U.S. Economic Comment

- Global economic activity: still a concern
- Domestic considerations: little spark in investment spending; inflation picking up slowly

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Foreign Economic Activity

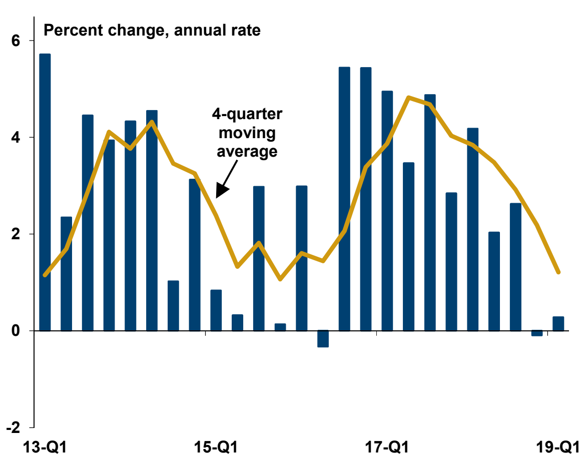
In explaining the recent dovish tilt of the Federal Open Market Committee, Fed Chairman Jerome Powell highlighted uncertainties associated with trade negotiations and muted inflation pressures. He also noted concerns about global growth and hinted that foreign developments could have an influence on upcoming policy decisions of the FOMC. We suspect that domestic considerations will have the strongest influence on the Committee, but we should also keep a close eye on foreign developments. The latest information is not likely to ease the concerns of Fed officials.

Conveniently, the Federal Reserve Bank of Dallas maintains a database of broad macroeconomic statistics aggregated to a global level. The latest figures in this database indeed show a slowing in economic activity. GDP in advanced countries (ex-U.S.) grew only 1.1 percent in the first quarter, which left the four-quarter change at 1.3 percent, one of the softest readings of the current expansion. Industrial production, which is more cyclically sensitive than GDP, has shown a more pronounced shift, decelerating throughout last year and showing virtually no growth in the past two quarters (chart, left).

The slowing is notable, but the figures are dated for policy purposes; Fed officials will be more interested in current conditions and prospects for coming quarters. Figures on unemployment are generally available through April, and figures for Japan and Canada are available through May. Recent results have been mildly encouraging, as jobless rates among some of the key trading partners of the U.S. have not increased despite the apparent slowdown. (Unemployment has increased in Australia, moving from 4.9 percent in February to 5.2 percent in April and May. The Reserve Bank of Australia has eased policy in response.)

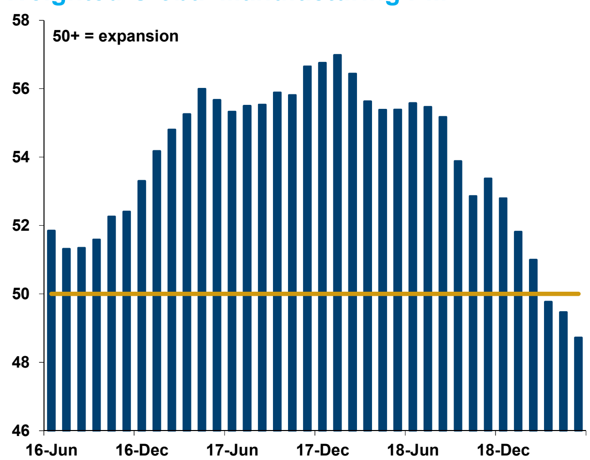
Various survey measures have been less favorable. Purchasing managers' indexes for manufacturing sectors have lost ground, decelerating throughout last year and moving below 50 percent recently (chart, right). Nonmanufacturing measures have registered better performances, generally stabilizing in the low-50-percent

Industrial Production*



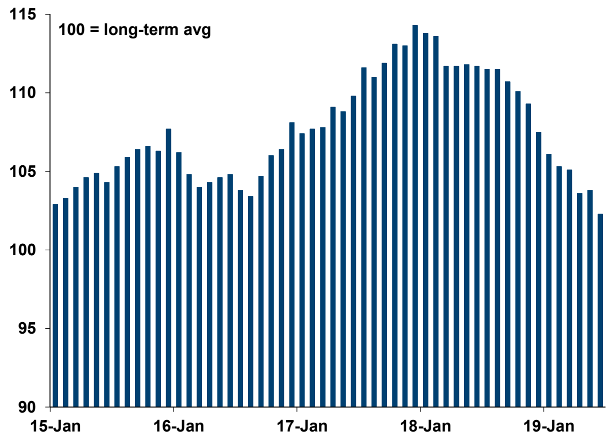
* Growth of world industrial production excluding the United States.
Source: Federal Reserve Bank of Dallas via Haver Analytics

Weighted Global Manufacturing PMI*



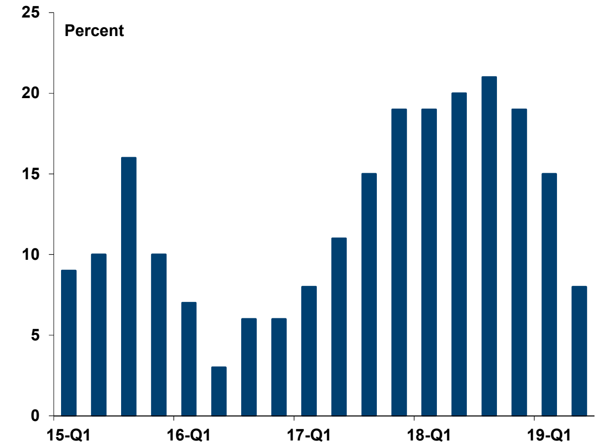
* *Weighted average of the IHS Markit manufacturing purchasing managers' indexes of Canada, the Eurozone, Japan, and the United Kingdom. Weights are calculated based on U.S. exports to these countries/regions.*
Source: IHS Markit via Bloomberg; U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Economic Sentiment Indicator



** Index for the EU28 (European Union)*
Source: European Commission via Haver Analytics

Tankan Survey: Forecast Conditions*



** Large enterprises, manufacturing sector. The index shows the share of favourable responses less the share of unfavourable responses.*
Source: Bank of Japan via Haver Analytics

area, but such readings do not suggest vigor. Key measures that receive considerable attention in the euro area and Japan also have softened. The economic sentiment index published by the European Commission has moved lower since the beginning of last year. The current value remains above its long-run average, and thus should not trigger thoughts of recession, but the downward trajectory is certainly notable (chart, left). The Tankan index in Japan, similarly, remains in positive territory (possible range of -100 to +100), but a downward trend in recent quarters is a concern (chart, right).

Domestic Considerations

Chairman Powell noted in his recent press conference that the U.S. economy has performed well in recent months, and he indicated that the base case for the economic outlook remained favorable. However, he argued that uncertainties have intensified, with feedback from the slower global economy and fallout from trade disputes the most notable concerns.

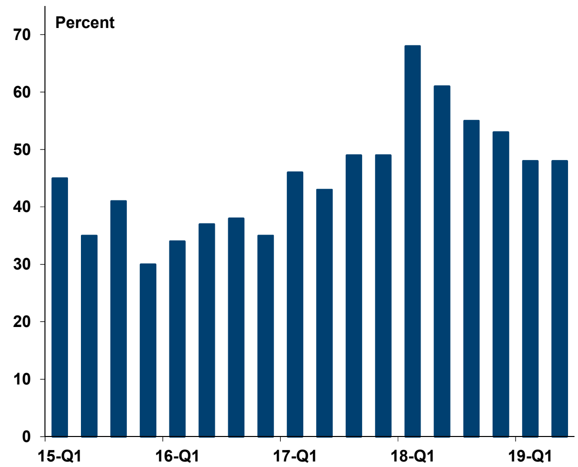
The effects are beginning to show through to the U.S. economy in the form of softness in the manufacturing sector, where most economic statistics have taken on soft tones recently. For example, net job growth in the factory sector has been minuscule in the past three months, and the manufacturing component of the industrial production index has drifted lower in the past four months. The latest week brought weak readings on regional production indexes, including a sub-50-percent observation on the Chicago purchasing managers' index. The retreats in these measures heighten the importance of the ISM index on Monday.

Trade disputes also could be having an indirect effect on the U.S. economy by leading business executives to cancel or delay investment projects. Evidence of such behavior is beginning to appear. A survey conducted by the Business Roundtable (a group of chief executives) has moved lower in the past few quarters. This measure is still high relative to historical standards, but nevertheless it shows a loss of enthusiasm recently (chart, next page, left). New orders for capital equipment other than aircraft also seems to be signaling a change in attitudes toward investment, as this measure has drifted lower since the middle of last year (chart, next page right).

In addition to uncertainties in the economic outlook, Chairman Powell cited a muted inflation environment as a factor behind the shift in policy prospects at the Fed. The May reading on the price index for personal consumption expenditures (PCE) is not likely to change Fed views meaningfully.

The core component of the index increased 0.2 percent for the second consecutive month in May. These results support the case made by Chairman Powell in May that slow inflation in the first quarter was largely the

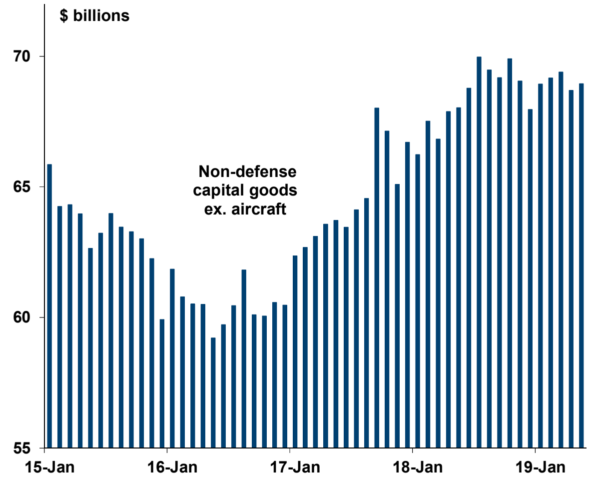
Outlook for Capital Spending*



Outlook for capital spending by large firms. The share of respondents planning to increase capital spending in the next six months.

Source: Business Roundtable via Haver Analytics

New Orders for Durable Goods

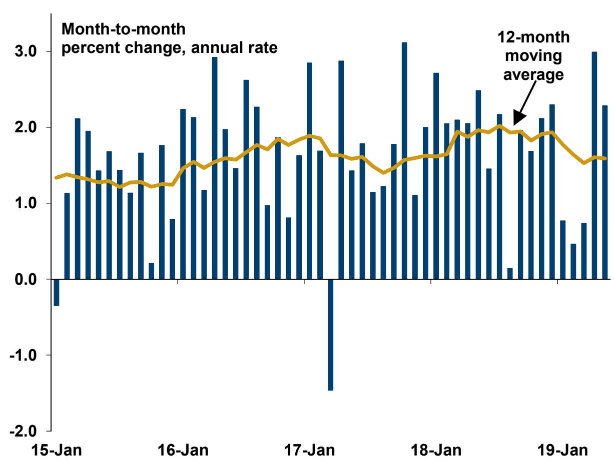


Source: U.S. Census Bureau via Haver Analytics

result of transitory factors. At the same time, the figures are not at odds with the view expressed by Mr. Powell in his latest press conference. He noted that officials expect inflation to return to its two percent target, but he expressed concern about slow progress in reaching that objective. The May data supported the view that progress could be slow, as the pickup in the past two months did not alter the year-over-year change of 1.6 percent (chart, below left).

Some Fed officials have been focusing on the trimmed mean PCE price index because it is better suited for removing idiosyncratic changes and thus gives a clearer view of underlying trends. This measure did not show the same notable slowing that the core index did in the first quarter and it has generally been close to the Fed's target of two percent. This measure also posted above-average increases in the past two months. Still, it did not breach two percent. In fact, the 12-month average has touched 2.0 percent only four times in the past few years and held this level for only a month or two (chart, below right). Thus, while the trimmed mean PCE price index will ease concern about below-target inflation, it is not suggesting risks on the upside.

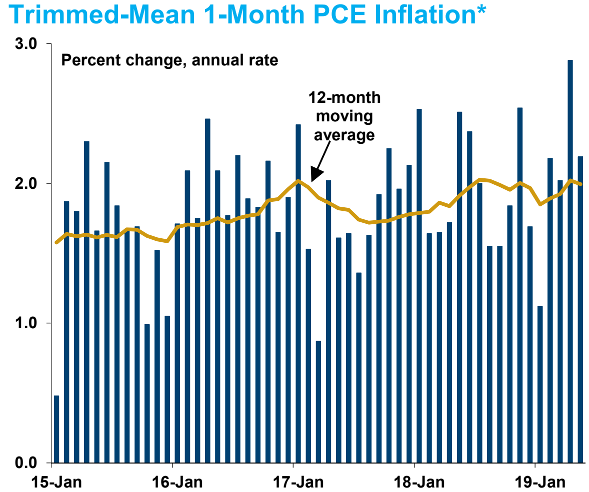
Core PCE Price Index



PCE = personal consumption expenditures

Source: Bureau of Economic Analysis via Haver Analytics

Trimmed-Mean 1-Month PCE Inflation*



** The average inflation rate for the middle 45 percent of the distribution of price changes in the personal consumption expenditures (PCE) price index. The measure excludes 24 percent of items with the smallest price changes and 31 percent with the largest price changes.*

Source: Federal Reserve Bank of Dallas via Haver Analytics

Review

Week of June 24, 2019	Actual	Consensus	Comments
New Home Sales (May)	**0.626 Million (-7.8%)**	**0.684 Million (+1.6%)**	The drop in interest rates that began late last year stirred sales of new homes in the first three months of this year, but the sharp decline in May after a drop of 3.7% in April reversed much of the improvement. The level of sales in May remained within the recent range of observations (slightly ahead of the average of 615,000 in 2018), but the results were still disappointing in that low mortgage rates have not provided an extended push.
Consumer Confidence (June)	**121.5 (-7.5%)**	**131.0 (-2.3%)**	The decline in the index of consumer confidence occurred from a downward revised level in May (2.1% lower than previously believed), which left the measure in the low end of the range from the past year or so. Softness in the stock market in May was perhaps a factor in the decline. The market recovered during June, but many of the responses to the survey could have been received before the recovery became apparent. Less favorable perceptions of the labor market also seemed to be a factor, as a smaller share of individuals indicated that jobs were plentiful (44.0% in June versus 45.3% in May and a cyclical peak of 46.8% last November). The share indicating that jobs were hard to get jumped 4.6 percentage points to 16.4%, one of the highest levels of the past few years.
Durable Goods Orders (May)	**-1.3%**	**-0.3%**	Like the drop of 2.8% in April, the retreat in durable goods orders in May was led by the aircraft component, which is not surprising given the problems at Boeing along with the normal volatility in this sector. Orders excluding transportation rose 0.3 percent in May, but the increase offset only a portion of the declines in the prior three months and left a downward drift in the series since last fall. Orders for nondefense capital goods other than aircraft, a series that provides insights into capital spending by businesses, followed a similar pattern: up moderately in May but inching lower on balance in the past several months.
U.S. International Trade in Goods (May)	**-\$74.5 Billion (\$3.6 Billion Wider Deficit)**	**-\$71.8 Billion (\$0.9 Billion Wider Deficit)**	Both exports and imports rose sharply in May (3.0% and 3.7%, respectively), with the larger change in imports leading to a wider trade deficit. While both exports and imports rose sharply, the changes occurred from low levels in the prior month and both measures remained below levels seen last year. The average nominal trade deficit so far in Q2 is approximately \$1.5 billion wider than that in the first quarter, implying a negative contribution to GDP growth from net exports. Data in hand point to a drag of approximately one-quarter percentage point; the picture will become clearer next week with the full trade report, which will include inflation-adjusted trade in goods as well as trade in services.

Review Continued

Week of June 24, 2019	Actual	Consensus	Comments
Revised GDP (2019-Q1)	**3.1% (Unrevised)**	**3.2% (+0.1 Pct. Pt. Revision)**	The various components of GDP posted small and offsetting revisions. Business fixed investment , residential construction, and spending by state and local governments were firmer than previously believed (less negative in the case of residential construction), while consumer spending, net exports, and inventory investment were slightly softer than the preliminary estimates.
Personal Income, Consumption, Core Prices (May)	**0.5%, 0.4%, 0.2%**	**0.3%, 0.5%, 0.2%**	Jumps in interest and dividend income (2.3% and 0.5%, respectively) contributed importantly to the increase in personal income in May, as did a firm increase in nonfarm proprietors' income (0.7%). Wage income was restrained (0.2%). The increase in nominal consumer spending translated to a gain of 0.2% after adjusting for price changes, which set the stage for strong growth in consumer spending in Q2, perhaps more than 3.5%. The increase in the core price index followed a jump of 0.249% in April, supporting the Fed view that slow inflation in Q1 was transitory, although the acceleration has not been pronounced. The year-over-year change in the core index totaled 1.6%, unchanged from the reading in April and shy of the Fed's 2.0% target.
Revised Consumer Sentiment (June)	**98.2 (+0.3% Upward Revision)**	**97.9 (Unrevised)**	The upwardly revised June reading on consumer sentiment dropped 1.8% from the value of 100 in the prior month, but it remained comfortably within the range of observations in the past few years (only slightly below the average of 98.4 from last year). We were interested in the measure of long-term inflation expectations published with the report, as the preliminary estimate showed a new low at 2.2%. This figure also was revised up (0.1 percentage point to 2.3%). The new reading is still restrained, matching the record low for this series, but Fed officials will most likely be pleased that expectations were not moving into new territory.

Source: U.S. Census Bureau (New Home Sales, Durable Goods Orders, U.S. International Trade in Goods); The Conference Board (Consumer Confidence); Bureau of Economic Analysis (Revised GDP, Personal Income, Consumption, Core Price Index); Reuters/University of Michigan (Revised Consumer Sentiment;; Consensus forecasts are from Bloomberg

Preview

Week of July 1, 2019	Projected	Comments
ISM Manufacturing Index (June) (Monday)	**52.0% (-0.1 Pct. Pt.)**	With most manufacturing-related reports suggesting slow activity, the ISM index is likely to remain in the low portion of its recent range. The expected reading for June, although little changed on a month-to-month basis, trails the average of 58.8% from 2018.
Construction Spending (May) (Monday)	**-0.5%**	Downward trends in both single-family housing starts and improvements to existing homes suggest soft results in residential construction. In addition, government-related building is due to cool after remarkable growth in the prior four months.
Trade Balance (May) (Wednesday)	**-$54.5 Billion ($3.7 Billion Wider Deficit)**	The already reported widening of $3.6 billion in the goods trade deficit will probably account for most of the expected shift in the full trade balance. The surplus in service trade typically shows modest month-to-month variation, and thus should be close to the reading of $20.9 billion in April.
Factory Orders (May) (Wednesday)	**-0.7%**	The already reported drop of 1.3% in orders for durable goods will probably account for most of the expected retreat in total factory bookings, but a dip in the nondurable sector could contribute as well. Lower prices probably led to a decline in the petroleum and coal category, while orders for nondurable goods ex-petroleum will probably continue to move along the sideways trend that has been in place since last summer.
ISM Nonmanufacturing Index (June) (Wednesday)	**56.0% (-0.9 Pct. Pt.)**	The manufacturing sector seems to be most affected by the slowing in the pace of economic growth, but the nonmanufacturing sector is likely to feel the influence as well. The expected reading in the nonmanufacturing index trails the average of 58.9% in 2018 and 57.5% in the first quarter.
Payroll Employment (June) (Friday)	**160,000**	The modest increase in employment in May (75,000) was probably an aberration, but it also reinforced hints in the prior three months that job growth was easing from the average of 223,000 in 2018. The expected increase in employment in June ordinarily would be strong enough to push unemployment lower, but a sizeable increase in the size of the labor force after weakness from January through April will probably leave the jobless rate steady at 3.6%. Although job growth seems to be easing, conditions in the labor market are probably tight enough to lead to a firm increase in average hourly earnings (0.3% expected).

Source: Forecasts provided by Daiwa Capital Markets America

Daiwa Capital Markets

Economic Indicators

June/July 2019

Monday	Tuesday	Wednesday	Thursday	Friday
24	25	26	27	28
CHICAGO FED NATIONAL ACTIVITY INDEX Monthly 3-Mo. Avg. Mar 0.02 -0.27 Apr -0.48 -0.37 May -0.05 -0.17	FHFA HOME PRICE INDEX Feb 0.4% Mar 0.2% Apr 0.4% S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX SA NSA Feb 0.2% 0.1% Mar 0.3% 0.7% Apr 0.0% 0.8% NEW HOME SALES Mar 0.705 million Apr 0.679 million May 0.626 million CONFERENCE BOARD CONSUMER CONFIDENCE Apr 129.2 May 131.3 June 121.5	DURABLE GOODS ORDERS Mar 1.7% Apr -2.8% May -1.3% U.S. INTERNATIONAL TRADE IN GOODS Mar -$71.8 billion Apr -$70.9 billion May -$74.5 billion ADVANCE INVENTORIES REPORT Wholesale Retail Mar 0.0% -0.4% Apr 0.9% 0.6% May 0.4% 0.5%	INITIAL CLAIMS June 08 222,000 June 15 217,000 June 22 227,000 REVISED GDP GDP Chained Price 18-Q4 2.2% 1.7% 19-Q1(p) 3.1% 0.8% 19-Q1(r) 3.1% 0.9% PENDING HOMES SALES Mar 3.9% Apr -1.5% May 1.1%	PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX Inc. Cons. Core Mar 0.1% 1.0% 0.1% Apr 0.5% 0.6% 0.2% May 0.5% 0.4% 0.2% CHICAGO PURCHASING MANAGERS' INDEX Index Prices Apr 52.6 50.8 May 54.2 53.8 June 49.7 56.4 REVISED CONSUMER SENTIMENT Apr 97.2 May 100.0 June 98.2
1	2	3	4	5
ISM INDEX (10:00) Index Prices Apr 52.8 50.0 May 52.1 53.2 **June 52.0 53.0** CONSTRUCTION SPEND. (10:00) Mar 0.1% Apr 0.0% **May -0.5%**	VEHICLE SALES Apr 16.3 million May 17.3 million **June 17.0 million**	ADP EMPLOYMENT REPORT (8:15) Private Payrolls Apr 271,000 May 27,000 June -- INITIAL CLAIMS (8:30) TRADE BALANCE (8:30) Mar -$51.9 billion Apr -$50.8 billion **May -$54.5 billion** FACTORY ORDERS (10:00) Mar 1.3% Apr -1.2% **May -0.7%** ISM NON-MFG INDEX (10:00) Index Prices Apr 55.5 55.7 May 56.9 55.4 **June 56.0 55.0**	*INDEPENDENCE DAY*	EMPLOYMENT REPORT (8:30) Payrolls Un. Rate Apr 224,000 3.6% May 75,000 3.6% **June 160,000 3.6%**
8	9	10	11	12
CONSUMER CREDIT	NFIB SENTIMENT INDEX JOLTS DATA	WHOLESALE TRADE FOMC MINUTES POWELL SEMI-ANNUAL MONETARY POLICY TESTIMONY (HOUSE)	INITIAL CLAIMS CPI FEDERAL BUDGET POWELL SEMI-ANNUAL MONETARY POLICY TESTIMONY (SENATE)	PPI
15	16	17	18	18
EMPIRE MFG INDEX	RETAIL SALES IMPORT/EXPORT PRICES IP & CAP-U NAHB HOUSING INDEX BUSINESS INVENTORIES TIC DATA	HOUSING STARTS BEIGE BOOK	INITIAL CLAIMS PHILLY FED INDEX LEADING INDICATORS	CONSUMER SENTIMENT

Forecasts in Bold (p) = preliminary (2nd estimate of GDP); (r) = revised (3rd estimate of GDP)

Treasury Financing

June/July 2019

Monday	Tuesday	Wednesday	Thursday	Friday
24	25	26	27	28
AUCTION RESULTS: Rate / Cover 13-week bills 2.085% 3.00 26-week bills 2.030% 2.69	**AUCTION RESULTS:** Rate / Cover 2-year notes 1.695% 2.58 **ANNOUNCE:** $40 billion 4-week bills for auction on June 27 $35 billion 8-week bills for auction on June 27 **SETTLE:** $40 billion 4-week bills $35 billion 8-week bills	**AUCTION RESULTS:** Margin / Cover 2-year FRN 0.210% 3.36 Rate / Cover 5-year notes 1.791% 2.35	**AUCTION RESULTS:** Rate / Cover 4-week bills 2.145% 2.74 8-week bills 2.120% 3.17 7-year notes 1.889% 2.44 **ANNOUNCE:** $72 billion 13-,26-week bills for auction on July 1 **SETTLE:** $72 billion 13-,26-week bills	**SETTLE:** $15 billion 5-year TIPS $18 billion 2-year FRNs
1	2	3	4	5
AUCTION: $72 billion 13-,26-week bills **SETTLE:** $40 billion 2-year notes $41 billion 5-year notes $32 billion 7-year notes	**ANNOUNCE:** $40 billion* 4-week bills for auction on July 3 $35 billion* 8-week bills for auction on July 3 **SETTLE:** $40 billion 4-week bills $35 billion 8-week bills	**AUCTION:** $40 billion* 4-week bills $35 billion* 8-week bills **ANNOUNCE:** $72 billion* 13-,26-week bills for auction on July 8 $38 billion* 3-year notes for auction on July 9 $24 billion* 10-year notes for auction on July 10 $16 billion* 30-year bonds for auction on July 11	***INDEPENDENCE DAY***	**SETTLE:** $72 billion 13-,26-week bills
8	9	10	11	12
AUCTION: $72 billion* 13-,26-week bills	**AUCTION:** $38 billion* 3-year notes **ANNOUNCE:** $40 billion* 4-week bills for auction on July 11 $35 billion* 8-week bills for auction on July 11 **SETTLE:** $40 billion* 4-week bills $35 billion* 8-week bills	**AUCTION:** $24 billion* 10-year notes	**AUCTION:** $40 billion* 4-week bills $35 billion* 8-week bills $16 billion* 30-year bonds **ANNOUNCE:** $72 billion* 13-,26-week bills for auction on July 15 $26 billion* 52-week bills for auction on July 16 $14 billion* 10-year TIPS for auction on July 18 **SETTLE:** $72 billion* 13-,26-week bills	
15	16	17	18	19
AUCTION: $72 billion* 13-,26-week bills **SETTLE:** $38 billion* 3-year notes $24 billion* 10-year notes $16 billion* 30-year bonds	**AUCTION:** $26 billion* 52-week bills **ANNOUNCE:** $40 billion* 4-week bills for auction on July 18 $35 billion* 8-week bills for auction on July 18 **SETTLE:** $40 billion* 4-week bills $35 billion* 8-week bills		**AUCTION:** $40 billion* 4-week bills $35 billion* 8-week bills $14 billion* 10-year TIPS **ANNOUNCE:** $72 billion* 13-,26-week bills for auction on July 22 $20 billion* 2-year FRNs for auction on July 24 $40 billion* 2-year notes for auction on July 23 $41 billion* 5-year notes for auction on July 24 $32 billion* 7-year notes for auction on July 25 **SETTLE:** $72 billion* 13-,26-week bills $26 billion* 52-week bills	

**Estimate*