

Time EST	Indicator	For		Actual*	Estimate**	Consensus***	Previous Period****
08:30 AM	GDP Annualized QoQ	2Q S	↑	4.2%	4.2%	4.0%	4.1%
08:30 AM	GDP Price Index	2Q S	-	3.0%	3.0%	3.0%	3.0%
10:00 AM	Pending Home Sales MoM	Jul	↓	-0.7%	0.2%	0.3%	1.0% 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

U.S.-Canada Trade Talks Continue – 2Q GDP Revised Higher

There was reportedly very little progress made in talks yesterday between Canadian Foreign Minister Chrystia Freeland and U.S. Trade Representative Robert Lighthizer but they are scheduled to meet again this morning. The U.S. made it clear that Friday is the deadline for securing an agreement with no possibility of extending the talks beyond that date. The U.S. also noted that they have already compromised on the sunset clause which was a key issue for Canada. The Globe and Mail is reporting that Canada is ready to make concessions on dairy for compromises in other areas.

On the U.S. data front, second quarter real GDP growth was revised slightly higher to 4.2% from the advance estimate of 4.1%. This was spot on with our call but above the consensus estimate of 4.0%. We maintain our number one ranking on Bloomberg for forecasting this important economic indicator over the past two years. This is the strongest pace of quarterly U.S. GDP growth since 2014. Stronger intellectual property investment (revised to 11.0% from 8.2%), national defense spending (revised to 6.0% from 5.5%), and a smaller import bill (revised to -0.4% from 0.5%) offset a small downward revision to consumer spending (revised to 3.8% from 4.0%). The strong intellectual property investment growth last quarter was largely driven by company software purchases.

The robust second quarter growth, however, is not likely to be sustained. While consumer spending has remained strong early in the third quarter, the housing market has weakened further with home building rising less than expected in July and both new and existing home sales declining. Our forecast calls for third quarter real GDP growth to cool off to a more sustainable pace of 3.0%. For all of 2018, real GDP is forecast to advance 2.8%.

Meanwhile, the housing market is showing additional signs of weakness. Pending home sales declined 0.7% month-over-month in July, well below the expected 0.3% increase. The previous period was revised slightly higher from 0.9% to 1.0%. Pending home sales rose in the Northeast (+1.0%) and the Midwest (+0.3%) and declined in the South (-1.7%) and the West (-0.9%). On a year-ago basis, pending home sales decreased 2.3%, the seventh consecutive annual decline. Declines were broad-based with the biggest decline in the West (-5.8%). The primary reason for the weakness is tight-supply and eroding affordability.

U.S. stocks are modestly higher this morning as investors weigh the ongoing U.S.-Canada trade talks. The Dow is up 0.13% while the S&P 500 is up 0.37%. The NASDAQ is up 0.67% to a new record-high, led by gains in Amazon and Alphabet. Advances in the S&P 500 today are being led by information technology, consumer discretionary, and materials stocks.

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Treasury yields are rising across the curve this morning. The 10-Year Treasury yield is currently trading at 2.893 – up 1.3 basis points from yesterday’s close. The 2-10 Treasury spread is at a 22.1 basis points – up 0.5 basis points from Tuesday’s close. The futures market probability of another Fed funds rate hike in September is 94.6 this morning, unchanged from yesterday.

The U.S. dollar is rising against the major currencies today. The Bloomberg dollar spot index is up 0.04% from Tuesday’s close. The U.S. dollar is gaining the most against the Japanese yen, Australian dollar and the Indian rupee today.