

Time EST	Indicator	For		Actual*	Estimate**	Consensus***	Previous Period****
08:30 AM	Employment Cost Index	2Q	↓	0.6%	0.6%	0.7%	0.8%
08:30 AM	Personal Income	Jun	-	0.4%	0.3%	0.4%	0.4%
08:30 AM	Personal Spending	Jun	-	0.4%	0.4%	0.4%	0.5% R↑
08:30 AM	PCE Deflator MoM	Jun	-	0.1%	0.1%	0.1%	0.2%
08:30 AM	PCE Core Deflator MoM	Jun	-	0.1%	0.1%	0.1%	0.2%
09:00 AM	S&P CoreLogic CS 20-City MoM SA	May	-	0.2%	0.2%	0.2%	0.16% R↓
09:45 AM	Chicago Purchasing Manager	Jul	↑	65.5	62.0	62.0	64.1
10:00 AM	Conf. Board Consumer Confidence	Jul	↑	127.4	125.5	126.0	127.1 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

Bank of Japan Sticks with Stimulus Program – Consumer Confidence Moves Even Higher in July

Despite speculation that it was considering big changes to its monetary policy framework, the Bank of Japan (BOJ) promised to maintain “extremely low” interest rates but unveiled a series of minor policy adjustments. These included allowing long-term interest rates to fluctuate a bit more based on economic and price developments and conducting asset purchases more flexibly. The BOJ also lowered its price forecasts and conceded inflation could fall short of its target for three more years. Changes in BOJ monetary policy were less dramatic than the market was bracing for, triggering a rally in global long-term government bond prices.

On the U.S. data front, the economic calendar is heavy today. Personal income and spending for June came in very close to analyst expectations and in-line with the solid 4.0% annualized real consumer spending growth already reported in the Q2 GDP report. Personal income rose 0.4% month-over-month, spot-on with the consensus estimate. Wages and salaries, the largest component of personal income, increased 0.4% in June after rising 0.3% in May. Personal spending increased 0.4% in June down from an upwardly revised 0.5% gain registered in May. In inflation adjusted terms, personal spending increased a solid 0.3% in June - the same spending pace recorded in May. The personal savings rate held at 6.8% in June, unchanged from May.

Fueled by the strength of the labor market, consumer confidence continued to move higher in July, coming in at a better than expected 127.4. The increase in consumer confidence was driven entirely by the present situation component, which rose to 165.9 in July from 161.7 in June. However, the future expectations component declined to 101.7 in July. The future expectations component peaked in May at 107.2 and has declined now for two consecutive months. The decline in the future expectations component in recent months reveals increasing concern that the U.S. trade war could hurt the U.S. consumer.

Meanwhile, consumer inflation pressures remain muted, according to the latest PCE deflator data. The PCE deflator rose a modest 0.1% in June, down from 0.2% in May. The core deflator – excluding food and energy – increased by an identical 0.1%, down from 0.2% in the prior period. On a year-over-year basis, the PCE deflator is up 2.2% while the core deflator is up 1.9%, both unchanged from the previous month.



Also, little evidence of accelerating wage pressures in the Q2 Employment Cost Index. The Employment Cost Index rose 0.6% in the second quarter, down from 0.8% in Q1 and slightly below the consensus view of a 0.7% increase. Wages and salaries – which comprise 70% of compensation costs – increased 0.5% down from the first quarters 0.9% gain. However on a year-ago basis, wages and salaries are up 2.8% - a modest improvement from the 2.3% pace recorded a year ago.

U.S. stocks are rebounding this morning on the news that China and the U.S. may restart talks to avoid a trade war. The Dow and the S&P 500 are up 0.68% and 0.70% respectively, while the NASDAQ is up 0.88%. Increases in the S&P 500 today are being led by industrials, real estate, and health care stocks.

Treasury yields are mixed this morning, increasing at the short end of the curve and declining at the long end. The 10-Year Treasury yield is at 2.956, down 1.7 basis points from Monday. The 2-10 Treasury spread is 29.7, down 1.7 basis points from yesterday. The futures market probability of another Fed funds rate hike in September is 80.3%, unchanged from yesterday.

The U.S. dollar is gaining against the major currencies on the dovish BOJ policy statement. The Bloomberg dollar spot index is up 0.10% from yesterday's close. The U.S. dollar is gaining the most against the Japanese yen, Mexican peso and Swiss franc today.