MORNING BRIEFING
August 5, 2019

Trump's Trump

See the collection of the individual charts linked below.

(1) Powell gets Trumped again. (2) Midcycle rate cut triggered by "uncertainties." (3) The end of QT. (4) More rate cuts might still be appropriate, or not. (5) Powell is a perplexing pivoter. (6) Trump feeds Fed more trade uncertainty. (7) US real exports and imports have stopped growing. (8) Record US trade deficit even though oil deficit is almost gone. (9) With the exception of hours worked, latest employment report was solid. (10) Movie review: "The Farewell" (+ +).

The Fed: Bad Trade. Our 7/11 *Morning Briefing* was titled "Powell Gets Trumped!" We wrote: "President Donald Trump wants the Fed to lower interest rates. Fed Chair Jerome Powell claims that the Fed is independent and won't bow to political pressure. Yet Trump has figured out the perfect way to force the Fed to lower interest rates. All he has to do is keep creating uncertainty about US trade policy. In his congressional testimony yesterday on monetary policy, Powell mentioned the trade issue eight times in his prepared remarks."

Consider the following related developments last week:

(1) *FOMC decision.* Sure enough, last Wednesday, the FOMC voted to lower the federal funds rate's target range from 2.25%-2.50% to 2.00%-2.25% (*Fig. 1*). That was the first rate cut since 2008. In addition, the FOMC decided to terminate quantitative tightening (QT) ahead of schedule: "The Committee will conclude the reduction of its aggregate securities holdings in the System Open Market Account in August, two months earlier than previously indicated" (*Fig. 2*). From 10/1/17 through 7/31/19, the Fed's balance sheet was pared from $4.4 trillion to $3.7 trillion.

The 7/31 FOMC statement attributed this decision to "the implications of global developments for the economic outlook as well as muted inflation pressures." Also, the word "uncertainties" was used regarding the economic outlook—the first time this word has appeared in an FOMC meeting statement since 3/18/03. Back then, the concern was about "geopolitical uncertainties," specifically the imminent war with Iraq. Today's uncertainties are similarly geopolitical, centering around Trump's escalating trade wars.

(2) *Stock market reaction.* Despite the rate cut, the S&P 500 fell 1.1% last Wednesday (*Fig. 3*). That's because in his press conference following the FOMC meeting, Powell characterized the move as a "midcycle adjustment." He mentioned the phrase three times in his Q&A with reporters, implying that another rate cut at the September meeting is not a foregone conclusion (italics ours):

"So we do think it [i.e., the rate cut] will serve all of those goals, but again, we're thinking of it as essentially in the nature of a *midcycle adjustment* to policy."

"What I said was it's not a long cutting cycle, in other words referring to what we do when there's a recession or a very severe downturn. That's really what I was ruling out. I think if you look back at other *midcycle adjustments* you'll see, you know, I don't know that they'll be in the end comparable or not, but you'll see examples of these."

"But in other cycles the Fed wound up raising rates again after a *midcycle adjustment*. Again, I'm not predicting that, but I don't think that we know that we won't have—that we'll have less ammo because of these things."

(3) *Trump's tweet.* On Wednesday afternoon, Trump was quick to attack the Fed's decision. He tweeted: "What the Market wanted to hear from Jay Powell and the Federal Reserve was that this was the beginning of a lengthy and aggressive rate-cutting cycle which would keep pace with China, The European Union and other countries around the world. … As usual, Powell let us down, but at least he is ending quantitative tightening, which shouldn't have started in the first place—no inflation. We are winning anyway, but I am certainly not getting much help from the Federal Reserve!" (A 7/30 Bloomberg post provides a handy timeline of Trump's key quotes on Powell and the Fed.)

(4) *Trump escalates trade war with China.* The S&P 500 recovered some of its losses on Thursday morning of last week. However, it closed down 0.9% that day after Trump said that the US will impose a 10% tariff on an additional $300 billion worth of Chinese imports next month. The new tariff comes on top of the 25% levy that Trump has already imposed on $250 billion worth of Chinese imports—so the US will be taxing nearly everything China sends to the US. Trump added that the tariffs could be raised to 25% or higher if the talks continue to drag on without any significant progress, but he allowed that alternatively they could be removed if a deal is struck

Trump's announcement came one day after his top trade negotiators returned from two days of fruitless trade talks with their Chinese counterparts in Shanghai. Both sides said that there would be more discussions in Washington next month.

The 8/1 *NYT* reported: "Talks have been complicated by the recent emergence of Zhong Shan, China's commerce minister, as a lead negotiator for the Chinese, according to a person familiar with the discussions. Mr. Zhong's role has signaled to some in the Trump administration that the hard-liners in China are winning the debate over the reformers, such as Vice Premier Liu He, who are more open to making structural economic changes that the United States wants."

An 8/1 Bloomberg post observed that Trump's escalation of the trade war with China the very day after he was disappointed by the Fed's lame decision was not coincidental: "[A]fter the Fed chairman said his rate cut was justified by trade tensions, it makes sense the president would be tempted to create more of them." (You read it here first in our 7/11 commentary.)

An 8/1 Reuters story came to the same conclusion about how Trump has trumped the Fed into cutting interest rates by escalating the trade war with China. It was titled "Trump's new tariffs may set stage for more Fed rate cuts." It noted: "The president's mid-afternoon bombshell [on Thursday] sent stock markets tumbling and Treasury bond yields plunging to their lowest levels in nearly three years. It unleashed frantic buying in interest rate futures markets that 24 hours earlier had been scarred by Fed Chair Jerome Powell's indication that Wednesday's quarter percentage point interest rate cut—the first since the financial crisis—was not intended as the start of a lengthy easing cycle. By the close of trading on Thursday, however, markets had restored full expectations that the Fed indeed would need to ease policy substantially more from here."

The yields in the federal funds futures market, which jumped higher on Wednesday, fell to new 2019 lows on Thursday, with the nearby rate dropping to 1.91%. Friday data are available for the 3-month (1.86%), 6-month (1.62), and 12-month (1.38) yields, which continued to set new lows for this year (*Fig. 4*). These futures yields suggest that the Fed will cut the federal funds rate two or three more times by next summer. That's certainly possible if Trump continues to trump the Fed by stirring up uncertainty about trade.

(5) *Still appropriate.* While Powell's "midcycle adjustment" comment threw a damp rag on hopes of a series of rate cuts, the FOMC statement still promised that the Fed "will act as appropriate to sustain the expansion." That became the new boilerplate clause in the 6/19 statement, implying that the Fed is ready to lower interest rates (*Fig. 5*).

In the first three statements of this year (1/30, 3/20, and 5/1), the key boilerplate clause had been: "[T]he Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes." That implied that the Fed wasn't rushing to raise or to lower interest rates.

Powell has pivoted from calling for more rate hikes last October to waiting and seeing patiently whether incoming data warranted hikes early this year, to possibly cutting the federal funds rate if that was deemed appropriate, to actually cutting it, to suggesting that the cut might be a one-and-done adjustment. In this uncertain world, Powell is certainly a perplexing pivoter.

US Trade: Not So Bad. In his recent congressional testimony and press conference, Powell attributed the Fed's rate cut mostly to uncertainty about the outlook for trade. The latest US merchandise trade data—for June, released on Friday—weren't so bad. They weren't good either; but notably, they weren't bad enough to justify the latest rate cut, let alone a series of rate cuts. Consider the following:

(1) *Inflation-adjusted US merchandise exports fell* 1.3% y/y during June, while imports on the same basis rose 1.8% (*Fig. 6*). Both are the weakest growth rates since the midcycle slowdown during 2015 and 2016. Back then, the Fed slowed the pace of rate hikes. There were no rate cuts.

(2) *US trade with China is showing some weakness,* resulting from mounting trade tensions and tariffs. Over the past 12 months through June, US merchandise imports from China fell to

$509 billion from a record $540 billion during December (*Fig. 7*). US exports to China over the past 12 months through June are down to $108 billion from a record high of $135 billion last July.

(3) *The US trade deficit remains large*, confirming that the world's largest economy continues to stimulate the global economy by importing much more than it exports. On a 12-month basis, the US merchandise trade deficit widened to a record $886 billion in June, with the following breakdown: China ($401 billion), Eurozone ($156 billion), Mexico ($93 billion), Japan ($69 billion), Canada ($21 billion), and the rest of the world ($146 billion) (*Fig. 8*).

(4) *US petroleum trade data confirm that US is energy independent.* The 12-month sum of the US trade deficit in crude oil and petroleum products narrowed to just $32 billion during June (*Fig. 9*). This series is down from a record high of $409 billion during October 2008. That's a significant windfall for the US economy.

US Employment: Still Good. The US labor market certainly doesn't justify rate-cutting by the Fed. The data that make the headlines continue to be robust. Consider the following:

(1) *Household survey.* During July, the labor force rose 370,000 following a gain of 335,000 during June, suggesting that we haven't run out of workers. The household measure of employment rose 283,000 last month following a gain of 247,000 the month before. The unemployment rate was 3.7% during July, the sixth consecutive reading below 4.0% and the twelfth in 13 months. Full-time employment (in the household survey) rose to a record 130.4 million during July.

(2) *Payroll survey*. The payroll employment survey (which counts the number of jobs rather than the number of workers) is showing slower growth, but that may reflect skills and geographical mismatches as the labor market tightens. Over the past three months through July, payrolls are up 139,700 per month on average versus 184,250 per month during the first four months of this year.

The weakest headline stat in July's employment report was average weekly hours in private industries (*Fig. 10*). It fell 0.3% m/m and 0.6% y/y (led by drops of 0.7% m/m and 1.5% y/y in manufacturing hours). The weakness in the total hours worked offset all of the 0.3% m/m and some of the 3.2% y/y increases in average hourly earnings, weighing on the month's Earned Income Proxy for private-sector wages and salaries, as Debbie discusses below.

Movie. "The Farewell" (+ +) (*link*) is a heart-warming film about love, family, life, and death. So it covers lots of ground and also provides some great insights into the cultural similarities and differences between Americans and the Chinese. Billi, a young independent woman, emigrated with her parents to the US from China more than 25 years ago. They return to China under the guise of a fake wedding to stealthily say goodbye to Billi's beloved grandmother, who has only a few weeks to live but doesn't know it—and is the only person in the film who doesn't.

CALENDARS

US. Mon: NM-PMI 55.5. **Tues:** Job Openings, Bullard. (DailyFX estimates)

Global. Mon: Eurozone, Germany, France, and Italy C-PMIs 51.5/51.4/51.7/50.1, Eurozone, Germany, France, and Italy 53.3/55.4/52.2/50.6, UK C-PMI & NM-PMI 49.8/50.4, Japan Household Spending 1.2% y/y. **Tues:** Germany Factory Orders 0.4%m/m/-5.3%y/y, Japan Leading & Coincident Indexes 93.5/100.4, RBA Cash Rate 1.00%. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): Last week saw the US MSCI index fall 3.2% from its record high a week earlier. The AC World ex-US fell 3.1% for the week to 15.9% below its record high in January 2018. The US MSCI's weekly performance ranked 24th among the 49 global stock markets we follow in a week when only three of the 49 countries rose in US dollar terms. That was the broadest underperformance since early October and compares to the prior week's 5/49 ranking, when the US MSCI rose 1.7% as 16 markets rose. Among the regions, EAFE was the smallest decliner last week with a decline of 2.7% and was the only index to outperform the AC World ex-US (-3.1%). The regions underperforming last week: BRIC (-4.8), EM Eastern Europe (-4.6), EM Asia (-4.5), EMU (-4.1), EMEA (-3.5), and EM Latin America (-3.4), Egypt was the best-performing country with a gain of 1.1%, followed by Israel (0.9), Morocco (0.7), Jordan (-0.2), and Switzerland (-0.2). Of the 26 countries that underperformed the AC World ex-US MSCI last week, Peru fared the worst, falling 6.8%, followed by Colombia (-6.4), Hong Kong (-6.1), China (-5.5), and Ireland (-5.5). In July, the US MSCI rose 1.4%, ranking 9/49 as the AC World ex-US index fell 1.4% and nearly all regions moved lower. That compares to the US MSCI's 6.9% rise in June, which was its best performance since January and ranked 15/49 as the AC World ex-US rose 5.8%, in a month when all regions moved higher. The best-performing regions in July: EM Latin America (0.0), EMEA (-0.6), BRIC (-1.3), and EAFE (-1.3). July's worst-performing regions: EM Eastern Europe (-2.7), EMU (-2.2), and EM Asia (-2.0). The US MSCI's ytd ranking fell two places last week to 8/49, with its 17.3% ytd gain still well ahead of that of the AC World ex-US (7.7). All regions and 37/49 countries are in positive territory ytd. The regions are outperforming the AC World ex-US ytd: EM Eastern Europe (10.9), EMU (8.4), and EAFE (8.4). EM Asia (3.0) is the biggest laggard ytd, followed by BRIC (7.0), EM Latin America (7.6), and EMEA (7.7). The best country performers ytd: Greece (25.0), New Zealand (23.0), Argentina (22.0), Egypt (21.7), and Belgium (20.5). The worst-performing countries so far in 2019: Pakistan (-17.4), Chile (-11.4), Poland (-6.7), Korea (-5.7), and Sri Lanka (-4.7).

S&P 1500/500/400/600 Performance (*link*): All of these indexes fell last week for the second time in three weeks as LargeCap and MidCap posted their biggest declines since December. SmallCap's 2.5% fall was less than the drops recorded by LargeCap (-3.1%) and MidCap (-3.5). LargeCap ended the week 3.1% below its record high a week earlier, and MidCap weakened to 6.6% below its 8/29 record high. SmallCap remained in a correction at 14.6% below its 8/29 record after narrowly averting a bear market at the end of May. Just five of the 33 sectors moved higher last week compared to 29 rising a week earlier. Last week's best performers: LargeCap Real Estate (2.0), SmallCap Health Care (1.4), SmallCap Utilities (0.3),

LargeCap Utilities (0.3), and MidCap Utilities (0.2). MidCap Energy (-7.6) was the biggest decliner, followed by SmallCap Materials (-6.8), MidCap Materials (-5.5), LargeCap Consumer Discretionary (-4.6), and MidCap Financials (-4.5). All three market-cap indexes rose again in July, but at a slower pace than during June. LargeCap's 1.3% gain was slightly ahead of the 1.1% increases recorded by MidCap and SmallCap. Twenty-three of the 33 sectors advanced in July, compared to all 33 rising in June and just one sector moving higher during May. LargeCap Real Estate has risen for three straight months. July's best performers: SmallCap Communication Services (5.9), MidCap Communication Services (4.7), SmallCap Tech (4.0), LargeCap Tech (3.3), and LargeCap Communication Services (3.0). June's laggards: MidCap Energy (-9.9), SmallCap Energy (-6.6), SmallCap Materials (-2.0), LargeCap Energy (-1.9), and LargeCap Health Care (-1.7). In terms of 2019's ytd performance, all three indexes are still recording double-digit percentage gains for the year. LargeCap leads with a gain of 17.0% ytd, just 1.9ppts ahead of MidCap (15.1) and well ahead of SmallCap (11.0). Thirty-one of the 33 sectors are positive ytd, with the cyclicals leading the top performers: LargeCap Tech (27.4), MidCap Tech (26.4), SmallCap Tech (22.6), LargeCap Real Estate (21.7), and LargeCap Communication Services (20.3). MidCap Energy (-19.0) is the biggest decliner so far in 2019, followed by these underperformers: SmallCap Energy (-12.6), SmallCap Consumer Staples (3.8), SmallCap Consumer Discretionary (4.7), and MidCap Consumer Staples (4.9).

S&P 500 Sectors and Industries Performance (*link*): Two of the 11 S&P 500 sectors rose last week as five outperformed the S&P 500's 3.1% decline. That compares to nine rising a week earlier, when three outperformed the S&P 500's 1.7% gain. Real Estate was the best-performing sector with a gain of 2.0%, ahead of Utilities (0.3%), Health Care (-1.1), Consumer Staples (-1.9), and Materials (-3.0). Last week's underperformers: Consumer Discretionary (4.6), Information Technology (-4.4), Financials (-3.9), Communication Services (-3.5), Industrials (-3.4), and Energy (-3.4). The S&P 500 rose 1.3% in July as 7/11 sectors moved higher and five beat the index. That compares to all 11 rising and five beating the S&P 500's 6.9% rise in June. The leading sectors in July: Information Technology (3.3), Communication Services (3.0), Consumer Staples (2.3), Financials (2.3), and Real Estate (1.7). July's laggards: Energy (-1.9), Health Care (-1.7), Materials (-0.4), Utilities (-0.4), Industrials (0.6), and Consumer Discretionary (0.9). 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 five sectors have outperformed the S&P 500's 17.0% rise ytd: Information Technology (27.4), Real Estate (21.7), Communication Services (20.3), Consumer Discretionary (19.4), and Industrials (17.8). The ytd laggards: Energy (5.1), Health Care (5.2), Materials (13.4), Utilities (13.6), Financials (15.6), and Consumer Staples (16.7).

Commodities Performance (*link*): Last week, the S&P GSCI index fell 2.2% as just two of the 24 commodities moved higher in the broadest underperformance since December 2017. That compares to 13 rising a week earlier when the index rose 0.2%. 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 almost back in a bear market now at 18.9% below its October high. Nickel was the strongest performer for the week as it rose 2.7%, ahead of Gold (1.8%) and Sugar (0.0). Lean Hogs was the biggest decliner, with a drop of 17.3%, followed by Cotton (-7.9), Lead (-5.5), Feeder Cattle (-4.1), and Copper (-4.0). July saw 10 of the 24 commodities climb as the S&P GSCI Commodities index fell 0.7%. That

compares to 18 rising in June when the S&P GSCI Commodities index rose 4.3%. July's best performers were Nickel (14.4), Silver (6.9), Feeder Cattle (4.1), and Lead (4.0). July's laggards: Coffee (-9.0), Kansas Wheat (-8.4), Wheat (-7.6), Lean Hogs (-6.6), and Corn (-5.8). The S&P GSCI commodities index is up 8.9% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Unleaded Gasoline (36.8), Nickel (36.0), Crude Oil (22.6), Brent Crude (15.0), and Gold (13.8). The biggest laggards in 2019: Natural Gas (-27.9), Cotton (-17.7), Kansas Wheat (-13.7), and Live Cattle (-13.0).

S&P 500 Technical Indicators (*link*): The S&P 500 price index rose fell 3.1% last week and began a new test of its short-term 50-day moving average (50-dma) for the first time since the end of May, but remained well above its long-term 200-day moving average (200-dma). The index's 50-dma relative to its 200-dma rose for 24th time in 25 weeks to a 16-month high, forming a Golden Cross for a 19th 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 5.1% 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, but the price index fell to a hair above its 50-dma from 3.7% above its 50-dma a week earlier. It had peaked recently during mid-July at a 19-week high of 4.3%. That was 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 an eighth week and at a slightly 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 a ninth week, but tumbled to a seven-week low of 5.1% above its rising 200-dma from a 17-month high of 8.8% above its rising 200-dma 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*): Five of the 11 S&P 500 sectors traded above their 50-dmas last week, down sharply from 10 a week earlier. Real Estate moved back above its 50-dma for the first time in three weeks, but these five sectors moved below theirs: Consumer Discretionary, Energy, Health Care, Industrials, and Materials. All 11 sectors had been below their 50-dmas in early January. The longer-term picture—i.e., relative to 200-dmas—shows 10 sectors trading above currently, unchanged from a week earlier. Energy was below for a third 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 38 straight weeks. Ten of the 11 sectors still have rising 50-dmas now, unchanged from a week earlier as Energy moved lower for a third week. Ten sectors have rising 200-dmas, also 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

Employment (*link*): Hirings in July were in line with expectations, though there were downward revisions to the prior two months' data. Payroll employment climbed 164,000 last month, following revised gains of 193,000 (from 224,000) in June and 62,000 (72,000) in May, for a net loss of 41,000. July's increase was in line with average monthly employment growth during the first half of this year, though below 2018's average monthly advance of 223,000. Private payrolls added 148,000 jobs in July—in line with the ADP number of 156,000—after rising 179,000 (from 191,000) in June and 81,000 (83,000) in May, for a net loss of 14,000. Professional & business services once again led job gains in July, adding 38,000 jobs last month and 467,000 over the past 12 months. Health care also continued to trend higher, boosting payrolls by 30,400 m/m and 405,300 y/y. Financial activities employment posted its biggest gain since February 2018, up 18,000 last month, with most of the advance occurring in insurance carriers. Looking at goods-related employment, factories boosted payrolls in July by 16,000, more than double the average monthly gain of 6,500 the first six months of the year, while construction companies added 4,000 jobs, slowing from average monthly gains of 17,000 the prior four months. Over the past 12 months, manufacturing and construction employment are up 157,000 and 202,000, respectively. Meanwhile, the natural resources industry cut jobs by 5,000 in July—showing no growth ytd.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, continued to set new highs in July—not posting a decline since February 2016. Our EIP rose only 0.1% last month, slowing from average gains of 0.4% the prior two months; it was 4.4% above a year ago, slowing from 5.7% at the start of the year. Average hourly earnings (AHE), one of the components of our EIP, rose 0.3% last month and 3.2% y/y, slowing from 3.4% in February—which was the highest since April 2009. Meanwhile, aggregate weekly hours—the other component of our EIP—fell 0.2% in July, reversing June's 0.2% gain; it was up 1.2% y/y, half the 2.4% rate at the start of this year.

Unemployment (*link*): The unemployment rate in July was unchanged at 3.7%, a tick above the 3.6% rate recorded during April and May—which was the lowest rate since December 1969. Meanwhile, the participation rate climbed to a four-month high of 63.0%, as 370,000 new workers entered the labor force—boosting it to a new record high of 163.4 million. The adult unemployment rate edged up to 3.4% last month, remaining near April's cyclical low of 3.2%—which was the lowest since January 1970—while the college-grad rate climbed to 2.2%, two ticks above its cyclical low of 2.0% posted in March. The volatile teenage rate (12.8) has fluctuated around 13.0% the first seven months of this year, after falling to a cyclical low of 12.0% during October and November. The number of workers working part-time for economic reasons (a.k.a. "involuntary part-time workers") fell 670,000 during the three months ending July to 4.0 million (2.4% of the civilian labor force), after climbing 344,000 during the two months through April. The sum of the underemployment and jobless rates dropped from 6.4% to 6.1% last month, while the U6 rate, which includes marginally attached workers, fell from 7.2% to 7.0%; the July rates were the lowest since October 2000 and December 2000, respectively.

Wages (*link*): July wages—as measured by AHE for all workers on private nonfarm payrolls—

climbed to another new record high, advancing 0.3% for the third month. The wage rate rose to 3.2% y/y, slightly below February's 3.4%, which was the highest rate since April 2009; it was at a recent low of 2.3% during October 2017. The wage rate for service-providing industries (3.4% y/y) is moving back toward its series high of 3.6% recorded in February, while the goods-producing rate (2.8%) is holding steady just below 3.0%. Within goods-producing, both the manufacturing (2.5) and natural resources (4.9) rates are accelerating, climbing to their best rates since July 2017 and May 2014, respectively. Meanwhile, the rate for construction (2.8) jobs slipped below 3.0% for the first time since October 2017. Within service-providing, the rate for retail trade (5.3) has rebounded to a new series high, while the information services' (6.5) rate has jumped to within 0.1ppt of January's series high of 6.6%—after both eased during the spring. The rate for wholesale trade has slowed from a cyclical high of 3.9% in March to 2.9% in July, while the rate for utilities fell from 5.4% at the end of 2018 to 2.1% last month. The rate for transportations & warehousing (2.9) remains on its steep accelerating trend, reaching its highest rate since December 2017, while the rate of leisure & hospitality (3.7) has lost momentum. In the meantime, the rate for financial activities (3.7) is stuck around recent lows, while the rate for professional & business services (3.1) is stuck around recent highs.

Consumer Sentiment (*link*): Consumer sentiment was unchanged in July from the mid-month reading, and little changed from June's, remaining remarkably stable since 2017. The Consumer Sentiment Index (to 98.4 from 98.2) ticked up in July, continuing to fluctuate in a narrow range from 91.2 to 101.4 the past 30 months, despite ongoing trade uncertainties. Bolstering optimism: positive job and income prospects, gains in net household wealth, and low inflation. The expectations (90.5 from 89.3) component improved last month (after sliding 4.2 points in June), climbing back toward May's 93.5—which was the best since January 2004. Recent surveys have recorded the most favorable net personal finance expectations since May 2003. Meanwhile, the present situation (110.7 from 111.9) component moved lower, remaining in a volatile flat trend below its cyclical high of 121.2 reached in March 2018. According to the report, a key issue going forward is whether the recently announced tariffs on Chinese imports will spark an even more cautious outlook.

GLOBAL ECONOMIC INDICATORS

Global Manufacturing PMIs (*link*): Global manufacturing activity in July contracted for the third consecutive month, not a good start to Q3, as domestic demand remained soft and foreign demand continued to shrink. JP Morgan's M-PMI (to 49.3 from 49.4) sank to its lowest reading since October 2012, declining steadily from December 2017's seven-year high of 54.4. The emerging nation's M-PMI improved slightly to 50.1 in July after falling from 51.0 in March to 49.9 in June; it was at 49.5 in January—which was the first reading below 50.0 since mid-2016. Meanwhile, the M-PMI for developed nations declined for the third month, to 48.6, after recovering to 50.2 in April, following a brief dip below 50.0 in March (to 49.9). Of the 30 nations for which July data were available, roughly two-thirds had M-PMIs signaling downturns; most notable among the countries seeing contractions were: Germany (43.2 from 45.0), South Korea (47.3 from 47.5), the UK (unchanged 48.0), Taiwan (48.1 from 45.5), Italy (48.5 from 48.4), Japan (49.4 from 49.3), France (49.7 from 51.9), China (49.9 from 49.4), and Brazil (49.9 from 51.0). Although the US (50.4 from 50.7) and Canada (50.2 from 49.2) saw

expansions, their M-PMIs were only marginally above the neutral 50.0 mark.

US Manufacturing PMIs (*link*): Manufacturing activity in July expanded at its slowest pace since August 2016, according to ISM's M-PMI, and the weakest since September 2009, according to IHS Markit's. The ISM M-PMI (to 51.2 from 51.7) remains on a steep downtrend from its recent high of 60.8 less than a year ago. "Respondents expressed less concern about U.S.-China trade turbulence, but trade remains a significant issue. More respondents noted supply chain adjustments as a result of moving manufacturing from China. Overall, sentiment this month is evenly mixed," according to the report. The new orders (to 50.8 from 50.0) measure bounced off June's drop to the breakeven point of 50.0 (which was the weakest since December 2015), while the production (50.8 from 54.1) gauge dropped toward 50.0, posting its lowest reading since August 2016. The employment measure sank to 51.7 (lowest since November 2016) after improving from 52.4 in April to 54.5 in June. The remaining two index components showed that supplier deliveries (53.3 from 50.7) improved from June's 35-month low, while inventories' (49.5 from 49.1) continued to contract. Meanwhile, weak foreign demand pushed the new export orders (48.1 from 50.5) sub-index below 50.0 for the second time in four months. IHS Markit's M-PMI (50.4 from 50.7) hovered just above the breakeven point of 50.0 in July for the third month, down from 54.9 at the start of this year, with employment falling for the first time since 2013 as manufacturers reported only a marginal rise in output and falling export orders depressed overall new business. The report noted: "US manufacturers' expectations of output in the year ahead has sunk to its lowest since comparable data were first available in 2012, with worries focused on the detrimental impact of escalating trade wars, fears of slower economic growth and rising geopolitical worries."

Eurozone Retail Sales (*link*): Retail sales rebounded in June—to a new record high—after falling in May for the first time this year. The volume of sales jumped 1.1% in June and 2.4% ytd, with all major categories posting gains above 1.0% during the month: automotive fuel (1.6), food, drinks & tobacco (1.2), and non-food products ex fuel (1.1). As for the ytd performance, non-food products ex fuel drove the gain in overall sales, jumping 3.7%, while food, drinks & tobacco rose 1.0% and auto fuel was basically flat. June sales are available for all four of the largest Eurozone economies—and is a mixed bag: Sales in Germany soared 3.5%, to a new record high in June, after slumping 1.9% during the two months through May, while Italy's jumped 1.3% m/m to its highest level since January 2017. Meanwhile, sales in France slumped 0.5% during the two months through June after reaching a new record high in April; sales in Spain were unchanged at May's record high. Germany posted the second-largest sales gain in the Eurozone in June, with only Croatia's (6.8) stronger; Portugal (-0.9), Ireland (-0.8), and Slovenia (-0.5) posted the largest declines, which were meager.

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