



Time EST	Indicator	For		Actual*	Estimate**	Consensus***	Previous Period****
08:30 AM	Employment Cost Index	Q1	↑	0.8%	0.7%	0.7%	0.6%
08:30 AM	GDP Annualized QoQ	Q1	↑	2.3%	1.7%	2.0%	2.9%
08:30 AM	GDP Price Index	Q1	↓	2.0%	2.1%	2.2%	2.3%
10:00 AM	Univ of Michigan Sentiment	Apr F	↑	98.8	97.9	98.0	97.8

* ↑ indicates stronger than Consensus estimated, ↓ indicates weaker than Consensus estimated, = indicates in-line with Consensus Estimated

** Estimate from Bank of the West Economics

*** Consensus from Bloomberg

**** ↑ means prior reading revised up, ↓ means prior reading revised down

Stronger Than Expected Q1 GDP Growth While Wage Pressures Intensify

All three major economic releases today surprised to the upside. Real GDP increased 2.3% annualized in the first quarter, above the consensus estimate of 2.0% but down from 2.9% in the fourth quarter. The increase in real GDP in the first quarter reflected positive contributions from nonresidential fixed investment (+6.1%), personal consumption expenditures (1.1%), exports (4.8%), government spending (1.2%), and business inventories. Imports subtracted from GDP growth and residential investment was flat.

Many components slowed from the fourth quarter pace, but the lone standout was the sharp slowdown in consumer spending to 1.1% from 4.0% in the fourth quarter. That was partly due to a steep drop in motor vehicle spending following a post-hurricane spike at the end of 2017, and bad winter weather. Consumer spending should accelerate over the balance of the year with tax cuts leading to an increase in real disposable income.

The Employment Cost Index (ECI) increased 0.8 percent, seasonally adjusted, for the 3-month period ending in March 2018. Wages and salaries (which make up about 70 percent of compensation costs) increased 0.9 percent, and benefits (which make up the remaining 30 percent of compensation) increased 0.7 percent. On a year-ago basis, the ECI rose 2.7% in the first quarter, up from 2.6% in the fourth quarter.

This is the third consecutive quarter of accelerating ECI growth. Wage pressures are gradually building with the economy likely overshooting full employment. Private sector wages and salaries increased at a brisk 1.0% pace last quarter, and are up 2.9% from a year ago. This will raise some eyebrows on the FOMC and may move more voting members into the four rate hike camp for this year. This means a Fed rate hike in June is almost a certainty.

Consumer sentiment improved slightly in the 2nd half of the month, shrinking the small overall decline for April. The final April figure of 98.8 was nearly identical to its 2018 average (98.9), which was higher than any other yearly average since 107.6 was recorded in 2000 (which was, in turn, the highest yearly average in more than a half century).

Treasury yields are dropping across the board this morning. The 10-Year Treasury yield is down 2.2 basis points to 2.959. The 2-10 Treasury spread declined to 47.7, down 2.4 basis points from yesterday. The futures market probability of another Fed funds rate hike in June is 92.5%, unchanged from yesterday.



U.S. stock indexes are modestly higher this morning. The Dow and S&P 500 are up 0.12% and 0.22%, respectively, while the NASDAQ is up 0.21%. Gains in the S&P 500 today are led by telecommunications, real estate, and utility stocks.

The U.S. dollar is weaker against the major currencies today. The Bloomberg dollar spot index is down 0.03% from yesterday. The U.S. dollar is decreasing the most against the Korean won, Mexican peso, and Japanese yen today with the announcement that the two Koreas have agreed to end their seven decade war and pursue denuclearization. The dollar is rising strongly against the British pound as the United Kingdom's Q1 GDP growth came in well-below consensus expectations at +0.1% or 1.2% from a year ago. This is raising concern that the long-feared Brexit slowdown for the U.K. economy is finally here.