

Time EST	Indicator	For		Actual*	Estimate**	Consensus***	Previous Period****
08:30 AM	Initial Jobless Claims	02-Jun	↑	222k	226k	220k	223k R↑
08:30 AM	Continuing Claims	26-May	↑	1741	NA	1740k	1720k R↓
12:00 PM	Household Change in Net Worth	1Q		\$1028b	NA	NA	\$2474b R↑
03:00 PM	Consumer Credit	Apr			\$15.000b	\$14.000b	\$11.622b

* ↑ 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

Fed Likely Won't Deviate From Rate Hike Path Despite Emerging Market Woes

The Fed is more focused on the strength of the domestic economy as it weighs interest rate hikes this month and beyond. The U.S. economy is running hot this quarter (near 4.0% annualized GDP growth expected) and with the unemployment rate dropping to 3.8%, the FOMC has to keep up the gradual rate hikes. Emerging market currencies have been under pressure recently on worries that higher U.S. interest rates will be detrimental to their economies. India, Turkey and Indonesia raised interest rates this week to defend their currencies and pressed the Fed to proceed with restraint and consider the ramifications of higher U.S. interest rates beyond U.S. borders. However, Chairman Powell and the rest of the FOMC are likely to conclude that emerging markets and the global economy can withstand one more quarter point rate hike next week.

The number of Americans filing for unemployment benefits fell by 1,000 to 222,000 in the week ending June 2, indicating tight labor market conditions continued to prevail into June. This was slightly above the consensus estimate of 220,000. The four week moving average rose 2,750 to 225,500 and continuing claims increased 21,000 to 1.74 million. Claims rose the most in New York (+1,628), Missouri (1,125) and Michigan (1,023). States experiencing the largest declines were California (-3,999), Kentucky (3,755) and Pennsylvania (1,511). The labor market remains robust and this report reinforces our outlook for a 25 basis point rate hike by the Fed next week.

Also, American's keep getting wealthier. U.S. household net worth increased by another \$1.03 trillion in the first quarter. The previous quarter was revised higher and now shows a gain of \$2.75 trillion. The slower pace of growth in the first quarter was primarily due to declining equity prices from a record-level at the start of the year. Home prices continue to rise, and contributed to the first quarter gain in household net worth. Rising household wealth on average is helping to support solid real consumer spending growth even as real wage growth lags previous expansions.

Treasury yields are up down the board this morning with the biggest declines at the long end of the curve. The 10-Year Treasury yield is 2.917%, down 5.5 basis points from yesterday. The 2-10 Treasury spread is 43.7, down 2.0 basis points from yesterday, just above expansion lows. The futures market probability of another Fed funds rate hike in June is currently at 84.0%, down from 86.3% at yesterday's close.

U.S. stock indexes are mostly lower this morning. The Dow is up 0.15%, while the S&P 500 and the NASDAQ are down 0.32% and 1.12% respectively. Losses in the S&P 500 today are led by information technology, materials and health care stocks.

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The U.S. dollar is mixed against the major currencies today. The Bloomberg dollar spot index is down 0.01% from yesterday. The U.S. dollar is decreasing the most against the euro, Japanese yen, and Swiss franc, but rising strongly against the Mexican peso, Australian dollar, and Canadian dollar as NAFTA negotiations flounder, and emerging market FX volatility continues.