BANK OF THE WEST
BNP PARIBAS

Daily Update

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Time EST	Indicator	For		Actual*	Estimate**	Consensus***	Previous Period****
08:30 AM	Empire Manufacturing	Nov	↑	23.3	19.5	20.0	21.1
08:30 AM	Philadelphia Fed Business Outlook	Nov	↓	12.9	20.9	20.0	22.2
08:30 AM	Retail Sales Advance MoM	Oct	↑	0.8%	0.4%	0.5%	-0.1% R↓
08:30 AM	Retail Sales Ex Auto MoM	Oct	↑	0.7%	0.3%	0.5%	-0.1%
08:30 AM	Import Price Index MoM	Oct	↑	0.5%	0.1%	0.1%	0.2% R↓
08:30 AM	Import Price Index YoY	Oct	↑	3.5%	NA	3.3%	3.1% R↓
08:30 AM	Export Price Index MoM	Oct	↑	0.4%	NA	0.1%	0.0%
08:30 AM	Export Price Index YoY	Oct		3.1%	NA	NA	2.7%
08:30 AM	Initial Jobless Claims	10-Nov	↑	216k	217k	213k	214k
08:30 AM	Continuing Claims	03-Nov	↑	1676k	NA	1625k	1630k R↑
10:00 AM	Business Inventories	Sep	-	0.3%	0.3%	0.3%	0.5%

* ↑ 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

Retail Sales Rebounds Sharply In October, But Import Price Inflation Accelerates Too

Overall U.S. retail sales advanced 0.8% month-on-month in October, up from the downwardly revised -0.1% in the prior month and above consensus expectations for an increase of 0.5%. Spending gains were led by gasoline stations (+3.5%), motor vehicles and parts (+1.1%) and building materials and supplies (+1.0%). Furniture and home furnishing stores (-0.3%) and food services and drinking places (-0.2%) weighed on growth. A rebound in consumer spending in the aftermath of hurricane Florence and higher gasoline prices bolstered retail sales growth last month. On a year ago basis, retail sales are up 4.6% - a modest acceleration from the 4.2% year-over-year growth in September. Finally, retail sales excluding autos rose 0.7% month-over-month, up sharply from -0.1% in September. This retail sales report shows consumers continued to spend at a solid pace through October as robust job growth and high consumer confidence kept cash registers ringing last month.

However, import prices are on the rise and could rise further as Chinese import tariffs begin to bite. U.S. import prices rose 0.5% in October from the previous month, well above the consensus view of 0.1% and up from the downwardly revised gain of 0.2% in September. This is the largest monthly increase since the 0.9% rise in May of this year. Much of the increase last month was confined to two categories: fuels (+3.3%) and food and beverages (+2.2%). Import prices excluding those two categories was -0.1%. Import prices relative to a year ago are up 3.5%, slightly above expectations for a 3.3% increase and up from 3.1% in the previous month. There is little evidence in this report to suggest that U.S. import tariffs are adding to widespread import inflation pressures, at least not yet.

There were two reports released that shed light on the health of regional U.S. manufacturing and the data was mixed. The New York Fed Empire Manufacturing Index was 23.3 in November, up from 21.1 in October and above the consensus view of 20.0. The increase was driven by gains in inventories (+10.1 points), the average workweek (+9.0 points) and the number of employees (+5.1 points). The index is now above the six-month average of 22.8.

Conversely, the Philadelphia Fed Business Outlook Survey disappointed in November with a reading of 12.9, down sharply from 22.2 in October and well below expectations for a reading of 20.0. The decline was primarily due to the average workweek (-14.5 points) and the new orders (-10.2 points) components. The index is firmly below the six-month average of 19.3.

U.S. stocks are down this morning on hard Brexit concerns. Two of Theresa May's cabinet ministers quit and Theresa May could lose her job as Prime Minister. The Dow and the S&P 500 are down 0.56% and 0.64% respectively, while the NASDAQ is up 0.11%. Losses in the S&P 500 today are led by consumer discretionary, real estate, and utilities stocks.

Treasury yields are down across the curve this morning on safe haven flows and somewhat more dovish comments from Jerome Powell last night. The 10-Year Treasury yield is currently at 3.092 – down 3.3 basis points from Wednesday's close. The 2-10 Treasury spread is 25.4 basis points – down 0.6 basis points from yesterday's close. The futures market probability of another Fed funds rate hike in December is 70.8% this morning, down from 71.8% on Wednesday.

The U.S. dollar is gaining ground against the major currencies today. The Bloomberg dollar spot index is up 0.17% from yesterday's close and is up 1.36% over the last month. The U.S. dollar is advancing the most today against the British pound and euro. Gains versus the British pound are due to mounting concerns about a hard Brexit with the British pound tumbling about 1.5% overnight against the dollar as expectations for future Bank of England rate hikes get priced out of the bond and money markets.