# Yardeni Research

**MORNING BRIEFING**
**February 18, 2020**

## Valentine's Day: Investors Still Love Stocks

*Check out the audio excerpts and chart collection.*

(1) Love (for stocks) conquers all (including viruses). (2) Our 3500 target on S&P 500 is 3.5% from here. (3) SuperCaps leading the way. (4) Latest weekly proxies show revenues and earnings growth picking up—but that was before the virus outbreak. (5) Stocks remain on a liquidity diet catered by the major central banks. (6) Fed's balance sheet expanding again. (7) GDPNow still tracking north of 2.0% for Q1. (8) Consumers may be stuffed with stuff. (9) Online shopping accounting for over a third of GAFO sales. (10) More single than married people in US. (11) Consumers are saving more.

**Strategy I: P/E-Led Rally Continues.** You have to be really in love with stocks to buy them when the forward P/E of the S&P 500 is trading at 18.9, with the stock index 11.2% above its 200-day moving average (*Fig. 1* and *Fig. 2*). But lots of amorous investors did just that on Valentine's Day at the end of last week. Love conquers all, even fears of the coronavirus.

On 2/3, Joe and I added the coronavirus outbreak as Panic Attack #66 on our list with a 1/24 date, when the outbreak news first hit the tape. (See our *Table of S&P 500 Panic Attacks Since 2009*.) So far, it has turned out to be among the very short and minor selloffs, as the S&P 500 dropped only 3.0% from 1/23 through 1/31. Since then, the index has staged an impressive relief rally with a gain of 4.8%, closing at a new record high of 3380.16 on Friday. A gain of just 3.5% would put it at our 3500 target for year-end! The S&P 500 is up 4.6% ytd.

Technically, the S&P 500 has been vulnerable to a correction. But the latest panic attack didn't last long enough to give investors much of an opportunity to buy stocks at lower prices. Most of the buying has focused on the 100 largest-capitalization stocks within the LargeCap universe, which we've dubbed the "SuperCaps." That's been a trend for a while, but one that has accelerated so far this year. Consider the following:

(1) *The ratio of the equal-weighted to the market-cap-weighted S&P 500 indexes* is down from 1.57 at the start of 2017 to 1.42 on Friday, its lowest ratio since December 2009 (*Fig. 3*). Over the period, the former is up 34.5%, while the latter is up 48.8% (*Fig. 4*).

(2) *The ratio of the S&P 500 (LargeCaps) to the S&P 100 (SuperCaps)* had been fluctuating around 2.26 since the start of 2017. It was at a seven-year low on Friday, having edged down to 2.23 from 2.24 at the end of last year as the former rose 4.6% while the latter rose 5.1%.

(3) *The forward P/E of the S&P 500 is higher than the ones for the S&P 400/600* (*Fig. 5*). Indeed, the former rose to 18.9 on 2/14, the highest reading during the current bull market, while the S&P 400/600 forward P/Es, at 17.3 and 17.4, remained below their 2017 cyclical peaks.

Here is the 2/14 performance derby of the forward P/Es for the sectors of the S&P 500/400/600: S&P 500/400/600 (18.9, 17.3, 17.4), Communication Services (19.5, 16.1, 47.2), Consumer Discretionary (23.2, 16.4, 13.7), Consumer Staples (20.5, 17.3, 20.5), Energy (16.1, 30.6, 40.0), Financials (13.3, 12.3, 12.6), Health Care (16.2, 27.1, 34.8), Industrials 18.5, 17.5, 16.6), Information Technology (23.0, 21.4, 19.1), Materials (18.8, 15.7, 15.5), Real Estate (47.0, 36.1, 52.6), and Utilities (21.5, 21.4, 28.1). (See our *S&P 500/400/600 Sectors Daily Valuation*.)

(4) *FAANGMs boosting S&P 500 valuation multiple.* In last Wednesday's *Morning Briefing*, we reported that the stocks collectively dubbed the "FAANGMs" (Facebook, Amazon, Apple, Netflix, Google, and Microsoft) nearly doubled their combined market capitalization since late 2018, to $5.7 trillion currently, accounting for a record 20% of the total market cap of the S&P 500. Their collective forward P/E is around 35, up 52% since late 2018. As a result, the forward P/E of the S&P 500 is about 19 with them and 17 without them. In other words, the FAANGMs are currently adding a record 2 percentage points to the S&P 500 forward P/E.

(5) *Upturns in forward revenues and earnings growth rates remain lackluster and vulnerable.* Historically low inflation and interest rates help to justify high forward P/Es. Joe and I would be more in love with stocks—and show that by raising our 3500 year-end target for the S&P 500—if we saw better growth in S&P 500 forward revenues and earnings. That seems to have started to happen during the 2/6 week, when the former was up 5.0% y/y and the latter was 4.1% y/y (*Fig. 6*). Both represent possibly bottom-forming rebounds from recent lows. However, industry analysts may have only just started to chop their earnings estimates for Q1-Q3 this year in response to the negative impact of the coronavirus on global economic growth (*Fig. 7*).

**Strategy II: Liquidity Diet.** The question is whether P/Es can hold up at currently elevated levels if earnings growth doesn't make a meaningful comeback this year from last year's earnings growth recession. Joe and I doubt it. However, the downside may be limited by the major central banks' ongoing provision of ultra-easy monetary policies. Consider the following recent developments:

(1) *Fed*. Whether it's called "reserve management" (RM) or "quantitative easing" (QE), the Fed's assets have increased $423 billion since the 8/28/19 week through the 2/12 week, to $4.1 trillion (*Fig. 8*). Over the same period, the Fed's portfolio of US Treasury securities increased $347 billion, while its holdings of Agency debt and mortgage-backed securities declined $108 billion (*Fig. 9*). While this increase was justified by Fed officials as necessary to settle down the unsettled repo market, investors obviously have welcomed the expansion of the Fed's balance sheet once again. Since the Fed started its RM program (on 11/1/19), the 10-year US Treasury bond yield has declined 14bps, to 1.59% on Friday, while the S&P 500 has risen 10.2%.

(2) *ECB*. The balance sheet of the European Central Bank (ECB) has remained relatively flat around €4.7 trillion ever since it terminated its asset purchase program on 12/31/18 (*Fig. 10*). On the other hand, the ECB did restart this program on 11/1/19, committing to purchase €20 billion every month in securities. Sure enough, securities held for monetary policy purposes rose €53 billion since late last year through the 2/7 week.

(3) *BOJ*. Meanwhile, the Bank of Japan (BOJ) never terminated its QE program, which started on 4/4/13 (*Fig. 11*). Since then through January of this year, the BOJ's balance sheet has increased 231%, mostly as a result of purchasing government bonds.

(4) *PBOC*. On Monday, China's Shanghai composite rose 2.28% while the Shenzhen composite jumped 3.18%. The People's Bank of China (PBOC) cut the reserve requirement ratio for large banks and small banks by 100bps to 12.5% and 10.5% during January. It is expected to step up its liquidity measures, easing funding conditions in Chinese money markets to combat the downside risks posed by the infection.

In addition, CNBC reported on Monday: "China is planning targeted tax cuts while increasing government spending, Finance Minister Liu Kun wrote Sunday in China's Communist Party magazine Qiushi. The Ministry of Finance said Saturday it would provide 8 billion yuan in a second round of support for virus prevention and control efforts. As of Friday, all levels of finance ministries in China had allocated 90.15 billion yuan in support, according to the central government."

**US Economy I: Slow & Steady GDP Growth.** The US economic outlook remains in NABNAB, i.e., neither a boom nor a bust. It's the perfect scenario for keeping a lid on inflation and prolonging the current economic expansion. However, recent retail sales data have been weaker than expected, especially given the strength of employment. Is there something holding back consumer spending? We don't believe so.

But before we have a closer look at consumers, let's take a look at the latest GDPNow, which is compiled by the Atlanta Fed. Reflecting the weakness in retail sales, Friday's estimate showed real GDP growing 2.4% during Q1, down from the 2/7 estimate of 2.7%. That's consistent with the economy's performance since 2010. That would actually be a solid reading for Q1, which has had a tendency to be the weakest quarter for growth since 2010 (*Fig. 12*).

**US Economy II: Are Consumers Stuffed with Stuff?** So what's going down with retail sales? On a three-month-average basis, inflation-adjusted retail sales excluding building materials, using the CPI for goods, has been flat for the past five months through January (*Fig. 13*). This series closely tracks real personal consumption outlays on goods. Now consider the following related developments:

(1) *Weak spending at GAFOs*. Even in current dollars, many categories of retail sales in January's Census Bureau release are actually down on a y/y basis as follows: department stores (-3.9%), electronics & appliance stores (-2.9), health & personal stores (-1.9), sporting goods, hobby, musical instrument & book stores (-1.5), building material & garden equipment and supplies dealers (-1.4), and clothing & clothing accessories stores (-0.7).

Most of these stores are included in GAFO (which stands for general merchandise, apparel and accessories, furniture and furnishings, and other)—representing retailers of department-store types of merchandise (e.g., furniture & home furnishings, electronics & appliances, clothing & accessories, sporting goods, hobby, musical instrument, and book, general merchandise, office supply, stationery, and gift stores). They all are facing tremendous competition from online merchants.

(2) *Strong online spending*. The latest available data show that online shopping accounted for 35.0% of online plus GAFO sales during December (*Fig. 14*). GAFO sales is up just 1.6% y/y through December, while online sales is up 20.2% (*Fig. 15*).

(3) *Saving more.* Debbie and I suspect that consumers may simply be stuffed with stuff. They are spending more on services and also saving more. Aging Baby Boomers are spending more on health care and leisure activities, while Millennials are spending more on education and "experiences." As for saving, they are all more frugal for various reasons.

The percentage of singles in the civilian noninstitutional working-age population (i.e., 16 years and older) was 50.5% in January, little changed from November's record high of 51.0%, as young people have been postponing marriage and seniors have been living longer, increasing the population of widowers and divorced people (*Fig. 16*). Singles may have a higher propensity to save (including by paying off debts) and a lower propensity to spend (especially on stuff).

Whatever the reason, personal saving totaled a record $1.3 trillion last year, up from $1.2 trillion during 2018 and $1.0 trillion during 2017 (*Fig. 17*).

(4) *NABNAB*. We conclude that there is neither a boom nor a bust in the consumer sector.

## CALENDARS

**US: Tues:** Empire State Manufacturing Index 5.0, NAHB Housing Market Index 75, TIC Flows. **Wed:** PPI Ex Food & Energy 0.2%m/m/1.3%y/y, PPI Final Demand 0.1%m/m/1.6%y/y, Housing Starts & Building Permits 1.415mu/1.450mu, MBA Mortgage Applications, FOMC Meeting Minutes (1/29), Barkin, Kaplan, Kashkari, Bostic. (DailyFX estimates)

**Global: Tues:** European Car Sales, Germany ZEW Economic Sentiment Current & Expectation Indexes 22/-10, Japan Machine Tool Orders -1.3%, Japan Trade Balance, ¥-1.68t. **Wed:** UK Headline & Core CPI 1.6%/1.5% y/y, Canada CPI 0.2%m/m/2.3%y/y, Australia Employment Change & Unemployment Rate 10k/5.2%, China 1-Year & 5-Year Loan Price Rates 4.05%/4.75%. (DailyFX estimates)

## STRATEGY INDICATORS

**Global Stock Markets Performance** (*link*): Last week saw the US MSCI index rise 1.7%, for its 15th gain in the last 19 weeks. The US MSCI ranked 11th of the 49 global stock markets we follow in a week when 28/49 countries rose in US dollar terms. That compares to a 0.4% gain for the AC World ex-US index as nearly all regions moved higher. EM Asia was the best performer with a gain of 1.6%, followed by BRIC (1.6%), EM Latin America (1.0), and EM Eastern Europe (0.6). EMEA (-0.8) was the biggest underperformer, followed by EAFE (-0.1) and EMU (0.3). South Africa was the best-performing country, rising 3.1%, followed by Mexico (2.8), Australia (2.2), Pakistan (2.2), China (2.1), Taiwan (2.1), and Korea (2.1). Of the 23 countries that underperformed the AC World ex-US MSCI last week, Sri Lanka fared the worst, falling 5.0%, followed by the Philippines (-2.9), Indonesia (-2.3), and the Czech Republic (-2.3). The US MSCI's ytd ranking rose two places last week and currently stands at 4/49. The best country performers ytd: Portugal (7.0), Israel (6.5), Mexico (5.8), the United States (5.0), and Denmark (4.8). The worst-performing countries so far in 2019: Thailand (-8.3), Sri Lanka (-8.3), Brazil (-7.8), Hungary (-7.4), and Peru (-7.0).

**S&P 1500/500/400/600 Performance** (*link*): All three of these market-cap indexes rose last week for a second straight week. LargeCap and SmallCap both rose at a slower pace last week than the one before, but MidCap was up its most since mid-September—2.3%, better than the 1.6% increases that both LargeCap and SmallCap recorded. LargeCap ended the week at a new record high, but MidCap remained 0.2% below its record high on 1/16. SmallCap ended the week 7.3% below its 8/29/18 record. Thirty-one of the 33 sectors moved higher, up from 30/33 sectors rising a week earlier. MidCap Health Care's 5.0% gain was the biggest in the latest week, followed by LargeCap Real Estate (4.8), SmallCap Communication Services (3.2), MidCap Real Estate (3.2), MidCap Consumer Discretionary (3.0), and MidCap Consumer Staples (3.0). MidCap Energy (-2.9) was the biggest underperformer last week, followed by SmallCap Energy (-0.7), SmallCap Consumer Staples (0.2), and LargeCap Energy (0.3). On a ytd basis, LargeCap's 4.6% gain is well ahead of MidCap's1.6% rise and SmallCap's 0.3% decline. Twenty-two of the 33 sectors are higher so far in 2020, with the gainers led by SmallCap Communication Services (11.5), LargeCap Information Technology (11.0), LargeCap Utilities (8.5), LargeCap Real Estate (8.1), SmallCap Health Care (6.1), and LargeCap Consumer Discretionary (5.7). The biggest laggards of 2020 to date: MidCap Energy (-25.0), SmallCap Energy (-24.0), LargeCap Energy (-10.2), SmallCap Consumer Staples (-7.3), and MidCap Materials (-4.7).

**S&P 500 Sectors and Industries Performance** (*link*): All 11 of the S&P 500 sectors rose last week for the first time in eight weeks, but just four outperformed the S&P 500's 1.6% rise. That compares to 10 rising and four outperforming the S&P 500's 3.2% gain a week earlier. Real

Estate was the best-performing sector with a gain of 4.8%, ahead of Consumer Discretionary (2.6), Utilities (2.4), and Information Technology (2.3). Energy was the biggest underperformer, albeit with a gain of 0.3%, followed by lagging gains for Financials (0.7), Materials (0.7), Consumer Staples (0.8), Health Care (0.9), Industrials (1.1), and Communication Services (1.4). The S&P 500 is now up 4.6% so far in 2020, with 9/11 sectors in the plus column and five beating the index. The leading sectors ytd: Tech (11.0), Utilities (8.5), Real Estate (8.1), Consumer Discretionary (5.7), and Communication Services (5.4). The laggards of 2020: Energy (-10.2), Materials (-1.5), Financials (0.9), Health Care (1.8), Consumer Staples (2.8), and Industrials (3.7).

**Commodities Performance** (*link*): Last week, the S&P GSCI index rose 2.6% for its first gain in six weeks and its biggest in 10 weeks. It's still down 10.9% since its recent high on 1/6 and ended the week still in a bear market at 21.2% below its cyclical high on 10/3/18. Coffee was the best performer last week with a gain of 12.7%, followed by Unleaded Gasoline (11.1%), Brent Crude (4.9), Feeder Cattle (4.2), and Crude Oil (3.9). Wheat was the biggest decliner, with a drop of 3.0%, followed by Lean Hogs (-2.9), Sugar (-2.2), and Corn (-0.7). Just four of the 24 commodities that we follow are up so far in 2020: Cocoa (13.6), Sugar (8.4), Gold (4.2), and Unleaded Gasoline (2.2). The worst performers ytd: GasOil (-16.5), Heating Oil (-16.3), Natural Gas (-15.2), Crude Oil (-14.3), and Coffee (-14.1).

**S&P 500 Technical Indicators** (*link*): The S&P 500 price index rose 1.6% last week and appears to have successfully tested its 50-dma at the end of January. It also improved relative to its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma), rising for a 17th week following nine straight declines. Its 50-dma is now 7.4% above its 200-dma, the highest since July 2013, and has formed a Golden Cross for 47 weeks after 17 weeks in a Death Cross formation. The S&P 500's 50-dma rose for a 19th week following three down weeks, and at a slightly faster pace as the price index improved to 3.6% above its rising 50-dma. That's up from a 22-week low of 0.1% above its rising 50-dma at the end of January and is still down from a 10-month high of 4.6% above its rising 50-dma in mid-January. It had bottomed in late August at 3.5% below its 50-dma, which was down from 6.6% above during February 2019—its highest level since October 2011. The 200-dma rose for a 36th week. It had been rising for 16 weeks through mid-May after falling from October 2018 to February 2019 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 37th week, and also at a slightly faster pace as it improved to a 24-month high of 11.2% above its rising 200-dma from 9.9% a week earlier. It had been at a 10-week low of 6.9% above its rising 200-dma at the end of January. It had peaked at a seven-year high of 13.5% above its rising 200-dma during January 2018. That compares to 14.5% below on 12/24/18, which was the lowest since April 2009.

**S&P 500 Sectors Technical Indicators** (*link*): Ten of the 11 S&P 500 sectors traded above their 50-dmas last week, up from nine a week earlier and up sharply from 5/11 the week before that, which was the lowest count since early October. Energy is the only sector trading below its 50-dma. The longer-term picture—i.e., relative to 200-dmas—still had all sectors except Energy trading above. That's down from all 11 above during the three weeks surrounding the new year when Energy was above for the first time since October 2018. That's still up from six at the end of August, which was the lowest count since early June. Ten sectors are in the Golden Cross club (with 50-dmas higher than 200-dmas), unchanged from a week earlier. That compares to just two sectors in the club during February and all 11 in January 2018. Energy has not been in a Golden Cross for 65 straight weeks. Ten sectors have rising 50-dmas now, unchanged from a week earlier. Energy is the only sector with a falling 50-dma. Ten sectors have rising 200-dmas, unchanged from a week ago. The sole laggard, Energy, has been mostly falling since October 2018. Materials and Financials moved higher for a 25th week in their successful attempts at new uptrends for the first time since September 2018. That compares to just two sectors with rising 200-dmas in January 2019, in what was then the lowest count since all 11 sectors had falling 200-dmas two years before.

## US ECONOMIC INDICATORS

**Retail Sales** (*link*): Nominal retail sales climbed to a new record high in January, while core retail sales—which excludes autos, gasoline, building materials, and food services—has been moving sideways for five months. (BEA uses the core retail sales measure to estimate personal consumption expenditures each month.) Core sales, adjusted for inflation, has been heading south since reaching a new record high last August, falling 0.1% in January and 1.3% over the period, while growth in real headline sales was relatively flat since August. Real retail sales was up 1.8% y/y, while real core sales was only fractionally higher. In January, nine of the 13 nominal sales categories increased, while four decreased. The biggest gains were recorded by miscellaneous store retailers (2.3%), building materials stores (2.1), and restaurants (1.2), while sales at clothing stores plunged 3.1% (its biggest monthly decline since 2009), with sales at electronics & appliance stores (-0.5.), gasoline service stations (-0.5), and health & personal care stores (-0.4) also in the red.

**Consumer Sentiment Index** (*link*): Consumer sentiment climbed in early February to its highest level since March 2018, boosted by the expectations component. Both the Consumer Sentiment Index (to 100.9 from 89.8 in August) and its expectations component (92.6 from 79.9) ascended for the sixth straight month—to their second-highest levels in this record-long expansion. Meanwhile, the present situation component fell for the second time this year, from 115.5 in December to 113.8 this month, though remained around recent highs, up from August's bottom of 105.3. According to the report, the gain in early February was not uniform, with current personal finances along with evaluations of the national economy posting notable gains, while consumers' views on buying conditions for household durables recorded a significant loss. Net gains in household income and wealth were reported more frequently in early February than at any time since 1960. As for factors influencing economic expectations going forward, the coronavirus was mentioned by just 7% in early February, while only 10% of all consumers cited some aspect of the 2020 election.

**Business Sales & Inventories** (*link*): Nominal business sales was stalled just below its record high in December, while real business sales in November rebounded to a new record high. Nominal manufacturing & trade sales ticked down 0.1% in December after a 0.5% gain and a 0.2% loss the prior two months. Real sales rebounded 0.7% in November more than reversing October's 0.5% decline. Nominal sales accelerated 1.7% y/y after hovering around zero for three months; it's down from a recent peak of 8.3% during May 2018. Real sales advanced 2.2% y/y in November, holding around its recent peak of 3.0% at the start of 2019. Real sales of retailers climbed to a new record high in November, while wholesalers' sales remained below their record high and manufacturers' just below January's cyclical high. December's nominal inventories-to-sales ratio was back at its recent high of 1.40, up from its recent low of 1.34 during June 2018. In the meantime, November's real inventories-to-sales ratio ticked down to 1.45 from its recent high of 1.46 in October; it was at a low of 1.41 at the end of 2017.

**Industrial Production** (*link*): Industrial output stalled in January, staying in a volatile flat trend just below December 2018's record high, as another bout of unseasonably warm weather and a halt in Boeing's 737 Max production depressed output. Headline production dipped 0.3% last month following December's 0.4% decline, as utilities output sank 4.0% and factory output slipped 0.1% during the month. Excluding civilian aircraft, manufacturing output rose 0.3% in January. By market group, a 13.2% plunge in output of transportation equipment during the two months through January pushed overall business equipment production down 3.2% over the period. In the meantime, production of information processing equipment climbed for the fourth time in five months, by 2.9%, to yet another new record high, while industrial equipment output has been in a flat trend for nearly a year. Consumer goods production has been volatile in recent months, with durable goods output (1.8% y/y) moving back above year-ago levels and nondurable goods output (-1.6) moving further below. The manufacturing sector has been facing strong headwinds from weak global growth and Boeing's problems, though the rebound in February's ISM production index (to 54.3 from 44.8) to above 50.0 for the first time in six months was encouraging.

**Capacity Utilization** (*link*): The headline capacity utilization rate in January sank to a 28-month low of 76.8%, down from its cyclical high of 79.6% during November 2018. January's rate was 3.0ppts below its long-run (1972-2019) average. Manufacturing's capacity utilization rate ticked down to 75.1% from 75.2% the prior two months, 3.1ppts below its long-run average; the rate peaked at 77.3% at the end of 2018. The utilization rate for mining increased to a seven-month high of 90.7%, well above its long-run average of 87.2%, while unseasonably warm weather pushed the operating rate for utilities down to a record low of 70.6% last month—about 15ppts below its long-run average.

**CPI** (*link*): January's core CPI rate was at 2.3% y/y for the fourth month, a tick below its recent peak rate of 2.4% last August and September. (It first reached 2.4% during July 2018—which was the highest since September 2008.) Before accelerating to 2.4% last August, the core rate had fluctuated in a narrow band from 2.0% to 2.2% for 12 months. Core prices rose 0.2% in January following gains of 0.1% and 0.2% the prior two months; the three-month rate accelerated to 2.2% (saar) after slowing the previous four months from 3.0% to 14-month low of 1.7%. Here's a ranking of the 12-month core rates for 2019, on a January-over-January basis from lowest to highest, for goods: used cars & trucks (-2.0% y/y), apparel (-1.3), new vehicles (0.1), alcoholic beverages (0.8), medical care commodities (1.7), and tobacco & smoking products (5.4). Of those, only the rate for medical care commodities has been on an accelerating trend, though it did ease a bit in January. Here's the same drill for the core services rates: motor vehicle insurance (0.0), physicians' services (0.7), airfares (2.7), motor vehicle maintenance & repair (3.2), owners' equivalent rent (3.3), hospital services (3.8), and rent of primary residence (3.8). Only the hospital services rates remain on an accelerating trend, as the physicians' services rate has slowed in recent months. The headline CPI rate moved above 2.0% last November for the first time since November 2018 and accelerated again in January—rising steadily from 1.7% in September to a 15-month high of 2.5% y/y at the start of 2020.

**Import Prices** (*link*): Import prices in January were flat following gains of 0.2% in each of the prior two months, which pushed the yearly rate above zero for the first time since November

2018. Petroleum prices dropped 1.7% in January after climbing 1.8% during the final two months of 2019, while nonpetroleum prices advanced for the third month, by a total of 0.5%—the longest string of gains in just over a year. Petroleum prices (11.3% y/y) slowed from December's 22.0% pace (which was the biggest yearly gain since October 2018), while the nonpetroleum (-0.7) rate remained in negative territory for the 13th straight month, though narrowed toward zero. The rate for capital goods imports (-1.6) was in negative territory for the 16th consecutive month, while the rate for industrial supplies & materials (3.7) was positive for the second month after seven months in negative territory. Meanwhile, rates for consumer goods ex autos (-0.2) and auto prices (0.0) were flat with a year ago. The rate for food prices (-0.7) was below zero for the fifth consecutive month, though has fast been approaching zero. The US is importing deflation from its Asian trading partners, with import prices for goods from China (-1.7) and the NICs (-2.2) falling and those from Japan remaining fractionally above zero. Meanwhile, there's little sign of inflation in EU (0.7) import prices, which has decelerated sharply from May 2018's 4.1%, while import prices for goods from Latin America (-1.2) were negative for the 14th month in a row.

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