MORNING BRIEFING
July 31, 2019

Dividing Up Wealth

See the collection of the individual charts linked below.

(1) Exacerbated wealth inequality is a natural byproduct of a prolonged economic expansion. (2) Inevitably in a capitalist system, financial risk-takers benefit more than others in flush times, lose more in lean times. (3) A new Fed report on household net worth highlights these facts of capitalist life. (4) One takeaway: The wealthy's wealth is more cyclical than other folks' owing to bigger corporate equity stakes. (5) Another: Our rising economic tide of recent decades has lifted all boats, not just the yachts. (6) Should retired public-sector employees be counted among the wealthy?

Inequality I: The Wealth Divide. Wealth inequality, like income inequality, is a controversial subject. Contributing to the controversy is that both sides in the debate tend to make assertions without providing much, if any, data to support their vociferously held views. The good news is that we now have more data on wealth distribution; the bad news is that this development probably won't resolve the debate.

In March, the Fed released its new database on the distribution of wealth in the US since 1989, the Distributional Financial Accounts (DFAs). The DFA integrates data from two sources of household net worth: the Survey of Consumer Finances (SCF) sampling of household balance sheets, compiled every three years, and the Financial Accounts (FAs), reflecting the aggregate assets and liabilities of US sectors including households, compiled quarterly. More specifically, the DFA applies the distributions available from the SCF to the more timely FAs. The result, according to the DFA's introduction, is "the most rigorous reconciliation to date [of these two] concepts of household net worth."

Wealth inequality is important to study, Fed staff assert in the DFA introduction, because it significantly affects economic outcomes such as economic growth, monetary policy transmission, and aggregate savings rates. Melissa and I are skeptical that wealth inequality has been as important a driver of the US economy as the introduction suggests. True, more wealth has accrued to those at the top of the wealth distribution than to those at the bottom. However, total net worth has substantially increased over the past three decades such that most Americans are better off financially.

One finding of the Fed staff's preliminary analysis of the DFAs that caught our attention is that corporate equity (excluding pensions) has been the primary driver of household net worth over the past 30 years, accruing mostly to the wealthiest Americans. This is not new news but rather confirmation of a common observation from many previous wealth inequality studies, including ones referenced in the Fed's DFA introduction.

Some are bothered by this. But it is logical—and inevitable—in a capitalist system that those who undertake more risk are likely to benefit more from stocks during economic expansions, which tend to last much longer than recessions. Not surprisingly, the analysis of the DFAs finds that in the top percentiles, wealth is highly pro-cyclical, while in the bottom percentiles it is less prone to cyclicality. Given that unemployment is at historically low levels and we are in the longest bull market on record, it makes sense that the wealth inequality gap has been widening.

But again, all wealth distribution cohorts have benefited in recent decades. Importantly, wealth held in some asset classes, including real estate and pensions, is more equitably distributed than in others, like corporate equity. Consider the following:

(1) *Wealth has become more concentrated at the top*. Total US household nominal net worth has quadrupled since 1989 from near $20 trillion to about $100 trillion at the end of 2018, according to the Fed's report (see Figure 2 on page 26). The Fed's analysis discusses the percent of the aggregate wealth held by the top 10%, next 40%, and bottom 50% over that time period. For the top 10%, the share of aggregate wealth has increased from 60% to 70%. For the next 40%, the share decreased from 36% to 29%. The bottom 50% share fell from 4% to 1%.

(2) *But the pie has grown.* Undeniably, the wealthy have gotten wealthier. But focusing narrowly on that fact obscures the broader context: So has everyone else, to some extent. And the overall pie has grown significantly over the period. For the top 10% of US households, net worth has increased from about $12 trillion (60% x $20 trillion) to about $70 trillion (70% x $100 trillion). Net worth for the next 40% is up from about $7 trillion (36% x $20 trillion) to $29 trillion (29% x $100 trillion). For the bottom 50%, the increase in net worth admittedly is insignificant, from just under $1 trillion—i.e., $0.8 trillion (4% x $20 trillion)—to $1 trillion (1% x $100 trillion).

With more "skin in the game," via their investments, it stands to reason that the wealthy will benefit more than others when the overall pie expands. Their leverage also means that they would take bigger hits were the pie to shrink. Indeed, looking at the distribution of wealth in various asset classes bears out that the riskier assets are concentrated in wealthier hands. Read on.

(3) *Corporate equity is a big driver of uneven wealth distribution.* Corporate equities and mutual funds (excluding pensions discussed below), which represent about 22% of total US household net worth as of 2018, have long been large drivers of wealth concentration to the top of the distribution. From 1989 through the end of 2018, the share of corporate equities has increased for the top wealthiest 10% of households from 80% to 87%, according to the Fed's analysis. Total corporate equity has increased from about $3 trillion to about $22 trillion over the timeframe (see Figure 1, panel [a] on page 24 of the report). That means that the top 10% amassed about $17 trillion of the roughly $19 trillion increase in this one asset category.

By the way, noncorporate business equity has also driven the increase in wealth concentration among the wealthiest percentiles. However, it is a smaller asset class, representing about 13%

of total assets, or around half of the value of corporate equity.

(4) *Real estate and pension wealth are more equitably distributed*. Real estate and pensions each separately account for about 25% of total net worth as of 2018. Looking across the four panels of Figure 5 on page 29 of the Fed's study, one sees that real estate and pensions are more equally distributed than total net worth (i.e., the share of these assets held by the lower two percentile groups are much larger). Meanwhile, noncorporate and corporate business equity are the most concentrated among the top 1%. Nevertheless, the Fed observes that the share of real estate and pension assets has become somewhat more concentrated among the wealthy over the time period studied.

(Technical note: The DFAs reconcile the most recent SCF from 2016 to the Q3-2016 FAs, then apply SCF distributions with imputations and forecasts to the latest available FAs. For example, see that in FA table B.101.H, Line 27 equates to the total net worth level shown in the first chart on page 26.)

Inequality II: Lots of Retired Public Employees Are Millionaires. The massive underfunding of federal, state, and local retirement funds increasingly reflects some inconvenient truths about the public employee retirement system.

Most public-sector employees are hard-working and dedicated workers, who are permitted to retire in their 40s and 50s because they have had tough jobs as cops, firefighters, and teachers. The problem is that contractually they are entitled to start receiving their retirement benefits right away rather than at age 65, as typical in the private sector. As longevity has increased, many of these beneficiaries have been living longer, a main reason that the public employee retirement plans are increasingly underfunded.

Measures of income inequality never consider the fact that a growing number of retired public employees effectively are millionaires when the present discounted value of their contractually guaranteed retirement benefits is taken into account. At current interest rates, the rest of us working stiffs would have to amass a few million dollars in savings to match the retirement income received by the many public pensioners living 20-40 years past their first month of retirement.

Now here are the disturbing data on underfunded public pensions from the Fed's *Financial Accounts of the United States*, which is available through Q1-2019:

(1) *State and local government employee retirement funds.* The retirement funds for state and local employees are woefully underfunded. The problem is with defined benefit plans, which totaled $8.7 trillion during Q1-2019, accounting for almost all of the $9.1 trillion in state and local government retirement funds. Of this total, a whopping $4.2 trillion (or 46%) was unfunded! In the Fed's accounts, the unfunded item is described as "claims of pension fund on sponsor" (*Fig. 1*). (See Table L.120.)

Who owes all this money to the funds? Taxpayers, of course, many of whom helped to elect politicians who made contractual retirement promises to their municipal employees that far

exceeded the assets available to meet these obligations. So the unfunded amount is in effect financed by the IOUs of taxpayers.

The result has been rising tax rates to meet these retirement liabilities on a pay-as-you-go basis. In many states, cities, and towns, the politicians face resistance to higher taxes and have been forced to reduce spending on public services and infrastructure.

(2) *Federal government employee retirement funds.* Federal employees' retirement funds have the same problem, but to less of an extent. They had liabilities totaling $4.1 trillion during Q1, with $1.7 trillion of them unfunded (*Fig. 2*). (See Table L.119.)

(3) *Social Security.* Social Security is not included in the Fed's accounts as an asset of the household sector. However, the recipients of this program are receiving support payments equivalent to the return on a $1 million retirement nest egg at current historically low interest rates. Specifically, the average monthly Social Security payment to retired workers in 2019 is $1,461, or $17,532 a year. A million dollars would generate only $20,000 per year at today's 2% interest rate. A million dollars isn't what it used to be!

CALENDARS

US. Wed: ADP Employment Change 150k, Employment Cost Index 0.7%, Chicago Fed Purchasing Manager's Index 51.5, MBA Mortgage Applications, DOE Crude Oil Inventories, FOMC Rate Decision 2.00%-2.25%, FOMC Excess Reserves Rate 2.10%, Powell. **Thurs:** Construction Spending 0.4%, Motor Vehicle Sales 16.9mu, Jobless Claims 212k, ISM M-PMI 52.0. (DailyFX estimates)

Global. Wed: Eurozone GDP 0.2%q/q/1.0%y/y, Eurozone Headline & Core CPI Flash Estimates 1.1%/1.0% y/y, Eurozone Unemployment Rate 7.5%, Germany Retail Sales 0.5%m/m/0.6%y/y, Germany Unemployment Change & Unemployment Claims Rate 2k/5.0%, Italy GDP -0.1q/q/-0.1% y/y, Canada GDP 0.1%m/m/1.3%y/y, Japan Consumer Confidence 38.5, Japan Housing Starts 900k, Australia CPI 0.5%m/m/1.5%y/y, IHS Markit M-PMI & NM-PMI 49.6/54.0. **Thurs:** Eurozone, Germany, France, and Italy M-MPIs 46.4/43.1/50.0/48.0, UK M-PMI 47.7, China Caixin M-PMI 49.6, BOE Bank Rate & Asset Purchase Target 0.75%/ £435b, BOE Inflation Report, BOJ Minutes of June Policy Meeting, Carney. (DailyFX estimates)

STRATEGY INDICATORS

AC World ex-US MSCI (*link*): This index has dropped 0.6% in dollar terms so far in July, and is up 11.0% ytd. In local-currency terms, the index is up 0.9% in July compared to a 12.0% gain for all of 2019. The US dollar price index is up 13.3% since its December low and has improved to 13.4% 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 14.0% since its December low to 6.6% 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 0.7% from its record high in early May, but is up 16.3% from a five-year low in March 2016. Local-currency forward

earnings weakened to 4.6% below its record high in early November. Revenues are expected to rise 3.6% in 2019 and 4.4% in 2020 following a gain of 7.2% in 2018, and earnings are expected to rise 3.5% (2019) and 10.0% (2020) after rising 4.7% (2018). The industry analysts' sales forecasts imply short-term 12-month forward revenue growth (STRG) of 4.2%, down 0.1ppt 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 improved 0.1ppt m/m to 7.4%. 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 up 0.1ppt m/m to 7.8%, 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 July for a 16th straight month following six positive readings. It edged up to -6.4% from -6.5% in June, and 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 0.2pt m/m to 13.3, 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 down 0.6% in dollar terms so far this month, and is up 12.8% for all of 2019. In euro terms, the price index is up 1.6% in July, compared to a 15.9% gain ytd. The US dollar price index is up 15.6% since its December low and has improved to 15.1% 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 18.3% since its December low to 5.9% below its cyclical high in January 2018. It had been down as much as 20.5% on December 27. Euro-based forward revenues was steady m/m, but remains 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 down 0.5% m/m to 2.9% below its 10-year high in November and 17.9% below its record high (January 2008). Analysts expect revenues to rise 2.4% in 2019 and 4.1% in 2020, above the 2.0% in 2018. They're looking for earnings to rise 2.8% in 2019 and 10.5% in 2020 following a gain of 3.4% in 2019. Forecasted STRG of 3.5% is unchanged from 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 0.1ppt m/m to 7.5%, 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 9.5%) 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 remain steady y/y at 7.5% in 2019 before improving to 8.0% in 2020. NERI was negative in July for a tenth straight month and in 21 of the past 24 months. NERI weakened m/m to -6.1% from -4.0%, but 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 13.4 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 12% 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 fallen 0.9% in US dollar terms so far in July to a gain of just 8.3% ytd. In local-currency terms, EM is up 8.1% ytd after a 0.5% decline so far this month. The US dollar price index is up 11.9% 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 10.9% since its October low to 12.3% 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 3.4% from its record high in early May, but is still up 19.0% from a four-year low in June 2016. However, local-currency forward earnings remains 9.0% below its record high in early October. Still, it's up an impressive 27.9% from its six-year low in April 2016. Revenue growth is expected to slow markedly to 5.6% in 2019 and 7.4% in 2020 from an 11.8% gain in 2018. That's expected to lead to earnings gains of 4.3% in 2019 and 14.0% in 2020, following a 7.5% gain in 2018. Forecasted STRG was down 0.2ppt m/m to 6.7%, 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 0.5ppt m/m to 10.2%; 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 (15.2%) again. The implied profit margin is expected to remain steady y/y at 6.4% in 2019 before improving to 6.7% in 2020. The forward profit margin was unchanged m/m at 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 an 18th month in July, but improved to -6.3% from -7.2% in June. 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 12.2 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 20% 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 July suggest increasing pessimism about profits in Europe and in the US, but the Emerging Markets have improved slightly from their recent lows. The AC World ex-US MSCI's NERI was negative for a tenth month following 20 straight positive readings through September, but edged up to -6.4% from -6.5%. That's up from a 33-month low of -8.4% in January. EM Eastern Europe remains in the lead among all regions, but its NERI turned slightly negative in July. The US's NERI was negative for the eighth time in nine months, slipping to -2.7% (from -0.3%)—well below its corporate-tax-rate-cut-boosted record high of 21.8% in March 2018. Here are July's scores among the regional MSCIs: EM Eastern Europe (-1.2% in July, down from 0.4% in June), United States (-2.7, -0.3), Europe (-5.1, -4.0), Europe ex-UK (-5.2, -3.1), AC World (-5.4, -4.8), EMU (-6.1, -4.0), EM Asia (-6.2, -7.3), Emerging Markets (-6.3, -7.2), AC World ex-US (-6.4, -6.5), EM Latin America (-6.7, 7.5 [38-month low], and EAFE (-6.8, -6.0).

MSCI Countries Net Earnings Revisions (*link*): NERI was positive for 4/44 MSCI countries in July, down from 9/44 in June and 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 July for 19/44 countries, up from 15/44 in June. That compares to 28/44 improving in May, which was then the highest count since July 2018. Among the countries with improving NERI in July, the Philippines was at a 19-month high, followed by China at an 11-month high and the UK and Ireland at 10-month highs. Among countries with weaker NERI m/m, Finland was at an 82-month low, followed by Belgium (62%) and India (39). The four-month positive NERI streaks for the Czech Republic and Sweden are the best among countries, followed by a three-month streak for the Philippines. NERI turned negative m/m for five countries: Egypt, Hungary, Italy, the Netherlands, and Poland. South Africa's NERI has been negative for 63 straight months, followed by the negative streaks of Mexico (33 months), Denmark (24), and Germany (24). The highest NERI readings in July: Sweden (4.1), the Czech Republic (4.1), the Philippines (1.6), and Russia (0.7). The weakest NERIs occurred this month in India (-13.5) [39-month low), Finland (-13.1 [82-month low]), Peru (-11.8), Belgium (-11.4), Korea (-11.2), Chile (-11.2), and Thailand (-11.1).

S&P 500 Q2 Earnings Season Monitor (*link*): With the Q2 earnings season now past the halfway mark for the S&P 500, the results compared to the same point during Q1 show that revenues are beating by a greater amount, and a higher percentage of companies are reporting positive revenue surprises and y/y revenue growth. The earnings surprise is smaller than Q1, but y/y earnings growth is higher despite Boeing's dismal Q2 results. Of the 261 S&P 500 companies that have reported through midday Tuesday, 76% exceeded industry analysts' earnings estimates. Collectively, these reporters have averaged a y/y earnings gain of 5.2% and exceeded forecasts by an impressive 6.4%. Ex-Boeing, y/y earnings growth improves 1.5ppts to 7.7%. On the revenue side, 61% of companies beat their Q2 sales estimates so far, with results coming in an impressive 1.1% above forecast and 3.6% higher than a year earlier. Q2 earnings growth results are positive y/y for 70% of companies, versus a similar 69% at the same point in Q1, and Q2 revenues have risen y/y for 72% versus a slightly lower 69% during Q1. Looking at earnings during the same point in the Q1-2018 reporting period, a slightly higher percentage of companies (78%) in the S&P 500 had beaten consensus earnings estimates by a higher 7.1%, and earnings were up a lower 4.5% y/y. With respect to revenues at this point in the Q1 season, a lower 58% had exceeded revenue forecasts by a sharply lower 0.1%, and sales rose a slightly lower 3.7% y/y. Compared to 2018's stellar results, these mid-season readings for Q2 indicate a continuation of a marked slowdown in revenue and earnings growth and a slight deterioration in profit margins. But that should come as no surprise to investors. Q1-2019 had marked the 11th straight quarter of positive y/y earnings growth and the 12th of positive revenue growth. However, earnings growth trailed revenue growth during Q1-2019 for the first time since Q2-2016. That has happened just five times in the 42 quarters since the bull market started in Q1-2009. As more companies have reported, it's looking less possible that Q2-2019 will make the sixth.

US ECONOMIC INDICATORS

Personal Income & Consumption (*link*): Both nominal and real consumer spending in June

climbed to new record highs, and will likely continue to set new highs with incomes and savings up and inflation subdued. Nominal spending climbed for the fifth time this year, up 0.3% in June and 2.9% ytd, while real consumer spending rose 0.2% and 2.1%, respectively, over the same periods. Real consumer spending accelerated 4.3% (saar) last quarter—the strongest quarterly 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 last quarter, 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. In June, real spending on durable goods took a respite from strong growth the prior three months, edging down 0.1%, while real nondurable goods and services consumption hit new record highs. Meanwhile, real wages & salaries reached a new record high in June, climbing 0.3% in June and 2.5% (saar) during Q2. Benchmark revisions show 2018's average saving rate was revised up a full percentage point to 7.7%, with last month's rate holding above 8.0%. Personal savings in June, based on the 12-month sum, shot up to a record high $1.28 trillion. As for inflation, June data show headline inflation was only 1.4% y/y, while the core rate—the Fed's preferred measure—ticked up to 1.6% y/y, remaining below its target rate of 2.0%.

Consumer Confidence (*link*): Consumer confidence in July blew past forecasts, rebounding to its highest level since November 2018—as consumers disregarded trade tensions with China and a slowing economy. Consumer confidence jumped to 135.7 (vs consensus estimate of 125.0) from an upwardly revised 124.3 (from 121.7) in June, with consumers more confident about both the present and future. The expectations (to 112.2 from 97.6) component soared 14.6 points to its highest reading this year—closing in on last October's cyclical high of 115.1—as the percentage of consumers expecting business conditions to improve (24.0% from 19.1%) increased, while the percentage expecting conditions to worsen (8.7 from 12.6) decreased. The job outlook also was more favorable, with the percentage of respondents expecting more jobs (to 20.5% from 17.5%) up and those expecting fewer jobs (11.5 from 13.9) down—with the spread widening from 3.6ppts to 9.0ppts, the highest this year. The present situation (170.9 from 164.3) component continued to bounce around cyclical highs, also boosted by a favorable job market this month. The percentage of respondents saying that jobs are plentiful recovered to 46.2% in July after falling from 46.5% to 44.0% the prior two months—holding near its cyclical high of 46.8%. Those saying jobs are hard to get sank from 15.8% to 12.8%, near its cyclical low of 11.7%. Meanwhile, those claiming business conditions are good rose from 37.5% to 40.1%; however, those saying business conditions are bad also increased, albeit slightly, from 10.6% to 11.2%.

Pending Home Sales (*link*): "Job growth is doing well, the stock market is near an all-time high and home values are consistently increasing," noted Lawrence Yun, chief economist for the NAR. "When you combine that with the incredibly low mortgage rates, it is not surprising to now see two straight months of increases." The Pending Home Sales Index (PHSI)—measuring sales contracts for existing-home purchases—climbed 2.8% in June to 108.3, after rebounding 1.1% in May, with sales now up 1.6% y/y—snapping a 17-month streak of annual decreases! All regions are up on both a m/m and y/y basis: West (5.4% m/m & 2.5% y/y), Midwest (3.3 & 1.7), Northeast (2.7 & 0.9), and South (1.3 & 1.4). Yun noted that June's contract signings indicate that buyers are enthusiastic about both the housing market and the potential for wealth gain, but he added that home builders need to increase inventory. "Homes

are selling at a breakneck pace, in less than a month, on average, for existing homes and three months for newly constructed homes," he said.

GLOBAL ECONOMIC INDICATORS

Eurozone Economic Sentiment Indicators (*link*): The Economic Sentiment Index (ESI) for both the Eurozone (-0.6 points to 102.7) and the EU (-0.3 points to 102.0) continued to decline in July—to their lowest readings since March 2016 and September 2014, respectively. These measures peaked at 18-year highs of 114.5 and 114.3 at the end of 2017. Among the Eurozone's largest economies, only Germany's ESI (-2.4 to 100.2) deteriorated, while France's was unchanged at 104.1. Meanwhile, ESIs for the Netherlands (+1.7 to 104.5), Italy (+1.4 to 101.6), and Spain (+0.6 to 105.4) all improved. At the sector level, sentiment was mostly negative, with the ESI for construction (-2.6 points to 5.0) dropping sharply in July—though remained close to January's record high of 8.4. Also in the red were industry (-1.8 to -7.4), retail trade (-0.8 to -0.7), and services (-0.4 to 10.6) sentiment, while consumer (+0.6 to -6.6) confidence improved slightly.

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