BANK OF THE WEST
BNP PARIBAS

Daily Update

Bank of the West Economics | 415.765.8020 | bankofthewest.com

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Time EST	Indicator	For		Actual*	Estimate**	Consensus***	Previous Period****
07:00 AM	MBA Mortgage Applications	26-Oct		-2.5%	NA	NA	4.9%
08:15 AM	ADP Employment Change	Oct	↑	227k	195k	187k	218k R↓
08:30 AM	Employment Cost Index	3Q	↑	0.8%	0.7%	0.7%	0.6%
09:45 AM	Chicago Purchasing Manager	Oct	↓	58.4	59.5	60.0	60.4

* ↑ 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

Robust U.S. Job Growth Likely Continued in October, Private Wage and Salary Growth Moves Above 3.0%

The U.S. labor market continues to shine. According to the ADP Employment Report, the economy added 227k private-sector jobs in October. This was above consensus expectations for a gain of 187k and up from the downwardly revised 218k in September. September ADP employment was previously reported at 230k. Large businesses (500+ employees) led the way with 102k jobs, followed by mid-sized firms (50-499 employees) with 96k positions. Small companies (less than 50 employees) added 29k jobs. Sectors with the biggest gains were trade, transportation and utilities (+61k), leisure and hospitality (+40k) and professional and business services (+36k). The economy has added just over 200,000 nonfarm jobs per month on average this year, an impressive feat this late in the expansion. This lends some upside risk to our forecast for a gain of 190,000 nonfarm payrolls when the official data is released on Friday.

The Employment Cost Index advanced 0.8% in the third quarter. This was slightly above the consensus view of a 0.7% increase and up from 0.6% in the second quarter. Wages and salaries rose 0.9% while benefits increased a more modest 0.4%. On a year-over-year basis, total compensation was up 2.8% in the third quarter, unchanged from the second quarter. However, private sector wages and salaries led the way with growth of 3.1% in Q3 up from 2.9% in the second quarter. Wages and salaries have been rising steadily over the last year and this trend is forecast to continue as long as the labor market continues to tighten. This will keep the FOMC raising interest rates over the near-term, despite increased equity market volatility and tightening financial conditions.

The Chicago Purchasing Manager Index declined 2.0 points to 58.4 in October. This is below the expected reading of 60.0 and the lowest level in six months. According to the Institute for Supply Management, a decline in new order growth and unfinished orders more than offset increases in output, delivery times and employment. Finally, prices paid remains elevated with some firms reporting higher prices on invoices. This is likely related to the tariffs on Chinese exports beginning to impact producer prices.

U.S. stocks are building on yesterday's impressive rally on the last day of the month. The Dow and the S&P 500 are up 1.21% and 1.43% respectively, while the NASDAQ is up 2.01%. Gains in the S&P 500 today are led by information technology, financials, and energy stocks.

Treasury yields are rising across the curve this morning. The 10-Year Treasury yield is currently at 3.145 – up 2.3 basis points from Tuesday's close. The 2-10 Treasury spread is 27.6 basis points – up 0.3 basis points from yesterday's close. The futures market probability of another Fed funds rate hike in December is 74.2% this morning, up from 73.7% on Tuesday.

The U.S. dollar is gaining ground against the major currencies today. The Bloomberg dollar spot index is up 0.15% from yesterday's close and is up 1.55% over the last month. The U.S. dollar is advancing the most today against the Mexican peso, euro and Japanese yen.