BANK OF THE WEST
BNP PARIBAS

Daily Update

Bank of the West Economics | 415.765.8020 | bankofthewest.com

September 27, 2018

Time EST	Indicator	For		Actual*	Estimate**	Consensus***	Previous Period****
08:30 AM	Advance Goods Trade Balance	Aug	↓	-$75.8b	-$71.0b	-$70.6b	-$72.0b R↑
08:30 AM	Wholesale Inventories MoM	Aug P	↑	0.8%	0.3%	0.3%	0.6%
08:30 AM	Retail Inventories MoM	Aug		0.7%	NA	NA	0.6% R↑
08:30 AM	GDP Annualized QoQ	2Q T	-	4.2%	4.4%	4.2%	4.2%
08:30 AM	GDP Price Index	2Q T	-	3.0%	3.0%	3.0%	3.0%
08:30 AM	Core PCE QoQ	2Q T	↑	2.1%	NA	2.0%	2.0%
08:30 AM	Durable Goods Orders	Aug P	↑	4.5%	1.6%	2.0%	-1.7%
08:30 AM	Durables Ex Transportation	Aug P	↓	0.1%	0.4%	0.4%	0.2% R↑
08:30 AM	Cap Goods Orders Nondef Ex Air	Aug P	↓	-0.5%	NA	0.4%	1.5% R↓
08:30 AM	Cap Goods Ship Nondef Ex Air	Aug P	↓	0.1%	NA	0.5%	1.1% R↑
08:30 AM	Initial Jobless Claims	22-Sep	↑	214k	206k	210k	202k R↑
08:30 AM	Continuing Claims	15-Sep	↓	1661k	NA	1678k	1645k
10:00 AM	Pending Home Sales MoM	Aug	↓	-1.8%	-0.2%	-0.5%	-0.8% R↓
11:00 AM	Kansas City Fed Manufacturing Survey	Sep	↓	13	16	17	14

* ↑ 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

Q2 GDP Confirmed at 4.2% - Core Durable Goods Orders Weaken and Trade Deficit Widens in August

The U.S. economic calendar is very heavy today. The third estimate of Q2 GDP growth was largely unrevised from the second estimate, holding at 4.2% with real consumer spending growth of 3.8%. The bulk of the economic indicators released today pointed to an economic slowdown developing in the third quarter.

Headline durable goods orders surged 4.5% month-over-month in August, well above the consensus view of a 2.0% increase and up from -1.7% in July. The increase was driven by a 13.0% rise in the transportation category with nondefense aircraft spiking 69.1%. The details, however, were not quite as impressive. Non-defense capital goods orders excluding aircraft – a proxy for future business spending plans – declined 0.5% last month after four straight months of gains, weighed down by a 0.5% drop in computers and electronics and a 1.0% decrease in orders for motor vehicles and parts. Lastly, shipments of core capital goods that are used to calculate equipment spending in GDP, edged up just 0.1%, down from an upwardly revised 1.1% in July.

The Census Bureau released two data points today that have implications for third quarter GDP growth. The advance goods trade balance widened to -$75.8 billion in August, about $5 billion above the consensus estimate of $70.6 billion and up from -$72.0 billion in July. Exports in August declined 1.6% as food, feeds and beverages dropped 9.5%. Some of this decline can be attributed to the Chinese tariff on U.S. soybeans. Meanwhile, imports rose 0.7%, driven in part by a 3.2% increase in autos. This widening trade deficit will weigh on third quarter GDP growth. In a separate report, wholesale inventories rose 0.8% in August, well above expectations for an increase of 0.5% and up from 0.6% in July. The build in inventories last month could offset some of the drag on third quarter GDP growth from the widening goods trade deficit. However, rising inventories in Q3 could reduce inventory building and economic activity in Q4.

In yet another sign that the housing market continues to slow, pending home sales declined 1.8% in August, down from a downwardly revised -0.8% in July. This was well below expectations for a drop of 0.5%. Pending home sales have now declined on an annual basis for eight straight months. Declines were broad-based across all regions with the biggest drops in the West (-5.9%) and the Northeast (-1.3%). According to the National Association of Realtors, low existing home inventory continues to contribute to the home sales slowdown.

U.S. stocks are higher this morning as tech shares rebound. The Dow and the S&P 500 are up 0.44% and 0.56% respectively, while the NASDAQ is up 0.78%. Gains in the S&P 500 today are led by utilities, information technology, and telecommunications stocks.

Treasury yields are rising this morning. The 10-Year Treasury yield is currently at 3.07 – up 2.2 basis points from Wednesday's close. The 2-10 Treasury spread is 24.1 basis points – up 0.6 basis points from yesterday's close. The futures market probability of another Fed funds rate hike in December is 71.3% this morning, down from 77.5% on Wednesday.

The U.S. dollar is gaining ground against the major currencies today. The Bloomberg dollar spot index is up 0.49% from Wednesday's close. The U.S. dollar is advancing the most against the euro, Japanese yen, and Swiss franc.