



MORNING BRIEFING

July 29, 2019

The Fed Ahead

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

(1) Fed likely to reset policy course. (2) Economy doesn't need a rate cut. (3) Risking a meltup and running out of ammo next time it is really needed. (4) Bostic isn't flying with the FOMC doves, but he doesn't have a vote either. (5) Bostic reviews the various measures of inflation. (6) Getting more attention: Dallas trimmed mean measure is around 2.0%. (7) More doves than hawks. (8) Movie review: "Once Upon a Time ... in Hollywood" (- -).

The Fed I: Wasting Ammo. The FOMC meets on Tuesday and Wednesday. Everyone is expecting the Fed's policy-setting committee to reset the federal funds rate range at 2.00%-2.25%, down from 2.25%-2.50% ([Fig. 1](#)). Here are Thursday's closing prices of the federal funds rate futures: nearby (2.12%), three-month (2.05), six-month (1.77), and 12-month (1.52) ([Fig. 2](#)). Not too long ago, the 12-month futures peaked at 2.88% on 11/8/18. The current 12-month federal funds futures yield implies three rate cuts through July of next year.

Our 11/19/18 *Morning Briefing* was titled "On Your Mark, Get Set, Pause." Melissa and I argued that the Fed was setting an overly aggressive course of "gradually" raising interest rates for 2019. The FOMC came around to our position early this year. But since May, several Fed officials have completely reversed course and raised expectations of rate cuts ahead.

There isn't much risk in this change of course other than perhaps triggering a meltup in asset prices. Our main objection is that the economy is doing well enough that a rate cut isn't really justified, especially since there is so little ammo left for the Fed to use the next time rate cuts are really needed. However, Fed officials seem to have persuaded themselves that at least one rate cut this week is a good insurance policy against weaker economic growth.

The Fed II: Alternative View on Inflation. Some of the Fed officials who are leaning toward a rate cut at this week's FOMC meeting have expressed their concern that inflation remains below their 2.0% target. Atlanta Fed President Raphael Bostic is not one of them. In a 7/11 [speech](#) titled "Ruminations on Inflation," he argued that the rate of inflation is close to the Fed's target and not materially trending away from it. Bostic, however, won't be a voting member of the Federal Open Market Committee (FOMC) until 2021 but does weigh in on monetary policy decisions as a meeting participant.

His well-thought-out case showing that inflation is on target argues against the prospective interest-rate cut this week that many Fed officials favor. Let's consider Bostic's side of the argument:

(1) *Noisy headline & core.* Traditionally, the Fed has relied on the personal consumption expenditures deflator (PCED) as the primary measure for the inflation rate. The FOMC's latest "[Statement on Longer-Run Goals and Monetary Policy Strategy](#)" states: "[I]nflation at the rate of 2 percent, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate. The Committee would be concerned if inflation were running persistently above or below this objective."

Both the headline and core PCED measures of inflation have been running mostly below the Fed's 2.0% target since the goal was established during January 2012 ([Fig. 3](#)). However, Bostic argued that the PCED measure may not be a reliable indicator of trend inflation because it includes lots of goods and services prices that are volatile on both m/m and y/y bases.

The core PCED excludes food and energy prices that are deemed to be especially volatile. But Bostic notes that food prices are not as volatile as in the past. And "by excluding *only* food and energy prices from the underlying inflation measure, you are treating every other price change in the consumer market basket, regardless of its source, as a signal of underlying inflation." That means that the core measure can still be "noisy."

(2) *Trendy trimmed measures.* To separate the signal from the noise, Fed economists have developed several alternative measures of inflation, Bostic noted. One is the Dallas Fed's trimmed-mean PCED ([Fig. 4](#)).

The 5/1 [FOMC Minutes](#) mentioned the Dallas trimmed mean measure for the first time that we can recall, noting that it "removes the influence of unusually large changes in the prices of individual items in either direction." (See technical note below.) A number of participants "observed that the trimmed mean measure had been stable at or close to 2 percent over recent months" and therefore viewed the recent decline in PCED inflation as transitory. Others believed that the downside risks to inflation have increased. Bostic said he puts more weight on what the Dallas measure indicates now—that "we are very close to our 2 percent price stability mandate."

(By the way, Fed Chair Jerome Powell mentioned the trimmed mean measure of PCED price inflation for the first time during his 5/1 [press conference](#), calling low headline inflation "transitory." But he didn't mention this notion again during his 7/10-7/11 semi-annual [testimony](#) to Congress.)

(3) *Mixed inflation expectations.* Besides hard data on inflation, Fed rate-setters also take into consideration survey-based measures of inflation expectations. The public's perception of future inflation matters because it affects purchasing and investing decisions.

Bostic reviewed the four key measures of inflation expectations by the four key US economy stakeholder groups: professionals (FRB-PHL's Survey of Professional Forecasters), households (University of Michigan's Surveys of Consumers), businesses (FRB-ATL's Business Inflation Expectation's Survey), and financial markets (TIPS-based ten-year/ten-year

forward breakeven inflation rate). The professional and business surveys tend to be the most reliable indicators, he said, because professionals are trained at forecasting and businesses set future prices ([Fig. 5](#) and [Fig. 6](#)). They are currently expecting that inflation will be 2.2% and 1.9%, respectively.

Bostic is skeptical of market-based measures, which have recently declined, because they are highly correlated with changes in the price of oil, a poor long-run indicator of inflation. Furthermore, they reflect factors unrelated to forward expectations of inflation.

(4) *Our view.* We don't have a problem with using the headline and core PCED inflation rates. We expect inflation to remain low but stable between 1.5%-2.0% for the foreseeable future. We remain generally optimistic about the labor market and the US economy overall and agree with the Fed's previously stated patient, wait-and-see stance.

(*Technical note:* To calculate the trimmed mean PCED inflation rate for a given month, the Dallas Fed sorts the price changes for each of the individual components of personal consumption expenditures into ascending order, then "trims" the most extreme observations on both ends of the distribution. Then, the trimmed mean inflation rate is calculated as a weighted average of the remaining components, according to a 2005 Dallas Fed working [paper](#). The Dallas Fed [website](#) publishes a listing of all of the included and excluded components each month. This month's listing can be viewed at the following [link](#). As you can see, there are numerous categories of all kinds cut from the bottom and the top.)

The Fed III: Doves vs Hawks. Far more important than what we think about the outlooks for inflation and the US economy is what the majority of FOMC voters think—and will do as a result. For now, the doves clearly outweigh the hawks at the Fed.

Again, to state the obvious: When we say "dove" in the present context, we mean to say that the Fed official either has advocated for, or seems open to, a rate cut in the near term. We will qualify that by saying that most of the Fed officials that hold a dovish view seem to think that just one or two 25bps rate cuts are appropriate. The officials we classify as "hawks" have advocated for more of a wait-and-see approach before taking any action.

By our count, at least two Fed officials could dissent at this week's meeting if the consensus of doves votes for a rate cut. Here's a rundown on where the current-year FOMC voters stand based on our assessment of their comments heading into the [blackout period](#) (where no comments are allowed from officials) prior to the meeting:

(1) *Jerome H. Powell, Fed Chair (dove).* Powell has morphed from a hawk last year to a dove this year. In his 7/11 congressional testimony, he told the senators that the so-called "neutral rate," or policy rate that keeps the economy on an even keel, is lower than past estimates have put it—meaning that monetary policy has been too restrictive. "We're learning that interest rates—that the neutral interest rate—is lower than we had thought, and I think we're learning that the natural rate of unemployment is lower than we thought," he said. "So monetary policy hasn't been as accommodative as we had thought."

(2) *John C. Williams, FRBNY President (dove)*. On 7/18, Williams gave a speech titled “Living Life Near the ZLB.” “ZLB” stands for “zero lower bound.” The FOMC’s second in command seemed to endorse a significant rate cut, ending his speech by saying that the actions he recommended “should vaccinate the economy and protect it from the more insidious disease of too low inflation.” The S&P 500 climbed on those comments that day.

(3) *Michelle W. Bowman, Fed Governor (dove)*. Bowman began her term on the Board on 11/26/18. She is the first governor to fill the role Congress designated for someone with community banking experience; her primary role is representing community banks. Since the start of her term, she hasn’t had much to say publicly about monetary policy, focusing her [speeches](#) on more localized community issues. We expect her to vote with the consensus, as she has done since the start of her term.

(4) *Lael Brainard, Fed Governor (dove)*. Brainard takes a cautious approach to monetary policy, arguing for some time that the relationship between inflation and unemployment has flattened. During a 7/11 [speech](#), she said: “While the modal outlook is solid, the downside risks, if they materialize, could weigh on economic activity. Taking into account the downside risks at a time when inflation is on the soft side would argue for softening the expected path of monetary policy according to basic principles of risk management.”

(5) *James Bullard, FRBSL President (dove)*. The most obvious of all the doves is Bullard, the only FOMC member to vote on 6/19 against the FOMC’s [decision](#) to leave rates as is; he preferred to lower the target range for the federal funds rate by 25bps. Speaking with reporters on 7/19, Bullard confirmed that he wants to see the Fed lower its target interest rate by 25bps at the FOMC’s 7/30-7/31 meeting. The *WSJ* [noted](#) that Bullard “believes that will help lift what have been low levels of inflation to move back to the central bank’s 2% target.” However, Bullard said he isn’t yet ready to call for a string of rate cuts.

(6) *Richard H. Clarida, Fed Governor (dove)*. In a Fox Business Network [interview](#) on 7/18, the same day that Williams made his let’s-ease-before-we-have-to message, Clarida said: “You don’t need to wait until things get so bad to have a dramatic series of rate cuts.” He added: “We need to make a decision based on where we think the economy may be heading and, importantly, where the risks to the economy are lined up.”

(7) *Charles L. Evans, FRB-Chicago President (dove)*. Evans long has leaned dovish, so we aren’t surprised that he is one of the few Fed officials who’s officially calling for multiple rate cuts. In a 7/16 interview, Evans said: “In order to get inflation up to two-and-a-quarter percent over the next three years I need 50 basis points more of accommodation. And in fact, maybe that’s not quite enough,” [reported](#) the *WSJ*.

(8) *Esther L. George, FRB-Kansas City President (hawk)*. On 7/17, George suggested she isn’t ready to see rates cut: “When I look at the current settings for monetary policy, my own outlook suggests we will continue to see growth in the economy around or slightly above the trend rate of growth, we see an unemployment rate at a 50-year low and continued job gains as recently as the most recent employment numbers,” with positive wage growth for workers, as [reported](#) the *WSJ*. She added: “Across all of these parameters, inflation has remained low and stable,”

concluding that “suggests we are in a good range in terms of thinking about monetary policy.”

(9) *Randal K. Quarles, Fed Governor (hawk)*. Quarles has not voiced his specific views on the outlook for interest rates since March, focusing recent speeches on financial stability. However, during a 5/30 [speech](#) on the relationship between monetary policy and financial stability, he said: “Monetary policy ... if too accommodative, may lead to a buildup of financial vulnerabilities.” During a 3/29 [speech](#), he opined that rate hikes would become appropriate at some point: “In regard to policy, I am very comfortable remaining patient at this point and monitoring the incoming data. ... [F]urther increases in the policy rate may be necessary at some point, a stance I believe is consistent with my optimistic view of the economy's growth potential and momentum. ... [M]y estimate of the neutral policy rate remains somewhat north of where we are now.”

(10) *Eric Rosengren, FRB-Boston President (hawk)*. Rosengren suggested to CNBC in a 7/19 [interview](#) that he is not on board with a rate cut right now: “[G]iven that the economy is quite strong, given that I do think that inflation is going to be very close to 2%, and given that the growth in the economy is satisfactory, I think ... you don’t have to take a lot of action.” He added: “[S]hould the economy change, if the trade situation changes dramatically, if we start getting surprised by how slow China or Europe are, then [we should react]. But I think we should wait until we actually see the evidence that that’s happening.”

Movie. “Once Upon a Time ... in Hollywood” (- -) ([link](#)) is a weird film directed and written by Quentin Tarantino, who has a knack for directing and writing weird films. I enjoyed some of them (“Kill Bill,” “Inglourious Basterds,” and “Pulp Fiction”), but not this one. The performances of Leonard DiCaprio, Brad Pitt, and Margot Robbie all were top notch, but the script is just odd. It’s a retrospective on Hollywood’s film and television industry during the late 1960s. The tragic murder of actor Sharon Tate by Charlie Manson’s cult of crazed hippies plays a strangely prominent role in the film. One of the hippies observes that they grew up on shows mostly about murder, so why not kill the people who turned murder into an entertainment industry?

CALENDARS

US. Mon: Dallas Fed Manufacturing Index -5.0. **Tues:** Personal Income 0.3%, Nominal & Real PCE 0.3%/0.2%, Headline & Core PCE Deflator 1.5%/1.7% y/y, Consumer Confidence 125.0, Pending Home Sales 0.3%, Case-Shiller Home Price Index, FOMC Meeting Begins. (DailyFX estimates)

Global. Mon: Japan Jobless Rate 2.4%, Japan Industrial Production -1.8%*m/m*/-2.0%*y/y*. **Tues:** Eurozone Economic Confidence 102.7, Germany CPI 0.3%*m/m*/1.5%*y/y*, Germany Gfk Consumer Confidence 9.7, France GDP 0.3%*q/q*/1.3%*y/y*, UK Gfk Consumer Confidence -13, BOJ Rate Decision & 10-Year Yield Target -0.10%/0.00%, BOJ Outlook Report. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 1.7% to a

record high. The AC World ex-US fell 0.4% for the week to 13.3% below its record high in January 2018. The US MSCI's weekly performance ranked fifth among the 49 global stock markets we follow in a week when 16/49 countries rose in US dollar terms. That compares to the prior week's 40/49 ranking, when the US MSCI fell 1.2% as 24 markets rose. Among the regions, EMU was the sole gainer last week with a rise of 0.6%. Also outperforming the AC World ex-US were EAFE (-0.2%), BRIC (-0.2), and EMEA (-0.4). The regions underperforming last week: EM Latin America (-1.9), Eastern Europe (-0.9), and EM Asia (-0.5). Belgium was the best-performing country with a gain of 4.2%, followed by Argentina (3.7), Austria (2.7), Finland (2.1), and the United States (1.7). Of the 26 countries that underperformed the AC World ex-US MSCI last week, South Africa and Colombia fared the worst, falling 3.8%, followed by Hungary (-3.5), Chile (-3.1), and Poland (-3.0). The US MSCI's ytd ranking rose five places last week to 6/49, with its 21.1% ytd gain still well ahead of that of the AC World ex-US (11.1). All regions and 40/49 countries are in positive territory ytd. Nearly all the regions are outperforming the AC World ex-US ytd: EM Eastern Europe (16.2), EMU (13.0), BRIC (12.4), EMEA (11.6), EM Latin America (11.4), and EAFE (11.3). EM Asia (7.9) is the sole laggard ytd. The best country performers ytd: Argentina (28.6), Greece (26.7), Russia (24.6), New Zealand (24.2), and Belgium (22.8). The worst-performing countries so far in 2019: Pakistan (-16.1), Chile (-7.6), Sri Lanka (-3.4), Jordan (-2.1), and Poland (-1.9).

S&P 1500/500/400/600 Performance ([link](#)): All of these indexes rose last week and posted their sixth gain in eight weeks. MidCap's 2.4% rise was slightly higher than the gain for SmallCap (2.3%) and also beat LargeCap (1.7). LargeCap ended the week at a record high, and MidCap improved to 3.3% below its 8/29 record high. SmallCap remained in a correction at 12.4% below its 8/29 record after narrowly averting a bear market at the end of May. Twenty-nine of the 33 sectors moved higher last week compared to four rising a week earlier. Last week's best performers: SmallCap Tech (5.5), LargeCap Communication Services (4.6), MidCap Tech (4.1), MidCap Financials (3.2), and MidCap Health Care (3.2). MidCap Energy (-1.9) was the biggest decliner, followed by SmallCap Energy (-1.3), LargeCap Utilities (-0.6), 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 20.7% ytd, just 1.5ppts ahead of MidCap (19.2) and well ahead of SmallCap (13.9). Thirty-one of the 33 sectors are positive ytd, with the cyclicals leading the top performers: LargeCap Tech (33.2), MidCap Tech (31.8), SmallCap Tech (26.9), LargeCap Consumer Discretionary (25.1), and MidCap Industrials (25.0). MidCap Energy (-12.3) is the biggest decliner so far in 2019, followed by these underperformers: SmallCap Energy (-9.7), SmallCap Consumer Staples (5.3), LargeCap Health Care (6.4), and MidCap Consumer Staples (6.8).

S&P 500 Sectors and Industries Performance ([link](#)): Nine of the 11 S&P 500 sectors rose last week as three outperformed the S&P 500's 1.7% gain. That compares to two rising a week earlier, when five outperformed the S&P 500's 1.2% decline. Communication Services was the best-performing sector with a gain of 4.6%, ahead of Financials (2.7%) and Tech (2.4). Last week's underperformers: Utilities (-0.6), Energy (-0.5), Health Care (0.4), Consumer Staples (0.6), Real Estate (0.7), Consumer Discretionary (0.9), Materials (1.0), and Industrials (1.4). All 11 sectors are higher so far in 2019, compared to just two sectors rising during 2018, when the S&P 500 fell 6.3%. These four sectors have outperformed the S&P 500's 20.7% rise ytd: Information Technology (33.2), Consumer Discretionary (25.1), Communication Services

(24.7), and Industrials (22.0). The ytd laggards: Health Care (6.4), Energy (8.8), Utilities (13.3), Materials (16.9), Consumer Staples (19.0), Real Estate (19.2), and Financials (20.3).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 0.2% as 13 of the 24 commodities moved higher. That compares to nine rising a week earlier when the index tumbled 4.3%. 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's now 17.1% below its October high. Sugar was the strongest performer for the week as it rose 3.7%, ahead of Feeder Cattle (3.1%), Cotton (2.3), and Brent Crude (1.8). Coffee was the biggest decliner, with a drop of 7.0%, followed by Nickel (-4.2), Corn (-3.8), and Natural Gas (-3.5). The S&P GSCI commodities index is up 11.3% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Unleaded Gasoline (40.0), Nickel (32.5), Lean Hogs (30.3), and Crude Oil (23.8). The biggest laggards in 2019: Natural Gas (-26.9), Kansas Wheat (-11.6), Live Cattle (-11.3), and Cotton (-10.6).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 1.7% last week and continued its successful test of its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma) at the end of May. The index's 50-dma relative to its 200-dma rose for 23rd time in 24 weeks to a 16-month high, forming a Golden Cross for an 18th 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 4.9% is up 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 at a faster rate as the price index improved to 3.7% above its 50-dma from 2.6% a week earlier, but remains below its 19-week high of 4.3% the week before that. That's up from a 22-week low of 4.2% below its falling 50-dma at the end of May, but down from 6.6% above during mid-February, which was its highest since October 2011. The 200-dma rose for a seventh week and at a faster pace too. 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 an eighth week and improved to a 17-month high of 8.8% above its rising 200-dma from 7.2% a week earlier. That compares to 14.5% below its falling 200-dma on 12/24, which was the lowest since April 2009, and remains well below the seven-year high of 13.5% above the index's rising 200-dma during January 2018.

S&P 500 Sectors Technical Indicators ([link](#)): Ten of the 11 S&P 500 sectors traded above their 50-dma last week, unchanged from a week earlier. Real Estate was below its 50-dma for a second week and for the first time since mid-January. All 11 sectors had been below their 50-dma in early January. The longer-term picture—i.e., relative to 200-dmas—also shows 10 sectors trading above currently, unchanged from a week earlier. Energy was below for a second week after being above for a week for the first time since early October. Ten sectors are in the Golden Cross club (with 50-dmas higher than 200-dmas), unchanged from a week earlier and matching the highest count since January 2018, when all 11 sectors were in the club. Energy is the sole laggard, not having been in a Golden Cross for 37 straight weeks. Ten of the 11 sectors have rising 50-dmas now, unchanged from a week earlier as Energy moved

lower for a second week. Ten sectors have rising 200-dmas, unchanged from a week earlier; Energy has had a mostly falling 200-dma for more than eight months. That 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

GDP ([link](#)): Real GDP growth slowed to 2.1% (saar) during Q2 after accelerating from 1.1% to 3.1% during Q1, as inventory investment, exports, capital spending, and residential investment all dragged down growth. Real consumer spending spearheaded last quarter's growth, picking up from 1.1% to 4.3% (saar)—the strongest pace since Q4-2017—driven by the biggest increase in goods consumption since Q1-2006. Both durable (to 12.9% from 0.3%, saar) and nondurable (6.0 from 2.2) goods expenditures accelerated sharply, growing at their best rates since Q2-2014 and Q3-2003, respectively; services (2.5 from 1.0) spending was more than double Q1's pace. Also in the plus column last quarter was real government spending (5.0 from 3.9), which recorded its strongest quarter since Q2-2009, led by an acceleration in federal (7.9 from 2.2) spending; state & local (3.2 from 3.3) spending virtually matched Q1's pace. Inventory investment and trade were the biggest drags on growth during Q2, with the former slowing to \$71.7 billion (saar) from \$116.0 billion during Q1. The trade deficit widened from -\$944.0 billion to -\$978.7 billion (saar) as exports fell 5.2% (saar), while imports were basically unchanged. Nonresidential investment (-0.6 to 4.4) contracted for the first time since Q1-2016, albeit only slightly, led by a double-digit decline in structures (-10.6 from 4.0). Meanwhile, growth in intellectual property products slowed to 4.7% (saar) from double-digit growth during three of the previous four quarters; equipment (0.7 from -0.1) spending eked out a small gain after no growth during Q1. Residential investment (-1.5 from -1.0) declined for the sixth consecutive quarter—though declines so far this year are smaller than last year's average quarterly decline of 4.4%.

Contributions to GDP Growth ([link](#)): Consumer and government spending were the only positive contributors to growth during Q2, while inventory investment and trade were the biggest negative contributors. Real consumer spending added 2.85ppts to Q2 GDP growth, with services (1.17ppt), durable goods (0.86), and nondurable goods (0.81) consumption all strong contributors. Meanwhile, real government spending (0.85) added positively to GDP growth for the second straight quarter, with both federal (0.51) and state & local (0.35) government spending pitching in. The remaining components all subtracted from growth last quarter: (1) The biggest negative contribution came from inventory investment (-0.86ppt)—driven solely by nonfarm (-0.85) inventories. (2) Exports (-0.63) accounted for virtually all of the negative contribution from real net exports (-0.65). (3) Nonresidential fixed investment (-0.08) subtracted from GDP growth for the first time since Q1-2016, propelled by a sharp drop in structures (-0.34); spending on intellectual property products (0.22) contributed positively, while equipment (0.04) spending had little impact. (4) Residential investment (-0.06) subtracted from GDP growth for the sixth consecutive quarter.

Durable Goods Orders & Shipments ([link](#)): Core capital goods orders and shipments both climbed to new record highs in June. Nondefense capital goods orders ex aircraft (a proxy for future business investment) jumped 1.9% m/m and 3.2% ytd, while core shipments (used in

calculating GDP) rose 0.6% and 2.3% over the comparable periods. Demand for autos & parts rose 3.1% last month to a new record high, while orders for communications equipment (4.0%), machinery (2.4), and fabricated metal products (2.1) also posted solid gains. Overall durable goods orders rebounded 2.0% last month, after a two-month decline of 5.0%, as volatile new aircraft orders bounced back 75.5% last month after plunging 71.0% during the two months through May. Excluding transportation, durable goods orders rebounded to a new cyclical high of 1.7% during the two months through June, more than reversing declines earlier this year.

Regional M-PMIs ([link](#)): Four Fed districts have reported on manufacturing activity for July—Philadelphia, New York, Richmond, and Kansas City—and indicate growth has moved from contraction to expansion, with the Philadelphia region accounting for the move up. The composite (to 3.3 from -1.6) index shows manufacturing activity expanding this month, although at a slow pace, after dipping into negative territory in June for the first time since August 2016. Philadelphia's composite (21.8 from 0.3) index showed activity rebounded from a standstill in June to its best growth in 12 months in July, while activity in the New York (4.3 from -8.6) region paled in comparison, recovering only half of June's decline. Meanwhile, Kansas City's composite (-1.0 from 0.0) showed activity was basically flat, while Richmond's (-12.0 from 2.0) contracted at its fastest pace since January 2013. The new orders (-0.7 from -0.2) gauge showed billings at a virtual standstill for the second month, as the strongest growth in Philadelphia orders (18.9 from 8.3) in a year basically offset negative readings in New York (-1.5 from -12.0), Kansas City (-2.0 from 5.0), and Richmond (-18.0 from -2.0) billings—with latter's the weakest in 6.5 years. Meanwhile, the employment (2.9 from 5.2) measure showed hirings were the weakest since the end of 2016, though still positive, as manufacturers in the Philadelphia (30.0 from 15.4) region added to payrolls at their fastest pace since October 2017, more than offsetting job cuts in the New York (-9.6 from -3.5), Kansas City (-6.0 from 5.0), and Richmond (-3.0 from 4.0) areas.

Regional Manufacturing Price Indexes ([link](#)): Available July data for the New York, Philadelphia, Richmond, and Kansas City regions show pricing remains on a disinflationary trend, based on both the prices-paid and prices-received indexes—though prices-paid indexes in all regions but New York edged higher in July, while prices-received indexes in Philadelphia and Richmond accelerated. Here's a look at the prices-paid indexes for July versus their respective peaks during 2018: Philadelphia (to 16.2% from 60.0% y/y), New York (25.5 from 54.0), Kansas City (15.0 from 52.0), and Richmond (3.0 from 5.7). Here are the same comparisons for the prices-received indexes: Philadelphia (9.5 from 35.0), New York (5.8 from 23.3), Kansas City (2.0 from 27.0), and Richmond (2.5 from 2.8). (Note: Richmond prices are not diffusion indexes but rather average annualized inflation rates.)

GLOBAL ECONOMIC INDICATORS

Germany Ifo Business Climate Index ([link](#)): Business confidence remains in a freefall, sinking to a six-year low this month. "What's worrying is that the weakness in manufacturing continues, but it's now spreading so we see numbers worsening in the services sector," Ifo President Clemens Fuest said in a Bloomberg Television interview. "It's certainly not getting better," and "it's starting to affect the labor market." Sentiment sank for the 10th time in 11

months, from 104.2 last August to 95.7 this month, its lowest reading since April 2013. Both the expectations (92.2 from 94.0) and current situation (to 99.4 from 101.1) indexes continued to deteriorate this month, tumbling to their lowest readings since July 2009 and April 2016, respectively. Manufacturers remain the most pessimistic, with their sentiment sliding from a record high of 34.2 in November 2017 to -4.3 this month—its worst reading since February 2010. The slowdown in manufacturing has spilled into the service sector, with its sentiment sinking to 17.7—the lowest since mid-2013—from 33.8 just 10 months ago. Meanwhile, the business climate index for trade sank to 1.4 this month—the lowest since December 2014—after bouncing in a volatile flat trend the first half of this year. Sentiment in the construction industry improved for the fourth time in five months, from 18.1 to 23.3, though remains below its recent peak of 32.1 last October.

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