Game of Thrones

See the collection of the individual charts linked below.

(1) A disappointing ending. (2) Trump’s Game of Thrones spans the world. (3) The new endgame scenario includes no end to trade war with China. (4) Another bearish May will soon go away. (5) Mixed messages from credit markets. (6) The dollar is betting on Trump to win the trade war with China. (7) Both sides still need a deal, but they need to resume trade talks. (8) Panic Attack #63? (9) The world economy remains in pain. (10) Stable genius vs Mao in a business suit. (11) Trump’s iron throne doesn’t have the power to unseat Powell from his Chair. (12) Trump and Pelosi rant wars.

Game of Thrones I: The No-End Game. As we just saw once again, ending a hit television series is hard to do right. Hundreds of thousands of viewers signed a petition complaining that the final season of “Game of Thrones” was disappointing.

President Donald Trump is playing a Game of Thrones with both foreign and domestic adversaries. Since he is the President of the world’s greatest economic and military power, he claimed that he will consummate lots of deals with them that will greatly benefit the US in short order. The results have been mostly disappointing so far. Most recently, he is finding that winning a trade war with China might not be as easy as he predicted. Consider the following:

(1) The bulls have been charging impressively. Despite Trump’s trade wars, the S&P 500 is up 32.1% since Election Day 2016 and just 4.1% below the latest record high on 4/30 (Fig. 1 and Fig. 2). Here is the performance derby of the S&P 500 since 11/8/2016: Information Technology (60.5%), Consumer Discretionary (43.6), Financials (34.0), Health Care (31.0), Industrials (23.3), Utilities (21.1), Real Estate (20.9), Materials (13.5), Consumer Staples (9.3), Communication Services (3.7), and Energy (-11.4).

(2) A new endgame for the bears. Since the start of the current bull market, the bears have been warning about the dreaded endgame scenario, in which the Great Financial Crisis is followed by another financial crisis. The next one would be greater because the Fed had spent most of its ammo fighting the consequences of the previous crisis. The bears often warned that the Fed was simply kicking the can down the road, which presumably led to a precipice.

Now, the bears have a new endgame scenario. In this one, there is no end to the trade war that President Donald Trump started with China. A prolonged trade war would be bad for the global economy, including the economies of both China and the US. Like most investors, I bought the Trump party line that a US-China trade deal was imminent. I wrote that in this scenario, the global economy might benefit from a “peace dividend.”

That outlook became less likely in early May, when the Trump administration announced that the Chinese had already reneged on key provisions of the deal. In addition, the Chinese refused to accept measures that would enforce the agreement, particularly by passing laws that would provide more
protection for intellectual property rights and ban other unfair trade practices.

(3) **The deal is off for now.** I have been of the opinion that both Chinese President Xi Jinping and President Trump need a deal. However, there haven’t been any talks since early May. Instead, Trump raised the tariff on $200 billion of Chinese imports from 10% to 25%, and is threatening to slap the new rate on the remaining $300 billion in Chinese goods purchased by Americans. The Trump administration has also moved aggressively to ban Huawei from doing business in the US and with our allies.

The Chinese retaliated by raising their tariffs on $60 billion of US goods, with much of the pain inflicted on the exports of US farmers to China. Furthermore, the official rhetoric out of China has turned increasingly hostile.

(4) **What is it with the month of May?** We can add May 2019 to the list of Mays that turned out to be bearish for stocks. Selling in May hasn’t always worked in the past; and when it did, the hitch was you had to know when to get back into stocks. In any event, here is the performance derby for the S&P 500 sectors so far this month (Fig. 3): Real Estate (1.8), Utilities (1.4), Health Care (0.1), Consumer Staples (-0.5), Communication Services (-3.1), S&P 500 (-4.1), Financials (-4.4), Consumer Discretionary (-5.6), Industrials (-5.8), Materials (-6.5), Information Technology (-7.1), and Energy (-7.6).

The forward P/Es dropped from the end of April through Friday’s close as follows: S&P 500 (16.9 to 16.1), S&P 400 (16.0 to 15.2), and S&P 600 (17.0 to 16.0) (Fig. 4).

(5) **Mixed signals from credit, forex, and commodity markets.** As the trade war escalated this month, the 10-year US Treasury bond yield dropped to 2.31% on Thursday, the lowest since 10/17/2017, as the expected inflation spread with 10-year TIPS dropped to 1.73% (Fig. 5 and Fig. 6).

The yield curve spread between the 10-year and fed funds rates inverted to minus 6pbs at the end of last week (Fig. 7). But the 10-year vs 2-year spread stayed slightly positive at 16bps, as the 2-year yield fell to 2.16% on expectations that the Fed will have to lower the federal funds rate over the next 12 months (Fig. 8).

While the yield curve may be signaling that the trade war’s endgame could be a global recession, including a downturn in the US, the credit quality yield spread between the high-yield bond composite and the 10-year Treasury remains relatively tight, suggesting that the way to play the game is with an attitude of don’t-worry-about-a-recession.

Then again, the weakness in commodity prices during May is signaling that the game could end badly for all parties concerned. However, the strength in the dollar so far in May explains why commodity prices are weak, and suggests that the US could win the game (Fig. 9).

(6) **So now what?** My natural-born optimism may be influencing my view, but I think that a US-China trade deal is still likely by the end of the summer. I believe both sides need a deal, as discussed in the next section.

If instead the trade war escalates, I expect it will do more damage to China’s economy than to the US economy. As Debbie and I observed last week, nominal GDP in the US was up to a record $21 trillion (saar) during Q1-2019. Over the past 12 months through March, US merchandise exports to China totaled $114 billion while US imports from China totaled $522 billion (Fig. 10). Both are small relative to the size of our economy.
If push does come to shove and Trump slaps a 25% tariff on all Chinese goods imported by the US, the inflationary shock could be offset by a weaker yuan. In addition, US importers are likely to absorb some of the inflationary shock in shrinking profit margins, which will weigh on their earnings. Many of their stock prices have already discounted this scenario since the start of May.

Joe and I still believe that the latest selloff is best characterized as Panic Attack #63 rather than as the beginning of a bear market. That’s because we don’t see all this causing a recession in the US, though it could prolong the period of weakness in earnings resulting in an earnings growth recession, similar to the previous episode during 2015-2016.

(7) A world of hurt. The latest global economic indicators suggest that the global economy continued to weaken in May. As we’ve previously noted, the world’s largest economies have homegrown problems. The escalating US-China trade war is exacerbating their woes.

As Debbie reports below, Europe seems to be experiencing lots of collateral damage not just from trade tensions but also from Brexit and the rise of nationalist parties, which is challenging the political integration of Europe. In addition, there have been adverse reactions to climate change policies in France (Yellow Vest activists’ opposition to higher fuel taxes) and in Germany (depressed auto sales and output following tougher emission control standards).

France’s M-PMI has been fluctuating around 50.0 so far this year. It was 50.6 in May (Fig. 11). Germany’s IFO Business Confidence Index dropped during May to the lowest reading since November 2014, led by a plunge in the current situation component to its weakest reading since August 2016 (Fig. 12).

The flash estimates for the US M-PMI and NM-PMI dropped sharply during May to 50.6 and 50.9, respectively (Fig. 13). However, the average of the three available Fed district business indexes (NY, Philly, and KC) jumped back up to 12.8 during May, the best reading since last November (Fig. 14).

Game of Thrones II: Trump vs Xi. President Donald Trump may or may not be a “stable genius,” as he has claimed recently (see below). In any event, his adversary in China is President Xi Jinping, who certainly is no fool. The question is: Where does Xi stand in his assessment of Trump’s self-assessment? The Trump administration has also assessed Xi, with the doves saying that the US can work with him. The hawks don’t trust him and view him as Mao in a business suit.

Indeed, Xi harkened back to Mao last week when he called for the Chinese people to begin a modern-day “long march,” invoking a time of hardship from the country’s history as it braces for a protracted trade war with the US. The 5/21 NYT observed: “[T]he Long March, a grueling 4,000-mile, one-year journey undertaken by Communist Party forces in 1934 as they fled the Nationalist army under Chiang Kai-shek. From there, they regrouped and eventually took control of China in 1949, making the Long March one of the party’s foundational legends.”

On the other hand, Chinese Ambassador to the United States Cui Tiankai, speaking to Fox News, said on Tuesday (5/21) that Beijing was still open for talks. On Thursday (5/23), Trump predicted a swift end to the ongoing trade war: “It’s happening, it’s happening fast and I think things probably are going to happen with China fast because I cannot imagine that they can be thrilled with thousands of companies leaving their shores for other places.” He provided no evidence of such an exodus, and didn’t mention that there haven’t been any discussions since early May.

Trump’s comments seemed aimed at stopping the selloff in the stock market, which he views as a key indicator of the success of his policies. He needs a deal. Without one, he risks adverse consequences
for the US economy and further erosion in stock prices. He needs a strong economy with a booming labor market to win re-election next year.

Xi knows that, which is why Chinese officials sought major changes to the text of a proposed deal that the Trump administration says had been largely agreed upon. The Chinese President is risking that Trump will call Xi’s bluff and raise the ante by imposing the 25% tariff on all US imports from China. That could prove to be a big shock to China’s economy, which is already weighed down by homegrown problems. So Xi needs a deal too.

Game of Thrones III: Trump vs Powell. Trump has been playing a Game of Thrones with Fed Chairman Jerome Powell. He has ordered the Fed to lower interest rates and threatened to fire Powell if that doesn’t happen. The problem for Trump is that he doesn’t have the power to remove Powell from his throne. So Powell has tuned out the President’s rants about monetary policy.

Powell has made it quite clear that he and his colleagues on the FOMC are going to remain patient, and hold off on moving the federal funds rate either way for the foreseeable future. The latest Minutes of the 4/30-5/1 FOMC meeting, released on 5/22, show that the participants didn’t spend much time discussing lowering interest rates. (“Participants” include both voting members and other regional Fed bank presidents who don’t have a vote this year.) It was also clear that they aren’t in any rush to raise rates, even though the majority believes that recent low inflation readings are likely to be transient.

The Minutes noted that “participants generally agreed that a patient approach to determining future adjustments to the target range for the federal funds rate remained appropriate.” Members on the Committee (“members” get to vote on the path of interest rates) also agree on the “patient” stance. The Minutes stated: “Members observed that a patient approach … would likely remain appropriate for some time, especially in an environment of moderate economic growth and muted inflation pressures, even if global economic and financial conditions continued to improve.” However, none of the members commented on the future path for interest rates in one direction or the other.

While there are no fire-breathing dragons on the FOMC, some participants are more hawkish, believing that rate hikes will soon be in order, than others. But there aren’t enough of those dovish others to swing the vote to please Trump. Consider the following:

(1) Rate hawks vs doves. The Minutes stated that “a few participants” believe “the Committee would likely need to firm the stance of monetary policy to sustain the economic expansion” and keep inflation stable, or if not, “inflation pressures could build quickly in an environment of tight resource utilization.” However, “a few other participants” observed that “subdued inflation coupled with real wage gains roughly in line with productivity growth might indicate that resource utilization was not as high as the recent low readings of the unemployment rate by themselves would suggest.”

(2) Inflation hawks vs doves. During his latest press conference, Powell mentioned the trimmed mean measure of PCE price inflation for the first time. Likewise, the most recent Minutes mentioned it for the first time we can recall. The measure “removes the influence of unusually large changes in the prices of individual items in either direction.” A “number of participants observed that the trimmed mean measure had been stable at or close to 2 percent over recent months.” On this basis, many participants viewed the recent decline in PCE inflation as temporary. On the other hand, some participants believe that the downside risks to inflation have increased.

(3) Growth hawks vs doves. Most participants and members overall continued to think that the most likely outcome is a sustained economic expansion with a strong labor market and inflation near the Fed’s target. However, some participants observed that GDP growth could moderate following some
likely transient factors that more recently pushed it higher. Some participants also expect real GDP growth to slow because of the “waning impetus from fiscal policy and past removal of monetary policy accommodation.”

The drop this month in the 2-year Treasury note yield and the flattening of the yield curve point to mounting market expectations that the Fed will lower interest rates over the next 12 months. The latest FOMC meeting occurred just before trade talks between the US and China hit an impasse. Perversely, Trump may get his rate cut if the escalating trade war depresses global economic activity and weighs on US economic growth as well.

Powell will keep his throne through 2/5/22. The question is whether Trump will keep his throne after next year’s election. If he does, Powell undoubtedly won’t be reappointed Fed chairman. Meanwhile, some Democrats in Congress are pushing for removing Trump from his throne by initiating an impeachment process, as we discuss in the next section.

**Game of Thrones IV: Trump vs Pelosi.** Perhaps the most significant Game of Thrones is being played out in Washington as more congressional Democrats call for the impeachment of President Trump while his administration investigates whether the so-called “deep state” has been out to overthrow him by illegal means, as he has charged.

The Game has gotten increasingly tragi-comical. Donald Trump called himself “an extremely stable genius” after accusing Nancy Pelosi of being mentally unstable. During a press conference last Thursday, the President attacked the Speaker of the House, calling her “not the same person” and saying “she is a mess,” even asserting “she’s lost it.” But when it came to his own mental well-being, Trump told reporters: “I haven’t changed very much, been very consistent. I’m an extremely stable genius.”

In July 2018, Trump called himself a “stable genius” in reference to his use of social media after the NATO summit. In January 2018, when asked about his mental stability, Trump responded that he’s a “very stable genius” and “like, really smart.”

Trump’s latest rant was sparked by Pelosi’s latest rant Thursday morning, when she said, “We believe that the President of the United States is engaged in a cover-up.” She did that though she was scheduled to meet with the President later that same day to discuss an infrastructure-spending program.

A plague on both your houses!

Meanwhile, a 5/24 Fortune article explains why Pelosi shouldn’t impeach Trump, though she is under lots of pressure from members of her party to do so. Perversely, even Trump may be pushing her in that direction, figuring that he will benefit politically during next year’s election if his base views him as a victim. National polls show that most of the public doesn’t support impeachment.

The current season of Trump’s “Game of Thrones” is certainly much more interesting than the last season of HBO’s version. Let the Games continue!

**CALENDARS**

**US. Tues:** Consumer Confidence 130.0, Dallas Fed Manufacturing Index 5.8, S&P Case-Shiller Home Price Index. **Wed:** Richmond Fed Manufacturing Index 6, MBA Mortgage Applications. (DailyFX estimates)
Global. Tues: Eurozone Economic Confidence 103.9, Germany Gfk Consumer Confidence 10.4. Wed: Germany Unemployment Change & Unemployment Claims Rate -7k/4.9%, France GDP 0.3%q/q/1.1%y/y, BOC Rate Decision 1.75%, ECB Financial Stability Review, Kuroda. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (link): Last week saw the US MSCI index fall 1.2% to 4.1% below from its record high on May 3, its first since 9/20. That performance ranked 33rd among the 49 global stock markets we follow in a week when 21/49 countries rose in US dollar terms. That compares to the prior week’s 23/49 ranking, when the US MSCI fell 0.8% as 13 markets rose. The AC World ex-US index fell 0.8%; that performance compares to a 0.9% drop a week earlier. EM Latin America was the best performer with a gain of 2.2%, followed by EM Eastern Europe (1.8%), EMEA (1.0), and EAFE (-0.7%). The regions underperforming last week: EMU (-1.8), EM Asia (-1.4), and BRIC (-1.2). Argentina was the best-performing country, rising 7.0%, followed by Indonesia (6.3), India (4.8), Brazil (4.7), and the Philippines (3.4). Of the 23 countries that underperformed the AC World ex-US MSCI last week, China and South Africa fared the worst, falling 4.6%, followed by Austria (-3.1), Morocco (-3.1), and Israel (-2.8). The US MSCI's ytd ranking dropped one place last week to 7/49 last week, with its 13.0% ytd gain nearly double that of the AC World ex-US (6.8). All regions and 36/49 countries are in positive territory ytd. Among the regions, three are outperforming the AC World ex-US ytd: EM Eastern Europe (11.1), EMU (8.6), and EAFE (7.8). Regions underperforming the AC World ex-US: EM Latin America (0.6), EM Asia (2.3), EMEA (4.1), and BRIC (5.4). The best country performers ytd: Russia (18.5), Egypt (17.3), New Zealand (16.5), Canada (14.9), and Switzerland (14.1). The worst-performing countries so far in 2019: Turkey (-18.4), Sri Lanka (-9.7), Chile (-9.2), Pakistan (-7.1), and Malaysia (-6.3).

S&P 1500/500/400/600 Performance (link): All three of these indexes fell for a third straight week for the first time since December. LargeCap’s 1.2% drop was better than the declines recorded by MidCap (-1.4%) and SmallCap (-1.8). LargeCap ended the week 4.1% below its record high at the end of April. MidCap dropped to 9.1% below its August 29 record high, but SmallCap moved deeper into a correction at 16.5% below its August 29 record. Among the 33 sectors, four moved higher last week compared to seven rising a week earlier. The best performers in the latest week: LargeCap Utilities (1.7%), LargeCap Health Care (1.2), MidCap Utilities (0.4), and LargeCap Real Estate (0.3). SmallCap Energy (-11.3) was the biggest decliner, followed by MidCap Energy (-8.6), SmallCap Materials (-4.1), LargeCap Energy (-3.4), and LargeCap Tech (-2.8). In terms of 2019’s ytd performance, all three indexes are still off to a great start. However, LargeCap now leads with a gain of 12.7% ytd, ahead of MidCap (12.0) and SmallCap (8.6). Thirty-two of the 33 sectors are positive ytd, with the cycicals leading the top performers: LargeCap Real Estate (18.0), LargeCap Tech (17.9), MidCap Tech (17.4), LargeCap Communication Services (17.0), and MidCap Communication Services (16.3). MidCap Energy (-1.0) is the sole decliner so far in 2019, followed by these underperformers: SmallCap Energy (0.8), SmallCap Health Care (2.6), LargeCap Health Care (3.3), and SmallCap Communication Services (4.6).

S&P 500 Sectors and Industries Performance (link): Three of the 11 S&P 500 sectors rose last week as five outperformed the S&P 500’s 1.2% decline. That compares to four rising a week earlier, when six outperformed the S&P 500’s 0.8% decline. Utilities was the best-performing sector with a gain of 1.7%, ahead of Health Care (1.2%), Real Estate (0.3), Financials (-0.2), and Consumer Staples (-0.4). Last week’s biggest underperformers: Energy (-3.4), Tech (-2.8), Consumer Discretionary (-2.2), Materials (-1.7), Industrials (-1.5), and Communication Services (-1.4). All 11 sectors are higher so far in 2019, compared to just two sectors rising during 2018, when the S&P 500 fell 6.3%. These six sectors have
outperformed the S&P 500’s 12.7% rise ytd: Real Estate (18.0), Information Technology (17.9), Communication Services (17.0), Consumer Discretionary (15.1), Industrials (14.4), and Consumer Staples (13.2). The ytd laggards: Health Care (3.3), Materials (6.2), Energy (6.6), Financials (12.3), and Utilities (12.4).

Commodities Performance: Last week, the S&P GSCI index tumbled 3.6% as 12 of the 24 commodities moved higher. That was the index’s worst decline in 22 weeks and compares to a 2.0% gain a week earlier, when 15 commodities moved higher. The index nearly climbed out of a correction during mid-April, with a drop of just 10.0% from its high in early October after being down as much as 26.9% from that high on December 24. It has since weakened to 15.0% below its October high. Corn was the strongest performer for the week, as it rose 5.5%, ahead of Wheat (5.3%), Kansas Wheat (5.2), Cocoa (4.8), and Coffee (4.8). GasOil was the biggest decliner, with a drop of 7.4%, followed by Crude Oil (-6.8), Heating Oil (-5.9), Lean Hogs (-5.4), and Brent Crude (-5.3). The S&P GSCI commodities index is up 14.1% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Unleaded Gasoline (46.9), Lean Hogs (44.2), Crude Oil (29.1), Brent Crude (25.4), and GasOil (18.1). The biggest laggards in 2019: Live Cattle (-12.9), Natural Gas (-11.2), Lead (-9.6), and Kansas Wheat (-9.6).

S&P 500 Technical Indicators: The S&P 500 price index fell 1.2% last week and weakened 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 improved for a 15th straight week to a 32-week high, and the index was in a Golden Cross for a ninth week after being in a Death Cross for 16 weeks. It 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 3.8% is up from 3.7% a week earlier and from -5.2% in early February, which had matched the lowest reading since November 2011. It’s still down from a 55-month high of 7.2% in February 2018. The S&P 500’s 50-dma rose for the 16th time in 17 weeks, after falling for 16 straight weeks in its worst downtrend since before the 2016 election. However, the index fell to a 20-week low of 1.7% below its rising 50-dma from 0.4% below its rising 50-dma a week earlier, and is down from 6.6% during mid-February, which was its highest since October 2011. That compares to a seven-year low of 12.0% below at the end of December. The 200-dma fell for the first time in 17 weeks. It had been falling from October to February in the first downtrend since May 2016, when it had been slowly declining for nine months. The 200-dma dropped to a nine-week low of 2.0% above its now-falling 200-dma from 3.2% above its rising 200-dma a week earlier, and is down from a 32-week high of 6.4% at the beginning of May. That compares to 14.5% below its falling 200-dma on December 24, which was the lowest since April 2009. However, it remains well below the seven-year high of 13.5% above its rising 200-dma during January 2018.

S&P 500 Sectors Technical Indicators: Just three of the 11 S&P 500 sectors traded above their 50-dmas last week, down from five a week earlier. In the latest week, Communication Services fell below that moving average for the first time since early January and Financials for the first time in eight weeks. All 11 had been above in early April and all 11 were below in early January. The longer-term picture—i.e., relative to 200-dmas—shows eight sectors trading above currently, unchanged from a week earlier. Materials was below its 200-dma for a third week, Energy for a 33rd week, and Health Care for a seventh week. Nine sectors are in the Golden Cross club (with 50-dmas higher than 200-dmas), unchanged from a week earlier and the highest count since early November. Financials has been in a Golden Cross for just four weeks, while Health Care was out for a fourth week and Energy for a 28th week. All 11 sectors had been in a Golden Cross in January 2018 (for the first time since a 26-week streak ended in October 2016). Seven sectors now have rising 50-dmas, down from nine a week earlier, as Materials and Tech turned lower. Energy’s 50-dma fell for a fourth week and Health Care’s for a seventh week after mostly rising since mid-2016. Seven sectors have rising 200-
dmas, unchanged from a week earlier, as Health Care fell for a third week. Among the remaining laggards: Energy, Financials, and Materials have had mostly falling 200-dmas for about eight months now, which 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**

**Durable Goods Orders & Shipments** (link): Core capital goods orders fell for the first time this year in April, while core capital goods shipments were stalled at their record high. Nondefense capital goods orders ex aircraft (a proxy for future business investment) slumped 0.9% last month after expanding 2.1% the first three months of the year, while these core shipments (used in calculating GDP) were unchanged in April, only fractionally below February’s record high. Core capital goods orders accelerated 2.7% (saar) during the three months ending April, based on the three-month average, improving steadily since contracting 5.1% during January. Core capital goods shipments advanced 2.5% (saar) over the comparable period, slowing from Q1’s 3.9%. Meanwhile, on a year-over-year basis, growth in core capital goods orders (1.3% y/y) and shipments (3.0) were the weakest since January 2017 and April 2017, respectively, with the trade war with China a major headwind. Total durable goods orders contracted for the second time this year, falling 2.1% in April and 2.5% ytd, while orders ex transportation, which tend to be less volatile, were unchanged in April and down 0.7% ytd.

**Regional M-PMIs** (link): Three Fed districts now have reported on manufacturing activity for May—Philadelphia, New York, and Kansas City—and show growth accelerated at its fastest pace in six months. We average the composite, orders, and employment measures as data become available. The composite (to 12.8 from 7.8) index shows growth accelerating fairly steadily from February’s 28-month low of 1.9. The New York region’s composite (17.8 from 10.1) measure posted its best growth this year, while Philadelphia’s (16.6 from 8.4) rebounded back toward its 2019 high of 17.0 at the start of the year; the index had contracted in February. Meanwhile, Kansas City’s (4.0 from 5.0) slowed from March’s two-month high of 10.0. The new orders gauge (8.2 from 11.1) eased a bit from May’s rate, but was much improved over February’s -1.6—which was the first negative reading August 2016. Orders in the New York (9.7 from 7.5) region accelerated at its best pace of 2019 to date, while Philadelphia’s (11.0 from 15.7) slowed, though beat New York’s rate. Kansas City’s (4.0 from 10.0) orders gauge headed back toward zero after rebounding from February’s -10.0. The employment (9.3 from 9.5) index held at April’s rate, remaining above January’s two-year low of 8.0, though was a mixed bag: Factories in Philadelphia (18.2 from 14.7) added to payrolls at the best pace since the end of last year, while New York’s (4.7 from 11.9) growth was among the weakest in two years. Kansas City’s (5 from 2) improved slightly from April, though was roughly a third of March’s pace.

**New Home Sales** (link): New home sales fell in April for the first time this year, though there was a sizeable upward revision to March sales to a post-recession high. New home sales sank 6.9% last month to 673,000 units (saar) after climbing a revised 8.1% in March—nearly double the initial gain of 4.5%—while the level shot up to a revised 723,000 units (from 692,000), its highest since October 2007. Sales had soared 28.2% during the first three months of the year. The Northeast was the only region to show a gain in April, though it was also the only region to show a yearly decline. Here’s the tally: Northeast (+11.5% m/m & -12.1% y/y), South (-7.3 & +5.1), Midwest (-7.4 & +3.6), and the West (-8.3 & +16.8). Total sales were 7.0% above those of a year ago. April’s supply of new homes on the market fell for the third month to 332,000 units, with the months’ supply at 5.9. About two-thirds of the homes sold last month were either under construction or had yet to be built. Meanwhile, improvement in homebuilders’ confidence continued to build in May. The National Association of Home Builders Housing Market Index (HMI) shows builder optimism continues to climb through the first five months of this year, to 66 this month from 56 in December. All three components are up over the five-month period: expected sales (72 from 61), current sales conditions (to 72 from 61), and buyer traffic (49 from
GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates (link): Business activity growth slowed to a 36-month low in May, according to flash estimates, as PMIs for both the manufacturing and service sectors moved closer to the breakeven point of 50.0. May’s C-PMI (to 50.9 from 53.0) signaled the slowest increase in overall business activity since May 2016, as the NM-PMI (50.9 from 53.0) slowed sharply again this month, to a 39-month low, while the M-PMI (50.6 from 52.6) sank to a 116-month low. Within the service sector, new orders growth eased for the third month, expanding only slightly, while the level of outstanding business fell for the first time this year and employment growth dipped to a 25-month low. Meanwhile, inflationary pressures for the sector remained subdued in May, with input prices rising only slightly, while intense competition led to the first fall in output prices since February 2016. As for manufacturers, trade wars remained at the top of their list of concerns, alongside weaker economic growth both at home and in key export markets. Underlying data indicated a broad-based slowdown in the rates of expansion for output, employment, and pre-production inventories, while new orders declined for the first time since August 2009.

Eurozone PMI Flash Estimates (link): The Eurozone economy remained subdued in May, according to flash estimates, as manufacturing activity continued to contract and growth in the service sector cooled slightly. The Eurozone’s C-PMI (to 51.6 from 51.5) edged up, though this month’s reading put Q2 growth, so far, on par with Q1’s growth—which was among the lowest recorded since mid-2013. (The C-PMI had peaked at 58.8 at the start of 2018.) The M-PMI (47.7 from 47.9) showed the manufacturing sector continued to contract, as output dropped for the fourth consecutive month and new orders for the eighth month—led by another steep fall in exports. However, the rate of decline for all three eased for the second straight month. Meanwhile, the NM-PMI (52.5 from 52.8) flash estimate shows May’s rate of expansion was the weakest since January as new business inflows were the lowest since 2014—with the exception of the soft patch experienced at the turn of the year. Looking at the top two Eurozone economies, Germany’s C-PMI (52.4 from 52.2) improved slightly for the second month from March’s 69-month low, while France’s C-PMI (51.3 from 50.1) moved further above 50.0 after falling below in March. Germany’s NM-PMI (55.0 from 55.7) indicates its service sector continues to expand at a healthy pace, though the manufacturing sector continues to contract, with its M-PMI (44.3 from 44.4) below 50.0 every month of 2019, though it may have found a bottom the past two months. Meanwhile, France’s NM-PMI (51.7 from 50.5) and M-PMI (50.6 from 50.0) both improved this month, to their best readings in six months and three months, respectively. Outside the Eurozone’s two largest economies, business activity was the weakest since November 2013—running close to stagnation in both the manufacturing and service sectors—as new business levels fell for the first time since July 2013.

Japan M-PMI Flash Estimate (link): Japan’s manufacturing sector is contracting again this month, according to the flash estimate, after showing tentative signs last month that the downturn had softened. Japan’s M-PMI (to 49.6 from 50.2) fell back below 50.0 this month as output and export orders contracted at faster rates. According to IHS Markit, “The re-escalation of US-China trade frictions has heightened concerns among Japanese goods producers.” Exports fell at the sharpest rate in four months, while difficulties on the international front added to uncertainties domestically. This caused business sentiment to turn negative this month for the first time in 6.5 years.

Germany Ifo Business Climate Index (link): German business confidence sank this month to its lowest level since November 2014, as the buildup in global trade tensions remains a major headwind. Sentiment dropped to 97.9 in May, deteriorating every month except March since reaching its recent high of 104.1 last August. The present situation component dropped to 100.6 this month—its weakest
reading since August 2016—while the decline in the expectations component may have bottomed, holding at 95.3 in May, up from its recent low of 94.0 in February. Manufacturers remain the most pessimistic, with their sentiment sliding from a record high of 34.2 during November 2017 to 4.0 this month—the lowest since the end of 2012, reflecting their exposure to global trade tensions and slowdowns in the emerging markets like China. The slowdown in manufacturing is spilling over into the service sector (to 20.9 from 26.4), which posted its steepest monthly decline (-5.5 points) in sentiment since April 2013. As for the trade sector, sentiment for wholesalers (4.4 from 9.5) was the weakest since November 2014, while for retailers (6.8 from 3.7) it was back near recent highs, after falling below zero at the start of this year. Sentiment within the construction industry continues to rebound, rising from 18.1 in February to 24.4 this month.