

Time EST	Indicator	For		Actual*	Estimate**	Consensus***	Previous Period****
08:15 AM	ADP Employment Change	May	↓	178k	180k	190k	163k R↓
08:30 AM	GDP Annualized QoQ	1Q S	↓	2.2%	2.2%	2.3%	2.3%
08:30 AM	GDP Price Index	1Q S	↓	1.9%	2.0%	2.0%	2.0%
08:30 AM	Core PCE QoQ	1Q S	↓	2.3%	NA	2.5%	2.5%
08:30 AM	Advance Goods Trade Balance	Apr	↑	-\$68.2b	-\$70.5b	-\$71.0b	-\$68.6b R↑
08:30 AM	Retail Inventories MoM	Apr		0.6%	NA	NA	-0.7% R↓
08:30 AM	Wholesale Inventories MoM	Apr P		0.0%	0.5%	0.5%	0.2% R↓
02:00 PM	U.S. Federal Reserve Releases Beige Book						

* ↑ 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

Treasuries Slides as Italy Panic Fades, ADP and GDP Come In On the Weak-Side of Expectations

U.S. and European equity markets rebounded on Wednesday as panic over the Italian debt crisis subsided and some encouraging Eurozone economic data helped steady nerves in Europe. Italian bonds rebounded, with the Italian 10-year yield falling as much as 32 basis points as investors' appetite for Italian debt improved. German jobs data topped estimates and there were inflation beats in several regions of Germany as well as in Spain, all of which led to a bounce in the euro. The currency's strength weighed on equities though, and the Stoxx Europe 600 Index was only treading water.

Meanwhile in the U.S., ADP employment for May and the second estimate of Q2 GDP came in on the weak-side of consensus expectations. However, both indicators were in-line with our forecasts, and we maintained our number one ranking on Bloomberg for U.S. GDP forecasting. Private sector employment increased by 178k jobs in May, according to the ADP Employment report. This was below the consensus estimate looking for 190k, but close to our forecast of 180k. Moreover, April private sector job growth was revised down to 163k from an originally reported 204k. The largest contributors to job creation in May were professional and business services (+61k), construction (+39k), and education and health services (+35k). Job growth is still strong for this stage of the expansion but slowing as businesses are having a difficult time finding qualified workers to fill open positions.

Real GDP growth was revised down to 2.2% in Q1 from 2.3% in the second estimate. In the fourth quarter of 2017, real GDP increased 2.9%. Downward revisions to consumer spending (1.1% to 1.0%) and inventory investment (0.4% to 0.1%) were primarily responsible for the slight downward revision. The 1.0% growth in consumer spending in the first quarter of this year was the slowest pace since the second quarter of 2013 and followed a robust gain of 4.0% in the fourth quarter. The government also reported that after-tax corporate profits surged at a 5.9% rate last quarter after increasing at a 1.7% pace in the fourth quarter. That was the fastest rate of growth in profits since the first quarter of 2016 and likely reflected a boost from the reduction in the corporate tax rate to 21% from 35%. We are forecasting a rebound in GDP growth in the second quarter to 2.9% as consumer spending growth rebounds to a more respectable 2.4% annualized pace.

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Treasury yields are sharply higher across the curve this morning. The 10-Year Treasury yield is 2.822%, up 4.1 basis points from yesterday. Even so, the Treasury yield curve is flattening today. The 2-10 Treasury spread is 44.7, down 1.7 basis points from yesterday. The futures market probability of another Fed funds rate hike in June is at 79.4%, up sharply from 70.2% at yesterday's close.

U.S. stock indexes are up this morning on fading Italy concerns. The Dow and S&P500 are up 0.75% and 0.61% respectively, while the NASDAQ is up 0.78%. Gains in the S&P 500 today are led by energy, financials and health care stocks.

The U.S. dollar is weaker against the major currencies today. The Bloomberg dollar spot index is down 0.46% from yesterday. The U.S. dollar is weakening the most against the euro, Canadian dollar and Mexican peso today.