Yardeni Research

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Morning Briefing

Gold Medals

Check out the accompanying chart collection.

Executive Summary: If economic performance were an Olympic sport, America would sweep up gold medals. The US economy hit record-high real GDP, real consumer spending, and real consumption per household (a barometer for standards of living) last quarter. It has achieved the feat of "immaculate disinflation"—falling inflation without recessionary fallout—as PCED inflation is fast approaching the Fed's 2.0% target. Real capital spending by businesses also stood at a record high during Q2. The US housing market is the notable exception to the US economy's remarkable performance, with weak housing starts and residential investment. … And: Dr. Ed reviews "I Am: Celine Dion" (+++).

YRI Weekly Webcast. Join Dr. Ed's live webcast with Q&A on Mondays at 11 a.m. EST. You will receive an email with the link one hour before showtime. Replays of the weekly webcasts are available *here*.

US Economy I: Bringing Home the Medals. If there were an Olympic competition for consumption, American consumers would win gold, silver, and bronze. If there were a competition for technological innovation, the US would win gold and silver in software and research and development (R&D). If there were an Olympic competition for overall economic performance, the US economy would win gold.

During Q2, real GDP rose to yet another record high of $22.9 trillion (saar), up ten-fold since the start of 1947 (*Fig. 1*). Also rising to new record highs were real personal consumption expenditures and real business capital spending. Real consumer spending on both goods and services rose to record highs during Q2 (*Fig. 2*).

Perhaps the best way to judge the performance of the US economy is by tracking real consumption per household, as it's the broadest measure of Americans' standard of living (*Fig. 3*). It rose to a record $119,400 during Q2-2024. It has tripled since the end of the 1950s. There aren't enough millionaires and billionaires to bias this series, in our opinion. Besides, once they've bought their mansions and yachts, the rich don't eat much more than the rest of us working stiffs. We take comfort in inflation-adjusted average hourly earnings of production and nonsupervisory workers, which has been rising along a 1.4% average annual trend line since the mid-1990s to a record high in June (*Fig. 4*).

The US economy's performance over the past few years has been especially impressive. Despite numerous hurdles, including the tightening of monetary policy and plenty of geopolitical turmoil, the economy has defied predictions that it would stumble into a recession. Furthermore, inflation has moderated relatively quickly despite the historically low unemployment rate. In other words, it didn't take a recession to subdue inflation. The US economy has achieved a rare feat, i.e., "immaculate disinflation."

Consider the following achievements:

(1) *Still running strong*. The US economy picked up steam during Q2, as real GDP rose 2.8% q/q (saar), up from 1.4% during Q1 (*Fig. 5*). Real final sales, which excludes business inventory investment, rose 2.0%. Real private domestic demand rose 2.6%. It is a measure of core real GDP, excluding federal spending, business inventory investment, and trade.

Real GDP rose 3.1% on a y/y basis during Q2, up from 2.9% in Q1 and right in line with its historical average since the 1940s (*Fig. 6*). Few sectors were weak. The only major negative contributor to real GDP growth was trade. The real trade deficit widened to $1.3 trillion (saar). Real net imports dragged headline real GDP down by 0.72ppt as imports rose to a new record high, while exports remained stalled, though near its recent record high (*Fig. 7*). These developments confirm that US domestic demand is strong and that global economic growth is positive, though lackluster (*Fig. 8*).

Businesses are hiring and investing, consumers are spending, and the labor market remains in good shape. The economy's sensitivity to higher interest rates has markedly declined, as evidenced by the rising investment and spending on technology. Encouragingly, all the high-tech spending powering the economy now should propel labor productivity in future quarters as occurred last year, fueling the economy's growth engine.

(2) *Still disinflating*. The core PCED inflation rate fell to 2.7% y/y in Q2 from 2.9% in Q1, though that was higher than expected based on monthly inflation prints to that point. As we'll review in the last section below, Friday's PCED release for June showed price pressures continue to abate.

The headline and core GDP price deflators have confirmed that inflation remains on a moderating trend. The former was up 2.6% y/y during Q2, while the latter was up 2.8% (*Fig.*

9). They are down from their Q2-2022 peaks of 7.7% and 6.5%.

The headline and core PCED inflation rates were down to 2.6% and 2.7% during Q2 (*Fig. 10*). The PCED for durable goods fell 2.6% q/q (saar) during Q2, its fourth straight quarter of deflation and sixth of the last seven quarters. While durable goods prices fell 2.8% y/y and nondurables prices rose just 1.4%, services inflation remained elevated, at 4.0% y/y (*Fig. 11*).

Meanwhile, disinflation for business investment is likely giving business managers more cost-certainty, which they need to spend—a positive for prospective growth and employment. The deflator for nonresidential fixed investment was up just 1.5% (*Fig. 12*).

US Economy II: More Medals for American Consumers. Consumer spending accounts for 68% of nominal GDP (*Fig. 13*). Real consumer spending rose 2.3% q/q (saar) in Q2, or 2.5% y/y, to a new record high. That was up from 1.5% q/q in Q1. Spending increased 2.6% y/y (saar) in June, per Friday's monthly personal income & outlays data.

Real spending on goods jumped 2.5% q/q (saar) during Q2 after both durable and nondurable goods spending fell in Q1. Deflation helped boost Q2 real spending on durable goods by 4.7% during the quarter.

Consumer spending is driven by real incomes. The historically tight labor market has fueled real wages gains (as noted above), while rising interest and dividend incomes have further boosted real incomes. Meanwhile, rising asset prices have decreased the need to save, leaving even more after-tax income to be spent. That’s one reason that the savings rate declined to 3.4% in June from 3.5% in May (*Fig. 14*).

The boom in consumption is fueled in part by retired Baby Boomers’ saving less and spending down their net worth. Meanwhile, younger generations are likely spending most of their current incomes, which are being boosted by the transfer of inherited wealth to them.

US Economy III: Businesses Racing for Investment Medals. Real capital spending rose 5.2% q/q (saar), or 3.7% y/y, to a record high of $3.39 trillion (saar) in Q2 (*Fig. 15*). Intellectual property (IP)—which includes software, research and development (R&D) and entertainment, literary, and artistic originals—rose 4.5% q/q to a new high of $1.46 trillion (*Fig. 16*). IP now accounts for 43% of current-dollar nonresidential fixed private investment as American businesses increasingly shift their investments to productivity-enhancing technologies like AI. High-tech spending remains around a record 50% of current-dollar capital spending, as it has since the pandemic (*Fig. 17*).

Capital equipment investment rose 11.6% q/q (saar), its largest quarterly uptick since Q1-2022, which propelled it to a new record high. Nonresidential structures, meanwhile, slowed to 3.3% q/q. However, real spending on manufacturing facilities continued to soar to a new high of $155 billion in Q2 as a result of federal onshoring subsidies and tax breaks (*Fig. 18*).

The change in private inventories investment added to GDP growth in Q2 after dragging it down in Q1. The pace of inventory investment in real GDP rose to $71.3 billion (saar) during Q2, adding 0.82ppt to the growth rate of real GDP (*Fig. 19*). Nonauto retailers restocked moderately during Q1 following seven quarters of liquidating inventories. Auto retailers have been restocking at an increasing rate for the past 11 quarters.

US Economy IV: No Medals for Housing. In real GDP, residential investment fell 1.4% q/q (saar) during Q2, sinking after three straight quarterly increases (*Fig. 20*). Housing starts remained relatively depressed at 1.35 million units (saar) during June (*Fig. 21*).

US Economy V: Inflation Nearing Finishing Line. June data for the PCED were released on Friday, the day after Q2 numbers were released along with GDP. The Q2 PCED was a bit hotter than expected, but the trend remains encouraging, as headline and core PCED fell to 2.5% and 2.6% y/y, respectively, in June (*Fig. 22*). PCED inflation is getting very close to the Fed's 2.0% target.

We predicted that inflation was peaking back in April 2022. We wrote in our April 19, 2022 *Morning Briefing*: "In our scenario, the PCED headline inflation rate peaks during H1-2022 between 6%-7%. Led by consumer durable goods prices, it moderates to 4%-5% during H2-2022. Next year, it falls to 3%-4% as persistently rising rent inflation offsets moderation in other consumer prices." In September 2023, we predicted that inflation will fall to 2%-3% in 2024. We expected goods inflation to fall much faster than rent inflation as pandemic strains on supply chains eased. Now, we expect both headline and core PCED inflation will fall below 2.5% during H2-2024.

Here are a few key details on the June PCED, and the outlook for inflation in the back half of the year:

(1) *Goods & services*. Goods prices deflated 0.2% y/y in June, with prices for durable goods down 2.9% and those for nondurable goods up 1.2% (*Fig. 23*). The PCED services inflation rate slipped to 3.9% in June from 4.0%, where it has hovered for much of the year (*Fig. 24*).

Rent inflation has been slow to come down, most recently at 5.3% y/y (its slowest pace since May 2022); but it's primed for material disinflation as measured rents begin to factor in the disinflation seen in market-based rents over the past year. The increasing costs of housing services, such as appliance repairs and maintenance, continue to put upward pressure on the supercore measure of inflation (core PCED ex-housing).

On a three-month annualized basis through June, the core PCED is up just 2.3%, while headline PCED is up 1.5%. Over the same time frame, durable goods prices are down 4.1%, dragged lower by a 9% drop in prices for used autos, a 6.2% fall in prices for major appliances, and a 5.4% drop in furniture prices.

(2) *Base effects.* To reach the Fed's 2.0% core PCED target by year-end, inflation will need to average around 0.055% m/m over the next six months (*Fig. 25*). A reading of 0.165%—which would be consistent with a 2.000% annual rate over 12 months—would see the core PCED end the year up 2.7%.

Movie. "I Am: Celine Dion" (+ + +) (*link*) is an extraordinary documentary about the singer's amazing career and her recent struggles with stiff-person syndrome, which is an autoimmune disease that affects one or two out of every 1 million people. The film graphically shows the pain she suffers during her therapy sessions. She shows remarkable bravery with her determination to sing again for audiences around the world. Nearly two years after she revealed her diagnosis and took a leave of absence from her career to recover, she made a triumphant return on Friday *singing "Hymne à Lamour"* at the close of the Paris Olympics' opening ceremony from the Eiffel Tower. She certainly deserves several gold medals for her amazing performance.

Calendars

US: Mon: Dallas Fed Manufacturing Index. **Tues:** Consumer Confidence 99.8; JOLTs Job Openings. (FXStreet estimates)

Global: Mon: Germany Retail Sales 0.0%; Japan Unemployment Rate 2.6%; Australia Retail Sales. **Tues:** Eurozone Business & Consumer Survey; Eurozone GDP 0.2%; Germany GDP 0.1%; France GDP 0.2%; Italy GDP 0.2%; Japan Industrial Production -4.2%; Japan Retail Sales 3.3%y/y; Australia CPI 3.8%y/y; Australia 0.3%; China M-PMI & NM-PMI 49.3/50.2; BoJ Interest Rate Decision 0.10%. (FXStreet estimates)

Strategy Indicators

Global Stock Markets (US$ Performance) (*link*): The US MSCI index fell 0.8% last week and ended the week 3.7% below its record high on July 16. The AC World ex-US index underperformed the US index with a w/w decline of 1.1% and is now 8.0% below its June 15, 2021 record high. Europe was the best performing region last week, with a gain of 0.2%, followed by EMU (0.0%), EMEA (-0.3), EAFE (-1.0), and the AC World ex-US. EM Latin America was the worst regional performer with a decline of 2.7%, followed by EM Asia (-1.7), and EM (-1.6). Among the major selected country markets that we follow, India performed the best last week with a gain of 1.8%, followed by South Africa (1.4), the United Kingdom (1.2), Switzerland (1.1), and Germany (1.1). The US MSCI's 14.1% ytd gain remains well ahead of the AC World ex-US index's (4.5). EM Asia is ahead of the pack as the leading region ytd with a gain of 7.8%, which puts it ahead of Europe (5.1), EM (4.7), and the AC World ex-US. The worst performing regions so far in 2024: EM Latin America (-17.5), EMEA (2.4), EMU (4.3), and EAFE (4.5). Looking at the major selected country markets that we follow, Taiwan is far and away the best ytd performer with a gain of 21.5% but is the worst performer relative to its record high, with a drop of 12.1% from its July 11 record high. Taiwan is followed by India's ytd gain of 19.9%, the United States (14.1), Spain (8.1), and the United Kingdom (7.8). The worst performing countries so far in 2024: Brazil (-20.9), Mexico (-16.4), Hong Kong (-13.2), Korea (-3.4), and France (-1.7).

US Stock Indexes (*link*): Thirty of the 48 major US stock indexes that we follow rose w/w, up from 23 rising a week earlier. The S&P 600 SmallCap Pure Value index was the best performer with a gain of 4.7%, ahead of Russell 2000 Value (4.0%), S&P 600 SmallCap Equal Weighted (3.9), S&P 600 SmallCap Pure Growth (3.9), and S&P 600 SmallCap Value (3.8). The Nasdaq 100 index was the worst performer, with a decline of 2.6%, followed by Russell 1000 Growth (-2.4) and S&P 500 LargeCap Growth (-2.3). Looking at their ytd performances, 47 of the 48 indexes are higher so far. That's up from 45 indexes a week earlier and is now at the highest count so far this year. The S&P 400 MidCap Pure Growth index moved back into the top performer ytd spot, with a gain of 20.1%, ahead of S&P 500 LargeCap Growth (19.6), S&P 100 MegaCap (17.4), Russell 1000 Growth (16.5), and Russell 3000 Growth (16.3). The worst performing major US stock indexes ytd: S&P 500 Transportation (-0.9), Dow Jones 20 Transports (0.1), S&P 400 MidCap Pure Value (1.2), S&P 600 SmallCap Pure Value (3.0), and S&P 600 SmallCap Value (4.7).

S&P 500 Sectors Performance (*link*): Seven of the 11 S&P 500 sectors rose last week, and eight were ahead of the S&P 500's 0.8% decline. That compares to five sectors rising a week earlier when eight were ahead of the composite index's 2.0% decline. The outperformers last week: Utilities (1.5%), Materials (1.4), Health Care (1.3), Financials (1.3), Industrials (1.1), Consumer Staples (0.5), Real Estate (0.5), and Energy (-0.2). The underperformers last week: Communication Services (-3.8), Information Technology (-2.4), and Consumer Discretionary (-2.3). The S&P 500 is up 14.5% ytd, with all 11 sectors in positive territory but only three are ahead of the index. That's down from five sectors ahead of the index during mid-May. Information Technology is the best ytd performer, with a gain of 26.5%, ahead of Communication Services (22.7) and Financials (15.2). These sectors are lagging the S&P 500 so far in 2024: Real Estate (1.6), Materials (6.7), Health Care (9.8), Energy (10.1), Consumer Staples (10.3), Industrials (10.8), and Utilities (12.3).

US Economic Indicators

GDP (*link*): Real GDP growth blew past forecasts during Q2, while inflationary pressures slowed. *Real GDP* expanded 2.8% (saar)—topping the 2.0% expected gain—and accelerating from Q1's 1.4%. Meanwhile, the quarterly gain in the GDP deflator eased to 2.3% (saar) from 3.1% during Q1, with the PCED slowing from 3.4% during Q1 to 2.6% last quarter. Excluding food and energy, the increase was nearly a percentage point lower than Q1, slowing to 2.9% (saar) from 3.7%. The gains in Q2 real GDP were led by consumer spending, inventory investment, and business investment. *Real consumer spending* expanded 2.3% (saar) during Q2, with *goods* (2.5%, saar) consumption rebounding from Q1's 2.3% shortfall, and *services* (2.2%, saar) consumption slowing from 3.3%. Within goods consumption, both *durable goods* (to 4.7% from -2.3% during Q1) and *nondurable goods* (1.4 from -1.1) consumption swung from negative to positive last quarter. The gain in *goods* consumption was led by motor vehicles and parts, recreational goods and vehicles, furnishings and durable household equipment, and gasoline and other energy goods, while the services gain was driven by health care, housing & utilities, and recreational services. *Inventory investment* increased $69.0 billion (saar)—from -$26.3 billion during Q1 to $42.7 billion during Q2. *Nonresidential fixed investment* accelerated 5.2% (saar) from Q1's 4.4%, led by an 11.6% (saar) jump in equipment spending and a 4.5% gain in intellectual property products. Real *government spending* increased 3.1% (saar), with both federal (3.9%) and state & local (2.6) spending in the plus column. *Trade* and *residential investment* were drags on growth. Real net exports widened from -$960.3 billion during Q1 to -$1,007.0 billion during Q2 as exports rose 2.0% (saar) and imports increased 6.9%. (Imports are a subtraction in the calculation of GDP.) Real *residential investment* fell 1.4% (saar) last quarter after increasing at a double-digit gain of 16.0% at the start of the year.

Personal Income & Consumption (*link*): Personal income was weaker than expected, while spending was in line with expectations. *Personal income* advanced 0.2% in June, half the 0.4% expected increase, following gains of 0.4% and 0.2% the prior two months, with the stats for disposable income identical to those of overall income. *Personal consumption expenditures* rose 0.3% in June, in line with expectations, following gains of 0.4% and 0.2% the prior two months. *Goods* consumption rose 0.1%, slowing from 0.5% in May, with durable goods spending ticking down 0.2% and nondurable goods consumption ticking up 0.2%. Services spending increased 0.4% for the third successive month. Adjusted for inflation, *real PCE* rose 0.2% after a 0.4% gain and a 0.1% loss the prior two months, with *goods* consumption rising 0.2% in June, following a gain of 0.9% in May and a loss of 0.4% in April. During June, a 0.5% increase in nondurable goods spending more than offset a 0.2% decline in durable goods consumption. *Services* consumption increased 0.2% for the second month. Meanwhile, *real disposable income* rose 0.1%, slowing from May's 0.3% gain, which followed a 0.1% downtick. Personal saving fell for the fifth straight month by $21.7 billion in June and $127 billion (to 703 billion from $830 billion) over the period. June's saving rate fell to 3.4%—the lowest since December 2022, from a recent high of 4.0% at the start of this year.

Personal Consumption Deflator (*link*): June's *headline* PCED ticked up 0.1% after being flat in May, while the *core* PCED ticked up 0.2%, following May's 0.1% uptick. The *yearly rate for the headline* PCED edged down to 2.5%, after gains 2.6% and of 2.7% the prior two months, while the *core rate* held at 2.6%—the smallest yearly gain since March 2021. The headline and core rates peaked at 7.1% and 5.6%, respectively, during June 2022 and February 2022. *Goods* prices slipped to -0.2% y/y in June following -0.1% and 0.1% the prior two moths—with the yearly durable goods inflation rate at -2.9% and the nondurable goods rate up 1.2% in June. There's deflation in *durable goods* prices: used motor vehicles (-9.5% y/y), motor vehicles & parts (-3.6), furnishings & durable household equipment (-3.3), recreational goods & vehicles (-2.4), other durable goods (-1.3), and motor vehicles parts & accessories (-0.4). Within *nondurable goods* prices, rates are down dramatically from recent peaks: household supplies (-2.5% y/y from 10.0% y/y), magazines, newspapers & stationary (-0.8 from 11.5), recreational items (-0.3% from 7.3%), clothing & footwear (0.2 from 6.9), and personal care (1.2 from 8.1). Services PCED rose 3.9% y/y, from 4.0% in each of the prior three months. Within *services*, *housing* costs remain stubbornly high but are down from recent peaks: owners' equivalent rent (to 5.4% from 8.2%), tenant rent (5.1 from 8.8), and housing & utilities (5.3 from 8.3). Looking at *non-housing* services, transportation (2.8 from 15.3) and personal care (6.3 from 10.4) services showed noticeable drops in the rate of inflation, though the latter has been more volatile recently; the communication services (0.7) rate has moved just above zero in recent months.

Consumer Sentiment Index (*link*): Consumer sentiment has been little changed the last three months, with July's reading a statistically insignificant 1.8 index points below June, well under the margin of error. July's final reading fell to 66.4 from 68.2 in June. Sentiment is 33% above June 2022's historical low, but "remains guarded as high prices continue to drag down attitudes, particularly for those with lower incomes," according to the report. The *current conditions* measure fell to 62.7 from 65.9 in June, while *expectations* slipped to 68.8 from 69.6. *Year-ahead inflation expectations* eased for the second month to 2.9% from 3.0% in June and 3.3% in May; in comparison, these expectations ranged between 2.3% and 3.0% during the two years prior to the pandemic. Meanwhile, *long-run inflation expectations* registered 3.0%, unchanged from last month, and has remained remarkably stable over the last three years. However, these rates remain somewhat elevated relative to the 2.2%-2.6% range seen the two years pre-pandemic. Joanne Hsu, director of consumer surveys, cautioned that "continued election uncertainty is likely to generate volatility in economic attitudes in the months ahead."

Durable Goods Orders & Shipments (*link*): Durable goods orders plummeted in June, posting its steepest decline since the pandemic, though the decline was largely due to one sector. *Durable goods orders* plunged 6.6% in June, after climbing 2.4% the prior four months. *Transportation equipment* billings tanked 20.5%, as nondefense aircraft & parts orders plummeted 127%. *Excluding transportation*, orders edged up 0.5%, with machinery & electrical equipment (1.6%), appliances & components (1.3), and electronic products (0.8) leading gains. Meanwhile, *nondefense capital goods orders excluding aircraft* (a proxy for future business investment) rose 1.0%, after falling 09% in May—continuing to bounce around record highs—while n*ondefense capital goods shipments excluding aircraft* (used in calculating GDP) edged up 0.1%, just 1.3% below January's record high.

Global Economic Indicators

Germany Ifo Business Climate Index (*link*): "The German economy is stuck in crisis," Ifo president Fuest noted. German business confidence came in below expectations again in July—falling to a five-month low. The *business climate index* fell for the third successive month to 87.0 this month from 89.4 in April. The *expectations* component fell for the second month, from 90.3 in May to a five-month low of 86.9 this month, while the *current situation* component fell for the second time in three months, from 88.9 in April to a five-month low of 87.1 in July. The *manufacturing* sector shows the business climate index declined significantly in July, with assessments of the current situation considerably poorer, while expectations also weakened. The *service sector* index deteriorated, after climbing in recent months, with service providers more pessimistic regarding expectations, while they were just a little less positive about current conditions. *Trade's* business sentiment also deteriorated, with companies less satisfied with current business, mainly for retailers, while expectations were also weak. *Construction's* business climate expectations' index continued to be affected by "significant levels of pessimism," according to the report, while the current situation posted only a slight decline.

Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Eric Wallerstein, Chief Markets Strategist, 201-661-3575
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-241-6502
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102