



MORNING BRIEFING

September 16, 2019

Inflation Warming Up?

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

(1) Iran attacks Saudi Arabia. (2) *Arrivederci*, Draghi. (3) Draghi's gift to his successor. (4) Whole enchilada: more of whatever it takes. (5) Draghi's MMT plea to Eurozone governments: Take the ECB's free money and spend it. (6) German bond market worrying it might work. (7) Going more negative. (8) APP will monetize €240 billion per year in Eurozone governments' debts to infinity and beyond. (9) Lagarde is no Tinker Bell. (10) Core CPI inflation is heating up, while core PCED inflation rate remains cool. (11) Why are they diverging? (12) Not alarmed by latest CPI's alarm. (13) Movie review: "Luce" (+ +).

Geopolitics: Iran Attacks Saudi Arabia. We may be about to experience Panic Attack #65 after Iran attacked Saudi Arabia's oil fields over the weekend. Iran denies it did so, but US Secretary of State Mike Pompeo immediately blamed Iran. The already hot proxy war between Iran and Saudi Arabia in Yemen could be about to turn into a direct confrontation between the two. The latest attacks show that Saudi Arabia is defenseless against drones. Senator Lindsey Graham (R-SC) says direct attacks on Iranian oil production should be considered.

While investors have been focusing on the escalation of the trade war between the US and China, an escalation of the war between Saudi Arabia and Iran is potentially more dangerous and damaging to the global economy if it cuts off oil supplies and boosts prices. However, the latest oil price shock may be minimized by the release of strategic petroleum reserves around the world. On Sunday, President Donald Trump authorized such a release from the US reserve.

If oil prices spike significantly nonetheless, the result is more likely to be weaker global growth than a significant increase in inflation. Could it cause a recession? The latest escalation does increase the risk of that happening. That means that Fed officials might consider a 50bps cut at this week's meeting of the Federal Open Market Committee rather than the widely expected 25bps cut. Never a dull moment in our world.

ECB I: Draghi Sets Stage for MMT? Mario Draghi's term as president of the European Central Bank (ECB) ends on 10/31. So Thursday's meeting of the ECB's Governing Council was his last. He has headed the ECB since 11/1/2011. His ultra-easy monetary policies haven't worked as well as he expected in boosting economic growth and inflation in the Eurozone. He has called for more fiscal stimulus, particularly from Germany, to help, as Melissa and I discussed in last Wednesday's [Morning Briefing](#).

Before leaving, Draghi put together a monetary stimulus package, which we review in the next section. But first, here is our spin: It is designed to induce Eurozone governments to borrow at

zero or negative interest rates to spend on stimulating their economies. The package includes an open-ended commitment to buy as much as €240 billion per year of bonds issued by Eurozone governments. In other words, Draghi set the stage for the implementation of Modern Monetary Theory (MMT) in the Eurozone. According to MMT, governments should borrow as much as possible as long as inflation doesn't heat up. All the better if the central bank enables such borrowing by lowering interest rates and purchasing government bonds—again, as long as inflation doesn't heat up. Now it is up to the governments to take the bait.

That might explain why the German bond yield is up from -0.70% at the start of this month to -0.45% as of Friday's close, which in turn explains last week's backup in US bond yields ([Fig. 1](#)). In the US, bond yields were also boosted by higher-than-expected core CPI inflation and better-than-expected retail sales, which helped to alleviate recession fears. As a result, the S&P 500 is only 0.6% away from its record high.

ECB II: Quantitative Easing Forever? Last Tuesday, we wrote the following about the ECB's forthcoming meeting: "During his 7/25 press conference, Draghi suggested that more stimulus is coming. Minutes from the 7/25 meeting of the ECB's Governing Council backed up this message. ... The ECB's official deposit rate on bank reserves is currently -0.40%. It is expected to be cut by 10-20bps at the next meeting. The APP program, which was terminated on 12/31/18, is expected to be restarted at the next meeting as well." We also noted that aid for banks was likely, to offset negative interest rates. The departing head of the ECB delivered the whole enchilada:

(1) *Releasing all the doves.* During his 9/12 [press conference](#) following the release of the ECB's monetary policy decision, Draghi announced his extremely dovish final actions, solidifying his legacy as the ECB president who did "whatever it takes" to support the Eurozone economy. "You remember me saying ... that all instruments were on the table ... ready to be used, well today we did it," Draghi proclaimed.

The key interest rate was lowered further into negative territory, the asset purchase program (APP) was reintroduced, and banks were provided with support to sustain the transmission of monetary policy to the real economy. The ECB's latest APP will add to the €4.7 trillion already carried on the central bank's massive balance sheet, which increased by €2.3 trillion since Draghi presided over the ECB in late 2011 ([Fig. 2](#)).

During his press conference Q&A, Draghi outlined three reasons for the ECB's actions: (1) persistent risks from trade and geopolitics; (2) lowered ECB inflation projections given a continued muted underlying trend; and (3) slightly increased risk of a broader Eurozone recession given a greater-than-expected slowdown in the Eurozone economy. Indeed, during July, industrial production (excluding construction) in the Eurozone contracted 2.0% y/y to its lowest level since April 2017 ([Fig. 3](#)).

(2) *Going deeper into negative territory.* Specifically, the ECB lowered its deposit facility rate 10 basis points to -0.50%. The interest rate on the main refinancing operations and the rate on the marginal lending facility were kept at 0.00% and 0.25%, respectively. Draghi explained the central bank should hold these rates "at their present or lower levels until we have seen the

inflation outlook robustly converge to a level sufficiently close to, but below, 2% within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.” Headline CPI inflation has remained well below the ECB’s 2.0% target since early 2013, while core CPI inflation has persisted significantly below target since around 2009 ([Fig. 4](#)).

(3) *Bringing back APP, forever.* The APP was reintroduced at €20 billion per month starting on 11/1. The projected amount of monthly purchases is sizable, but not as great as it was at the height of its quantitative easing (QE) from April 2016 to March 2017, when the bank was purchasing €80 billion per month. To keep up a more substantial pace, the ECB likely would have to significantly broaden its scope of assets eligible for purchase. Draghi said during his press conference that at the newly introduced pace there is “headroom to go on for quite a long time.”

Surprisingly, no estimated calendar end date was provided for the APP. Forward guidance for rates instead has been tied to inflation, as noted above. The asset purchases will continue for “as long as necessary” up until “shortly before” the ECB starts raising its key interest rates—meaning that the APP too is tied to inflation. So if inflation remains stubbornly low, the ECB’s ultra-easy policy could go on forever, or at least for a very long time. If it all goes into Eurozone government bonds, the APP will monetize €240 billion of that debt every year for the foreseeable future!

(4) *Lending a hand to the lenders.* To help banks’ profitability, the ECB implemented a two-tiered system that exempts a portion of banks’ holdings of excess liquidity from the negative deposit facility rate.

For the new series of quarterly targeted longer-term refinancing operations (TLTRO III; the TLTROs provide long-term funding to financing institutions), banks whose eligible net lending exceeds a benchmark will enjoy a lower interest rate than otherwise set and extended maturities, from two years to three years.

(5) *Passing the wand to Lagarde.* As we discussed last week, Christine Lagarde will succeed Draghi and is likely to continue his program—set to begin on her first day as ECB president—but for how long is anyone’s guess. Lagarde has suggested that there are limits to what the ECB can effectively do to stimulate the economy, calling on Eurozone governments to step up structural reforms and fiscal spending. “I’m not a fairy,” she [told](#) European Parliament during her 9/4 nomination hearing. Lagarde also said she hopes she will never have to say something like “whatever it takes” because it would mean “the other economic policy makers are not doing what they had to do.” In other words, she’ll take Draghi’s wand, but it might not work.

Lagarde will immediately face powerful forces opposed to the ECB’s course. According to unnamed sources [mentioned](#) in the 9/12 *WSJ*, “at least five officials on the ECB’s 25-member rate-setting committee opposed the decision to restart QE, including the governors of the Dutch, French and German central banks. ... Two members of the ECB’s executive board—Sabine Lautenschlaeger and Benoit Coeure—also opposed the move.”

Lagarde may not be Tinker Bell, but she might have to be Houdini. One possible exit plan from Draghi's policy is to lower the inflation target. Draghi objected to changing the target during his tenure. But it will be one of the topics of the strategic review under Lagarde, Draghi said at his press conference. Magically, by moving the inflation target, the end date for Draghi's policies could be whenever Lagarde's ECB wants it to be.

US Inflation: Warm CPI, Cool PCED. Despite the ECB's widely expected easing last week and expectations that the Fed will cut the federal funds rate by 25bps this week, the 10-year US Treasury bond yield jumped 35bps from 1.55% on Friday 9/6 to 1.90% on Friday 9/13 ([Fig. 5](#)). The increase was attributable to a 22bps increase in the comparable TIPS yield to 0.23% and a 13bps increase in the spread between the two to 1.67%, which is commonly perceived to be a measure of the annual inflation rate expected over the next 10 years ([Fig. 6](#)).

Last Wednesday, we observed that the backup in US yields might be related to the backup in German yields on news that the German government is considering fiscal measures to stimulate their economy. We also noted that recession fears are abating in the US. In addition, we suggested that the bond market might be starting to discern that inflationary pressures are mounting.

On Thursday, August's CPI confirmed that inflation may be warming up. While the headline rate was up only 1.7% y/y, the core rate rose to 2.4%, returning to last July's rate—which was the fastest since September 2008 ([Fig. 7](#)). Even more alarming was that while the three-month annualized change was only 1.8%, the comparable core rate was 3.4% ([Fig. 8](#)).

Debbie and I aren't alarmed, yet. Here's why:

(1) *CPI vs PCED*. The Fed's preferred measure of inflation remained subdued through the latest available data for July. The headline and core PCED inflation rates were 1.4% and 1.6%, respectively, that month ([Fig. 9](#)).

(2) *Goods inflation*. If we compare the CPI and PCED goods versus services components, we see that the two measures for goods inflation continue to track one another closely, though the PCED goods inflation rate tends to be a bit lower than the CPI rate. During August, the CPI goods index rose 0.2% y/y, while the PCED measure for goods fell 0.5% during July ([Fig. 10](#)).

(3) *Durable goods*. Within the goods category, the CPI measure of inflation almost always exceeds the PCED measure ([Fig. 11](#)). The latter has been in negative territory every month since October 1995 with only one exception, during July 2011 when it was zero. Over this same period, the CPI measure of durable goods inflation has been positive a few times including the present time since the start of this year. During August, it was up 0.6%, while the PCED measure was down 1.2% in July.

(4) *Nondurable goods*. There is rarely much, if any, difference between the CPI and PCED measures on nondurable goods inflation ([Fig. 12](#)). Both were close to zero during the summer months.

(5) *Services inflation*. The big discrepancy in the past often has been in the services measures of inflation in the CPI and the PCED, with the former often running hotter than the latter ([Fig. 13](#)). It's happening again, as the gap has been widening—with the CPI services index up 2.7% y/y through August and the comparable PCED measure up 2.2% during July.

(6) *Medical care services*. Consistently among the biggest discrepancies between the CPI and PCED measures is seen in medical care services ([Fig. 14](#)). The former typically well exceeds the latter because the CPI covers out-of-pocket medical services costs while the latter reflects all such costs including those paid for by private and public insurance programs. During August, the CPI measure jumped to 4.3%, while the PCED measure rose only 1.7% during July.

(7) *Rent*. There is rarely much, if any, difference in the CPI and PCED measures of rent inflation. The rent-of-shelter component of the CPI consists of a measure that tracks tenant rent (up 3.7% during August) and another that tracks owners' equivalent rent (3.3%), which is an odd concept purporting to measure what homeowners would have to pay in rent to themselves.

The big discrepancy between the CPI and the PCED in the case of rent is that the CPI gives rent a much bigger weight in the overall index than does the PCED. Rent of shelter accounts for 33% of the CPI and only 16% of the PCED, with comparable weight discrepancies for tenant rent (8% vs 4%) and owner-occupied rent (24% vs 12%). Since rent has been rising relatively faster than most other components of inflation, its bigger weight in the CPI gives the CPI another upward bias compared to the PCED.

(8) *US vs them*. The US headline CPI inflation rate has been running hotter than the comparable rates in the Eurozone and Japan for quite some time. The goods components of the three measures tend to be volatile and diverge from time to time ([Fig. 15](#)). They've converged recently, with the US at 0.2% during August and the Eurozone and Japan at 0.9% and 0.8%, respectively, during July.

In the US, the services inflation rate (2.7% in August) remains much higher than in the Eurozone (1.3% in August) and Japan (0.3% in July) ([Fig. 16](#)). We suspect that the discrepancies are mostly attributable to a higher weight for rent inflation in the US than in the Eurozone and Japan.

Movie. "Luce" (+ +) ([link](#)) is an intense mind-game thriller about a white couple who adopted a young boy from war-torn Eritrea. At first, he had lots of issues adjusting to his new home, but 10 years later he turned out to be an all-star high school student. His African-American history teacher promotes him as a great role model for other black kids in the school. However, she comes to suspect that he might be capable of turning violent given his past. The acting by Kelvin Harrison Jr. in the lead role is superb, as is that by Octavia Spencer as his teacher.

CALENDARS

US. **Mon:** Empire State Manufacturing Index 4.0. **Tues:** Headline & Manufacturing Industrial

Production 0.2%/0.1%, Capacity Utilization 77.6%, NAHB Housing Market Index 66, Treasury International Capital Flows. (DailyFX estimates)

Global. Mon: China Retail Sales 8.0% y/y, China Industrial Production 5.2% y/y, China Fixed Assets Ex Rural (ytd) 5.7% y/y. **Tues:** Germany ZEW Economic Sentiment, Japan Trade Balance – ¥147.9b, RBA Minutes of September Meeting, Coeure. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 0.9% to 0.9% below its 7/27 record high. The AC World ex-US rose 1.9% for the week, but remains in a correction at 13.6% below its record high in January 2018. The US MSCI's weekly performance ranked 36th among the 49 global stock markets we follow in a strong week for global markets in which 41 of the 49 countries rose in US dollar terms. That compares to the prior week's 32/49 ranking, when the US MSCI rose 1.8% as 42 markets rose. All regions rose for a third straight week, with the exception of EMEA—which was up for a second week. These regions outperformed the AC World ex-US: EM Eastern Europe (2.1%), BRIC (2.0), EAFE (2.0), and EM Asia (2.0). The regions underperforming the AC World ex-US last week: EMEA (0.7), EM Latin America (1.1), and EMU (1.8). Turkey was the best-performing country, with a gain of 5.5%, followed by Chile (4.6), Sweden (4.5), Poland (4.5), and Austria (4.5). Of the 28 countries that underperformed the AC World ex-US MSCI last week, Argentina fared the worst with a drop of 4.8%. Also underperforming were New Zealand (-4.7), Denmark (-2.1), and Jordan (-1.4). The US MSCI's ytd ranking remained steady last week at 7/49, with its 20.1% ytd gain nearly double that of the AC World ex-US (10.7). All regions and 37/49 countries are in positive territory ytd. The regions that are outperforming the AC World ex-US ytd: EM Eastern Europe (15.3), EMU (13.2), and EAFE (11.6). EM Latin America (5.6) is the biggest laggard ytd, followed by EMEA (6.5), EM Asia (6.5) and BRIC (10.2). The best country performers ytd: Egypt (37.8), Russia (25.8), Greece (23.0), the Netherlands (22.7), and Belgium (21.5). The worst-performing countries so far in 2019: Argentina (-37.8), Pakistan (-17.2), Chile (-9.0), Poland (-7.9), and Malaysia (-5.9).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose together for a third week, the first time that has happened since mid-June. SmallCap's 4.9% gain was its biggest since December 2016 and beat those of MidCap (2.7%) and LargeCap (1.0). LargeCap ended the week 0.6% below its 7/26 record high of 3025.86, and MidCap improved to 4.2% below its record high on 8/29/2018. SmallCap remains in a correction but improved to 11.3% below its 8/29/2018 record. Twenty-nine of the 33 sectors moved higher last week, compared to 30 rising a week earlier. Last week's best performers: SmallCap Materials (11.2), SmallCap Energy (7.9), MidCap Energy (7.5), and SmallCap Industrials (7.2). LargeCap Real Estate (-3.2) was biggest underperformer, followed by LargeCap Consumer Staples (-0.9), LargeCap Tech (-0.4), and MidCap Real Estate (-0.2). In terms of 2019's ytd performance, all three indexes have logged double-digit gains. LargeCap leads with a gain of 20.0% ytd, 2.0ppts ahead of MidCap (18.0) and well ahead of SmallCap (15.5). Thirty-one of the 33 sectors are positive ytd, with the cyclicals leading the top performers: LargeCap Tech (30.06), MidCap Tech (29.7), SmallCap Tech (28.0), MidCap Industrials (24.2), LargeCap Communication Services (24.2). MidCap Energy (-19.0) is the biggest decliner so far in 2019, followed by these

underperformers: SmallCap Energy (-12.1), LargeCap Health Care (5.4), and LargeCap Energy (5.6).

S&P 500 Sectors and Industries Performance ([link](#)): Seven of the 11 S&P 500 sectors rose last week as five outperformed the S&P 500's 1.0% gain (versus 11 rising and six outperforming the S&P 500's 1.8% gain the week before). Financials was the best-performing sector with a gain of 3.9%, ahead of Energy (3.4%), Materials (3.3), Industrials (2.9), and Communication Services (1.5). Last week's underperformers: Real Estate (-3.2), Consumer Staples (-0.9), Information Technology (-0.4), Utilities (0.0), Health Care (0.2), and Consumer Discretionary (0.4). 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 five sectors have outperformed the S&P 500's 20.0% rise ytd: Information Technology (30.6), Communication Services (24.2), Consumer Discretionary (24.0), Real Estate (23.7), and Industrials (22.9). The ytd laggards: Health Care (5.4), Energy (5.6), Materials (16.6), Utilities (18.1), Financials (19.1), and Consumer Staples (19.3).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 0.2% as 17 of the 24 commodities moved higher. That compares to a 1.9% 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 remained barely out of a bear market in the latest week, edging down to 19.6% below its 10/3/2018 high. Live Cattle was the strongest performer as it soared 10.0%, ahead of Sugar (8.3), Lean Hogs (6.8), Cotton (6.3), and Natural Gas (6.3). Brent Crude was the biggest decliner, with a drop of 3.7%, followed by Crude Oil (-3.0), Silver (-3.0), and Unleaded Gasoline (-2.5). The S&P GSCI commodities index is up 7.9% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Nickel (66.9), Crude Oil (20.7), Unleaded Gasoline (17.9), Gold (17.0), and Silver (13.1). The biggest laggards in 2019: Kansas Wheat (-18.2), Live Cattle (-15.7), Cotton (-13.7), and Natural Gas (-9.8).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 1.0% 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 fifth time in 30 weeks and is down from a 17-month high of 5.4% in mid-August, but formed a Golden Cross for a 25th 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 4.6% is down from 4.8% 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 a second week as the price index improved to a seven-week high of 2.0% above its 50-dma from 1.1% above 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 14th week, and at a faster rate 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 15th week, and improved to a seven-week high of 6.7% above its rising 200-dma from 5.9% a week earlier and a three-month low of 1.7% near the end of August. 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](#)): All 11 S&P 500 sectors traded above their 50-dmas last week for the first time since mid-July, up from seven sectors a week earlier. The four sectors moving back above their 50-dma in the latest week: 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 unchanged from a week earlier and up from just six at the end of August, which was the lowest count since early June. The sole laggard, Energy, was below its 200-dma for a ninth 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 43 straight weeks. Nine sectors have rising 50-dmas now, up from six a week ago. The remaining laggards, Energy and Health Care, have had mostly declining 50-dmas since late spring. Ten sectors have rising 200-dmas, up from nine a week earlier, as Health Care turned back up again w/w. Materials and Financials rose for a third week in their attempts at new uptrends for the first time since last September. Energy has 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

Retail Sales ([link](#)): Consumers keep spending. Both headline and core retail sales—which excludes autos, gasoline, building materials, and food services—continued to climb to new record highs in August. Both total and core retail sales rose for the seventh time this year, by 0.4% and 0.3%, respectively, last month; sales rose 4.1% and 5.3% y/y, respectively, accelerating from recent lows of 1.9% and 2.4% in February. We estimate that real core retail sales (BEA uses the core retail sales measure to estimate personal consumption expenditures each month) advanced 0.6% in August, following gains of 0.5% and 0.7% the prior two months, while we estimate real total sales climbed 0.6% after increases of 0.4% and 0.6% the previous two months. We calculate real core retail sales expanded 7.5% (saar) during the three months ending August, based on the three-month average, the strongest pace since March 2016—suggesting strong consumer spending once again in the Q3 GDP accounts. Meanwhile, real headline sales grew 5.5% (saar) over the comparable period, matching recent highs. In August, sales were mixed, with six of the major 13 categories increasing, six decreasing, and one—sales at electronic & appliance stores—unchanged. The biggest sales increases were recorded by motor vehicle (1.8%), nonstore (1.6) and building materials (1.4) retailers, with all exceeding 1.0%. Restaurants (-1.2) posted the largest decline, followed by clothing (-0.9) and gasoline (-0.9) establishments.

Consumer Sentiment ([link](#)): Consumer sentiment in mid-September posted a small rebound

from August's decline—which was the largest monthly drop since December 2012. The University of Michigan's Consumer Sentiment Index (CSI) ticked up to 92.0 this month (its third lowest reading since the 2016 election) after sinking 8.6 points in August—to 89.8 from 98.4. Both the present situation (to 106.9 from 105.3) and expectations (82.4 from 79.9) components edged higher. According to the report, “consumers anticipate that the Fed will cut interest rates next week, with net declines in interest rates more frequently expected at present than at any time since the depths of the Great Recession in February 2009.” Meanwhile, concerns about tariffs rose again in September, as 38% of consumers surveyed spontaneously mentioned tariff worries—the highest level of concern since tariffs were first announced in March of 2018. Those who negatively mentioned tariffs also held more negative views on the overall outlook for the economy as well as anticipated higher inflation and unemployment in the year ahead. “While a recession is not anticipated in the year ahead, neither is a resurgence in personal consumption,” the survey's chief economist, Richard Curtin, said. “The outlook for consumption is for a slower but positive growth, keeping the expansion going for another year.”

Business Sales & Inventories ([link](#)): Nominal business sales climbed to a new record high in July, while real business sales rebounded to within a fraction of January's record high in June. Nominal manufacturing & trade sales increased 0.3% in July—after stalling the prior three months—while real business sales jumped 0.8% in June, only a tick below January's record high. Real sales of retailers ascended to another new record high in June, while wholesalers' remained stalled just below January's record reading. Meanwhile, manufacturers' sales rebounded 1.3% during the three months through June, following a three-month drop of 1.7% from January's cyclical high. July's nominal inventories-to-sales ratio (1.40) held at its recent high, up from its recent low of 1.34 last June. Meanwhile, the real inventories-to-sales ratio (1.45) edged down from its recent high of 1.46.

CPI ([link](#)): August's core CPI rate accelerated for the third month to 2.4% y/y (above the Fed's 2.0% target rate) from 2.0% in May—returning to last July's rate—which was the fastest since September 2008. The core rate had fluctuated in a narrow band between 2.0% and 2.2% the prior 12 months. Core prices rose 0.3% for the third month in August—pushing the three-month CPI core rate up to 3.4% (saar)—the highest since May 2006—with rates for used cars & trucks (14.2%, saar), airfares (12.2), apparel (7.2), hospital services (6.9), tobacco (6.2), and rent of primary residence (3.8) all outpacing the core CPI over the three-month period. Here's a ranking of the 12-month core rate in August from lowest to highest: medical care commodities (0.1% y/y), new vehicles (0.2), apparel (1.0), alcoholic beverages (2.0), used cars & trucks (2.1), and tobacco & smoking products (5.6)—with rates for all but new vehicles accelerating. Here's the same drill for the core services rates: motor vehicle insurance (0.7), physicians' services (0.7), airfares (1.6), hospital services (2.1), owners' equivalent rent (3.3), rent of primary residence (3.7), and motor vehicle maintenance & repair (3.8). The headline CPI rate ticked down to 1.7% y/y, remaining below 2.0% for the sixth time this year; it was at a recent high of 2.9% last July.

Import Prices ([link](#)): Import prices in August declined for the second time in three months, by 0.5% m/m and 1.5% over the period. Petroleum prices fell 4.8% and 11.1% over the comparable periods, while nonpetroleum prices were unchanged for the second month in August, following a three-month drop of 1.1%. Compared to a year ago, import prices slumped

2.0% y/y, holding at its largest decline in three years. The yearly rate for petroleum prices fell further below zero in August (-9.6% y/y), after moving above zero in March (6.3) and remaining there until May (2.9). Nonpetroleum prices have been below a year ago every month this year, with August prices down 1.0% y/y; the yearly rate turned negative in January for the first time since November 2016. The rate for capital goods imports (-1.1) was in negative territory in August for the 11th consecutive month, while the rate for industrial materials & supplies (-5.9) was negative for the sixth time this year. Prices for consumer goods ex autos (-0.4) remained below year-ago levels, while the yearly change in auto prices was fractionally below zero for the eighth time this year. The rate for food prices (1.2) was above zero for the third consecutive month. Looking at our Asian trading partners, we're importing more deflation than inflation, with import prices for goods from China (-1.6) and the NICs (-1.2) falling and those from Japan flat y/y. Meanwhile, there's no sign of inflation in EU (-0.3) import prices, decelerating sharply from last May's 4.1%, while import prices for goods from Latin America (-2.3) were negative for the ninth month.

GLOBAL ECONOMIC INDICATORS

Eurozone Industrial Production ([link](#)): Output in July fell for the fourth time in five months, to its lowest level since April 2017. Production began 2019 with a 1.7% jump, though quickly lost momentum. Industrial production (excluding construction) contracted 0.4% in July and 1.8% during the five months through July. Capital (1.8%) and consumer durable (1.2) goods production rebounded in July, while consumer nondurable goods (-0.8), energy (-0.7), and intermediate goods (-0.3) output continued to fall. On a y/y basis, headline production was down 2.0%, led by declines in capital (-3.4% y/y), intermediate (-3.0), and energy (-1.4) output; consumer goods production fared better, with both consumer durable (1.8) and nondurable (1.5) goods still above year-ago levels. Output fell for three of the top four Eurozone economies in July, though German production was hardest hit, falling 0.8% m/m and 5.3% y/y. Output in Italy (-0.7) and Spain (-0.6) also declined in July, while France's (0.2) ticked up. Over the past 12 months, Spain's (-0.3) output was only slightly below a year ago, while France's (0.3) was slightly above; Italy's (-0.7) decline narrowed back toward zero. IHS Markit's M-PMI for August (to 47.0 from 46.5) remained in contractionary territory for the seventh straight month, recording its second-lowest reading since April 2013—July's being the lowest. Production and new orders continued to fall last month as confidence hits lowest since November 2012.

Contact us by [email](#) or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-775-6823

Copyright (c) Yardeni Research, Inc. Please read complete [copyright and hedge clause](#).