.

But we didn't equate "appropriate" with a rate cut. Also, we pointed out that not all Fed officials included in the projection process get to vote on policy. Further, we detected in Powell's tone during his presser that he is not yet committed to more accommodation.

(2) *Tough guys.* During his Tuesday speech, Powell said: "The Fed is insulated from short-term political pressures—what is often referred to as our 'independence.' Congress chose to insulate the Fed this way because it had seen the damage that often arises when policy bends to short-term political interests."

That was probably a comeback to Trump's snarky [tweet](#) on Monday, saying that officials "blew it" by not

lowering rates at the June meeting, sticking to policy like a “stubborn child.” Trump subsequently ratcheted up his disapproval: “Let him show how tough he is—he’s not doing a good job,” the President [said](#) on Fox Business Network’s “Mornings with Maria” yesterday. We doubt that Powell will cut rates simply to comply with the President’s wishes.

(3) *Fear of the ELB.* One big reason not to cut is the need to preserve room to cut if and when easing is really needed: “The persistence of lower rates means that, when the economy turns down, interest rates will more likely fall close to zero—their effective lower bound (ELB). Proximity to the ELB poses new problems to central banks.” Importantly, Powell didn’t mention persistently low inflation, so that concern likely takes a backseat to concern about the ELB.

(4) *Walking it back.* We aren’t saying that a rate cut is off the table, just that it’s no sure bet. FRB-SF President James Bullard was the only dissenter, favoring a cut—but only of 25 basis points, he [told](#) Bloomberg on Tuesday; any more he’d consider “overdone.”

Industrials: FedEx’s Complaint. Perhaps FedEx’s CEO Fred Smith should attempt to broker a trade compromise between President Donald Trump and Chinese President Xi Jinping. Smith is clearly disgusted with the trade policies emanating from both countries and chided the leaders in the company’s fiscal Q4 [conference call](#) on Tuesday.

First, he berated the US position: “So clearly, we’ve been very disappointed over the last few years with the assumptions that we made on the growth in international trade, particularly with the Trump administration. The United States policy since 1934 with Roosevelt and Secretary of State Cordell Hull was to expand international trade. And now we have a huge dispute where the United States [has] basically become protectionist, defined as ‘I’ll make everything I need in my own borders. I don’t need to import things.’ And quite frankly, [I] don’t particularly need to export them, despite the fact that 95% of the world’s population [lives] outside the United States.”

Then he blasted China: “We don’t agree with the Chinese position on trade either. I’ve been very vocal about that.” The Chinese would like to sell you products but won’t buy from you on a reciprocal basis, he said.

Smith’s frustration is understandable, because the spat has caused international trade to sag, and that has hurt FedEx’s bottom line. Trade in and out of the West Coast ports dropped 1.7% in May from its December peak, based on the 12-month sum ([Fig. 1](#)).

But more than just trade ails this company. FedEx was also hurt by its ill-timed \$4.4 billion acquisition of TNT Express in Europe in 2016 and the need to rapidly adapt to e-commerce deliveries in the US. I asked Jackie to have a closer look at FedEx and the impact its shares are having on the S&P 500 Transports and S&P 500 Industrials indexes:

(1) *Turn the clock back two years.* FedEx’s problems began before the Trump/Xi trade spat erupted. The company’s acquisition of TNT has not delivered the expected results, with merger costs coming in higher than expected, integration taking longer than expected, and Europe’s economy slowing more than expected.

In addition, TNT was victim of the NotPetya cyber attack. FedEx CIO Robert Barber Carter reminded analysts that Russia’s cyber attack on the Ukraine shut down the computers in airports, trains, and hospitals. It shut down the country’s ATMs and big grocery store checkout systems, and it hurt TNT’s technology systems. If TNT wasn’t part of FedEx, the attack would have driven the company out of business, Smith said.

(2) *E-commerce catch-up.* FedEx forecasts the parcel delivery market doubling in size to more than 100 million packages per day by 2026 as e-commerce continues to expand. The company laid out numerous initiatives to position itself correctly. In 2020, it will make deliveries seven days a week. It entered into an alliance that allows customers to drop off FedEx packages at more than 8,000 Dollar General stores. And it ended Amazon's contract with FedEx Express in the US. The company is working to get its costs down because delivering small packages to homes has skinnier margins than other business lines.

In fiscal Q4, the company's revenue increased by 2.9% to \$17.8 billion, and its adjusted operating profit fell to \$1.3 billion from \$1.6 billion. And in fiscal 2020, the company expects a mid-single-digit percentage decrease in adjusted earnings per share.

(3) *In a nosedive.* FedEx is a member of the S&P 500 Transportation index, which we've been watching closely because it has underperformed the broader market this year even as the S&P 500 hit new highs last week. The index has risen 11.6% ytd through Tuesday's close, while the S&P 500 is up 16.4% over the same period ([Fig. 2](#)). Dragging down the Transports are the S&P 500 Air Freight & Logistics Industry (down 0.6% ytd) and Trucking (down 5.6%).

FedEx and UPS stocks both have contributed to the S&P 500 Freight & Logistics index's ytd underperformance ([Fig. 3](#)). FedEx shares have fallen 3.3% ytd, and UPS's stock is flat on the year, but that snapshot understates the damage done to the stocks since they peaked at the start of 2018. FedEx stock reached \$274.32 in January 2018 and subsequently declined 43.2% through Tuesday's close. UPS shares have followed a similar path, topping out at \$134.09 at the start of 2018 only to fall 27.6% through Tuesday's close.

Analysts have sharply reduced their revenue and earnings forecasts for the S&P 500 Air Freight & Logistics industry this year. They're calling for 3.2% revenue growth in 2019 (down from a 5.5% forecast a year ago) and 4.9% in 2020. The industry is only expected to have a 3.9% increase in earnings this year (down from calls for 11.2% earnings growth about a year ago) followed by an improved growth rate of 8.5% next year ([Fig. 4](#)). After the sharp stock price decline over the past two years, the industry's forward P/E has fallen to 12.7, near the lowest level seen over multiple decades.

(4) *It's not just China.* Industrial companies are facing a quadruple whammy: US/China tariff wars, delayed production of Boeing 737s, a slowdown in new car sales, and restructuring at GE. Durable goods orders, which had been holding up at the start of the year, dropped 1.3% in May m/m ([Fig. 5](#)). Orders were hurt by a drop in orders for motor vehicles and parts as well as nondefense aircraft and parts ([Fig. 6](#) and [Fig. 7](#)). Durable goods orders excluding transportation are a bit brighter, increasing 0.3% m/m ([Fig. 8](#)).

The S&P 500 Industrials sector peaked in April, then proceeded to fall 8.8% until bottoming on 5/31. It has since rallied sharply, leaving it up 18.7% ytd through Tuesday's close. Despite the recent ups and downs, the S&P 500 Industrials stock price index has moved sideways for more than a year, and its forward P/E has fallen from 18.6 in January 2018 to 15.6 as of 6/20 ([Fig. 9](#)). Just a little bit of good news could keep the index moving higher. Perhaps a plane ticket for Mr. Smith is in order.

Disruption: Shopping Getting Techier. Our 6/13 [Morning Briefing](#) explored the world of online retailers that don't carry inventory but instead have merchandise drop-shipped directly from wholesalers to customers. Shopify is one of these retailers' go-to providers for web hosting and software. Its one-stop shop enables start-up retailers to set up e-commerce websites capable of competing directly with the likes of Macy's and Amazon. Let's take a look at how this disruptor is affecting the retail

marketplace:

(1) *What is Shopify?* Shopify is a Canadian company that equips merchants with the software they need to set up online websites. It launched in 2006 and has more than 800,000 merchants using its software in about 175 countries. In addition to helping retailers sell goods through a Shopify-created website, Shopify also helps retailers to sell merchandise directly (person-to-person in the “real” world) and through other social media venues like Instagram.

While selling through multiple channels, Shopify’s software allows the merchant to maintain one inventory and back-office system. The software handles everything from payments to shipping. And last week, the company announced that its customers would have “access to a network of dedicated U.S. fulfillment centers to store and ship consumer goods for online orders,” a 6/19 *WSJ* [article](#) reported. Having access to fulfillment centers near major cities will allow retailers to deliver items more quickly and compete with Amazon, while lowering transportation costs.

Shopify went public in 2015 at \$17.00, and its shares since have soared to a high of \$328.01 on 6/20. In recent days, a number of analysts have downgraded the stock, and Shopify shares closed Tuesday at \$284.04—still more than double where they started 2019 (\$138.45). Bulls are focused on the company’s sales, which grew 73% in 2017 and 59% in 2018. Bears focus on the 61 cents per share it lost last year and the mere 58 cents it’s expected to earn per share this year, giving it a stratospheric P/E of 489.

(2) *What’s the competitive landscape?* Shopify isn’t the only game in town. Big Commerce and Volusion are among the companies providing similar software, but the others aren’t publicly traded. Retailers that use Shopify to create their own websites still have to maintain the websites, drive traffic to the websites, and build brands.

An alternative is joining an online marketplace, like those run by Amazon, Ebay, and Etsy. Retailers who join don’t have to worry about drumming up eyeballs, as name-brand marketplaces already have many customers browsing their wares. And on a name-brand marketplace, customers may be more willing to buy from an unknown retailer.

Marketplaces have downsides too. The marketplace, not the merchant, “owns” the customer and imposes strict rules about how merchants can engage with customers, according to an e-commerce [blog](#). When there’s a dispute, the marketplace typically backs the customer, not the merchant. And other merchants may be selling competing products on the same marketplace. In Amazon’s case, the marketplace operator itself is a competing merchant!

(3) *A new twist on the mall.* Shopify recently announced it’s working with Showfields, a bricks-and-mortar, four-story mall in Manhattan featuring small shops filled solely with products from online-only retailers. Showfields opened in December, calling itself “the Most Interesting Store in the World.” According to a 3/15 [press release](#), Shopify is hosting at Showfields merchants on the Shopify system that have rising popularity.

“Internet marketing is starting to get pretty pricey. And funnily enough, expanding offline ... expanding to brick-and-mortars is starting to look really good from a cost of acquisition perspective,” said Shopify CEO Tobi Lütke in the company’s Q1 [conference call](#).

Here’s how a 2/5 *WSJ* [article](#) described Showfields: “It feels like a cross between an art space and that weird pavilion at the county fair where sales reps demonstrate new floor cleaners. But it’s perhaps best described as a newfangled mall. Instead of Banana Republic and Cinnabon, however, Showfields

mainly hosts startup brands that have only sold products online.” The “stores” are typically 100-200 square feet in size, and merchants sign up to rent space for four-month periods with options to extend.

It sounds like an idea every mall operator with empty space (and every large retailer without enough foot traffic) should be emulating. We’ll be sure to go shopping there soon and report back.

(4) *Buy Dr. Ed’s book on Shopify.* By the way, Dr. Ed’s book, *Predicting the Markets: A Professional Autobiography*, can be [ordered](#) over Shopify. Get a 25% discount when you order five or more copies.

CALENDARS

US. Thurs: Real GDP & PCE 3.2%/1.3%, GDP & Core PCE Deflators 0.8%/1.0%, Jobless Claims 219k, Kansas City Fed Manufacturing Index 0.0, EIA Natural Gas Report, Pending Home Sales 1.0%. **Fri:** Personal Income 0.3%, Nominal & Real Personal Consumption Expenditures 0.5%/0.4%, Headline & Core PCED 1.5%/1.6% y/y, Consumer Sentiment 97.9, Chicago Purchasing Managers Index 54, Baker-Hughes Rig Count. (DailyFX estimates)

Global. Thurs: Eurozone Consumer Confidence 104.7, Germany CPI 0.2%*m/m*/1.4%*y/y*, UK Gfk Consumer Confidence -11, Japan Jobless Rate 2.4%, Japan Industrial Production 0.7%*m/m*/-3.0%*y/y*, Japan CPI Headline, Core, and Core-Core 1.0%/1.0%/0.8% y/y. **Fri:** Eurozone Headline & Core CPI Flash Estimates 1.2%/0.9% y/y, UK GDP 0.5%*q/q*/1.8%*y/y*, Canada GDP 0.2%*m/m*/1.5%*y/y*, Japan Housing Starts 948k, G20 Summit Begins. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators ([link](#)): The Bull/Bear Ratio (BBR) rose again this week as bullish sentiment moved further above 50.0%. The BBR climbed for the third week to 2.94 after sliding the prior five weeks from 3.16—which was the first reading above 3.00 since October—to 2.31 (lowest since mid-February). Bullish sentiment advanced 10.6ppts the past three weeks, to 53.3%, after a five-week plunge of 13.7ppts, from 56.4% to 42.7%—which was the fewest bulls since the first week of this year. The move to the bullish camp came entirely from the correction camp, which fell 10.2ppts to 28.6%. The correction count had soared 13.0ppts the previous five weeks—from 25.8% to 38.8%—which was the highest percentage since just before Christmas. Bearish sentiment was at 18.1% this week, fluctuating in a small band from 18.0% to 18.5% the past four weeks. The AAll Ratio rose for the second week last week to 47.9% after a four-week decline from 65.0% to 34.6%. Bullish sentiment increased for the second week to 29.5% after decreasing three of the previous four weeks from 43.1% to 22.5%, while bearish sentiment decreased for the second week to 32.1% after rising from 20.2% to 42.6% the prior six weeks.

AC World ex-US MSCI ([link](#)): This index has risen 5.2% in dollar terms so far in June, and is up 11.1% ytd. In local-currency terms, the index is up 3.5% in June compared to a 10.4% gain for all of 2019. The US dollar price index is up 13.4% since its December low and has improved to 13.3% below its cyclical high in January 2018. It had been down as much as 23.6%—and in a bear market—in December. The local-currency price index is up 12.4% since its December low to 7.9% below its record high in January 2018. It had been down as much as 18.1% on December 26. Local-currency forward revenues is down 1.1% from its record high in early May, but is up 15.7% from a five-year low in March 2016. Local-currency forward earnings weakened to 4.9% below its record high in early November. Revenues are expected to rise 3.7% in 2019 and 4.5% in 2020 following a gain of 7.0% in 2018, and earnings are expected to rise 4.4% (2019) and 9.9% (2020) after rising 4.7% (2018). The industry analysts’ sales forecasts imply short-term 12-month forward revenue growth (STRG) of 4.3%, up 0.5ppt *m/m*. Their STRG forecast compares to a seven-year high of 6.8% in March 2017 and is up from a cyclical low of

2.3% in March 2016. Their short-term 12-month forward earnings growth (STEG) forecast remained steady m/m at 7.3%. That's up from a 10-year low of 6.0% in February, and compares to a four-year-high forecast of 14.1% in March 2017. The profit margin estimate implied by analysts' earnings and revenue estimates remains unchanged y/y at 7.6% for 2019 and rises to 8.0% in 2020. The forward profit margin forecast edged down 0.1ppt m/m to 7.7%, which is down from 8.0% in February and a nine-year high of 8.3% in October. The Net Earnings Revision Index (NERI) for the AC World ex-US MSCI was negative in June for a 15th straight month following six positive readings. It edged down to -6.5% from -6.4% in May, but is up from its 33-month low of -8.4% in January. That compares to a 76-month high of 2.7% in May 2017 and a 51-month low of -11.3% in March 2016. The forward P/E rose 0.4pt m/m to 13.1, which is up from a five-year low of 11.4 in late December. That compares to a six-year high of 15.3 in April 2015, and a cyclical bottom of 12.3 in January 2016. The index's current 13% discount to the World MSCI P/E is up from its record-low 15% discount during early November.

EMU MSCI ([link](#)): The EMU's MSCI price index is up 6.3% in dollar terms so far this month, and is up 12.6% for all of 2019. In euro terms, the price index is up 4.1% in June, compared to a 13.1% gain ytd. The US dollar price index is up 15.3% since its December low and has improved to 15.2% below its cyclical high in January 2018. It had been down as much 26.5% and in a bear market in December. The local-currency price index is up 15.5% since its December low to 8.1% below its cyclical high in January 2018. It had been down as much as 20.5% on December 27. Euro-based forward revenues weakened 0.1% m/m and is now down 1.5% from its five-year high in early November. That's still 4.9% above its six-year low in May 2016, but remains 6.3% below its record high (September 2008). Euro-based forward earnings had stalled from 2011 to 2016 before reaching its highest level in 10 years during early November. It was unchanged m/m and remains 2.4% below its 10-year high in November and 17.6% below its record high (January 2008). Analysts expect revenues to rise 2.7% in 2019 and 4.2% in 2020, above the 2.0% in 2018. They're also looking for faster earnings growth. Earnings are expected to rise 4.5% in 2019 and 10.0% in 2020 following a gain of 3.4% in 2019. Forecasted STRG of 3.5% is up from 3.3% a month earlier, which compares to a six-year high of 5.0% in April 2017 and a cyclical low of 2.0% in May 2016. Forecasted STEG rose 0.4ppt m/m to 7.4%, which compares to a 78-month high forecast of 21.0% (February 2017) and a seven-year low of 5.7% (April 2016). STEG had been higher than LTEG (currently 9.4%) from July 2016 to May 2017, but is trailing now. The forward profit margin was steady m/m at 7.8%, which compares to a nine-year high of 7.9% in January and a cyclical bottom of 6.2% in May 2013. The implied profit margin is expected to improve to 7.6% in 2019 and 8.0% in 2020 from 7.5% in 2018. NERI was negative in June for a ninth straight month and in 20 of the past 23 months. NERI improved m/m to -4.0% from -4.2%, and remains above December's 31-month low of -8.7%. That compares to an 11-year high of 8.1% in May 2017. The P/E of 13.1 is up from 11.3 in early January, which was then its lowest reading since July 2013. That's down from a nine-month high of 14.9 in January 2018 and compares to a 13-year high of 16.4 in April 2015 and a 30-month low of 12.2 in February 2016. The current valuation represents a 13% discount to the World MSCI's P/E now, up from February's 14% discount, which was then the lowest since August 2016. That compares to a record-low 25% discount during 2011 and is well below the 1% premium during April 2015—the post-euro-inception record high.

Emerging Markets MSCI ([link](#)): The EM MSCI price index has gained 4.7% in US dollar terms so far in June to a gain of just 8.2% ytd. In local-currency terms, EM is up 7.9% ytd after a 3.3% gain so far this month. The US dollar price index is up 11.8% since its October low and out of a bear market now at 17.9% below its cyclical high in January 2018. It had been down as much 26.6% last October from its cyclical high. The local-currency price index is up 10.7% since its October low to 12.4% below its cyclical high in January 2018. It had been down as much as 20.9% on October 29. Local-currency forward revenues is down 3.8% from its record high in early May, but is still up 18.4% from a four-year low in June 2016. However, local-currency forward earnings fell 2.3% m/m to 9.4% below its record high in early October. Still, it's up an impressive 27.4% from its six-year low in April 2016. Revenue

growth is expected to slow markedly to 6.0% in 2019 and 7.4% in 2020 from an 11.4% gain in 2018. That's expected to lead to earnings gains of 5.0% in 2019 and 14.1% in 2020, following a 7.4% gain in 2018. Forecasted STRG was up 0.5ppt m/m to 6.9%, which compares to a 34-month low of 5.8% in February and a four-year high of 9.6% in January 2017. STEG rose 0.8ppt m/m to 9.7%; that's up from a 10-year low of 6.6% in late January but remains well below its cyclical peak of 17.5% in March 2017 and is below LTEG (14.1%) again. The implied profit margin is expected to fall 0.1pt y/y to 6.4% in 2019 before improving to 6.8% in 2020. The forward profit margin improved 0.1pt m/m to 6.6%, which is down from a six-year high of 7.4% in May 2018. It's now 3.7ppts below its 10.3% record high in December 2007 and compares to a record low of 6.0% in February 2016. NERI was negative for a 17th month in June, and weakened to -7.2% from -6.4% in May. NERI had been positive for only three months through January 2018 after 80 months of negative readings through October 2017, and compares to an 83-month low of -10.2% in March 2016. Emerging Markets' forward P/E of 11.9 is up from a 56-month low of 10.0 at the end of October and compares to an eight-year high of 13.1 in January 2018. The index is trading at only a 21% discount to the World MSCI P/E, which is near the best levels since early 2013. That's up from a four-year-low 27% discount in late October, and compares to a 10-year-low 30% discount in August 2016.

MSCI World & Region Net Earnings Revisions ([link](#)): Analysts' recent earnings revisions through June suggest more pessimism about profits in the emerging markets, but the developed markets outside the United States continued to rise from their recent three-year lows to eight-month highs. The AC World MSCI's NERI was negative for a ninth month following 20 straight positive readings through September, as it edged down to -6.5% from an eight-month high of -6.4% in May. That's up from a 33-month low of -8.4% in January. EM Eastern Europe remains in the lead among all regions, and was positive for a second month. The US was negative for the seventh time in eight months, as its NERI slipped to -0.3% from 0.1%, and remains well below its corporate-tax-rate-cut-boosted record high of 21.8% in March 2018. Here are June's scores among the regional MSCIs: EM Eastern Europe (0.4% in June, down from 0.5% in May), United States (-0.3, 0.1), Europe ex-UK (-3.1, -3.3), Europe (-4.0, -4.5), EMU (-4.0, -4.2), AC World (-4.8, -4.6), EAFE (-6.0, -6.3), AC World ex-US (-6.5, -6.4), Emerging Markets (-7.2, -6.4), EM Asia (-7.3, -6.6), and EM Latin America (-7.5 [38-month low], -4.1).

MSCI Countries Net Earnings Revisions ([link](#)): NERI was positive for 9/44 MSCI countries in June, down from 11/44 in May, which was the highest reading since October. That compares to just three during February, which was the lowest count since March 2016. NERI improved m/m in June for 15/44 countries, the lowest count since December. That compares to 28/44 improving in May, which was then the highest count since July 2018. Among the countries with improving NERI in June, Poland was at a 15-month high, followed by Singapore and Sweden at 11-month highs. Among countries with weaker NERI m/m, Chile was at a record low dating back to April 1993, followed by Turkey (55), Mexico (53), Belgium (43), India (38), and Brazil (26). NERI turned positive in June for two countries: Poland and Russia. The three-month positive NERI streaks for the Czech Republic, Egypt, and Sweden are the best among countries, followed by two-month streaks for the Czech Republic, Egypt, Greece, and Sweden. NERI turned negative m/m for four countries: Argentina, Austria, Greece, and Hong Kong. South Africa's NERI has been negative for 62 straight months, followed by the negative streaks of Mexico (32-months), Denmark (23), and Germany (23). The highest NERI readings in June: Sweden (7.9% [11-month high]), the Czech Republic (4.2), Egypt (3.0), the Netherlands (3.0), and Hungary (2.6). The weakest NERIs occurred this month in Chile (-14.8) [record low], Thailand (-12.8), India (-12.3), Korea (-12.0), Japan (-11.1), and Finland (-11.1).

US ECONOMIC INDICATORS

Durable Goods Orders & Shipments ([link](#)): Durable goods orders fell in May for the third time this year, though both core capital goods orders and shipments rose for the fourth time this year—with the

latter climbing to a new record high. Nondefense capital goods orders ex aircraft (a proxy for future business investment) rose 0.4% m/m and 1.5% ytd, while core shipments (used in calculating GDP) rose 0.7% m/m and 1.8% ytd. A 56.4% drop in commercial aircraft orders during the two months through May pushed overall durable goods orders down 4.1% over the period to a 16-month low, while orders excluding transportation remained in a flat trend at cyclical highs. Demand for computers & electronic products is moving higher, along with demand for electrical equipment & appliances—with both around their cyclical highs.

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