



MORNING BRIEFING

May 15, 2017

Death by Amazon

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

(1) Dropping anchors. (2) Piranhas like fresh water and red meat. (3) Reading the business obituaries. (4) Eating someone else's lunch. (5) Amazon expanding C2B and moving into B2B. (6) Media man says Amazon is "ridiculously scary." (7) Clothes on demand. (8) A deflationary cloud. (9) Death by Amazon is a spreading plague. (10) Bricks-and-mortar getting hammered in stock market. (11) Buffett, saying Amazon hurting IBM, cuts his position by 1/3. (12) Business demand for computers has been flat after AWS opened the cloud. (13) Movie review: "The Dinner" (- -).

Amazon I: Anchors Aweigh. An anchor store is one of the larger stores in a shopping mall, usually a department store or a major retail chain. Shopping malls were first developed in the 1950s. Their developers signed up large department stores to draw retail traffic that would result in visits to the smaller stores in the mall as well. The anchors usually paid heavily discounted rents.

Amazon is a river in South America. It is the largest one in the world by discharge of water and the longest in length. A piranha is a freshwater fish with sharp teeth and a powerful jaw that inhabits South American rivers, including the Amazon. If you happen to fall off a riverboat steaming down the Amazon, the piranhas will pick your bones clean.

Amazon is also a piranha-like corporation that eats up retailers, particularly the anchor stores, and doesn't even leave the bones. Jackie and I have been picking apart this story for a while. For example, see our 3/30 [Morning Briefing](#) titled "Jeff Bezos, The Terminator." We were quoted in a 5/12 [IBD article](#) on the subject as follows:

"'Amazon is killing lots of businesses. In the process, it may also be killing inflation,' Ed Yardeni, noted economist and president of Yardeni Research, said in a recent report. Using Chief Executive Jeff Bezos' playbook, Amazon has pummeled rivals with price cuts enabled by its smart logistics and relentless drive toward efficiency. Labor-displacing warehouse robotics give Amazon a cost advantage, and it aims to one day deploy delivery drones to extend its edge all the way to the customer's doorstep. Amazon's casualty list already is formidable. Over the years, Amazon has left consumer-facing retailers such as Borders, Circuit City and Sports Authority in the dust. Department chains have been closing stores, unable to answer the e-commerce challenge."

Amazon II: Everything Must Go. The *IBD* article reported that Amazon's piranhas are about to chew up other businesses. Consider the following:

(1) *Big-box retailers & grocers.* Amazon is going after big-box retailers like Wal-Mart and Costco by leaning on their consumer staples vendors to sell their products, which are packaged in big boxes, to consumers directly through Amazon's distribution system. The \$1.3 trillion US grocery market could be Amazon's biggest potential source of revenue upside. *IBD* noted, "Amazon hopes to eliminate store cashiers at Amazon Go convenience stores now being tested. Amazon Go stores use sensors to track items as shoppers put them into baskets. The shopper's Amazon account gets automatically charged."

(2) *B2B*. Yardeni Research already has received mailings inviting us to set up an Amazon Business account for our office needs. *IBD* observed: “The online sales channel for business customers is sending prices down for industrial products, pressuring companies like W.W. Grainger.”

(3) *Entertainment*. Amazon is also going head-to-head with Netflix and all of Hollywood, by producing and distributing movies. The CEO of the entertainment provider Liberty Media, Greg Maffei, called Amazon a “ridiculously scary” rival at a financial conference on May 9. He presciently explained that Amazon’s competitive advantage is that it “has an ability, because of its scale, to invest at incredibly low or negative rates of return—because they can cross-subsidize, and the market is willing to suspend disbelief in future profitability.”

(4) *On-demand & logistics*. *IBD* reported: “Amazon recently was granted a patent for automated, ‘on-demand apparel manufacturing.’ The patent highlights plans to go beyond clothing into other fabric-based products, such as footwear, bedding and home goods. ... Amazon is also bringing more of its logistics and delivery operations in-house.” This means that it is aiming to compete with, and eventually chew up, the airfreight, trucking, and home delivery industries.

(5) *Cloud*. In March 2006, Amazon officially launched Amazon Web Services (AWS). We signed up in 2008 for this fantastic cloud service, which has been remarkably reliable and very cost effective for us. *IBD* reported:

“As corporate America outsources more computing work to AWS and other highly automated cloud services, companies buy less hardware and software for internal data centers and cut back on IT staffing. In the March quarter, IBM’s (IBM) hardware business fell nearly 17% to \$2.5 billion year-over-year, reflecting the impact of cloud adoption. How do the likes of IBM, Cisco Systems (CSCO) and Hewlett Packard Enterprises (HPE) fight back? By cutting prices. ‘Cloud is deflationary and collapses markets,’ said a Citigroup report in April. ‘Labor, with 85% deflation in the cloud, has the most significant disruption from cloud economics,’ says the Citi report. It says 15 IT staffers in a public, shared cloud service can replace 100 in a private data center.”

According to Citigroup, AWS will rake in some \$37.5 billion in revenue by 2020, up from \$17 billion this year. *IBD* quoted me as follows: “Perhaps most importantly, AWS’ juicy operating profit margin of more than 25% gives Amazon a way to fund its new ventures and a retail business that has notoriously skinny margins. The cash and financial flexibility AWS provides ensure that Amazon will be a lethal competitor in the retailing industry for many years to come.”

Amazon III: Body Count. In other words, “Death by Amazon” is a plague that will continue to afflict more and more businesses and industries. We can keep track of the mounting body count with a few economic indicators and by reading the business obituary page:

(1) *Retailing*. In March, online shopping rose to a record 29.7% of all online and in-store sales of GAFO, i.e., general merchandise, apparel and accessories, furniture, and other sales ([Fig. 1](#)). That’s up from just above 5.0% in 1994, when Jeff Bezos founded Amazon on July 5 that year. Over this same period, department stores’ share of GAFO plummeted from 34.3% to 12.5% currently. The box retailers saw their share rise from about 7.0% in 1992 to peak at 27.2% during January 2014, and ease back down to 25.3% currently.

The 5/8 issue of *Bloomberg Businessweek* features a picture of Bezos on the front cover with a story titled “They’re Coming for You, Bezos!” Both Wal-Mart and Costco are moving forward with plans to counter Amazon’s onslaught.

The department stores are like deer in the headlights. Their stock prices certainly suggest that investors are worrying that more of them will be roadkill. The S&P 500 Department Stores stock price index (JWN, KSS, and M) dropped 14.7% last week to its lowest level since July 20, 2009, and is down 57.5% from its recent peak on April 8, 2015 ([Fig. 2](#)). Industry analysts have cut their forward earnings for the industry by 27.4% since August 6, 2015 ([Fig. 3](#)). Investors have knocked down the industry's forward P/E from a recent high of 16.1 in April 2015 to 10.9 currently ([Fig. 4](#)).

(2) *Technology*. In a 5/4 CNBC [interview](#), Warren Buffett said he sold off about a third of his company's 81 million shares of IBM since the start of the year. "I would say what they've run into is some pretty tough competitors," Buffett said. "IBM is a big strong company, but they've got big strong competitors too." In a 5/8 CNBC [interview](#), Buffett was asked why he didn't own any Amazon shares. He had a simple one-word answer: "Stupidity."

Buffett explained, "I was impressed with Jeff [Bezos] early. I never expected he could pull off what he did ... on the scale that it happened." He added, "At the same time he's shaking up the whole retail world, he's also shaking up the IT world simultaneously."

In the nominal GDP data, Debbie and I see that capital spending on software and on information processing equipment both rose to record highs during Q1-2017 of \$346.2 billion (saar) and \$334.3 billion ([Fig. 5](#)). Computers and peripheral equipment, which is included in the latter category, has been virtually flat in both current and inflation-adjusted dollars since Q4-2010 at around \$82 billion (saar) ([Fig. 6](#)). This flattening out after rapidly increasing since the early 1980s coincides with Amazon leading the expansion of the cloud business since 2006. Companies don't need to buy computers when they can sign up for the computing power and storage they need on the cloud, which uses the available hardware much more efficiently.

Movie: "The Dinner" (- -) ([link](#)), starring Richard Gere, is about two couples getting together for a family dinner at an haute-cuisine French restaurant. Don't go before dinner because it will make you very hungry. Yet the wonderful six-course meal goes to waste because the four dinner companions are so busy shouting at one another and leaving the table that they don't get to enjoy it. The acting is good, but interrupted by the film's jerky editing, with flashbacks to Gettysburg and an ATM machine. If you weren't hungry in the first place, you'll leave the theatre hungry at least for a good, less depressing movie. Skip "The Dinner" and just go out to dinner at a good restaurant instead.

CALENDARS

US. Mon: Empire State Manufacturing Index 7.0, Housing Market Index 68, Treasury International Capital. **Tues:** Headline & Manufacturing Industrial Production 0.4%/0.3%, Capacity Utilization Rate 76.3%, Housing Starts & Building Permits 1.256mu/1.271mu, E-Commerce Retail Sales. (Bloomberg estimates)

Global. Mon: China Retail Sales 10.8% y/y, China Industrial Production 7.0% y/y. **Tues:** European New Car Registrations, Eurozone GDP Flash Estimate 0.5%q/q/1.7%y/y, Italy GDP 0.2%q/q/0.8%y/y, Germany ZEW Economic Sentiment 22, UK Headline & Core CPI 2.6%/2.3% y/y. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index fell 0.4% last week, ranking 34th of the 49 markets as 29 rose in US dollar terms—compared to 35th a week earlier, when it rose 0.6% as 39 markets moved higher. The AC World ex-US index outperformed the US MSCI, rising 0.6% compared to a 1.2% gain a week earlier. EM Latin America was the best-performing region last week with a gain

of 3.8%, followed by BRIC (3.3%), EM Asia (2.3), EMEA (1.1), and EM Eastern Europe (0.8). EMU was the week's worst-performing region, with a decline of 1.0%, followed by EAFE (0.2). Colombia (5.9) was the best-performing country, followed by Brazil (5.4), Pakistan (5.3), Peru (4.9), and Hungary (4.4). Spain (-3.0) was the worst performer, followed by Ireland (-2.3), Poland (-1.6), and New Zealand (-1.2). The US MSCI is up 6.9% ytd, with its ranking down w/w to 38/49 from 33/49, and continues to trail the AC World ex-US (11.3) on a ytd basis. Forty-six of the 49 markets are positive ytd, led by Argentina (41.8), Poland (31.0), Korea (24.0), Greece (21.9), and Spain (21.5). The worst country performers ytd: Russia (-7.0), Jordan (-1.2), Canada (-1.0), Morocco (0.2), and New Zealand (0.4). EM Asia is now the best-performing region ytd with a gain of 18.4%, ahead of: EM Latin America (16.1), BRIC (16.1), and EMU (15.4). The worst-performing regions, albeit with gains: EM Eastern Europe (1.5), EMEA (4.2), and EAFE (10.9).

S&P 1500/500/400/600 Performance ([link](#)): LargeCap and MidCap fell for the first time in five weeks, and SmallCap dropped for a second week. LargeCap's decline of 0.3% was less than MidCap's 1.1% drop and SmallCap's 1.2% fall last week as eight of the 33 sectors rose, down from 19 rising a week earlier. LargeCap ended the week 0.4% below its Wednesday record high, MidCap was 2.2% below its March 1 record, and SmallCap ended 2.8% below its record high on February 21. Last week's top gainers: SmallCap Health Care (1.2%), LargeCap Tech (1.1), and SmallCap Tech (0.8). Last week's worst performers: MidCap Telecom (-7.4), SmallCap Telecom (-3.1), SmallCap Real Estate (-3.0), SmallCap Industrials (-2.7), and SmallCap Financials (-2.4). Nineteen of the 33 sectors are positive ytd, with LargeCap (6.8) beating MidCap (3.5) and both easily ahead of SmallCap (0.1). The biggest sector gainers ytd: LargeCap Tech (17.8), MidCap Health Care (15.1), SmallCap Health Care (13.4), MidCap Tech (11.3), and LargeCap Consumer Discretionary (10.4). Energy and Telecom dominate the worst performers ytd: MidCap Telecom (-32.5), SmallCap Energy (-27.5), MidCap Energy (-22.0), LargeCap Telecom (-10.9), and LargeCap Energy (-10.3).

S&P 500 Sectors and Industries Performance ([link](#)): Two of the 11 sectors rose last week, and four outperformed the S&P 500's 0.3% decline. This compares to nine sectors rising a week earlier, when four outperformed the S&P 500's 0.6% gain. Tech was the best-performing sector for a third straight week, with a gain of 1.1%, followed by Energy (0.4%), Utilities (-0.3), and Consumer Discretionary (-0.3). Telecom fell for an eighth week. Last week's worst performers: Materials (-1.7), Financials (-1.3), Real Estate (-1.3), Industrials (-1.2), Health Care (-1.0), Telecom (-0.6), and Consumer Staples (-0.5). So far in 2017, nine of the 11 sectors are higher, but only three have outperformed the S&P 500's 6.8% gain. The best performers in 2017 to date: Tech (17.8), Consumer Discretionary (10.4), and Health Care (9.1). The eight sectors underperforming the S&P 500: Telecom (-10.9), Energy (-10.3), Financials (1.0), Real Estate (1.7), Industrials (5.5), Materials (5.7), Utilities (6.0), and Consumer Staples (6.1).

Commodities Performance ([link](#)): Fourteen of the 24 commodities we follow rose last week, up from eight rising a week earlier. The week's best performers: Cocoa (8.0%), Natural Gas (6.6), Cotton (5.7), Unleaded Gasoline (4.6), and Heating Oil (4.3). Last week's laggards: Live Cattle (-5.1), Lead (-2.6), Kansas Wheat (-2.4), and Wheat (-2.1). The best performers in 2017 so far: Feeder Cattle (21.4), Lean Hogs (18.8), Cotton (16.3), and Aluminum (11.8). The energy-related commodities are dominating this year's laggards to date again: Sugar (-20.5), Heating Oil (-13.3), GasOil (-11.0), Crude Oil (-10.3), and Brent Crude (-10.2).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 13/24 commodities, 4/9 global stock indexes, and 6/33 US stock indexes compared to 8/24, 6/9, and 14/33 rising a week earlier, respectively. Eleven commodities trade above their 200-dmas, down from 12 a week earlier as Lead and Zinc turned negative w/w and Unleaded Gasoline turned positive. Commodities' average spread rose to 0.7% from -0.3%. Among assets,

Commodities walked away with three of the top four spots last week: Lean Hogs leads all commodities and all assets at 26.2% above its 200-dma, followed by Feeder Cattle (17.3%) and Cotton (12.9). Sugar (-21.5) and Cocoa (-14.4) trade at the lowest of the commodity assets relative to their 200-dmas, but Cocoa performed the best of all commodities and all assets last week, improving 7.2ppts. Live Cattle was the worst performer of all commodities and all assets last week, tumbling 6.0ppts to 9.3%. The global indexes trade at an average of 7.4% above their 200-dmas, up from 6.5% above in the prior week. All nine of the global indexes trade above their 200-dmas, unchanged from a week earlier. Germany (12.8) leads the global indexes, but Brazil (9.3) was the group's best performer last week with a 3.6ppts advance. China (0.1) is trading at the lowest relative to its 200-dma of the global assets, but Canada (2.3) had the weakest performance of its country peers last week, falling 0.5ppts. The US indexes trade at an average of 2.0% above their 200-dmas, with 24 of the 33 sectors above, down from a 3.2% average a week earlier, when 26 sectors were above; LargeCap and SmallCap Real Estate both turned negative w/w. The US stock indexes no longer dominate the top ten assets trading above their 200-dmas as they did in early March. LargeCap Tech now leads all US stock indexes at 13.6% above its 200-dma, followed by MidCap Tech (11.5), and MidCap Health Care (11.4). SmallCap Health Care (10.7) rose 1.0ppts w/w for the biggest gain among US stock indexes. MidCap Telecom trades 28.3% below its 200-dma, the lowest among the US stock indexes and all assets, and also tumbled 5.0ppts w/w for the worst performance of all assets.

S&P 500 Technical Indicators ([link](#)): The S&P 500 index remained in a Golden Cross last week for a 55th week (after 17 weeks in a Death Cross). However, the index's 50-day moving average (50-dma) relative to its 200-dma fell for a seventh week after rising since early December. Its 50-dma was 5.0% above its 200-dma, down from 5.2% a week earlier and a 34-month high of nearly 5.5% in early April. That's up from a six-month low of 2.0% in early December and a 52-month low of -4.5% in March 2016. The S&P 500's 50-dma moved higher for a 26th week as the index closed above its 50-dma for a third week, after two weeks below, for the first time since the November election. The S&P 500 was steady w/w at 1.0% above its rising 50-dma and up from a 23-week low of -1.0% in mid-April. That's down from a 38-week high of 4.8% above its rising 50-dma on December 13 and compares to a 52-month high of 6.2% in March 2016 and a five-month low of -7.8% in January 2016. The S&P 500 weakened to 6.0% above its rising 200-dma last week from 6.2% above its rising 200-dma a week earlier, but remains above mid-April's 19-week low of 4.2%. That's down from a 38-month high of 9.4% on March 1. The 50-dma and 200-dma both rose together for a 24th week, but at a slower pace than in recent weeks.

S&P 500 Sectors Technical Indicators ([link](#)): Four of the 11 sectors improved w/w relative to their 50-dmas and 200-dmas: Energy, Tech, Telecom, and Utilities. Six of the 11 sectors trade above their 50-day moving averages (50-dmas), unchanged from a week earlier and up from three in mid-April, which was the lowest since the election. Energy remained below for a 17th straight week, and Financials and Telecom were below for an eighth week. Real Estate was below for a second week, and Consumer Staples was below for the first time since late November. All 11 sectors had been above their 50-dmas during mid-January, and all 11 were below the week before the election, for the first time since December 11, 2015. Nine of the 11 sectors were above their 200-dmas last week, unchanged from a week earlier as Energy remained below its 200-dma for a 12th week and Telecom for an eighth. Nine sectors are in a Golden Cross, with 50-dmas higher than their 200-dmas, unchanged from a week earlier and leaving Energy and Telecom still out of the club. All 11 had been in a Golden Cross during a 21-week streak that ended October 24, the longest such stretch since October 2014. Five of the 11 sectors have rising 50-dmas, down from seven from a week earlier, as Consumer Staples turned down for the first time since late December and Utilities turned flat. Financials' 50-dma fell for a seventh week; Energy's dropped for a 15th week; and Telecom's fell for a 14th. Just six sectors have rising 200-dmas, down from seven a week earlier, as Consumer Staples began falling. Four sectors continued downtrends: Real Estate's 200-dma fell for a tenth week, Telecom's for an eighth, Energy's for a third, and Utilities' for a second.

US ECONOMIC INDICATORS

Retail Sales ([link](#)): Retail sales advanced in three of the first four months of 2017 to a new record high, as March's decline was revised to a gain. Headline sales rose 0.4% last month following a 0.1% gain in March—first reported as a 0.2% decline. Core retail sales also advanced for the third time this year, climbing 0.2% m/m and 1.4% ytd. (BEA uses this core retail sales measure to estimate personal consumption expenditures each month.) Nine of the 13 major nominal retail sales categories rose, while four fell. Sales expanded by 1.0% or more at nonstore (1.4%), electronics & appliance (1.3), and building materials (1.2) retailers, followed by sales gains from 0.6% to 0.8% for health & personal goods, motor vehicle & parts, and sporting goods establishments; sales at restaurants, gasoline stations, and miscellaneous retailers were marginally higher. General merchandise, furniture, and clothing sales all fell 0.5% during the month, while food & beverage sales were 0.3% lower. Meanwhile, we estimate that real core retail sales advanced 2.6% in the three months through April, based on the three-month average, the first gain since last fall. Real headline retail sales expanded 2.0% (saar) over the comparable period, back near gains at the start of the year. Our Earned Income Proxy, which tracks retail sales closely, continues to set new record highs and suggests that real consumer spending will accelerate this quarter from Q1's anemic pace.

Business Sales & Inventories ([link](#)): Nominal business sales in March held at its record high, while real sales in February remained stalled below its record high at the end of last year. The details: Nominal manufacturing & trade sales (MTS) was unchanged in March after advancing 11 of the prior 12 months by a total of 6.9%. Inflation-adjusted MTS was flat in February after contracting 0.5% in January, which followed a 3.8% surge during the final seven months of last year to a new record high. Real sales of retailers and wholesalers remained around December's record highs, while manufacturers' sales were just below the cyclical high at the end of last year. February's real inventories-to-sales ratio (1.42) stayed around December's 1.41—which was the lowest since January 2015; it was at 1.45 last May, which was its highest since July 2009. March's nominal inventories-to-sales ratio was at a two-year low of 1.35 for the fourth month; it had peaked at 1.40 during the first four months of 2016.

Consumer Sentiment Index ([link](#)): "Consumer sentiment remained on the high plateau established following Trump's election, with the early May figure nearly identical with the December to May average of 97.4," said Richard Curtin, the survey's chief economist. The Consumer Sentiment Index climbed for the third month to 97.7 in mid-May after slipping from a cyclical high of 98.5 in January to 96.3 in February. The expectations component climbed for the second month from 86.5 to 88.1, heading back toward January's two-year high of 90.3. The present situation component was unchanged at 112.7 this month, after dipping from March's record high of 113.2 last month.

GLOBAL ECONOMIC INDICATORS

Global Leading Indicators ([link](#)): In March, the OECD's composite leading indicators (CLIs)—designed to anticipate turning points in economic activity relative to trend six to nine months ahead—once again pointed to stable growth momentum in the OECD (100.1) as a whole. Specifically, CLIs for the Eurozone (100.4)—particularly France (100.5) and Italy (100.2)—Japan (100.1), the US (99.8), and the UK (99.7) suggest stable growth momentum ahead, while CLIs for Germany (100.7) and Canada (100.7) imply growth will gain momentum. As for the major emerging economies, the CLIs for Brazil (102.1) and Russia (101.4) show growth gaining momentum, while CLIs for China (99.1) and India (99.4) signal stable growth momentum.

Eurozone Industrial Production ([link](#)): Output in March remained stalled just below November's

cyclical high. Industrial production (excluding construction) ticked down 0.1% for the second month after edging up 0.2% in January. March's decline once again was driven by a plunge in energy output (-3.2%); production of consumer nondurable and durable goods climbed 2.1% and 0.9%, respectively, while intermediate (0.3) and capital (0.2) goods output moved slightly higher. The top four Eurozone economies show declines in Germany (-0.7) and Spain (-0.4) sales and gains for France (2.0) and Italy (0.4). Of the remaining countries for which data are available, the biggest declines were recorded in Lithuania (-3.1), Greece (-2.0), and the Netherlands (-1.7); the biggest gains in Estonia (2.4), Ireland (1.7), and Slovenia (1.3). Looking forward, April's M-PMI (56.7) showed the Eurozone's manufacturing sector grew at its fastest pace in six years, with Germany (58.2), Italy (56.2), and France (55.1) all showing robust growth.

UK Industrial Production ([link](#)): UK industrial output fell more than expected in March, contracting the first three months of 2017, though April's M-PMI signals a solid start to Q2. Headline production sank 0.5% m/m and 1.9% over the three-month period, with manufacturing down 0.6% and 2.0% over the comparable periods. Year to date, consumer nondurable (-4.4%), consumer durable (-3.6), intermediate (-1.8), and capital (-0.6) goods production all moved lower; energy output fell 2.7% over the period. Meanwhile, the UK's M-PMI for April jumped from a four-month low of 54.2 in March to a three-year high of 57.3 in April, as growth in output, new orders, and employment all gathered steam, driven higher by the continued strength of the domestic market; there was also a solid bounce in new export business, boosted by the weak pound.

GLOBAL INFLATION INDICATORS

World CPI ([link](#)): World consumer inflation in March remained subdued. The rate eased from 3.1% in January to 2.8% y/y in March, near its recent low of 2.4% last August. The emerging economies' inflation rate dropped from a recent peak of 6.0% during November 2015 to a new record low of 4.1% y/y in March. The rate for advanced economies was 1.8% y/y, slowing from February's 2.0%, which was the highest rate since April 2012. It had fluctuated between zero and 1.0% from December 2014 through September 2016.

US CPI ([link](#)): The core CPI rate in April (to 1.9% from 2.0% y/y) eased back below the Fed's target rate of 2.0% y/y, after 15 months above—ranging from 2.1% to 2.3%—from December 2015 through February of this year. The three-month rate slowed to 0.6% (saar), the least since May 2010. On a monthly basis, core prices edged up 0.1% after edging down 0.1% in March—which was the first monthly loss since January 2010. During April, shelter costs continued to climb, and there was a sharp increase in tobacco prices; however, prices fell in many areas: medical care (its first decline since August 2015), wireless phone services, motor vehicle insurance, apparel, used cars & trucks, recreation, and new vehicles. The headline CPI recovered 0.2% after falling 0.3% in March, which was the first decline since February 2016; the yearly rate slowed for the second month to 2.2% after climbing steadily from 0.8% in July 2016 to 2.7% in February.

US PPI ([link](#)): The PPI for final demand advanced 0.5% in April after falling 0.1% in March—which was the first decline since last August. Both final demand goods (0.5%) and final demand services (0.4) rose last month after slipping 0.1% in March. Forty percent of the increase in final demand goods can be traced to final demand less food & energy, led by a 6.6% jump in securities brokerage, dealing, investment advice & related services; energy prices rebounded 0.8% after a 2.9% slide in March. Most of the advance in final demand services reflected a rise in prices for final demand services, less trade, transportation & warehousing. The yearly inflation rate for the headline series accelerated 2.5% y/y, the largest increase since February 2012. The goods rate (4.0% y/y) held at its highest gain since January 2012, while the services rate (1.8) was the highest since January 2015. The rates for the core (1.9) and core ex trade services (2.1) accelerated from recent flat trends.

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