



MORNING BRIEFING

September 9, 2019

Bottom Line on Top Line

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

(1) Another geopolitical crisis, another buying opportunity. (2) The Chinese may actually want a deal, while Boris Johnson's no-deal Brexit may be on ice. (3) PMI picture not great, but not bad for S&P 500 revenues. (4) Upbeat services industries offsetting downbeat manufacturing in the US, and overseas too. (5) Weak auto sales in Europe and China are a big part of global manufacturing's woes. (6) Latest batch of labor indicators is a very mixed bag. (7) Our Earned Income Proxy jumps to another record high. (8) Consumers are in good shape.

Strategy: Down & Up. Last week started out as a good one for the bears on news that shouldn't have been a surprise: The US slapped some more tariffs on goods imported from China. Later in the week came news that the US and China will meet again in October for another round of trade negotiations. More importantly, China wants a deal, according to credible Chinese sources (rather than Trump tweets). In a related development, the Chinese government moved to deescalate tensions in Hong Kong. A 9/5 CNBC story reported:

"There's more possibility of a breakthrough between the two sides," said Hu Xijin in a tweet Thursday. Hu is editor-in-chief of the *Global Times*, a tabloid under the People's Daily, which is the official newspaper of the Communist Party of China. His Twitter account has been followed by many Wall Street traders and market participants for insight on the trade war."

In the 8/14 *Morning Briefing*, we introduced you to Mr. Hu: "In a 7/31 [article](#), the NYT said that Hu is sometimes called a 'frisbee fetcher' by critics, i.e., a party loyalist who retrieves whatever is thrown at him by the party. The article reports that Hu acknowledges that he has 'special access' to party officials." (We follow his [tweets](#).)

Also last week, the financial markets seemed to be relieved that the odds of a no-deal Brexit declined as Britain's Parliament countered Prime Minister Boris Johnson's threat to use that option to either get a better deal from the European Union or actually walk away with no deal.

The S&P 500 ended up 1.8% last week, and only needs to rise 1.6% to match its previous record high on July 26. As we have frequently observed, geopolitical crises in the past more often than not have created buying opportunities.

Meanwhile, the US economic backdrop remains positive on balance. The Citigroup Economic Surprise Index has rebounded sharply from a recent low of -68.3 on 6/28 to 5.4 on Friday ([Fig. 1](#)). In the face of mounting trade tensions with China, the Consumer Confidence Index held up better than did the Consumer Sentiment Index during August, resulting in a still-solid reading of

112.5 for our Consumer Optimism Index, which is the average of the two ([Fig. 2](#)). Now let's turn to the latest purchasing managers and employment data, which on balance were also upbeat, in our opinion.

Purchasing Managers Indexes: Mixed Picture for S&P 500 Revenues. Last week, we got some bad news from August's M-PMI and some good news from the month's NM-PMI. Both are highly correlated with the growth rate of S&P 500 aggregate revenues. In the US, the services sector is much bigger than the manufacturing sector, but the manufacturing sector is much more cyclical. So it's a mixed picture for revenues growth: not great, but not as bad as suggested by the M-PMI alone. Let's have a closer look:

(1) *M-PMI*. Last week on Wednesday, Joe and I observed that the drop in the US M-PMI below 50.0 during August was bad news for S&P 500 aggregate revenues growth since the two series are highly correlated ([Fig. 3](#)). The growth rate of these revenues has declined from a recent peak of 10.0% y/y during Q2-2018 to 3.0% during Q2. That's still relatively good considering all the negative headlines about the global economy this year.

However, the drop in the M-PMI from a recent peak of 60.8 a year ago to 49.1 this August is a downer for revenues growth. All three of the major components of August's M-PMI were below 50.0: new orders (47.2), production (49.5), and employment (47.4) ([Fig. 4](#)).

(2) *NM-PMI*. Last Thursday, we learned that the NM-PMI rose from 53.7 during July to a solid reading of 56.4, with all three of its major components solidly above 50.0: new orders (60.3), production (61.5), and employment (53.1) ([Fig. 5](#)). This series is also highly correlated with the growth rate in S&P 500 revenues, though not as highly as is the M-PMI ([Fig. 6](#)).

(3) *Average PMI*. It makes sense to use the simple unweighted average of the M-PMI and NM-PMI as an indicator of S&P 500 revenues growth. Again, while the services sector is much bigger than the manufacturing sector, the latter is more volatile. During August, this average was 52.8—still above 50.0, not as bad as the M-PMI nor as good as the NM-PMI, and consistent with the current low-but-positive growth rate in revenues ([Fig. 7](#) and [Fig. 8](#)).

(4) *Global PMIs*. Of course, S&P 500 revenues are derived not just from US markets but also overseas. By some estimates, foreign revenues account for 30%-40% of the total. So the global PMIs matter as well. They tell the same story as the domestic ones. The global composite PMI along with its components for advanced economies and emerging economies have weakened since early last year but remained above 50.0 during August, at 51.3, 51.0, and 51.8, respectively ([Fig. 9](#)).

In manufacturing, the global M-PMI was 49.5 during August, weighed down by advanced economies (48.7) and boosted by emerging economies (50.4). The global NM-PMI was solid at 51.8 during August, with good readings among advanced economies (51.5) and emerging ones (52.3).

(5) *Aging populations*. Debbie and I aren't convinced that the weakness in global manufacturing is all about Trump's trade war with China. However, a resolution of this issue

should provide a peace dividend for global manufacturers. The secular problem for them is that populations are aging around the world as people live longer and have fewer babies. This demographic trend favors consumption of services over consumption of manufactured goods.

Furthermore, one of the weakest segments of global manufacturing has been the auto industry, especially in Europe and China ([Fig. 10](#)). In the US, auto sales have been high but flat around 17.0 million for the past year. The aging of populations is weighing on auto sales. So is ridesharing.

(6) *Bottom line*. The bottom line on the top line for the S&P 500 is that revenues are still growing, though slowly as weakness in manufacturing is being offset by strength in services.

US Labor Market: Weakening Demand or Limited Supply? Connecting the dots among US employment indicators in the latest batch reveals an abstract expressionist painting in which reality is in the eyes of the beholder. Those looking for signs of a weakening economy can see it in the picture. Those looking for signs of strength can see that too.

Debbie and I see a labor market where the supply of labor is getting increasingly tight rather than one where demand is weakening. We see inflation-adjusted wages rising to new record highs. We believe that the scarcity of workers combined with the rising purchasing power of consumers will boost productivity growth, which in turn will boost real pay gains. In this scenario, price inflation remains subdued, corporate profits grow, and the economic expansion can continue. Consider the following:

(1) *BLS private payrolls*. According to the Bureau of Labor Statistics (BLS), private payrolls rose just 96,000 during August. The average monthly increase during the first eight months of this year was 145,000, down from 215,250 during all of 2018. Total payroll employment gains during the previous two months was revised down by a total of 20,000, bringing the 12-month sum of revisions to -72,000 through July (based on first-reported data) ([Fig. 11](#)). In the past, when this series turned negative, it foreshadowed the recessions of 2001 and 2008.

Speaking of revisions, the BLS recently released a preliminary estimate of annual benchmark revisions—which are benchmarked to comprehensive counts of employment for the month of March. They show a downward adjustment to March 2019 total nonfarm employment of -501,000. The final benchmark revision will be released in February 2020, with the release of January payroll data.

Then again, Friday's employment report also showed that based on the household survey, the number of jobs soared 590,000 during August, fully absorbing the 571,000 increase in the labor force! According to this survey, full-time employment jumped 360,000 to another record high last month.

Adding to the abstract painting of the employment situation is the latest ADP private payroll gain of 195,000 during August. There's no shortage of workers in that number.

Also on the strong side is our Earned Income Proxy for private-sector wages and salaries, as

Debbie reviews below. It rose 0.8% m/m during August (its strongest gain this year!) despite the paltry 0.1% gain in private payrolls as hours worked rose 0.3% and average hourly earnings rose 0.4%. The latter component continues to well outpace price inflation, thus boosting real take-home pay.

(2) *PMI & regional employment indexes*. As noted above, the M-PMI employment figure was weak in August, at 47.4, while the NM-PMI was relatively strong at 53.1 ([Fig. 12](#)). The weakness in the national M-PMI employment index was confirmed by similar weakness in the average of the employment indexes compiled in the monthly business surveys of five of the Federal Reserve districts, which seem to be over-weighted with manufacturing respondents ([Fig. 13](#)).

(3) *CCI & NFIB employment indicators*. Most impressive, in our opinion, was last week's report that the "jobs plentiful" response in August's consumer confidence survey. It jumped to a new cyclical high of 51.2% up from 45.6% during July. That's the highest since September 2000. It is highly correlated with the 12-month average of the percent of small business owners in the NFIB survey reporting that they have one or more job openings. In August, this series was up to 37.2%, near recent record highs ([Fig. 14](#)).

(4) *Bottom line*. The bottom line is that consumers' incomes remain in very good shape. So the economy should continue to grow led by consumer spending.

CALENDARS

US. Mon: Consumer Credit \$16.3b. **Tues:** NFIB Small Business Optimism Index 103.4, JOLTS. (DailyFX estimates)

Global. Mon: UK GDP 0.1%_{m/m}/-0.1%_{3m/3m}, UK Headline & Manufacturing Industrial Production -1.0%/-1.0% y/y, UK Trade Balance - £1,000m, Germany Trade Balance, China New Yuan Loans ¥1,200b, China Aggregate Financing ¥1,600b, Mexico CPI 3.16% y/y, Vlieghe. **Tues:** UK Employment Change & Unemployment Rate 15k_{3m/3m}/3.9%_{3m}, Japan Machine Tool Orders, China CPI & PPI 2.6%/-0.9% y/y. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 1.8% to 1.7% below its 7/27 record high. The AC World ex-US rose 2.2% for the week, but remains in a correction at 15.1% below its record high in January 2018. The US MSCI's weekly performance ranked 32nd among the 49 global stock markets we follow in a strong week for global markets in which 42 of the 49 countries rose in US dollar terms. That compares to the prior week's 8/49 ranking, when the US MSCI rose 2.7% as 37 markets rose. All regions rose last week, but these outperformed the AC World ex-US: EM Latin America (3.1%), EM Eastern Europe (2.6), BRIC (2.5), EMU (2.5), and EM Asia (2.3). The regions underperforming or matching the AC World ex-US last week: EMEA (1.6) and EAFE (2.2). New Zealand was the best-performing country, with a gain of 6.8%, followed by Argentina (5.2), South Africa (4.6), Turkey (3.9), Pakistan (3.9), and Korea (3.9). Of the 23 countries that underperformed the AC

World ex-US MSCI last week, Sri Lanka fared the worst with a drop of 2.6%. Also underperforming were India (-1.4), Morocco (-1.3), and the Philippines (-0.8). The US MSCI's ytd ranking remained steady last week at 7/49, with its 19.0% ytd gain more than double that of the AC World ex-US (8.7). All regions and 36/49 countries are in positive territory ytd. The regions that are outperforming the AC World ex-US ytd: EM Eastern Europe (12.9), EMU (11.2), and EAFE (9.5). EM Asia (4.5) and EM Latin America (4.5) are the biggest laggards ytd, followed by EMEA (5.8) and BRIC (8.0). The best country performers ytd: Egypt (35.4), Russia (23.7), New Zealand (23.6), Switzerland (22.1), and Greece (22.0). The worst-performing countries so far in 2019: Argentina (-34.7), Pakistan (-20.3), Chile (-13.0), Poland (-11.8), and Malaysia (-6.5).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose together for a second week, the first time that has happened since mid-June. LargeCap's 1.8% gain beat those of MidCap (1.6%) and SmallCap (1.2). LargeCap ended the week 1.6% below its 7/26 record high of 3025.86, and MidCap improved to 6.8% below its record high on 8/29/2018. SmallCap remains in a correction but improved to 15.3% below its 8/29/2018 record. Thirty of the 33 sectors moved higher last week, compared to all 33 rising a week earlier; the last time all 33 had risen was early January. Last week's best performers: MidCap Energy (4.5), SmallCap Materials (3.3), MidCap Tech (2.9), and MidCap Consumer Staples (2.7). MidCap Health Care (-0.5) was biggest underperformer, followed by SmallCap Utilities (-0.4) and MidCap Utilities (-0.2). In terms of 2019's ytd performance, all three indexes have logged double-digit gains. LargeCap leads with a gain of 18.8% ytd, 3.9ppts ahead of MidCap (14.9) and well ahead of SmallCap (10.1). Thirty-one of the 33 sectors are positive ytd, with the cyclicals leading the top performers: LargeCap Tech (31.1), MidCap Tech (28.2), LargeCap Real Estate (27.8), LargeCap Consumer Discretionary (23.5), and SmallCap Tech (22.7). MidCap Energy (-24.7) is the biggest decliner so far in 2019, followed by these underperformers: SmallCap Energy (-18.5), LargeCap Energy (2.2), and SmallCap Consumer Staples (4.8).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 S&P 500 sectors rose last week—for a second straight week—as six outperformed or matched the S&P 500's 1.8% gain (versus five outperforming the S&P 500's 2.8% gain the week before). Energy and Consumer Discretionary were the best-performing sectors with gains of 2.6%, ahead of Information Technology (2.4%), Communication Services (1.9), Financials (1.9), and Industrials (1.8). Last week's underperformers, albeit with gains: Utilities (0.4), Health Care (0.7), Materials (0.9), Consumer Staples (1.2), and Real Estate (1.4). All 11 sectors are up so far in 2019, compared to just two sectors rising during 2018, when the S&P 500 fell 6.3%. These six sectors have outperformed the S&P 500's 18.8% rise ytd: Information Technology (31.1), Real Estate (27.8), Consumer Discretionary (23.5), Communication Services (22.4), Consumer Staples (20.4), and Industrials (19.5). The ytd laggards: Energy (2.2), Health Care (5.2), Materials (12.9), Financials (14.7), and Utilities (18.0).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 1.9% for its second straight weekly gain as 14 of the 24 commodities moved higher. That compares to a 0.9% gain a week earlier when 14 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 exited a bear market in the latest week, improving to 19.5% below its 10/3/2018 high. Natural Gas was the strongest performer as it soared 9.2%, ahead of Zinc (5.6), Brent Crude (3.9), and Heating Oil (3.4). Live Cattle was the biggest decliner, with a drop of 4.1%, followed by Corn (-3.9), Nickel (-1.5), and Soybeans (-1.3). The S&P GSCI commodities index is up 8.1% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Nickel (66.4), Crude Oil (24.5), Unleaded Gasoline (20.9), Gold (18.3), and Silver (16.6). The biggest laggards in 2019: Live Cattle (-23.4), Kansas Wheat (-19.5), Cotton (-18.9), and Natural Gas (-15.1).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 1.8% last week, 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 fourth time in 29 weeks, from a 17-month high in mid-August, but formed a Golden Cross for a 24th 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 4.8% is down from 5.0% 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 rose for the first time in three weeks as the price index improved to 1.1% above its falling 50-dma from 0.7% below its falling 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 13th week, albeit at a slower 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 14th week, and improved to a six-week high of 5.9% above its rising 200-dma from 4.3% a week earlier and a three-month low of 1.7% the week before that. 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](#)): Seven of the 11 S&P 500 sectors traded above their 50-dmas last week, up from four a week earlier, as 10 sectors improved w/w. The three sectors moving back above their 50-dma in the latest week: Consumer Discretionary, Industrials, and Information Technology. These four sectors remain below their 50-dma: Energy, Financials, Health Care, and Materials. The longer-term picture—i.e., relative to 200-dmas—was unchanged w/w, with ten sectors trading above currently. That's up from six the week before that, which was the lowest count since early June. The sole laggard, Energy, was below its 200-dma for an eighth 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. Again, Energy is the sole laggard, not having been in a Golden Cross for 42 straight weeks. Six sectors have rising 50-dmas now, up from five a week ago, as Consumer Discretionary turned up w/w and joined these sectors: Communication Services, Consumer Staples, Real Estate, Tech, and Utilities. Nine sectors have rising 200-dmas, down from 10 a

week earlier, as Health Care turned back down again w/w. Materials continued its attempt at new uptrend in a downtrend that has been in place since last September. Energy and Financials have had mostly falling 200-dmas since last October. 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](#)): Job gains in August were weaker than expected, and there were downward revisions to prior months. Payroll employment climbed 130,000 (vs 160,000 estimate) last month, while both July (to 159,000 from 164,000) and June (178,000 from 193,000) payrolls were revised lower, for a net loss of 20,000. Job growth has averaged 158,000 per month so far this year, below 2018's average monthly gain of 223,000. Private payrolls added only 96,000 (nearly 100,000 lower than ADP's 195,000) jobs last month, after a revised net loss of 35,000 the prior two months—with both July (131,000 from 148,000) and June (161,000 from 179,000) gains weaker than first reported. Professional & business services once again led job gains in August, adding 37,000 jobs last month and 449,000 over the past 12 months, while health care employment also continued to trend higher, boosting payrolls by 24,000 m/m and 392,000 y/y. Financial activities firms added 15,000 last month, following a 20,000 gain in July, double the average 7,000 jobs per month during the first half of the year. Social assistance jobs have picked up, with 13,000 hires last month and 100,000 over the past six months. Federal government jobs increased 28,000 last month, the most since last September, due to the hiring of 25,000 temporary workers to prepare for the 2020 Census. Meanwhile, retail trade companies cut payrolls for the seventh month, losing 11,000 jobs in August and 84,000 over the period—with general merchandise stores cutting 80,000 jobs the past 12 months. The mining industry also continued to cut jobs, reducing payrolls by 13,000 the past three months.

ADP Employment ([link](#)): “In August we saw a rebound in private-sector employment,” said Ahu Yildirmaz, vice president and co-head of the ADP Research Institute. “This is the first time in the last 12 months that we have seen balanced job growth across small, medium and large-sized companies.” Private industries added 195,000 to payrolls in August, following downwardly revised gains in both July (to 142,000 from 156,000) and June (107,000 from 112,000), with revisions showing a net loss of 19,000. Payroll gains have accelerated steadily since May's 46,000 increase, with monthly advances in both service-providing (to 184,000 from 68,000 in May) and goods-producing (11,000 from -22,000) industries improving steadily over the three-month period. Service-providing industries recorded the biggest gains in August: Health care & social assistance (45,000), leisure & hospitality (42,000), trade, transportation & utilities (39,000), and professional & business services (35,000); information services (-6,000) cut jobs for the second month. Within goods producing, manufacturing (8,000) posted its best gain in six months after dipping into negative territory in July, while construction companies added 18,000 during the two months through August after cutting 26,000 jobs during the two months through June; natural resource & mining companies cut payrolls for the fifth straight month, by 2,000 in July and 16,000 over the period. Medium-sized companies (77,000) moved up to the number-one spot in August, while small companies (66,000) took the number-two slot; large companies (52,000) dropped from the top of the leader board in July to the bottom in

August, but like medium and small companies, posted a solid gain.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, continued to set new highs in August—not posting a decline since February 2016. Our EIP accelerated 0.8% this month, the biggest monthly gain this year; it was 4.5% above a year ago, after slowing steadily from 5.7% at the start of the year to 4.4% in July. Average hourly earnings (AHE), one of the components of our EIP, rose 0.4% last month and 3.2% y/y, below February’s 3.4%—which was the highest since April 2009—though has accelerated 4.2% (saar) during the three months through August. Meanwhile, aggregate weekly hours—the other component of our EIP—also climbed 0.4% in August, more than reversing July’s 0.2% loss; it was up 1.3% y/y, roughly half the 2.4% rate at the start of this year.

Unemployment (*link*): The unemployment rate in August once again 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 six-month high of 63.2%, as 571,000 new workers entered the labor force in August and 1.45 million the past four months—boosting it to another new record high of 163.9 million. The adult unemployment rate was unchanged at 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 edged down to 2.1%, just a tick above its cyclical low of 2.0%. The volatile teenage rate (12.6) has fluctuated around 13.0% the first eight 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”) rebounded 397,000 in August to 4.4 million (2.7% of the civilian labor force), after sliding 670,000 during the three months ending July. The sum of the underemployment and jobless rates was back up at 6.4% after easing from 6.4% to 6.1% in July, while the U6 rate, which includes marginally attached workers, was back up at 7.2% after falling from 7.2% to 7.0% in July; July’s rates were the lowest since October 2000 and December 2000, respectively.

Wages (*link*): August wages—as measured by AHE for all workers on private nonfarm payrolls—continued to hover just above 3.0%, though the three-month rate has accelerated. Average hourly earnings climbed to another new record high, advancing 0.4% in August after gains of 0.3% in each of the prior three months. The wage rate was up 3.2% y/y, a tick below July’s 3.3%, but accelerated 4.2% (saar) over the three months through August—as service-providing industries boosted wages by 4.2% over the three-month period, while goods-producing wages held at 3.2%. Over the past 12 months, the wage rate for service-providing industries (3.3% y/y) is just below the 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 (2.7) and natural resources (4.3) rates remain on accelerating trends, while the rate for construction (2.7) is on a decelerating trend—slipping below 3.0% for the first time since October 2017 in July. Within service-providing industries, the rates for both information services (5.8) and retail trade (4.7) remain stalled around their series highs, while the rate for leisure & hospitality (3.6) has lost momentum. In the meantime, rates for wholesale trade (3.7) and transportation & warehousing (3.0) are heading higher, while rates for utilities (2.5) and education & health services (1.7) are trending lower. The rate for financial activities (4.0)

remains stuck around recent lows, while the rate for professional & business services (3.1) is stuck around recent highs.

GLOBAL ECONOMIC INDICATORS

Global Composite PMIs ([link](#)): Global economic activity in August remained subdued, while business optimism for the year ahead was the lowest since future activity data were first tracked in July 2012. The JP Morgan Global Composite Output Index (C-PMI) slipped from 51.6 to 51.3 last month; it peaked at 54.8 in February 2018. Global PMIs show the service sector (to 51.8 from 52.5) continues to outperform the manufacturing sector (49.5 from 49.3)—which contracted for the fourth straight month—though the service-sector activity is slowing. August C-PMIs reveal that growth in both the emerging (51.8 from 51.4) and developed (51.0 from 51.7) economies are expanding at roughly the same pace, though the former improved a bit last month while the latter deteriorated. Australia (to 49.3 from 52.1) was the only nation that contracted last month. The C-PMI for the Eurozone (to 51.9 from 51.3) held at a fairly steady pace, with C-PMIs for France (52.9 from 51.9), Spain (52.6 from 51.7), and Germany (51.7 from 50.9) slightly higher, while Italy's (50.3 from 51.0) fell closer to the breakeven point of 50.0; Ireland's was unchanged at 51.8. Meanwhile, Japan's C-PMI (51.7 from 51.2) accelerated slightly, while C-PMIs for the US (50.7 from 52.6), and UK (50.2 from 50.7) fell closer to the breakeven point between expansion and contraction. China (51.6 from 50.8) and Brazil (51.9 from 51.6) saw their C-PMIs tick up, while India's (52.6 from 53.9) moved lower.

Global Non-Manufacturing PMIs ([link](#)): August saw the rate of expansion in the global service economy ease for the first time since slumping to a 33-month low in May. JP Morgan's Global NM-PMI edged down to 51.8 last month after climbing from 51.6 in May to 52.5 in July, remaining above 50.0 for the 73rd successive month. According to the report, the slowdown was most evident in the US NM-PMI (to 50.7 from 53.0), which recorded its slowest pace in 42 months, while NM-PMIs for the UK (50.6 from 51.4), India (52.4 from 53.8), and Brazil (51.4 from 52.2) also saw an easing in activity. Meanwhile, the Eurozone (53.5 from 53.2) experienced slightly stronger service-sector growth, overall—with Germany (54.8 from 54.5) and Ireland (54.6 from 55.0) recording the strongest growth among the nations, though Ireland's rate was a slowdown from July. In the meantime, both Spain (54.3 from 52.9) and France (53.4 from 52.6) saw an acceleration in growth, while Italy (50.6 from 51.7) saw a marked slowdown. Aside from the Eurozone, stronger expansions were also experienced in China (52.1 from 51.6), Japan (53.4 from 52.3), and Russia (52.1 from 50.4).

US Non-Manufacturing PMIs ([link](#)): ISM's August survey shows non-manufacturing activity picked up, after posting its weakest performance since August 2016 in July, while IHS Markit's measure exhibited the slowest growth since February 2016. ISM's NM-PMI (to 56.4 from 53.7) bounced off July's recent low, posting its best performance in three months; it peaked at 60.8 last September. Of the four components, both the business activity (61.5 from 53.1) and new orders (60.3 from 54.1) components accelerated sharply, to their best readings since their cyclical peaks of 64.7 and 65.2, respectively, during February. Meanwhile, the employment (53.1 from 56.2) measure showed hiring was the slowest since March 2017, while the supplier deliveries (50.5 from 51.5) gauge is nearing the 50.0 breakeven point. In the meantime, IHS Markit's NM-PMI (to 50.3 from 53.0) is nearing contractionary territory, down sharply from its

recent peak of 56.0 just six month ago. Last month, non-manufacturing businesses reported one of the toughest months since the global financial crisis—with output, new orders, and hirings all slowing amid steep declines in both exports and business confidence—with the latter sliding to a fresh series low. According to the report, “Only on two occasions since the global financial crisis have the US PMI surveys recorded a weaker monthly expansion, and these were months in which business was hit by the government shutdown and bad weather in 2013 and 2016 respectively. This time, trade wars and falling exports appear to be the main drivers of weakness, exacerbating fears of a broader economic slowdown both at home and globally.”

Germany Manufacturing Orders ([link](#)): “In light of still unresolved international trade conflicts and muted business expectations in manufacturing, there are still no signs of a fundamental improvement in the industrial sector in the coming months,” the economy ministry noted. June’s rebound in factory orders was short-lived, as July billings plunged 2.7%—reversing June’s 2.7% gain. So far this year, total orders have plummeted 7.0%, with both domestic (-8.3% ytd) and foreign (-5.9) billings down sharply—as orders from both inside (-5.7) and outside (-6.0) the Eurozone contracted. The main industrial groupings show a sea of red, except for consumer durable (23.9% ytd) and nondurable (4.6) goods orders from outside the Eurozone, which increased (though the latter has weakened recently); capital (-8.3) and intermediate (-3.6) goods orders from outside the Eurozone are down so far this year. As for demand from inside the Eurozone, it was one big minus sign, with consumer durable (-11.7), nondurable (-10.2), intermediate (-9.6), and capital (-2.1) goods orders all down ytd. There was no life in domestic orders either, with capital (-10.6 ytd), intermediate (-6.0), consumer nondurable (-5.4), and consumer durable (-3.3) goods orders all under water.

Germany Industrial Production ([link](#)): Industrial production fell in July to its lowest level since December 2016, as did manufacturing output. Germany’s headline production—which includes construction—has declined three of the past four months, by 0.6% in July and 3.5% over the period, with factory output down 0.8% and 3.5% over the respective periods. Excluding construction, production is nearly 4.0% lower than four months ago. Among the main industrial groupings, output of energy, intermediate, and capital goods were the weakest over the four-month period, falling 9.8%, 4.9% and 3.4%, respectively, while consumer durable goods production lost 1.3%; consumer nondurable goods output was basically unchanged. Looking ahead, the news is discouraging, with Germany’s M-PMI (43.5) in August holding close to the seven-year low hit in July of 43.2. New orders continued to fall sharply, while the production of goods was scaled back once again. Meanwhile, firms’ expectations sank to a record low, suggesting things could worsen before getting better.

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