Depressed Purchasing Managers

See the collection of the individual charts linked below.

(1) M-PMI distressing, while NM-PMI disconcerting. (2) Average PMI at 50.2, well above recession level of 45.8. (3) Consistent with 1.5% real GDP growth. (4) Some hard data on production and orders confirm weak average PMI; hard data on employment not so much. (5) The Fed isn’t done easing, as Powell wants to keep us in “a good place.” (6) Fed may be aiming to avert an inverted yield curve. (7) No recession in credit-quality spreads. (8) Weak PMIs bad for S&P 500 revenues growth but good for prospects of Fed easing. (9) PMIs explain Growth vs Value performance derby. (10) Emerging markets’ PMIs showing some life; advanced economies not so much.

Purchasing Managers I: Impact on the Economy. The Institute for Supply Management (ISM) released September’s M-PMI last Tuesday. It was depressing. On Thursday, ISM released September’s NM-PMI; it was less depressing, but disconcerting because it was weaker than widely expected. It also suggested that the weakness in the manufacturing sector may be starting to spread to the non-manufacturing sector of the US economy.

The S&P 500 sold off sharply on Tuesday and Wednesday by 3.0% following the release of the M-PMI. Wednesday’s selloff was exacerbated by the release of September’s ADP private payrolls, which rose only 135,000 after August’s number was revised downward by 38,000 to 157,000.

Then, Thursday’s weak NM-PMI led to a 0.8% increase in the stock index as investors concluded that the weak PMI stats set the stage for another cut in the federal funds rate at the next FOMC meeting, on 10/29-30. Friday’s report that nonfarm private payrolls rose only 136,000 during September also increased the likelihood of more Fed easing, pushing the S&P 500 up another 1.4%, which put it only 2.4% below its record high (Fig. 1).

To examine the relationships among the two PMIs, the financial markets, and the economy, let’s start with a simple average of the M-PMI and the NM-PMI (Fig. 2 and Fig. 3). During September, the former was 47.8, while the latter was 52.6, putting the average at 50.2, the lowest reading since July 2009.

Why not give the NM-PMI more weight since it reflects activity in a much larger portion of the economy than manufacturing? That fact should be roughly balanced out by the fact that manufacturing tends to be more cyclical than services, thus accounting for more of the ups and downs of the business cycle. So a simple average should be fine for our purposes. Now consider the following:

(1) No recession in PMIs is evident. According to the ISM press release on the M-PMI, when readings are above 42.9 over a period of time, that generally indicates that the economy is growing. In fact, September’s reading of 47.8 corresponds to real GDP growth of 1.5%.

According to the ISM press release on the NM-PMI, readings above 48.6 suggest the economy is growing; September’s 52.6 corresponds to 1.4% growth in real GDP.
Averaging the two September readings gives us 50.2, solidly above the 45.8 ISM-provided average recession marker for the average.

(2) **Orders & production are weak.** That’s all fine, except the average PMI has been going in the wrong direction since late last year, falling from a recent peak of 60.2 during September 2018 to 50.2 last month. Both the production and orders indexes are down comparably with their averages, at 51.3 and 50.5 during September (*Fig. 4* and *Fig. 5*).

Confirming the weakness in the PMIs, manufacturing production was down 0.5% y/y during August, while factory orders were down 1.9% (*Fig. 6*).

(3) **Employment signals are mixed.** On the other hand, last week’s employment data showed gains even though the average of the employment indexes of the M-PMI and NM-PMI was under 50.0, at 48.4 (*Fig. 7*). ISM doesn’t provide a recession marker for employment, but if they did, it likely would be below 50.0 as well.

Let’s compare September’s ADP versus BLS reports: private payrolls up 135,000 vs 136,000, with goods-producing up 8,000 vs 5,000 and service-producing up 127,000 vs 109,000. Here are manufacturing (2,000 vs -2,000), construction (9,000 vs. 7,000), professional & business services (20,000 vs 34,000), education & health (42,000 vs 40,000), leisure & hospitality (18,000 vs 21,000), financial services (8,000 vs 3,000), and trade, transportation & utilities (28,000 vs 5,000).

In other words, the economy is still creating plenty of jobs despite the weakness in the PMI employment components. Then again, our Earned Income Proxy (EIP) rose just 0.1% m/m during September, as Debbie discusses below. Contributing to the weakness in our EIP was that average hourly earnings for all workers was unchanged during the month and up 2.9% y/y, falling below 3.0% for the first time since last July (*Fig. 8*).

**Purchasing Managers II: Impact on Interest Rates.** Also boosting stock prices on Friday afternoon was a *speech* by Fed Chair Jerome Powell at a “Fed Listens” event. He reassuringly said: “While not everyone fully shares economic opportunities and the economy faces some risks, overall it is—as I like to say—in a good place. Our job is to keep it there as long as possible.”

The latest batch of PMIs and employment reports suggested to many investors that the Fed may need to cut the federal funds rate for a third time this year at the next FOMC meeting to keep the economy in a good place. Those expectations were clearly reflected in interest rates last week:

(1) **Federal funds rate futures** fell sharply last week. The federal funds rate range is currently 1.75%-2.00%. On Friday, the futures rates fell to 1.64% for the nearby contract, 1.56% for the 3-month, 1.30% for the 6-month, and 1.06% for the 12-month (*Fig. 9*). That implies three to four rate cuts of 25bps over the next 12 months, starting with another cut at the end of this month.

That seems more likely now after the latest weak PMIs, and Powell’s commitment to keep the economy in a good place. The only question is whether the next rate cut might be 50bps? FRBNY President John Williams believes that the Fed needs to act more aggressively to lower the federal funds rate when it is so close to zero, to get ahead of deflationary pressures. He said so in a 7/16 *speech*: “When you only have so much stimulus at your disposal, it pays to act quickly to lower rates at the first sign of economic distress.”

(2) *The 2-year US Treasury yield* fell 23bps last week to 1.40%. Debbie and I view the two-year US
Treasury yield as another indicator of the market’s expectation for the federal funds rate a year from now since it closely tracks the 12-month federal funds rate futures (Fig. 10).

Interestingly, there has been a reasonably good correlation between the average PMI, discussed above, and the y/y change in the 2-year yield (Fig. 11). The exception was 2010-2015, when the Fed was targeting the federal funds rate at zero.

(3) The 10-year US Treasury yield fell 17bps last week to 1.52%. Not surprisingly, there is also a reasonably good correlation between the average PMI and the y/y change in the 10-year US Treasury yield (Fig. 12).

The Fed may be giving more weight to the yield curve in managing monetary policy, as Melissa and I suggested in our 4/7 study titled “The Yield Curve: What Is It Really Predicting?” We argued that the Fed should be easing when the yield curve inverts until it stops inverting. That may be the Fed’s game plan now. From 8/27 through 8/29, the 10-year versus 2-year yield spread turned slightly negative. On Friday, it was up 12bps on expectations of further Fed easing ahead following the disappointing PMI and employment reports (Fig. 13).

(4) Credit-quality spreads remained tight. The good news is that despite the weakness in those reports, credit-quality spreads remain low. If a recession were coming soon, those spreads would widen significantly.

**Purchasing Managers III: Impact on Stock Prices.** As we noted last week, the y/y growth rate of S&P 500 aggregate revenues is highly correlated with the average PMI series (Fig. 14). That explains why the S&P 500 stock price index, also on a y/y percent change basis, is highly correlated with the average PMI (Fig. 15).

While the sharp drop in the average PMI over the past 12 months is bearish news for revenues growth and thus the stock market, it is bullish for the stocks if it prompts the Fed to continue lowering interest rates. It is especially bullish if those lower rates boost economic growth.

**Purchasing Managers IV: Impact on Growth vs Value.** Yet another interesting correlation is between the average PMI and the relative performance of the S&P 500 Growth stock price index to the S&P 500 Value stock price index (Fig. 16). The former has been a relatively good leading indicator of the latter during the current economic expansion.

**Purchasing Managers V: Around the World.** The global composite C-PMI, along with its two components tracking global manufacturing and non-manufacturing activity, has been following the same path as the comparable US indexes (Fig. 17). That’s even truer for the indexes covering advanced economies.

Interestingly, the C-PMI, M-PMI, and NM-PMI for emerging economies have been showing more signs of life recently. September’s M-PMI rose for the third month, from 49.9 in June to a six-month high of 51.0 last month. September data for both the C-PMI and NM-PMI are due out this morning; the former rose from 50.9 in June to 51.8 in August, while the latter rose from 51.5 to 52.3 over the comparable period.

**CALENDARS**

**US. Mon:** Consumer Credit $18.2b, Powell. **Tues:** NFIB Small Business Optimism Index 104.1, Headline & Core PPI 1.7%/2.2% y/y, Powell. (DailyFX estimates)
Global. Mon: German Factory Orders -1.5%m/m/-4.6%y/y, Eurozone Sentix Investor Confidence -13, Japan Household Spending 1.2%y/y, Japan Leading & Coincident Indexes 93.6/101.1. Tues: Germany Industrial Production -0.3%m/m/-2.7%y/y, China Caixin NM-PMI 52.9, Carney. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (link): Last week saw the US MSCI index fall 0.3% to 2.7% below its 7/27 record high. The AC World ex-US dropped 1.8% for the week and remains in a correction at 16.3% below its record high, in January 2018. The US MSCI’s weekly performance ranked 12th among the 49 global stock markets of which just 10 of the 49 countries rose in US dollar terms. Most regions fell w/w, but the following outperformed the AC World ex-US: EM Latin America (0.2%), EM Asia (-0.3), and BRIC (-0.4). The regions underperforming the AC World ex-US last week: EM Eastern Europe (-2.6), EMEA (-2.2), and EAFE (-2.2). Argentina was the best-performing country, with a gain of 4.1%, followed by Pakistan (2.2), Mexico (2.0), Egypt (2.0), and Colombia (1.8). Of the 22 countries that underperformed the AC World ex-US MSCI last week, Greece fared the worst with a drop of 5.8%. Also underperforming were Austria (-4.0), the United Kingdom (-3.9), and Sweden (-3.8). In September, the US MSCI rose 1.6%, ranking 28/49 as the AC World ex-US index gained 2.3% and all regions moved higher. That compares to the US MSCI’s 2.0% decline in August, which ranked 13/49 as the AC World ex-US fell 2.6%, in a month when all regions moved lower. The best-performing regions in September: EMU (2.6), EM Latin America (2.5), and EAFE (2.5). September’s worst-performing regions, albeit with gains: BRIC (0.9), EMEA (1.5), EM Asia (1.8), and EM Eastern Europe (2.2). The US MSCI’s ytd ranking improved four spots last week to 4/49, with its 17.9% ytd gain more than double that of the AC World ex-US (7.2). All regions and 32/49 countries are in positive territory ytd. The regions that are outperforming the AC World ex-US ytd: EM Eastern Europe (10.8), EMU (8.8), and EAFE (7.8). EM Asia (3.4) is the biggest laggard ytd, followed by EMEA (3.8), EM Latin America (4.9), and BRIC (5.9). The best country performers ytd: Egypt (32.9), Russia (21.1), the Netherlands (18.5), the United States (17.9), Greece (17.8), and Switzerland (17.8). The worst-performing countries so far in 2019: Argentina (-29.8), Pakistan (-14.6), Poland (-12.4), and Chile (-9.3).

S&P 1500/500/400/600 Performance (link): All three of these indexes fell for a third straight week and have dropped in seven of the past 10 weeks. LargeCap’s 0.3% decline last week was less than the decreases recorded by MidCap (-1.0%) and SmallCap (-1.7). LargeCap ended the week 2.4% below its 7/26 record high of 3025.86, and MidCap fell to 7.1% below its record high on 8/29/18. SmallCap remained in a correction for a 12th month, as it dropped to 15.3% below its 8/29/18 record. Nine of the 33 sectors moved higher last week, compared to seven rising a week earlier. Last week’s best performers: LargeCap Tech (1.1), LargeCap Health Care (0.9), MidCap Communication Services (0.8), and LargeCap Consumer Staples (0.6). SmallCap Energy (-7.5) was biggest underperformer, followed by SmallCap Communication Services (-4.2), LargeCap Energy (-3.8), MidCap Energy (-3.7), and SmallCap Industrials (-2.7). During September, all three market-cap indexes rose for the seventh month this year after falling in August for the first time since May. LargeCap’s 1.7% gain was less than those of MidCap (2.9) and SmallCap (3.2). Twenty-seven of the 33 sectors advanced in September, compared to just six rising in August. LargeCap Real Estate has risen for five straight months, followed by four straight monthly gains for MidCap Real Estate. September’s best performers: SmallCap Materials (9.2), MidCap Energy (5.9), SmallCap Industrials (4.9), SmallCap Real Estate (4.8), and SmallCap Consumer Discretionary (4.8). September’s biggest laggards: SmallCap Communication Services (-4.4), MidCap Health Care (-2.7), MidCap Communication Services (-1.4), and SmallCap Health Care (-1.2). In terms of 2019’s ytd performance, all three indexes have logged double-digit gains. LargeCap leads with a gain of 17.8% ytd, 3.3pts ahead of MidCap (14.5) and well ahead of SmallCap (10.1). Twenty-nine of the 33 sectors are positive ytd, with the cyclicals leading the top performers: LargeCap Tech (30.0), LargeCap Real Estate (26.9), MidCap Tech (26.4), SmallCap Tech
(24.0), and LargeCap Utilities (22.5). MidCap Energy (-26.7) is the biggest decliner so far in 2019, followed by these underperformers: SmallCap Energy (-25.6), SmallCap Communication Services (-2.9), and LargeCap Energy (-0.1).

**S&P 500 Sectors and Industries Performance** ([link](#)): Six of the 11 S&P 500 sectors rose last week as seven outperformed the S&P 500's 0.3% decline (versus three rising and seven outperforming the S&P 500’s 1.0% drop the week before). Tech was the best-performing sector with a gain of 1.1%, ahead of Health Care (0.9%), Consumer Staples (0.6), Real Estate (0.4), Utilities (0.2), Communication Services (0.2), and Consumer Discretionary (-0.2). Last week’s underperformers: Energy (-3.8), Materials (-2.5), Industrials (-2.4), and Financials (-2.2). The S&P 500 rose 1.7% in September as 10/11 sectors moved higher and five beat the index. That compares to three rising and seven beating the S&P 500’s 1.8% rise in August. The leading sectors in September: Financials (4.5), Utilities (4.0), Energy (3.6), Industrials (2.9), and Materials (2.9). September’s laggards: Health Care (-0.3), Communication Services (20.3), and Consumer Discretionary (19.9). The ytd laggards: Energy (-0.1), Health Care (4.2), Materials (11.5), Financials (15.1), and Industrials (17.7).

**Commodities Performance** ([link](#)): Last week, the S&P GSCI index fell 2.5% for its biggest decline in 11 weeks as nine of the 24 commodities moved higher. That compares to a 1.9% decline a week earlier when 11 of the 24 commodities moved higher. The index had nearly climbed out of a correction during mid-April, recovering to a drop of just 10.0% shy of its high in early October 2018, after being down as much as 26.9% from that high on 12/24/18. It dropped back into a bear market in the latest week, weakening to 20.5% below its 10/3/18 high. Lead was the strongest performer last week, rising 4.7%, ahead of Soybeans (3.8%), Corn (3.6), Nickel (3.5), and Cotton (1.3). Crude Oil was the biggest decliner, with a drop of 5.5%, followed by Brent Crude (-4.4), GasOil (-3.8), Lean Hogs (-3.7), and Copper (-2.3). September saw 18 of the 24 commodities climb as the S&P GSCI Commodities index rose 1.6%. That compares to just five rising in August when the S&P GSCI Commodities index fell 6.0%. September’s best performers were Lean Hogs (14.3), Sugar (13.6), Live Cattle (11.5), Cocoa (9.9), and Zinc (9.1). September’s laggards: Silver (-7.3), Nickel (-4.9), Gold (-3.7), Crude Oil (-1.9), and Aluminum (-1.2). The S&P GSCI commodities index is up 6.7% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Nickel (67.6), Unleaded Gasoline (20.8), Gold (18.1), Crude Oil (16.3), and Silver (13.4). The biggest laggards in 2019: Natural Gas (-20.0), Kansas Wheat (-17.3), Cotton (-14.6), Live Cattle (-10.6), and Aluminum (-6.3).

**S&P 500 Technical Indicators** ([link](#)): The S&P 500 price index fell 0.3% 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 fell for just the eighth time in 33 weeks and is down from a 17-month high of 5.4% in mid-August, but formed a Golden Cross for a 28th week after 16 weeks in a Death Cross formation. The index had been in a Golden Cross for 137 weeks through late November, and its previous Death Cross lasted for 17 weeks through April 2016 (when its 50-dma bottomed at a then-four-year low of 4.5% below its 200-dma in March 2016). The Golden Cross reading fell to a 23-week low of 3.0% from 3.8% a week earlier and compares to -5.2% in early February, which had matched the lowest reading since November 2011. It’s still down from a 55-month high of 7.2% in February 2018. The S&P 500’s 50-dma dropped for a third straight week as the price index edged down to 0.4% above its falling 50-dma from 0.5% above its falling 50-dma a week earlier. It had peaked recently during mid-July at a 19-week high of 4.3% above. That was up from a 22-week low of 4.2% below its falling 50-dma at the end of May, but down from 6.6% above during mid-February, which was its highest since October 2011. However, the 200-dma rose for a 17th week. It had been rising for 16
weeks through mid-May after falling from October to February in the first downtrend since May 2016 (when it had been slowly declining for nine months). The index traded above its 200-dma for an 18th week, but dropped to a six-week low of 3.5% above its rising 200-dma from 4.3% above its rising 200-dma a week earlier. That compares to a 17-month high of 8.8% above its 200-dma at the end of July and 14.5% below on 12/24, which was the lowest since April 2009; the index remains well below the seven-year high of 13.5% above its rising 200-dma during January 2018.

S&P 500 Sectors Technical Indicators (link): Four of the 11 S&P 500 sectors traded above their 50-dmas last week, down from seven a week earlier. Tech moved back above its 50-dma in the latest week, but these three moved back below: Materials, Energy, and Industrials. The longer-term picture—i.e., relative to 200-dmas—remained steady w/w at nine sectors trading above. That’s up from just six at the end of August, which was the lowest count since early June. Health Care was below its 200-dma for a second week, and Energy was below for a 12th week after being above—just for a week—for the first time since early October. Ten sectors are in the Golden Cross club (with 50-dmas higher than 200-dmas), unchanged from a week earlier and compared to just two in February and all 11 in January 2018. Again, Energy is the sole laggard, not having been in a Golden Cross for 46 straight weeks. Just three sectors have rising 50-dmas now, down from six a week ago. The 50-dmas continue to rise for Communication Services, Real Estate, and Utilities. Among the laggards, Energy and Health Care have had mostly declining 50-dmas since late spring. All 11 sectors have rising 200-dmas, unchanged from a week earlier. Energy moved higher for a second week after mostly falling since last October. Materials and Financials moved higher for a sixth week in their attempts at new uptrends for the first time since last September. That compares to just two sectors with rising 200-dmas in early January, in what was then the lowest count since all 11 sectors had falling 200-dmas two years before.

US ECONOMIC INDICATORS

Employment (link): Job gains in September were weaker than expected, though there were upward revisions to prior months. Payroll employment climbed 136,000 (vs 145,000 estimate) last month, while both August (to 168,000 from 130,000) and July (166,000 from 159,000) payrolls were revised higher, for a net gain of 45,000. Job growth has averaged 160,800 per month so far this year, below 2018’s average monthly gain of 223,250. Private payrolls rose only 114,000 (21,000 lower than ADP’s 135,000) last month, after a revised net gain of 17,000 the prior two months—with August’s (122,000 from 96,000) increase higher and July’s (122,000 from 131,000) lower than first reported. Health care led job gains in September, adding 39,000 jobs last month and 442,600 over the past 12 months, while professional & business services also continued to trend higher, boosting payrolls by 34,000 m/m and 437,000 y/y. Government jobs rose 22,000 last month, led by local (14,000) and state (10,000) governments; federal jobs were cut by 2,000. Over the past year, government jobs were up 147,000—with local (102,000) governments accounting for 70% of the gain; federal government jobs rose 46,000 y/y, while state government jobs held steady with a year ago. Also moving higher was employment in transportation & warehousing, which climbed 16,000 after cutting jobs the prior two months. Meanwhile, retail trade cut payrolls for the eighth straight month, by 11,400 m/m and 87,000 over the period, while manufacturers reduced payrolls for the first time in six months, by 2,000. Employment in other major industries—including mining, construction, wholesale trade, information, financial activities, and leisure and hospitality—showed little change over the month.

Earned Income Proxy (link): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, continued to set new highs in September, though the pace slowed. (It hasn’t posted a decline since February 2016.) Our EIP edged up only 0.1% last month, following a 0.8% increase in August—which was the biggest monthly gain this year; it was 4.2% above a year ago, down from its recent peak of 5.7% y/y at the start of the year. Average hourly earnings (AHE), one of the components of our EIP, was flat last month—pushing the yearly rate down to a 14-month low of 2.9%; it was at 3.4%
y/y in February, the highest since April 2009. Meanwhile, aggregate weekly hours—the other component of our EIP—ticked up 0.1% in September, slowing from August’s 0.3%; it was up 1.3% y/y, roughly half the 2.8% rate at the start of this year.

Unemployment (link): September’s unemployment rate dropped to a new 50-year low! The unemployment rate in September sank to 3.5%—the lowest rate since December 1969—as unemployment fell 275,000 and household employment rose 391,000. Meanwhile, the participation rate was unchanged at August’s six-month high of 63.2%. The adult unemployment rate fell back down to April’s cyclical low of 3.2%—which was the lowest since January 1970—while the college-grad rate edged was back down at its cyclical low of 2.0%. In the meantime, the volatile teenage rate (12.5) is moving back down toward its cyclical low of 12.0% posted during October and November of last year—after hovering around 13.0% the first seven months of this year. The number of workers working part-time for economic reasons (a.k.a. “involuntary part-time workers”) fell for the fourth time in five months, by 31,000 m/m and 304,000 over the period, to 4.35 million (2.7% of the civilian labor force). The sum of the underemployment and jobless rates fell from 6.4% to 6.2%, near July’s 6.1%—which was the lowest since October 2000. The U6 rate, which includes marginally attached workers, fell from 7.2% to 6.9% last month—its lowest rate since December 2000.

Wages (link): September wages—as measured by AHE for all workers on private nonfarm payrolls—slipped below 3.0% for the first time since last July. Average hourly earnings was unchanged at its record high in September, while the yearly rate eased to 2.9% y/y; it peaked at 3.4% in February. The past 12 months’ wage rate for service-providing industries (3.0% y/y) is down from its series high of 3.6% recorded in February, while the goods-producing rate (2.6%) is holding steady just below 3.0%. Within goods-producing, both the manufacturing (2.7) and natural resources (3.7) rates remain on accelerating trends, though eased a bit last month. The rate for construction (2.2) is on a steep decelerating trend—recording its lowest wage rate since January 2016. Within service-providing industries, the rate for retail trade (4.8) remains stalled around its series high, while the information services rate dropped sharply to 3.7% in September from 6.2% in August—which was near its series high of 6.6% posted in January. Meanwhile, the rate for transportation & warehousing (2.8) remains on an accelerating trend, while rates for financial activities (3.1), utilities (2.0), and education & health services (1.7) remain on decelerating trends, though the latter may be finding a bottom. Rates for leisure & hospitality (3.7) and professional & business services (3.2) are moving sideways around recent highs, while the rate for wholesale trade is heading lower after accelerating most of this year.

Merchandise Trade (link): The real merchandise trade deficit in August widened slightly to -$85.7 billion, after narrowing slightly in July to -$85.4 billion from -$86.2 billion in June. The July/August average monthly deficit of -$85.6 billion is just a bit wider than Q2’s average monthly deficit of -$84.9 billion, suggesting trade was likely a minor drag on real GDP during Q3. Real exports of goods (1.1%) rose at a faster pace than imports (0.8) in August. Real exports were mixed during the month: Food (6.2), industrial supplies & materials (5.3), and autos (3.0) were up big, while exports of consumer goods ex autos (-4.8) and capital goods ex autos (-3.2) were down big. Meanwhile, imports of capital goods ex autos (3.4) and consumer goods ex autos (3.3) accounted for the increase in real imports in August, more than offsetting declines in imports of autos (-2.4), industrial materials & supplies (-1.9), and food (-0.6). Taking a look at our trade deficit with China (in nominal terms), it has narrowed steadily from -$419.5 billion in December, based on the 12-month sum, to -$389.6 billion in August. Over this same period, US exports to China fell by $13.3 billion—from $120.1 billion to 106.8 billion—while US imports from China fell at triple that pace, from $539.7 billion to $496.4 billion.

US Non-Manufacturing PMIs (link): ISM’s September survey shows non-manufacturing activity slowed to a three-year low, while IHS Markit’s measure remained just above the breakeven point of 50.0. ISM’s NM-PMI (to 52.6 from 56.4) has slowed steadily from last September’s peak of 60.8; however, ISM
notes that an NM-PMI above 48.6, over time, generally indicates an expansion of the overall economy. Three of the four components of the NM-PMI moved lower last month, though the business activity (55.2 from 61.5) and new orders (53.7 from 60.3) gauges remained comfortably above 50.0. Meanwhile, the employment (50.4 from 53.1) measure continued to fall toward 50.0, dropping to its lowest reading since February 2014. The supplier deliveries’ (51.0 from 50.5) measure has fluctuated around 51.0 the past four months, after dipping briefly below 50.0 in May (49.5). IHS Markit’s NM-PMI (to 50.9 from 50.7) ticked up last month, but is nearing contractionary territory, down sharply from its recent peak of 56.0 just seven months ago. The report notes that new business recorded its worst month since data collection began in October 2009, pushing companies to reduce employment for the first time since early 2010. Meanwhile, business confidence remained subdued “amid ongoing economic certainty.”

Auto Sales link): Motor vehicle sales in September remained in a volatile flat trend around 17.0mu, with domestic light-truck sales continuing their recent strength. Total sales rose for the second month last month, to 17.2mu (saar), from 17.1mu in August and 16.9mu in July. So far this year, sales have fluctuated from a low of 16.5mu to a high of 17.5mu. Domestic light-truck sales reattained their cyclical high of 10.0mu (saar) in September—1.0mu above their 9.0mu pace at the start of the year. Meanwhile, domestic car sales appear to have found a bottom, holding at 3.4mu (saar) for the third month; sales had been in a freefall since peaking at 6.0mu during June 2014. Sales of imports fell to an eight-month low of 3.7mu (saar), after fluctuating between 3.8mu and 3.9mu the prior seven months.

GLOBAL ECONOMIC INDICATORS

Global Retail Sales (link): Retail sales advanced for the sixth time this year in August, to within 0.3% of a new record high. Sales rose 0.3% in August and 2.3% ytd. Of the three major sales categories, nonfood products excluding fuel (0.4%) drove August’s gain, with sales of automotive fuel (0.1) basically flat and food drinks & tobacco (0.0) officially flat. Year to date, sales were basically the same, with nonfood products up 4.0% while automotive fuel (0.4% ytd) and food, alcohol & tobacco (0.7) were little changed. Regionally, sales in August increased for three of the major four Eurozone economies for which data are available, on both a m/m and ytd basis: Germany (0.5% m/m & 4.5% ytd), France (0.6 & 1.6), and Spain (0.5 & 2.8)—with sales in both Germany and France just shy of new record highs and Spain's at a new cyclical high.

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