



MORNING BRIEFING

June 19, 2017

Wonder Men & Women

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

(1) Warrior women. (2) Jeff Bezos is Amazon Man. (3) A one-man inflation killer. (4) Elon Musk & Orphan Annie: The sun will come out tomorrow. (5) Frackers are freaking out OPEC. (6) Disinflation again. (7) Takeout food. (8) Oil's slippery price slope. (9) Bonds signaling that inflation is dead in long run. (10) The Fed's Wonder Woman. (11) Mr. Wonderful. (12) Movie Review: "Wonder Woman" (+ +).

US Economy: Inflation, RIP? No one knows whether Amazon women ever existed. These warrior women were first mentioned by ancient Greek poet Homer in the *Iliad*, set during the Bronze, or Heroic, Age. He referred to them as "*antianeirai*," meaning "those who go to war like men." Ancient Greek historian Herodotus describes them as "*androktones*," meaning "killers of males." The name "Amazon" is believed to come from the Greek word "*amazoi*," which means "breast-less," as young female warriors' right breasts were removed to facilitate their drawing of the bow, according to legend. Besides bows and arrows, their main weapon, Amazons wielded swords and double-sided axes while carrying a distinctive crescent-shaped shield. Most of their fighting was done from horseback.

Could Jeff Bezos be Amazon Man? He certainly has the killer instinct, and continues to slaughter his competitors. Jackie and I have been following his exploits for some time and have concluded that he is also killing inflation. He has brought deflation to the book industry, mall retailers, and the cloud. Now he is doing the same to grocery stores, with the biggest losers likely to be their vendors, i.e., manufacturers of consumer brands, particularly staples.

Bezos is not alone in his battle to disrupt and destroy business models, with deflationary consequences. Elon Musk is also an Amazon Man, who intends to harvest solar energy on the roofs of our homes, storing the electricity generated in large batteries while also charging up our electric cars. Meanwhile, the frackers are using every frick in their book to reduce the cost of pumping more crude oil. Pharmaceutical companies are under lots of political pressure to stop hyper-inflating drug prices. Telecom services prices are falling as a result of intense competition. With price inflation remaining subdued, it's no wonder there isn't a lot of upward pressure on wage inflation even though the labor market is obviously very tight. Consider the following:

(1) *Disinflation*. On a y/y basis, the headline and core CPI inflation rates both fell back below 2.0% (the Fed's target for the PCE price deflator) in May to 1.9% and 1.7% ([Fig. 1](#)). On a three-month basis and annualized, they were -1.0% and 0.0% through May ([Fig. 2](#)). Showing outright deflation on a y/y basis are wireless telephone services fees (-12.3%), used car prices (-4.3), airfares (-2.9), and furniture & bedding (-1.4) ([Fig. 3](#) and [Fig. 4](#)). Even the medical-care CPI inflation rate has dropped from a recent high of 4.9% to 2.7% in May, led by falling inflation rates for physician services and even drugs ([Fig. 5](#)).

(2) *Food fight*. Online shopping now accounts for a record 29.7% of GAFO sales (i.e., sales of goods typically found in department stores) ([Fig. 6](#)). That's up from about 5% in 1992. It was 9.0% when Amazon went public during May 1997. The company clearly has taken lots of growth and market share away from the department stores. It's been doing the same to the warehouse clubs and super stores since 2009.

Now Bezos is going after the grocery business. It's a huge one, with sales totaling a record \$939 billion (saar) during April. The warehouse clubs and super stores have increased their share of this business from 7.0% in 1992 to a peak of 27.2% during June 2008 ([Fig. 7](#)). That share was down to 23.8% during April, and is likely to continue falling as Amazon Man enters the fray. Bezos plans to do so by purchasing Whole Foods and using its stores as fulfillment centers for food sold by his company online, with the assistance of voice-activated Alexa.

(3) *Drowning in oil*. OPEC oil producers continue to put a lid on their output in an effort to prop up prices. Yet the price of a barrel of Brent crude oil is back down to \$47.37, below its recent high of \$57.10 on January 6 ([Fig. 8](#)). That's comfortably in the \$40-\$50 price range that Debbie and I have been expecting for this year. Despite the 76% plunge in the price of oil from June 19, 2014 to January 20, 2016, US crude oil production fell just 12% from the week of June 5, 2015 through the week of July 1, 2016 ([Fig. 9](#)). Since then, it is up 10% to 9.3mbd.

Interestingly, weekly production held up relatively better in Texas and North Dakota than in the rest of the country when total output was declining ([Fig. 10](#)). However, the rebound in US oil production has been led by the rest of the country, excluding Texas and North Dakota. Could it be that frackers figured out how to lower their costs in the two states where they've been most active, and taken their innovations to the other states? Maybe.

Meanwhile, the 52-week average of gasoline usage in the US is down 0.7% y/y ([Fig. 11](#)). This may or may not be a sign of a slowing economy. It is undoubtedly a bearish development for oil prices.

Saudi Arabia, Russia, Iran, and other major oil producers, with large reserves of the stuff, should be awfully worried that they are sitting on a commodity that may become much less needed in the future. As long as the sun will come out tomorrow (as Little Orphan Annie predicted), solar energy is likely to get increasingly cheaper and fuel a growing fleet of electric passenger cars. Rather than propping up the price, maybe they should sell as much of their oil as they can at lower prices to slow down the pace of technological innovation that will eventually put them out of business.

(4) *Bond vigilantes*. The bond market certainly confirms that the disinflation story remains a credible one. The yield spread between the US Treasury 10-year bond and its comparable TIPS is deemed to be a measure of inflationary expectations over the next 10 years. It soared following Election Day, from 1.73% on that day to a recent peak of 2.08% on January 27 ([Fig. 12](#)). It was back down to 1.67% on Friday, the lowest since October 24. The yield curve spread between the 10-year bond yield and the federal funds rate has narrowed from a recent high of 213bps on December 14, 2016 to 100bps near the end of last week, the lowest since July 8, 2016 ([Fig. 13](#)).

There is mounting concern that the bond market may be signaling that even slower economic growth is ahead. Perhaps. More likely, in our view, is that long-term bond investors are coming around to our view that inflation may be dead. There are some very powerful structural forces that should continue to keep it from rising from the dead. If so, then the bond vigilantes can relax.

(5) *Deflationary drivers*. Intensifying competition, technological innovation, and aging demographics are the structural forces that are keeping inflation in check. They've done so despite the ultra-easy monetary policies of the major central banks. Here is a brief list of some of the main events that have broken the back of inflation, which is likely to remain flat on its back: Walmart goes public (August 1972), Volcker clobbers inflation (October 1979), Reagan fires PATCO (August 1981), the end of the Cold War (November 1989), Amazon goes public (May 1997), China joins the WTO (December 2001), Amazon Web Services opens the cloud (August 2006), the oldest Baby Boomers turn 65 (January

2011) ([Fig. 14](#)).

The Fed: Wonder Woman. In her [press conference](#) last week on Wednesday, Fed Chair Janet Yellen confirmed in her prepared remarks that the Fed believes that the economy's weakness during Q1 and recent easing of inflation are likely temporary developments, which is why the FOMC proceeded with a 25bps hike in the federal funds rate to a range of 1.00%-1.25%. She noted that consumer and business spending seem to be firming. She expects that labor market indicators will continue to improve.

Yellen said, "The recent lower readings on inflation have been driven significantly by what appear to be one-off reductions in certain categories of prices, such as wireless telephone services and prescription drugs." She added, "Finally, the median inflation projection is 1.6 percent this year and rises to 2 percent in 2018 and 2019." In other words, the FOMC is sufficiently comfortable with the underlying strength in the economy in general and the labor market in particular that the committee had no qualms about raising the federal funds rate for the fourth time since the end of 2015, even though inflation remains below its 2.0% target.

Yellen reiterated that more rate hikes are likely, but "the federal funds rate would not have to rise all that much further to get to a neutral policy stance." She observed, "The median projection [of the FOMC] for the federal funds rate is 1.4 percent at the end of this year, 2.1 percent at the end of next year, and 2.9 percent at the end of 2019, about in line with its estimated longer-run value."

Melissa and I reckon that Yellen & Co. are aiming to raise the federal funds rate to 2.0% by the end of next year. If so, that would take only three more hikes to get there. That certainly would be consistent with their pledge to normalize monetary policy at a gradual pace. There's already some pushback from Fed watchers who say that the FOMC is making a mistake tightening further given the slow pace of growth and subdued inflation. We don't agree. So far, the Fed's normalization hasn't caused any "tightening tantrums" in financial markets. The Fed should take this opportunity to proceed with normalization.

The big question is whether President Donald Trump will reappoint the Fed's Wonder Woman for another term when her current one expires on February 3, 2018. He might.

Stocks: Mr. Wonderful. Anyone who invested in Amazon since it went public must think of Jeff Bezos as Mr. Wonderful. The stock price is up a whopping 50,293% from its offering price on May 15, 1997. His competitors must see him as the Grim Reaper. Of course, there is another Mr. Wonderful. That is the *nom de guerre* of Kevin O'Leary, who is one of the sharks on "Shark Tank." I appeared with Mr. Wonderful on CNBC on June 9. When I said that ETFs are attracting lots of money away from mutual funds, which might explain why the FAANG stocks were leading the stock market to new highs, he chortled, "Wonderful, wonderful." During July 2015, O'Leary offered a menu of five exchange-traded funds to the public. They've attracted lots of funds and performed wonderfully.

While flow-of-funds analysis is important for understanding what's driving the stock market, so are earnings. As Joe reviewed last week, the forward earnings of the S&P 500/400/600 all rose to fresh record highs during the first week of June ([Fig. 15](#)). That's quite impressive given the powerful forces of disinflation.

Movie. "Wonder Woman" (++) ([link](#)) is one of the better action hero flicks. That's partly because it isn't all carnage all the time. There is actually some dialogue. Most of it is hokey, but some of it is mildly amusing. In any event, it was good to see Wonder Woman coming around to realize that utopian visions of peace on Earth can't be achieved simply by killing the God of War. However, she does conclude that love conquers all, which may work in bilateral relationships but is less reliable otherwise.

CALENDARS

US. Mon: Dudley, Evans. **Tues:** Current Account Balance -\$121.8b, Fischer, Kaplan. (Bloomberg estimates)

Global. Mon: Formal Brexit Negotiations Begin. **Tues:** RBA June Meeting Minutes, Carney, Zhou Xiaochuan. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index rose 0.1% last week, ranking 19th of the 49 markets as 19 rose in US dollar terms—compared to 24th a week earlier, when it fell 0.4% as 17 markets moved higher. The AC World ex-US index trailed the US MSCI for a second week, falling 0.4% compared to a 0.7% decline a week earlier. EAFE was unchanged last week, but was the only index to outperform the AC World ex-US. EM Eastern Europe was the week's worst-performing region, with a decline of 3.2%, followed by BRIC (-2.0), EMEA (-1.8), EM Asia (-1.5), and EMU (-0.7). Sri Lanka (4.7) was the best-performing country, followed by Greece (4.3) and Austria (3.0). Pakistan (-4.6) was the worst performer, followed by Russia (-4.3), Austria (-3.9), Egypt (-3.9), and Argentina (-3.7). The US MSCI is up 8.8% ytd, with its ranking edging up w/w to 35/49 from 36/49, but continues to trail the AC World ex-US (12.4) on a ytd basis. Forty-seven of the 49 markets are positive ytd, led by Argentina (40.1), Poland (31.2), Korea (27.2), Turkey (26.7), Austria (26.3), and Greece (25.1). The worst country performers ytd: Russia (-16.1), Pakistan (-8.1), Canada (0.2), Brazil (0.6), Jordan (0.6), and Morocco (0.8). EM Asia is the best-performing region ytd with a gain of 20.9%, ahead of EMU (16.5) and BRIC (14.7). The worst-performing regions: EM Eastern Europe (-4.6), EMEA (0.1), EM Latin America (8.3), and EAFE (12.4).

S&P 1500/500/400/600 Performance ([link](#)): LargeCap rose 0.1% last week and outperformed MidCap and SmallCap for the first time in three weeks. The declines for MidCap (-0.2%) and SmallCap (-1.3) were their first in four weeks. Fifteen of the 33 sectors rose w/w, down from 20 rising a week earlier. All three indexes were at a record high on June 13. LargeCap ended the week 0.3% below its record high, MidCap was 0.9% below, and SmallCap was 1.5% below. Telecom and Utilities dominated last week's top gainers: MidCap Telecom (4.1), SmallCap Telecom (2.4), MidCap Utilities (2.2), LargeCap Industrials (1.6), and LargeCap Utilities (1.6). Last week's worst performers: SmallCap Energy (-4.0), SmallCap Consumer Staples (-3.6), MidCap Energy (-3.3), and SmallCap Materials (-3.0). Twenty-four of the 33 sectors are positive ytd, with LargeCap (8.7) beating MidCap (5.6) and both easily ahead of SmallCap (1.8). The biggest sector gainers ytd: MidCap Health Care (20.3), LargeCap Tech (17.2), SmallCap Health Care (15.2), LargeCap Health Care (12.8), and MidCap Tech (12.4). Energy and Telecom dominate the worst performers ytd: SmallCap Energy (-36.5), MidCap Energy (-30.6), MidCap Telecom (-27.5), LargeCap Energy (-11.8), and LargeCap Telecom (-9.4).

S&P 500 Sectors and Industries Performance ([link](#)): Seven of the 11 sectors rose last week, and seven outperformed the S&P 500's 0.1% gain. This compares to five sectors rising a week earlier, when five outperformed the S&P 500's 0.3% decline. Industrials' 1.6% gain made it the best-performing sector for the first time in eight weeks—barely edging out Utilities (1.6%), and ahead of Real Estate (1.4), Energy (0.5), Health Care (0.5), Financials (0.3), and Telecom (0.1). Tech was the worst-performing sector for a second straight week, the first time that has happened since October 2012. Tech's 1.2% decline was followed by Materials (-0.8), Consumer Staples (-0.6), and Consumer Discretionary (0.0). So far in 2017, nine of the 11 sectors are higher, and six have outperformed the S&P 500's 8.7% gain. In the ytd derby, Industrials began outperforming the S&P 500 last week, and Utilities moved ahead of Consumer Discretionary. The best performers in 2017 to date: Tech (17.2),

Health Care (12.8), Utilities (11.4), Consumer Discretionary (10.8), Industrials (9.5), and Consumer Staples (8.7). The five sectors underperforming the S&P 500: Energy (-11.8), Telecom (-9.4), Financials (4.4), Real Estate (5.5), and Materials (8.7).

Commodities Performance ([link](#)): Five of the 24 commodities we follow rose last week, down from 12 rising a week earlier and the lowest in eight weeks. Food-related commodities dominated the week's best performers for a second week: Kansas Wheat (6.4%), Wheat (6.0), Lead (0.6), and Soybeans (0.5). Last week's laggards: Cotton (-6.0), Sugar (-5.3), Live Cattle (-4.6), and Feeder Cattle (-4.1). The best performers in 2017 so far: Lean Hogs (19.6), Feeder Cattle (18.2), Wheat (18.0), Kansas Wheat (17.4), and Corn (11.4). The energy-related commodities began dominating this year's laggards again in the latest week: Sugar (-30.1), Natural Gas (-17.8), Heating Oil (-17.0), CrudeOil (-16.3), and Brent Crude (-16.2).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 5/24 commodities, 1/9 global stock indexes, and 12/33 US stock indexes compared to 10/24, 2/9, and 17/33 rising a week earlier, respectively. Nine commodities trade above their 200-dmas, down from 10 a week earlier as Cotton turned negative w/w. Commodities' average spread fell w/w to -2.1% from -0.8%. Among assets, Commodities walked away the top spot last week: Lean Hogs leads all commodities and all assets at 22.1% above its 200-dma, followed by Kansas Wheat (13.6%), which performed the best of all commodities and all assets last week as it improved 6.4ppts. Sugar (-28.6) trades the lowest of all commodities and all assets, but Cotton (-5.9) tumbled 6.0ppts last week for the worst performance of all commodities and all assets. The global indexes trade at an average of 5.4% above their 200-dmas, down from 6.4% above in the prior week. Seven of the nine global indexes trade above their 200-dmas, down from eight a week earlier as Canada turned negative w/w. South Korea (12.0) leads the global indexes, but Indonesia (5.4) was the group's best performer last week with a 0.7ppt advance. Brazil (-2.2) is trading at the lowest relative to its 200-dma of the global assets, but China (3.4) and Canada (-0.5) had the weakest performances of their country peers last week as each fell 1.9ppts. The US indexes trade at an average of 2.9% above their 200-dmas, with 27 of the 33 sectors above, down from a 3.4% average a week earlier, when 27 sectors again were above. The US stock indexes no longer dominate the top ten assets trading above their 200-dmas as they did in early March. MidCap Health Care now leads all US stock indexes at 14.3% above its 200-dma, followed by SmallCap Health Care (10.7) and SmallCap Utilities (10.4). MidCap Telecom (-20.0) rose 3.7ppts w/w for the biggest improvement among US stock indexes. SmallCap Energy trades 26.7% below its 200-dma, the lowest among the US stock indexes, but SmallCap Consumer Staples (0.7) fell 3.8ppts for the worst performance of the US stock indexes.

S&P 500 Technical Indicators ([link](#)): The S&P 500 index remained in a Golden Cross last week for a 60th week (after 17 weeks in a Death Cross). The index's 50-day moving average (50-dma) relative to its 200-dma improved marginally for a second week after falling for nine straight weeks, rising to 4.8% above its 200-dma from 4.7%. That's down from a 34-month high of 5.4% in early April and compares to 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 32nd week as the index closed above its 50-dma for an eighth week, after trading below for two weeks for the first time since the November election. The S&P 500 dropped to 1.6% above its rising 50-dma from 1.9% and from an 11-week high of 2.5% in early June. These readings compare to a 23-week low of -1.0% in mid-April, a 38-week high of 4.8% on December 13, and a 52-month high of 6.2% in March 2016. The S&P 500 dropped to 6.5% above its rising 200-dma last week from 6.7% and from an 11-week high of 7.4% in early June. That's up from mid-April's 19-week low of 4.2%, but down from a 38-month high of 9.4% on March 1. The 50-dma and 200-dma both rose together for a 29th week.

S&P 500 Sectors Technical Indicators ([link](#)): Six of the 11 sectors improved w/w relative to their 50-

dmas and 200-dmas. The exceptions: Consumer Discretionary, Consumer Staples, Financials, Materials, and Tech. Ten of the 11 sectors trade above their 50-day moving averages (50-dmas), up from nine a week earlier. Telecom rose above its 50-dma for the first time in 13 weeks, but Energy remained below for a 22nd straight week. That's up from just three in mid-April, which was the lowest since the election. All 11 sectors had been above their 50-dmas during mid-January, and all 11 were below levels 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 17th week, and Telecom for a 13th. 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. Nine of the 11 sectors have rising 50-dmas, unchanged from a week earlier; Energy's dropped for a 19th week, and Telecom's fell for an 18th. Nine sectors have rising 200-dmas, up from eight a week earlier as Real Estate began rising for the first time in 15 weeks. These three sectors continued their 200-dma downtrends: Telecom's fell for a 12th week, and Energy's for an eighth.

US ECONOMIC INDICATORS

Industrial Production ([link](#)): May industrial output was flat as manufacturing production fell for the second time in three months. Factory output contracted 0.4% last month after rebounding 1.1% in April (the largest monthly gain since February 2014) and declining 0.8% in March—which was double the initial loss of 0.4%. Manufacturing production expanded only 0.8% (saar) in the three months through May, based on the three-month average, the slowest since November and continuing the steady slowing from February's 3.0%. May's decline in manufacturing production was led by a widespread loss in business equipment (-0.7%) output, with transit (-1.2), industrial equipment (-0.6), and information processing (-0.2) production all falling. Output of the latter, however, remained near April's record high, expanding 5.3% (saar) the past three months, based on the three-month average. Consumer goods output rose for the third month, by 0.2% m/m and 2.3% over the time span. Consumer nondurable goods production was up 0.4% and 3.0% over the comparable periods, while durable goods output was down 0.8% and 0.6%, respectively. Meanwhile, output for mining and utilities increased 1.6% and 0.4%, respectively, last month, with the former 8.3% above a year ago though still 10.0% below its peak in December 2014.

Capacity Utilization ([link](#)): The headline capacity utilization rate in May ticked down to 76.6% after rebounding from 75.9% in March to a 20-month high of 76.7% in April, still 3.3ppts below its long-run (1972-2016) average. Manufacturing's capacity utilization rate slipped to 75.5% from 75.8% in April, which was the highest reading since July 2015. May's reading was 2.9ppts below its long-run average. The capacity utilization rate for mining continued to climb, jumping to a 26-month high of 84.3%, though remained below its long-run average; the operating rate for utilities rose for the third straight month to 76.6%, the highest reading this year.

Regional M-PMIs ([link](#)): Two Fed districts so far have reported on manufacturing activity for this month—New York and Philadelphia—and they show growth in the sector improved for the second month. We average the composite, orders, and employment measures as data become available. The composite index rose from 13.6 in April to 23.7 in June, heading back near February's 31.0—which was the highest reading since July 2004. The New York (to 19.8 from -1.0) measure moved from contraction to expansion, while Philadelphia's (27.6 from 38.8) continued to show robust growth. The new orders gauge rebounded from 10.5 to 22.0, as the New York (18.1 from -4.4) region saw orders expand again, while Philadelphia (25.9 from 25.4) billings remained at high levels. The employment measure slowed for the second month from April's cyclical high of 16.9 to 11.9 this month, though both the New York (7.7 from 11.9) and Philadelphia (16.1 from 17.3) gauges showed manufacturers continued to expand

payrolls at a solid pace.

Consumer Sentiment ([link](#)): The post-election bump appears to be fading, though optimism remains relatively high. The Consumer Sentiment Index fell to 94.5 in mid-June, the lowest reading since November; it was at a cyclical high of 98.5 in January. “The recent erosion of confidence was due to more negative perceptions of the proposed economic policies among Democrats and the reduced likelihood of passage of these policies among Republicans,” Richard Curtin, director of the University of Michigan consumer survey, observed. Both the present and expectations components moved lower this month. The present situation component fell for the third month from a cyclical high of 113.2 in March to a seven-month low of 109.6 in mid-June; the expectations component sank to an eight-month low of 84.7.

Import Prices ([link](#)): Import prices in May advanced 2.1% y/y, easing for the third month from February’s 4.7%—which was the biggest 12-month gain since February 2012. It had bottomed at -11.6% in September 2015. Petroleum prices advanced 16.2% in the 12 months through May, down from February’s seven-year high of 74.1%. The yearly gain in nonpetroleum products slowed to 1.0% y/y from 1.4% in April as these prices showed no change in May after gains the first four months of the year; the yearly rate had turned positive in December (0.3% y/y) for the first time since November 2014. Total import prices fell 0.3% in May after a 0.2% gain and a 0.2% loss the prior two months; the yearly rate slowed to 2.1% from a recent peak of 4.7%.

GLOBAL ECONOMIC INDICATORS

European Car Sales ([link](#)): EU passenger car registrations, a proxy for sales, rebounded 7.6% y/y in May, after a calendar quirk caused the biggest drop (-6.6% y/y) in sales in four years during April. In volume terms, May’s result put sales close to May 2007 levels, just before the economic crisis hit the auto industry. Four of the five big car markets posted robust sales, with Germany (12.9% y/y) and Spain (11.2) recording the highest percentage gains, followed by France (8.9) and Italy (8.2); UK (-8.5) sales were in the red. Through the first five months of this year, total sales rose 5.3%, with the same four seeing their markets grow, Italy (8.1%), Spain (7.3), Germany (4.7), and France (3.3); the UK (-0.6) registered a small decline.

Eurozone CPI ([link](#)): May’s CPI rate was 1.4% y/y (matching the flash estimate), falling back below the ECB’s goal of just under 2.0%; April’s 1.9% rate was in line with the ECB goal. Looking at the main components, energy (to 4.5% from 7.6% y/y) had the highest annual rate, though easing to a five-month low; the services rate (1.3 from 1.8) also slowed. Meanwhile, the rates for food, alcohol, and tobacco (1.5) and non-energy industrial goods (0.3) matched their April rates. The core rate—which excludes energy, food, alcohol, and tobacco—slowed to 0.9% from 1.2% in April, which was the highest in almost four years. Of the top four Eurozone economies, inflation rates in Spain (2.0% y/y) and Italy (1.6) were above the Eurozone’s 1.4%, while France’s (0.9) was below; Germany’s (1.4) matched the Eurozone rate. The lowest rates were recorded in Ireland (0.0) and the Netherlands (0.7), the highest in Estonia (3.5), Lithuania (3.2), and Latvia (2.7).

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