Daily Update

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Time EST	Indicator	For		Actual*	Estimate**	Consensus***	Previous Period****
08:30 AM	Nonfarm Productivity	2Q P	↑	2.9%	2.5%	2.4%	0.3% R↓
08:30 AM	Unit Labor Costs	2Q P	↓	-0.9%	0.5%	0.0%	3.4% R↑
08:30 AM	Empire Manufacturing	Aug	↑	25.6	20.0	20.0	22.6
08:30 AM	Retail Sales Advance MoM	Jul	↑	0.5%	0.1%	0.1%	0.2% R↓
08:30 AM	Retail Sales Ex-Auto MoM	Jul	↑	0.6%	0.3%	0.3%	0.2% R↓
09:15 AM	Industrial Production MoM	Jul	↓	0.1%	0.2%	0.3%	1.0% R↑
09:15 AM	Capacity Utilization	Jul	↓	78.1%	78.1%	78.2%	78.1% R↑
10:00 AM	Business Inventories	Jun	-	0.1%	0.1%	0.1%	0.3% R↓
10:00 AM	NAHB Housing Market Index	Aug	-	67.0	67.0	67.0	68.0
16:00 PM	Net Long-Term TIC Flows	Jun			NA	NA	$45.6b

* ↑ 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

Turkey Hits Back With Tariffs, Retail Sales Strengthen in July

Turkey responded to U.S. tariffs with retaliatory duties on U.S. passenger cars, alcohol, tobacco, cosmetics and other products. Tariffs are scheduled to climb by 120% on cars, 140% on alcoholic drinks and 60% on tobacco products. The Turkish government also took more aggressive action to stabilize the lira, making it harder for traders to bet against the lira and easing rules on restructuring troubled loans that helped drive a knee-jerk partial rebound in the lira this morning. The action comes amid increasing fears of contagion from Turkey's currency crisis.

The U.S. economic calendar is heavy today with the consumer taking center stage. Consumer spending looks to be in good shape at the third quarter got underway. Retail sales rose 0.5% month-over-month in July, up from a downwardly revised 0.2% in June and well above the consensus estimate of 0.1%. Gains were bolstered by clothing stores (+1.3%), eating and drinking establishments (+1.3%), gasoline stations (+0.8%) and nonstore retailers (+0.8%). Retail sales excluding autos rose by 0.6% or double the 0.3% that economists anticipated. Finally, core retail sales – which excludes automobiles, gasoline, building materials and food services and corresponds most closely with the consumer spending component of GDP – advanced a solid 0.5% last month after a downwardly revised 0.1 percent dip in June.

This suggests the U.S. economy started the third quarter on solid footing after recording its best performance in nearly four years in the second quarter. We bump up our real consumer spending forecast for the third quarter to 3.0%, just a touch lower than the second quarter's 4.0% annualized pace.

Meanwhile, nonfarm productivity surged 2.9% at an annual rate in the second quarter, up sharply from 0.3% in the first quarter. This is the fastest pace for productivity growth since the first quarter of 2015. The annual rate of productivity growth from 2007 to 2017 was also revised up 0.1 percentage points to a rate of 1.3%. Output per hour increased 4.8% in the second quarter – up sharply from 2.6% in the previous period – while unit labor costs declined 0.9% after increasing by a robust 3.4% in the first quarter. Unit labor costs climbed 1.9% on a year-ago basis, pointing to moderate wage inflation.

Finally, industrial production rose by a less-than-expected 0.1% in July from June but the previous month was revised sharply higher to 1.0% from 0.6%. Factory production rose 0.3% – led by a 0.9% gain by automakers – but production slid 0.3% at mines and 0.5% at utilities. Capacity utilization was 78.1% in July, unchanged from June and in line with our estimate. This suggests moderate inflationary pressures and does not alter our view for two more quarter point Fed rate increases this year, one in September and another in December.

U.S. stocks are lower this morning on China tech and U.S. retailer earnings disappointments, and continuing volatility in global equity markets. The Dow and the S&P 500 are down 1.04% and 1.28% respectively, while the NASDAQ is down 1.48%. Declines in the S&P 500 today are being led by energy, materials and information technology stocks.

Treasury yields are declining sharply across the board today in response to the events in Turkey. The 10-Year Treasury yield is currently trading at 2.848 - down 5.1 basis points from yesterday. The 2-10 Treasury spread is 25.4, down 1.0 basis point from yesterday. The futures market probability of another Fed funds rate hike in September remains unchanged at 92.3% this morning.

The U.S. dollar is rising against the major currencies today in a flight to safety. The Bloomberg dollar spot index is up 0.29% from yesterday's close. The U.S. dollar is gaining the most against the Mexican peso, Canadian dollar, and euro today.