



MORNING BRIEFING

May 30, 2017

Steady Eddie

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

(1) Cruising at a safe speed. (2) Real GDP growth looks nice and steady on y/y basis. (3) GDP growth is higher excluding the government. (4) Steady, Fast, and Crazy Eddies. (5) Larry Summers says he told us so. (6) Demography is weighing on working-age population and labor force growth in US. (7) Age wave analysis shows younger workers growing faster. (8) Japan's death cross. (9) Global trade indicators showing improving economic activity.

US Economy I: Still Cruising at Stall Speed. The title of today's commentary isn't meant to describe our forecasting style, though Debbie and I try to be as steady as possible. Rather, we're thinking about the remarkable stability of the growth in real GDP in the US. That may seem odd given the erratic growth rates of real GDP on a quarter-over-quarter, seasonally adjusted annual rate basis over the past five quarters from Q1-2016 through Q1-2017: 0.8%, 1.4%, 3.5%, 2.1%, and 1.2% ([Fig. 1](#)). However, the underlying growth rate measured on a year-over-year basis has been remarkably stable around 2.0% since Q1-2010, within a range of 1.0% and 3.3% ([Fig. 2](#)). It was exactly 2.0% during the first quarter.

We recall that starting in 2010, perma-bears warned that 2.0% was the economy's "stall speed." They were right about the past: During previous economic expansions, whenever real GDP growth slowed to 2.0% on a y/y basis, the economy subsequently fell into a recession ([Fig. 3](#)). So far, they've been wrong about the current expansion. It continues apace, growing around 2.0% without stalling. Perhaps that's because real GDP excluding government spending has been growing around 3.0% since 2010 ([Fig. 4](#)). It was 2.6% during the first quarter. The growth rate of government spending in real GDP (which does not include spending on income redistribution programs) has been mostly negative since the start of the current expansion ([Fig. 5](#)). That's unusually weak and may reflect the fact that spending on entitlements is so huge now that it is crowding out government spending on goods and services.

Nevertheless, this proves that the economy can grow just fine without the help of government spending. While we are digressing: Eddie Clarence Murray was a former Major League Baseball player, who was known as one of the most reliable hitters of his time and hence was nicknamed "Steady Eddie." He was elected to the Baseball Hall of Fame in 2003. "Fast Eddie" was the nickname of Eddie Parker, the accomplished pocket billiards player memorialized in the movie "The Hustler." Eddie Antar owned Crazy Eddie, a chain of electronics stores in the Northeast, until he was charged with fraud and spent eight years in prison.

Steady Eddie was clearly the most respectable and predictable of the three Eddies. The economy's Steady Eddie performance is gaining more respect. No one is warning about stall speed. Fewer economists are calling it the "New Normal," since it isn't so new anymore. Few are calling it "secular stagnation," with the exception of Larry Summers, who revived this post-WWII scenario in a 11/25/13 [speech](#) at the IMF. He did it again in an interview with David Wessel that was summarized in a 5/25 [WSJ article](#) titled "'Secular Stagnation' Even Truer Today, Larry Summers Says." Here are a few key points:

(1) *Victory lap.* Summers took a victory lap, claiming, according to Wessel, "that he has been vindicated

by slow economic growth, low inflation and low interest rates, which many forecasters now expect to persist. Today, he is more convinced than ever that secular stagnation is the defining economic problem of our time—one that won't be easily defeated as long as fiscal authorities are overly preoccupied with debt and central bankers are overly focused on keeping inflation at low levels.”

(2) *Explaining stagnation.* Summers rattles off lots of reasons for the slowdown in economic growth and for historically low nominal and real interest rates. Demography is important. So are increased risk aversion and a shortage of safe assets. Income inequality and a higher propensity to save are also on his list. Lenders are less willing and/or less able to lend. Corporations aren't spending enough.

(3) *Demand vs. supply.* Summers acknowledges that secular stagnation might not be all about insufficient demand. Nevertheless, he concludes, “So, first, more public investment I think is a good thing.” Spoken like a true Keynesian fiscal stimulator.

US Economy II: Demography Is Destiny. There may be lots of reasonable explanations for the slowdown in economic growth. They may all be valid. However, we think that demographic trends account for most of the slowdown. Nevertheless, as noted above, the private sector has been growing at a respectable rate notwithstanding all the angst about secular stagnation. The record high in stock prices certainly shows that investors aren't particularly concerned about chronically weak growth.

Still, there is no getting around the demographic facts. Consider the following:

(1) *Population.* The 10-year growth at an annual rate of the working-age population fell to 1.0% in April, the lowest since the start of the series in the late 1950s ([Fig. 6](#)). More significant is that the working-age population 16-64 years old grew just 0.5% per year on average over the past 10 years, through April. That's the lowest on record!

(2) *Labor force.* The civilian labor force that is 16-64 years old rose just 0.3% at an annual rate over the past 10 years ([Fig. 7](#)). That's the lowest on record, which starts in 1958.

(3) *Age waves.* The demographic trends shown by the population and labor force data have been very much impacted by the Baby Boom. In addition, fertility rates have declined, while people are living longer. The growth rates of the labor force by age cohorts looks like a wave pattern on an old-fashioned oscilloscope ([Fig. 8](#)).

The important observation is that the 25- to 34-year-old segment of the labor force is growing, while the 35-44 and 45-54 groups are declining. They are declining partly because there may be more dropouts than in the past. However, the main reason for their declines is that the Baby Boomers are aging into the 55-64 and 65+ cohorts.

The rising growth rate of younger workers and the declining growth rates of older workers can easily explain why productivity growth is weak and why wage inflation remains subdued despite a tight labor market. They can also explain why demand growth might remain lower than in the past.

Japan: Death Cross. In many ways, Japan is the poster child of a modern industrial economy that is struggling with secular stagnation. The Japanese government has tried numerous rounds of fiscal and monetary stimulus without much success. The problem is a rapidly aging population that is also shrinking. Japan “is currently the oldest nation in the world and is projected to retain this position through at least 2050,” notes the Census Bureau's March 2016 [report](#) *An Aging World: 2015*. Japan's elderly population percentage increased from 12% in 1990 to 25% in 2014. The working-age population percentage fell from 69% to 62% over this same period. Since July 2007—when the number of deaths

exceeded the number of births for the first time, with the gap between the two continuing to widen—Japan's population declined by 1.0 million through May 2017 ([Fig. 9](#)).

Global Economy: Less Stagnation! Now the good news: It's a big world out there, with lots of aspirational workers and materialistic consumers. Demographic forces will continue to weigh on economic growth worldwide, because fertility rates are down while longevity is up almost everywhere. However, around the world, particularly in emerging market economies, there are still plenty of people who want a better standard of living.

We have found that one of the best ways to track global economic activity is with the yearly percent change in the sum of US exports and imports, both adjusted for inflation ([Fig. 10](#)). It is highly correlated with the yearly percent change in the volume of world exports. The former was up 5.0% through March, holding near its best growth rate since December 2014, while the latter was up 6.1% over the same period, its best rate since April 2011. Global economic activity is clearly improving.

CALENDARS

US. Tues: Personal Income & Consumption 0.4%/0.4%, Core PCED 1.5% y/y, Consumer Confidence 119.0, Dallas Fed General Activity Index 15.4, S&P CoreLogic Case-Shiller HPI 5.8% y/y. **Wed:** Pending Home Sales 0.5%, MBA Mortgage Applications, Chicago PMI 57.5, Beige Book, Kaplan (Bloomberg estimates)

Global. Tues: Eurozone Economic Confidence 110, Germany CPI -0.1%/m/m/1.6%/y/y, France GDP 0.8%, Japan Industrial Production 4.1%/m/m/6.0%/y/y. **Wed:** Eurozone Headline & Core CPI Flash Estimate 1.5%/1.0% y/y, Eurozone Unemployment Rate 9.4%, Germany Unemployment Change & Unemployment Rate -14k/5.7%, Germany Retail Sales 0.4%/m/m/2.0%/y/y, Canada GDP 4.3%q/q/3.0%/y/y, Japan Capital Spending 3.9%, Japan Housing Starts 970k, China M-PMI 51.0 (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index rose 1.4% last week, ranking 16th of the 49 markets as 33 rose in US dollar terms—compared to 37th a week earlier, when it fell 0.4% as 30 markets moved higher. The AC World ex-US index underperformed the US MSCI, rising 0.6% compared to a 0.4% gain a week earlier. EM Latin America was the best-performing region last week with a gain of 2.7%, followed by EM Asia (2.2%) and BRIC (2.0). EM Eastern Europe was the week's worst-performing region, with a decline of 0.9%, followed by EMEA (-0.3), EMU (-0.1), and EAFE (0.1). Pakistan (3.9) was the best-performing country, followed by South Africa (3.7), Argentina (3.5), Brazil (3.5), and Korea (3.5). Hungary (-2.5) was the worst performer, followed by Italy (-2.2), Sri Lanka (-1.5), and Russia (-1.2). The US MSCI is up 8.1% ytd, with its ranking edging up w/w to 36/49 from 38/49, but continues to trail the AC World ex-US (12.5) on a ytd basis. Forty-six of the 49 markets are positive ytd, led by Argentina (46.5), Poland (33.2), Austria (32.2), Korea (28.4), Spain (24.3), and Turkey (23.3). The worst country performers ytd: Russia (-9.1), Jordan (-1.3), Morocco (-0.3), Canada (0.1), and New Zealand (2.8). EM Asia is the best-performing region ytd with a gain of 21.4%, ahead of: EMU (16.8) and BRIC (16.5). The worst-performing regions, albeit with gains: EM Eastern Europe (0.6), EMEA (3.8), EM Latin America (10.5), and EAFE (12.0).

S&P 1500/500/400/600 Performance ([link](#)): All three market-cap indexes rose together last week for the first time in five weeks. LargeCap outperformed for a fifth straight week as it rose 1.4%, ahead of SmallCap's 1.1% gain and MidCap's 0.9% rise. Twenty-eight of the 33 sectors rose, up from 10 rising a week earlier. LargeCap ended the week at a record high, MidCap was 1.8% below its March 1 record,

and SmallCap ended 3.0% below its record high on February 21. Last week's top gainers: SmallCap Utilities (2.9%), SmallCap Tech (2.6), MidCap Utilities (2.5), MidCap Tech (2.5), and LargeCap Utilities (2.5). Energy and Telecom dominated last week's worst performers: MidCap Energy (-6.8), SmallCap Energy (-6.2), LargeCap Energy (-2.1), MidCap Telecom (-2.1), and LargeCap Telecom (-0.3). Nineteen of the 33 sectors are positive ytd, with LargeCap (7.9) beating MidCap (4.0) and both easily ahead of SmallCap (-0.1). The biggest sector gainers ytd: LargeCap Tech (19.7), MidCap Health Care (16.8), MidCap Tech (13.3), SmallCap Health Care (12.2), LargeCap Consumer Discretionary (11.4), and LargeCap Health Care (9.8). Energy and Telecom dominate the worst performers ytd: SmallCap Energy (-31.2), MidCap Telecom (-29.1), MidCap Energy (-25.7), LargeCap Energy (-12.1), and LargeCap Telecom (-11.7).

S&P 500 Sectors and Industries Performance ([link](#)): Nine of the 11 sectors rose last week, and five outperformed the S&P 500's 1.4% gain. This compares to four sectors rising a week earlier, when six outperformed the S&P 500's 0.4% decline. Utilities was the best-performing sector—with a gain of 2.5%, its best in 13 weeks—followed by Tech (2.3%), Consumer Staples (2.2), Consumer Discretionary (1.7), and Industrials (1.7). Telecom fell for a tenth week. Last week's worst performers: Energy (-2.1), Telecom (-0.3), Real Estate (0.7), Materials (1.0), Health Care (1.1), and Financials (1.3). So far in 2017, nine of the 11 sectors are higher, and five have outperformed the S&P 500's 7.9% gain. The best performers in 2017 to date: Tech (19.7), Consumer Discretionary (11.4), Health Care (9.8), Utilities (9.2), and Consumer Staples (9.1). The six sectors underperforming the S&P 500: Energy (-12.1), Telecom (-11.7), Financials (1.3), Real Estate (3.6), Materials (6.2), and Industrials (7.0).

Commodities Performance ([link](#)): Eight of the 24 commodities we follow rose last week, down from 16 rising a week earlier. The week's best performers: Silver (3.1%), Lean Hogs (2.2), Lead (1.3), and Gold (1.2). Last week's laggards: Sugar (-8.1), Cocoa (-5.8), Nickel (-3.1), and Cotton (-3.0). The best performers in 2017 so far: Lean Hogs (23.8), Feeder Cattle (17.5), Aluminum (15.2), and Gold (10.4). The energy-related commodities are no longer dominating this year's laggards: Sugar (-22.9), Natural Gas (-11.1), Cocoa (-10.1), Nickel (-9.3), and Heating Oil (-9.3).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 7/24 commodities, 6/9 global stock indexes, and 28/33 US stock indexes compared to 16/24, 3/9, and 9/33 rising a week earlier, respectively. Fourteen commodities trade above their 200-dmas, down from 17 a week earlier as Crude Oil and GasOil turned negative w/w and Heating Oil turned flat. Commodities' average spread fell to 0.7% from 1.9%. Among assets, Commodities walked away the top spot last week: Lean Hogs leads all commodities and all assets at 29.4% above its 200-dma, followed by Feeder Cattle (13.3%) and Aluminum (9.3). Silver performed the best of all commodities and all assets last week, improving 3.3ppts to -1.6%. Sugar (-23.0), Cocoa (-17.0), Nickel (-11.7), and Coffee (-10.5) trade at the lowest of the commodity assets relative to their 200-dmas. Sugar was the worst performer of all commodities and all assets last week as it tumbled 6.4ppts. The global indexes trade at an average of 6.7% above their 200-dmas, up from 6.0% above in the prior week. All nine of the global indexes trade above their 200-dmas, unchanged from a week earlier. South Korea (13.0) leads the global indexes and was the group's best performer last week with a 2.8ppts advance. Canada (1.3) is trading at the lowest relative to its 200-dma of the global assets, but Indonesia had the weakest performance of its country peers last week, falling 1.6ppts to 5.8%. The US indexes trade at an average of 2.1% above their 200-dmas, with 25 of the 33 sectors above, up from a 1.5% average a week earlier, when 24 sectors were above. SmallCap Materials turned positive w/w, and SmallCap Telecom improved to flat territory. The US stock indexes no longer dominate the top ten assets trading above their 200-dmas as they did in early March. LargeCap Tech leads all US stock indexes at 14.2% above its 200-dma, followed by MidCap Tech (12.3) and MidCap Health Care (12.3). SmallCap Utilities (8.4) rose 2.8ppts w/w for the biggest improvement among US stock indexes. MidCap Telecom trades 23.3% below its 200-dma, the lowest among the US stock indexes and all

assets, but MidCap Energy (-17.8) tumbled 5.7ppts w/w.

S&P 500 Technical Indicators ([link](#)): The S&P 500 index remained in a Golden Cross last week for a 57th week (after 17 weeks in a Death Cross). However, the index's 50-day moving average (50-dma) relative to its 200-dma fell for a ninth week after rising since early December. Its 50-dma was 4.7% above its 200-dma, down from 4.8% a week earlier and a 34-month high of nearly 5.5% in early April. That's up from a six-month low of 2.0% in early December and a 52-month low of -4.5% in March 2016. The S&P 500's 50-dma moved higher for a 29th week as the index closed above its 50-dma for a fifth week, after two weeks below, for the first time since the November election. The S&P 500 rose to an 11-week high of 1.9% above its rising 50-dma from 0.6% a week earlier, and is up from a 23-week low of -1.0% in mid-April. That's down from a 38-week high of 4.8% above its rising 50-dma on December 13 and compares to a 52-month high of 6.2% in March 2016 and a five-month low of -7.8% in January 2016. The S&P 500 rose to 6.6% above its rising 200-dma last week from 5.4% a week earlier, and remains above mid-April's 19-week low of 4.2%. That's down from a 38-month high of 9.4% on March 1. The 50-dma and 200-dma both rose together for a 26th week.

S&P 500 Sectors Technical Indicators ([link](#)): Ten of the 11 sectors improved w/w relative to their 50-dmas and 200-dmas; Energy was the only sector to weaken. Nine of the 11 sectors trade above their 50-day moving averages (50-dmas), up from seven a week earlier and up from three in mid-April, which was the lowest since the election. Financials turned positive for the first time in 11 weeks and Materials also flipped back. Energy remained below for a 19th straight week and Telecom for a tenth week. All 11 sectors had been above their 50-dmas during mid-January, and all 11 were below the week before the election, for the first time since December 11, 2015. Nine of the 11 sectors were above their 200-dmas last week, unchanged from a week earlier, as Energy remained below its 200-dma for a 14th week and Telecom for a tenth. 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. Eight of the 11 sectors have rising 50-dmas, up from seven a week earlier as Health Care turned up. Financials' 50-dma fell for a ninth week; Energy's dropped for a 17th week; and Telecom's fell for a 16th. Eight sectors have rising 200-dmas, unchanged from a week earlier. These three sectors continued their 200-dma downtrends: Real Estate's fell for a 12th week, Telecom's for a tenth, and Utilities' for a fourth.

US ECONOMIC INDICATORS

GDP ([link](#)): Real GDP last quarter expanded at the slowest pace in a year, though revisions show growth was faster than first reported. The economy grew 1.2% (saar) during Q1, a half-percentage point above the initial estimate of 0.7%. There was a notable upward revision to real capital spending (to 11.4% from 9.4%, saar)—the fastest pace in five years. Growth in both structures (28.4 from 22.1) and intellectual property products (6.7 from 2.0) were considerably higher than first reported; spending on equipment (7.2 from 9.1) expanded at a slower, though still solid, pace after the revision. There were negligible upward revisions to real consumer spending (0.6 from 0.3) and residential investment (13.8 from 13.7). It was the slowest growth rate in the former since Q4-2009, with consumer goods (0.3 from 0.1) and services spending (0.8 from 0.4) still showing gains below 1%. Also contributing to the upward revision was a narrower decline in state & local government spending (-0.6 from -1.6) than first reported. These upward revisions were partly offset by a downward revision to inventory investment (\$4.3 billion from \$10.3 billion). There was little change in net exports; real export growth was unchanged at 5.8% (saar), while imports grew 3.8%, little changed from the initial estimate of 4.1%.

Contributions to GDP Growth ([link](#)): Real capital spending was the number-one contributor to real GDP last quarter—replacing consumer spending; business inventories and government spending both

were drags on growth. (1) Nonresidential fixed investment (1.34ppt) contributed positively to GDP growth last quarter as spending on structures (0.69), equipment (0.39), and intellectual property products (0.27) all added to growth. (2) Residential investment (0.50) was a positive contributor for the second consecutive quarter after subtracting from growth the prior two quarters. (3) Trade (0.13) was a small contributor to Q1 growth after being the only detractor from Q4 growth; exports added 0.69ppt, while imports subtracted -0.55ppt. (4) Real consumer spending accounted for only 0.44ppt of real GDP growth during Q1 after contributing over 2.0ppts in each of the prior three quarters. Goods consumption (0.07) was basically neutral—as a negative contribution from durable goods (-0.11) spending nearly wiped away a positive contribution from nondurables (0.18); services consumption contributed 0.37ppt. (5) Inventory investment (-1.07) was the biggest drag on growth during Q1, all nonfarm (-1.11). (6) Real government expenditures (-0.20) subtracted from GDP growth for the first time in three quarters, with both state & local (-0.06) and federal (-0.14) government spending in the red.

Durable Goods Orders & Shipments ([link](#)): Durable goods orders in April fell for the first time in five months on widespread weakness. These orders pulled back 0.7%, after a four-month spurt of 4.3%, as a 9.2% plunge in nondefense aircraft orders dragged transportation equipment orders down 1.2%; a 15.4% spike in aircraft orders lifted transportation orders 5.3% in March. Excluding transportation, orders slumped 0.4% after a 2.2% jump the first three months of the year. Nondefense capital goods orders ex aircraft (a proxy for future business investment) was flat for the second month, as March's 0.5% increase was revised to no change. Nondefense capital goods shipments ex aircraft (used in calculating GDP) dipped 0.1% in April after a two-month gain of 1.6% to a new cyclical high. These core orders expanded 3.7% (saar) during the three months ending April, based on the three-month average, the weakest pace this year, while these core shipments expanded 6.6% over the comparable period, in line with recent highs. Manufacturing surveys are showing a softening in manufacturing activity. Markit's flash estimate for May showed the M-PMI falling to 52.5 from 52.8 in April and a 22-month high of 55.0 at the start of this year.

Regional M-PMIs ([link](#)): Four Fed districts now have reported on manufacturing activity for May—New York, Philadelphia, Richmond, and Kansas City. We average the composite, orders, and employment measures as data become available. The composite index fell for the third month to 11.7 this month from 23.3 in February, which was the highest reading since May 2004. A pickup in the Philadelphia (to 38.8 from 22.0) region, and a slight uptick in Kansas City's (8 from 7), was more than offset by a sharp slowing in Richmond's (1 from 20) to a near standstill and the first contraction in New York's (-1.0 from 5.2) since October. The new orders gauge slipped for the second month to 7.5 from 29.5 in March, which was the best reading since the end of 2003. Over the two-month period, Philadelphia (25.4 from 38.6) and Kansas City (9 from 32) gauges slowed—with the former remaining at a high level—while Richmond's (0 from 26) fell to zero and New York's (-4.4 from 21.3) swung from expansion to contraction. Meanwhile, the employment measure slowed for the second month to 11.6, though held near March's cyclical high of 14.8, which was the best hiring pace since May 2011. Manufacturers in the Philadelphia (17.3 from 19.9), New York (11.9 from 13.9), and Kansas City (11 from 9) regions added to payrolls at a robust pace, while employment in the Richmond area slowed significantly, with its measure falling from a cyclical high of 20 in March to 6 this month.

Consumer Sentiment ([link](#)): "Consumer sentiment has continued to move along the high plateau established following Trump's election," the survey's chief economist, Richard Curtin, wrote. "The final May figure was virtually unchanged from either earlier in May or the April reading. Indeed, the May figure was nearly identical with the December to May average of 97.3." The Consumer Sentiment Index climbed for the third month to 97.1 (below the mid-May reading of 97.7) from 97.0 in April and 96.9 in March; it was at a cyclical high of 98.5 in January. The expectations component advanced for the second month from 86.5 in March to 87.0 in April and 87.7 in May—down from the preliminary estimate

of 88.1. The present situation component fell for the second month from a cyclical high of 113.2 in March to 111.7 in May; the mid-May reading had the measure unchanged from April's 112.7.

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