



MORNING BRIEFING

September 3, 2019

FONIR Down South

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

(1) Fearing negative interest rates more than yield-curve inversion. (2) ECB's Governing Council likely to go more negative at next meeting. (3) A world of NIRPs and NIRBs. (4) From TINA to FOMO to FONIR. (5) Bullish vs bearish fears. (6) S&P 500 forward earnings yield and dividend yield exceeding bond yield. (7) FONIR driving outperformance of dividend-yielding stocks and boosting their valuation multiples. (8) S&P 500 real yields remain solidly positive as real bond yield turns negative. (9) The US stands out in all sorts of ways, including GDP growth, energy production, and profit margins. (10) Movie review: "Blinded by the Light" (+ +).

Strategy: Negative Thoughts. I visited with our accounts in Atlanta and Chattanooga at the beginning of last week. They seemed relatively calm. Most of them believe that the US economy can continue to grow for the foreseeable future. So they aren't freaking out about the recent inversion of the yield curve. However, they are somewhat anxious about the prospect of negative interest rates in the US, though they think it is a remote possibility. Consider the following:

(1) *US bond yields stand out.* We discussed in our meetings the expectation that the Bank of Japan (BOJ) is likely to keep its official policy interest rate at -0.10% for the foreseeable future, as it has since 1/29/16, while the Governing Council of the European Central Bank (ECB) is likely to lower its official deposit rate, currently -0.40%, deeper into negative territory at its 9/12 meeting ([Fig. 1](#)). The ECB is widely expected to resume quantitative easing at that meeting as well ([Fig. 2](#)).

Such expectations have driven the 10-year German government bond yield down to -0.70% on Monday from 0.24% at the start of this year. At 1.50% on Friday, the 10-year US Treasury bond yield is literally outstanding compared to the comparable yields available overseas: UK (0.34%), Japan (-0.27), Sweden (-0.34), France (-0.40), Germany (-0.70) ([Fig. 3](#)). The negative-interest-rate policies (NIRPs) of the ECB and BOJ are increasing the amount of negative-interest-rate bonds (NIRBs) around the world.

(2) *Dividend & earnings yields stand out.* The rationale for remaining bullish on US stocks seems to be shifting from TINA (there is no alternative) and FOMO (fear of missing out) to FONIR (fear of negative interest rates). These fears are inherently bullish for stocks and continue to overcome the bearish fear that an inverted yield curve is predicting an impending recession.

A few of the accounts with whom I met last week noted that the 10-year US Treasury bond

yield at 1.50% is below the S&P 500 dividend yield, at 1.90% during Q2-2019 ([Fig. 4](#)). That is one very good reason why they remain mostly fully invested in the stock market. I observed that the forward earnings yield of the S&P 500, at 6.06% during August, is even more outstanding compared to the bond yield ([Fig. 5](#)).

(3) *Performance derby*. The 119bps drop in the US bond yield since the beginning of the year certainly has benefitted dividend-yielding stocks. The S&P 500 sectors that tend to have lots of dividend-paying companies have outperformed those that tend to have fewer of them: Information Technology (28.0% ytd), Real Estate (26.0), Consumer Discretionary (20.3), Communication Services (20.0), Consumer Staples (19.0), Utilities (17.6), Industrials (17.4), S&P 500 (16.7), Financials (12.6), Materials (11.9), Health Care (4.6), and Energy (-0.5) ([Fig. 6](#)).

FONIR should continue to benefit dividend-yielding stocks. Their high valuation multiples reflect investors' willingness to pay up for these stocks, as evidenced by the relatively high forward P/Es of the S&P 500 sectors with lots of dividend payers: Real Estate (44.0), Consumer Discretionary (21.2), Information Technology (19.6), Consumer Staples (19.6), Utilities (19.4), Communication Services (17.4), Materials (16.9), S&P 500 (16.8), Industrials (15.4), Health Care (14.8), Energy (14.7), and Financials (11.4) ([Fig. 7](#)).

(4) *Real yields*. During July, the US bond yield averaged 2.05%, while the CPI inflation rate was 1.80%. So the inflation-adjusted bond yield was close to zero, at 0.25% ([Fig. 8](#)). During August, the bond yield fell below the inflation rate. In other words, in real terms, bond yields are entering negative territory. Meanwhile, the real earnings yield of the S&P 500, using reported earnings, remained solidly in positive territory during Q2-2019, at 3.02% ([Fig. 9](#)). The real forward earnings yield of the S&P 500 was 4.03% during July ([Fig. 10](#)).

US vs Them: Outstanding. The US economy has recovered from the Great Recession of 2008-2009 much better than most other economies around the world. The American banking system is very well capitalized. The nonbank credit markets have been revitalized. Private equity markets are funding lots of startups. Corporate profit margins are at record highs. The US has numerous world-class companies in technology, industrials, health care, media, communications, and finance. The labor market is booming, with inflation-adjusted wages rising to record highs. The US faces plenty of challenges to the good times, with trade uncertainty currently paramount; however, the US economy and stock markets continue to outperform on a global basis. Consider the following:

(1) *Real GDP*. Among the industrial economies, US real GDP rose 2.3% y/y during Q2, outpacing Australia (1.8%, during Q1), Canada (1.6), the Eurozone (1.3), the UK (1.2), and Japan (1.1). A few of the big emerging economies are growing faster than the US, while a few are growing slower: China (6.2), India (5.0), Indonesia (5.0), South Korea (2.1), Brazil (1.0), and Mexico (0.3) ([Fig. 11](#)).

(2) *Industrial and energy production*. US manufacturing is in a growth recession along with manufacturing in the rest of the world. Manufacturing output growth in the US slipped by -0.5% y/y during July ([Fig. 12](#)). It's the same story in the Eurozone (-2.8% y/y through June), UK (-

1.3), and Sweden (-0.2), while growth in Japan (0.7) and South Korea (0.8) were just above zero. China's industrial production was still up 4.8% y/y during July, but this growth rate has remained on a downtrend since 2011.

One of the brighter spots in the US is energy production. US crude oil production rose to another record high of 12.6mbd during the 8/23 week ([Fig. 13](#)). Over the past 12 months through April, US natural gas production rose to another record high of 34.0 trillion cubic feet, more than enough to meet growing domestic demand, making the US a net exporter of natural gas ([Fig. 14](#)).

(3) *Inflation*. Interest rates shouldn't go negative in the US as they have done in the Eurozone and Japan. That's because inflation remains higher in the US, at 2.2% y/y on the core CPI versus 0.9% in the Eurozone and 0.4% in Japan ([Fig. 15](#)).

(4) *Profit margins, valuation, and stock prices*. The US MSCI stock price index continues to outperform the All-Country World ex-US (ACWX) MSCI stock price index in both dollar and local-currency terms ([Fig. 16](#)). The former is up 17.0% ytd, while the latter is up 6.4% in dollars and 8.2% in local currencies over the same period.

Contributing to the outperformance of our Stay Home investment thesis relative to the Go Global alternative is the widening spread between the profit margins of the US MSCI and the ACWX during the current bull market ([Fig. 17](#)).

The outperformance of the US is reflected in relative forward P/Es. Here are the latest readings for the major MSCI stock price indexes around the world: US (17.1), EMU (12.8), Japan (12.4), UK (11.7), and Emerging Markets (11.7) ([Fig. 18](#)).

Movie. "Blinded by the Light" (+ +) ([link](#)) is yet another very entertaining movie about rock stars. This year, movies about the Beatles ("Yesterday") and Elton John ("Rocketman") came out. Last year, there was one about Freddie Mercury and Queen ("Bohemian Rhapsody"). The latest movie in this genre is about Javed, a teenage boy whose parents moved from Pakistan to Luton, England for a better life. The film is set in the 1980s, when unemployment was high. Javed's father loses his job, stressing the entire family, which also faces anti-Pakistani harassment. Javed takes joyous refuge from his bleak environment in the music of Bruce Springsteen, which inspires him to write lyrics for a local band. He struggles to resolve the tension between his father's very close-minded traditional values and the mind-opening poetry of the music he loves. I wonder when they will start making movies about economists.

CALENDARS

US. Tues: Consumer Spending 0.3%, ISM M-PMI 51.3, Rosengren. **Wed:** Merchandise Trade Balance -\$54.8b, Motor Vehicle Sales 16.9mu, MBA Mortgage Applications, Beige Book, Williams, Evans, Bowman, Bullard, Kashkar. (DailyFX estimates)

Global. Tues: Canada M-PMI, Australia GDP, RBA Cash Target Rate 1.00%. **Wed:** Eurozone Retail Sales, Eurozone C-PMI & NM-PMI, UK C-PMI & NM-PMI, Japan C-PMI & NM-PMI,

BOC Rate Decision 1.75%. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 2.7% to 3.4% below its 7/27 record high. The AC World ex-US rose 1.1% for the week, but remains in a deep correction at 16.9% below its record high in January 2018. The US MSCI's weekly performance ranked eighth among the 49 global stock markets we follow in a strong week for global markets in which 37 of the 49 countries rose in US dollar terms. That compares favorably to the prior week's 40/49 ranking, when the US MSCI fell 1.4% as 29 markets rose. These regions outperformed or matched the AC World ex-US last week: EM Latin America (2.7%), EMU (1.9), and BRIC (1.1). The regions underperforming last week: EMEA (-0.3), EAFE (0.9), EM Asia (1.0), and EM Eastern Europe (1.0). Greece was the best-performing country, with a gain of 6.5%, followed by Mexico (6.1), Egypt (5.5), Colombia (3.7), and Italy (3.6). Of the 26 countries that underperformed the AC World ex-US MSCI last week, Argentina fared the worst, tumbling 12.9% to nearly 72% below its record high in January 2018. Also underperforming were Pakistan (-7.5), Hong Kong (-2.4), and Israel (-2.4). In August, the US MSCI fell 2.0%, ranking 13/49 as the AC World ex-US index fell 3.3% and all regions moved lower. That compares to the US MSCI's 1.4% rise in July, which ranked 9/49 as the AC World ex-US fell 1.4%, in a month when nearly all regions moved higher. The best-performing regions in August, albeit with declines: EMU (-2.4) and EAFE (-2.9). August's worst-performing regions: EM Latin America (-8.5), EMEA (-6.6), EM Eastern Europe (-5.7), BRIC (-5.0), and EM Asia (-4.0). The US MSCI's ytd ranking rose three places last week to 7/49, with its 17.0% ytd gain nearly triple that of the AC World ex-US (6.4). All regions and 31/49 countries are in positive territory ytd. The regions that are outperforming the AC World ex-US ytd: EM Eastern Europe (10.0), EMU (8.5), and EAFE (7.1). EM Latin America (1.4) is the biggest laggard ytd, followed by EM Asia (2.2), EMEA (4.1), and BRIC (5.3). The best country performers ytd: Egypt (32.6), Greece (21.9), Russia (19.9), Switzerland (19.6), and the Netherlands (17.2). The worst-performing countries so far in 2019: Argentina (-37.9), Pakistan (-23.3), Chile (-14.2), Poland (-12.5), and Korea (-8.0).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose for the first time in five weeks. LargeCap's 2.8% gain beat those of SmallCap (2.5%) and MidCap (2.4). LargeCap ended the week 3.3% below its 7/26 record high of 3025.86, and MidCap exited a correction to improve to 8.2% below its record high on 8/29/2018. SmallCap remains in a correction, but improved to 16.4% below its 8/29/2018 record. All 33 sectors moved higher last week for the first time since early January, compared to two rising a week earlier. Last week's best performers: SmallCap Energy (5.0), SmallCap Communication Services (3.9), MidCap Industrials (3.7), and LargeCap Industrials (3.6). SmallCap Real Estate (0.6) was the smallest gainer, followed by MidCap Consumer Staples (0.9) and MidCap Communication Services (1.3). However, all three market-cap indexes fell in August for the first time since May. LargeCap's 1.8% decline was less than those of MidCap (-4.3) and SmallCap (-4.6). Just six of the 33 sectors advanced in August, compared to 23 rising in July and all 33 moving higher during June. LargeCap Real Estate has risen for four straight months, followed by three straight monthly gains for MidCap Real Estate and SmallCap Utilities. August's best performers: LargeCap Utilities (4.7), LargeCap Real Estate (4.6), SmallCap Utilities (3.7), and

MidCap Real Estate (2.1). August's biggest laggards: MidCap Energy (-19.7), SmallCap Energy (-17.3), SmallCap Materials (-9.5), and LargeCap Energy (-8.7). In terms of 2019's ytd performance, all three indexes are still positive. LargeCap leads with a gain of 16.7% ytd, 3.6ppts ahead of MidCap (13.1) and well ahead of SmallCap (8.7). Thirty of the 33 sectors are positive ytd, with the cyclicals leading the top performers: LargeCap Tech (28.0), LargeCap Real Estate (26.0), MidCap Tech (24.6), SmallCap Utilities (21.3), and LargeCap Consumer Discretionary (20.3). MidCap Energy (-27.9) is the biggest decliner so far in 2019, followed by these underperformers: SmallCap Energy (-20.6), LargeCap Energy (-0.5), and SmallCap Materials (1.8).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 S&P 500 sectors rose last week as five outperformed or matched the S&P 500's 2.8% gain. That compares to two rising a week earlier, when five outperformed the S&P 500's 1.4% drop. Industrials was the best-performing sector with a gain of 3.6%, ahead of Communication Services (3.4%), Financials (3.2), Materials (3.1), and Information Technology (3.1). Last week's underperformers, albeit with gains: Consumer Staples (1.6), Utilities (1.8), Real Estate (1.8), Health Care (2.1), Consumer Discretionary (2.6), and Energy (2.8). The S&P 500 fell 1.8% in August as 3/11 sectors moved higher and seven beat the index. That compares to seven rising and five beating the S&P 500's 1.3% rise in July. The leading sectors in August: Utilities (4.7), Real Estate (4.6), Consumer Staples (1.6), Health Care (-0.7), Consumer Discretionary (-1.4), Communication Services (-1.5), and Information Technology (-1.7). August's laggards: Energy (-8.7), Financials (-5.1), Materials (-3.1), and Industrials (-2.9). Ten sectors are still higher so far in 2019, down from all 11 at the beginning of August and compared to just two sectors rising during 2018, when the S&P 500 fell 6.3%. These seven sectors have outperformed the S&P 500's 16.7% rise ytd: Information Technology (28.0), Real Estate (26.0), Consumer Discretionary (20.3), Communication Services (20.0), Consumer Staples (19.0), Utilities (17.6), and Industrials (17.4). The ytd laggards: Energy (-0.5), Health Care (4.6), Materials (11.9), and Financials (12.6).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 0.9% for its first gain in five weeks as 14 of the 24 commodities moved higher. That compares to a 0.6% decline a week earlier when nine commodities rose. The index had nearly climbed out of a correction during mid-April, recovering to a drop of 10.0% from its high in early October after being down as much as 26.9% from that high on 12/24. It's still in a bear market now at 21.0% below its October high. Nickel was the strongest performer as it soared 14.5%, ahead of Lean Hogs (7.1), Natural Gas (6.0), and Silver (4.5). Wheat was the biggest decliner, with a drop of 3.2%, followed by Sugar (-2.9), Lead (-2.7), and Zinc (-2.1). August saw just five of the 24 commodities climb as the S&P GSCI Commodities index fell 6.0%. That compares to 10 rising in July when the S&P GSCI Commodities index fell 0.7%. August's best performers were Nickel (24.0), Silver (11.8), Gold (6.4), and Natural Gas (2.3). August's laggards: Unleaded Gasoline (-17.9), Lean Hogs (-10.5), Zinc (-9.8), Brent Crude (-8.9), and Sugar (-8.8). The S&P GSCI commodities index is up 6.1% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Nickel (68.9), Crude Oil (21.3), Gold (19.4), Silver (18.0), and Unleaded Gasoline (17.5). The biggest laggards in 2019: Natural Gas (-22.3), Live Cattle (-20.1), Kansas Wheat (-18.7), and Cotton (-18.5).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 2.8% last week for its biggest gain since mid-March, and improved relative to its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma). The index's 50-dma relative to its 200-dma fell for just the third time in 29 weeks from a 17-month high in mid-August, but formed a Golden Cross for a 23rd 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 5.0% is down from 5.3% a week earlier and compares to -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 fell for a second straight week as the price index improved to 0.7% below its falling 50-dma from a 12-week low of 3.5% below its 50-dma a week earlier. It had peaked recently during mid-July at a 19-week high of 4.3% above. 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 a 12th week, and at faster pace. 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 13th week, and improved to 4.3% above its rising 200-dma from a 12-week low of 1.7% above its rising 200-dma a week earlier. That compares to a 17-month high of 8.8% above its 200-dma at the end of July and 14.5% below on 12/24, which was the lowest since April 2009; the index remains well below the seven-year high of 13.5% above its rising 200-dma during January 2018.

S&P 500 Sectors Technical Indicators ([link](#)): Four of the 11 S&P 500 sectors traded above their 50-dmas last week, up from three a week earlier, as all sectors improved w/w. The four sectors trading above their 50-dmas: Communication Services, Consumer Staples, Real Estate, and Utilities. All 11 sectors were last below their 50-dmas in early January. The longer-term picture—i.e., relative to 200-dmas—filled in many of the cracks that appeared in the previous week. Ten sectors trade above currently, up from six a week earlier, which was the lowest count since early June. Moving back above in the latest week were Financials, Health Care, Industrials, and Materials. Energy was below for a seventh week after being above—just 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 compared to just two in February and all 11 in January 2018. Energy is the sole laggard, not having been in a Golden Cross for 41 straight weeks. Five sectors have rising 50-dmas now, up from four a week ago. Sectors that still have rising 50-dmas: Communication Services, Consumer Staples, Real Estate, Tech, and Utilities. Ten sectors have rising 200-dmas, up from seven a week earlier, as Materials made another uptrend attempt in a downtrend that has been in place since last September. Also turning up w/w were Financials and Health Care. Energy and Financials have had mostly falling 200-dmas 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

Personal Income & Consumption ([link](#)): Both nominal and real consumer spending in July

reached new record highs once again, and will likely continue to do so, with incomes and savings up and inflation subdued. Nominal spending climbed for the sixth time this year, up 0.6% in July and 3.6% ytd, while real consumer spending expanded 0.4% and 2.7%, respectively, over the same periods. So far this year, real spending on goods (5.2% ytd) is up sharply, with both durable (6.7) and nondurable (4.5) goods spending contributing; services (1.5) consumption is more subdued, though on an accelerating trend. Meanwhile, real wages & salaries reached a new record high in July, rising 3.8% y/y, up from 1.8% at the end of 2018. Personal savings in July, based on the 12-month sum, shot up to a record-high \$1.29 trillion. As for inflation, July data show headline inflation was only 1.4% y/y, while the core rate—the Fed’s preferred measure—held at 1.6% y/y, remaining below its target rate of 2.0%.

Consumer Sentiment ([link](#)): Consumer sentiment in August posted its largest monthly decline since December 2012, as concerns about the China trade war intensified. (This is at odds with the Conference Board’s Consumer Confidence Index, which was within 2.1 points of its cyclical high last month.) The University of Michigan’s Consumer Sentiment Index (CSI) sank 8.6 points to 89.8 last month—its lowest reading since October 2016—with both the present situation (to 105.3 from 110.7) and expectations (79.9 from 90.5) components down sharply. Just 17 months ago, the CSI was at 101.4—the highest level since 2004. Last month, negative references to tariffs were spontaneously mentioned by one-third of consumers, with these respondents also voicing higher year-ahead inflation expectations. They also more frequently expected rising unemployment and smaller annual gains in household incomes. Meanwhile, our Consumer Optimism Index (COI), which averages the University of Michigan and Conference Board measures, shows consumer confidence remains at a relatively high level, with the COI (to 112.5 from 117.1) holding near its cyclical high of 118.3.

Pending Home Sales ([link](#)): “Super-low mortgage rates have not yet consistently pulled buyers back into the market,” said Lawrence Yun, NAR chief economist. “Economic uncertainty is no doubt holding back some potential demand, but what is desperately needed is more supply of moderately priced homes.” The Pending Home Sales Index (PHSI)—measuring sales contracts for existing-home purchases—sank 2.5% in July to 105.6 after improving the prior two months. The yearly rate slipped back into negative territory, at -0.3% y/y, after moving back above zero in June for the first time in 17 months. Sales in all regions were down on a m/m basis, but the South (-2.4% m/m & 0.1% y/y) and West (-3.4 & 0.3) were able to remain a tad above their year-ago levels; sales in the Northeast (-1.6 & -0.9) and Midwest (-2.5 & -1.2), on the other hand, fell back below year-ago levels again. According to Yun, low inventory numbers impact the nation’s overall economy, and “the housing industry cannot grow without more supply.”

GLOBAL ECONOMIC INDICATORS

Eurozone Economic Sentiment Indicators ([link](#)): The Economic Sentiment Index (ESI) for the Eurozone (+0.4 points to 103.1) improved in August (after dropping to a 43-month low in July), while the EU’s (-0.6 points to 101.4) ESI continued to deteriorate, sliding to its lowest reading since December 2013. These measures peaked at 18-year highs of 114.5 and 114.3 at the end of 2017. Among the Eurozone’s largest economies, Spain (+1.9 to 107.3) posted the largest increase, while ESIs for Germany (+0.4 to 100.6), the Netherlands (+0.2 to 104.7), and

France (+0.1 to 104.0) were fractionally higher; Italy's (-0.9 to 100.7) was the only one to deteriorate. At the sector level, sentiment was mixed, with industry (+1.4 to -5.9) and retail trade (+1.2 to 0.5) confidence up and construction (-1.3 points to 3.7), services (-1.3 to 9.3), and consumer (-0.5 to -7.1) confidence down.

Eurozone CPI Flash Estimate ([link](#)): August's CPI rate was below 2.0% for the 10th consecutive month, according to the flash estimate, while the core rate remained just below 1.0%. The headline rate held at 1.0%—the lowest rate since November 2016; it was at a recent peak of 2.3% last October. Looking at the main components, food, alcohol & tobacco (to 2.1% from 1.9% y/y) is expected to have the highest rate, followed by services (1.3 from 1.2)—with the former at a six-month high. Non-energy industrial goods is expected to be unchanged at 0.4%. Meanwhile, the rate for energy (-0.6 from 0.5) fell below zero for the first time since November 2016, slowing steadily from 5.3% in March/April. The core rate—which excludes energy, food, alcohol, and tobacco—is expected to hold at July's 0.9% after accelerating from 0.8% to 1.1% in June.

France GDP ([link](#)): Real GDP in the Eurozone's second-largest economy continued to grow during Q2, posting a 1.4% y/y increase. Real GDP expanded 1.3% (saar) during Q2, in line with prior quarters, with real domestic demand (excluding inventories) driving growth. Real gross fixed capital investment (3.6%, saar) accelerated again last quarter—recording its second best performance since Q3-2017—while real government spending (1.4) picked up after showing little growth at the start of this year. Household consumption (0.9, saar) continued to expand, though at its slowest pace in a year. Meanwhile, trade was basically neutral, with exports and imports ticking down 0.1% and 0.8% (both saar), respectively. There are some promising developments for this quarter, as consumer and business confidence remained steady in August, unlike the gloom hanging over most of the Eurozone economies.

Italy GDP ([link](#)): Real GDP has been stagnant since mid-2018, as the fourth consecutive reduction in inventories remained a drag on growth during Q2. Last quarter, GDP ticked up 0.1% (saar) following a 0.5% gain during Q1 and losses of 0.3% and 0.5% during Q4 and Q3, respectively; economic growth was down 0.1% y/y. A jump in real gross capital formation (7.7%, saar) last quarter offset weakness in other components, as a surge in investment in machinery & equipment (22.8) more than offset a decline construction (-1.7). Meanwhile, real consumer spending (0.2, saar) was basically flat, as was government spending (-0.3), while trade also had little impact, as exports (4.1) and imports (4.6) grew at roughly the same pace last quarter.

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