BANK OF THE WEST
BNP PARIBAS

# Daily Update

**SCOTT ANDERSON, Ph.D.** | Chief Economist | 415.765.8020 | bankofthewest.com

June 14, 2018

| Time EST | Indicator | For | | Actual* | Estimate** | Consensus*** | Previous Period**** |
|---|---|---|---|---|---|---|---|
| 08:30 AM | Retail Sales Advance MoM | May | ↑ | 0.8% | 0.4% | 0.4% | 0.4% R↑ |
| 08:30 AM | Retail Sales Ex Auto MoM | May | ↑ | 0.9% | 0.3% | 0.5% | 0.4% R↑ |
| 08:30 AM | Import Price Index MoM | May | ↑ | 0.6% | 0.4% | 0.5% | 0.6% R↑ |
| 08:30 AM | Import Price Index YoY | May | ↑ | 4.3% | NA | 3.9% | 3.6% R↑ |
| 08:30 AM | Export Price Index MoM | May | ↑ | 0.6% | NA | 0.3% | 0.6% |
| 08:30 AM | Export Price Index YoY | May | | 4.9% | NA | NA | 3.7% R↓ |
| 08:30 AM | Initial Jobless Claims | 09-Jun | ↓ | 218k | 224k | 222k | 222k |
| 08:30 AM | Continuing Claims | 02-Jun | ↓ | 1697k | NA | 1734k | 1746k R↑ |
| 10:00 AM | Business Inventories | Apr | - | 0.3% | 0.3% | 0.3% | -0.1% R↓ |

* ↑ 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

## ECB Nears End of Easy Money Era, U.S. Retail Sales Exceed Expectations in May

The Governing Council of the European Central Bank (ECB) announced that it will likely end its bond-buying program in December if the incoming economic data is in-line with its forecasts, and will begin scaling-back its bond purchases in October. Until this announcement, this quantitative easing program was scheduled to last until September, with monthly purchases of 30 billion euros of government and private debt. This will now be reduced to 15 billion euros a month during the last quarter of 2018. Furthermore, the ECB implied that a rate hike is unlikely to come before the summer of 2019, depending on the strength of the economic data and inflation returning to target.

Here is the United States, today’s retail sales report cemented forecasts for a strong rebound in real consumer spending in the second quarter. Retail sales advanced 0.8% in May from an upwardly revised 0.4% in April. The gain was more than double consensus expectations. Categories making the biggest contributions were building materials (+2.4%), gasoline stations (+2.0%), department stores (1.5%) and eating and drinking establishments (+1.3%). Retail sales excluding autos also increased a robust 0.9% last month. Consumers are very confident about the U.S. economy, buoyed by steady job gains, improving income growth and an unemployment rate at an 18-year low.

Meanwhile, more signs of increasing inflation pressures from U.S. trade prices. Import prices increased 0.6% in May from April. Gasoline (+5.9%) and industrial supplies (+2.5%) imports showed the largest increases during the month. Import prices excluding gasoline rose a more modest 0.2% in May. On a year-over-year basis, import prices rose 4.3%, well above the 3.6% in April and the consensus view of a 3.9% gain. The report also showed export prices rose 0.6% in May, lifted by increase in the prices of agricultural products (+1.6%) and industrial supplies (+1.6%). That followed a similar gain in April. Export prices increased 4.9% on a year-on-year basis, the biggest rise since October 2011, after advancing 3.7% in April.

Also, labor market tightens continues. Initial jobless claims were 218,000 for the week ending June 9. This was slightly below the prior week and below the expected consensus reading of 223,000. The four-week moving average declined slightly to 224,250. Claims rose the most in Tennessee (1,587), Illinois (1,567) and Ohio (698), while states with the largest declines were Michigan (-3,638), California (-1,938) and New Jersey (1,678). The low level of claims suggests that the June employment report released in early July will be strong.

Finally, business inventories rose 0.3% in April, in line with the consensus view. The prior month was revised down from a flat reading to -0.1%. The largest increase in inventories for the month were retailers (+0.5%) and manufacturers (+0.3%). Wholesaler inventories increased just 0.1%. Business inventories in general remain quite lean, suggesting continued production gains in the months ahead to replenish stocks. The inventory/sales ratio was 1.35 in April, down from 1.38 in April 2017.

Treasury yields are down across the board this morning. The 10-Year Treasury yield is 2.946, down 2.0 basis points from yesterday. The 2-10 Treasury spread narrowed to 38.2, a new expansion low, and down 1.8 basis points from yesterday as the Treasury yield curve continues to flatten. The futures market probability of another Fed funds rate hike in September is 75.5% this morning, up from 69.8% at yesterday's close.

U.S. stock indexes are mostly higher this morning. The Dow is down 0.09%, while the S&P 500 and NASDAQ are up 0.13% and 0.63% respectively.  Gains in the S&P 500 today are led by utilities, telecommunication, and real estate stocks.

The U.S. dollar is up against the major currencies today, and soaring against the euro. The Bloomberg dollar spot index is up 0.58% from yesterday.  The U.S. dollar is increasing the most against the euro, Canadian dollar, and British pound today.