

US Trade Fights Drag Down 3 Macro Readings

US consumer confidence, new home sales and the Richmond Fed factory gauge all disappointed expectations. While not truly top shelf readings, they play into a nearer term Fed rate cut bias pending greater developments such as movement toward the G20 on Saturday, Friday's core PCE reading, Monday's ISM-manufacturing and next Friday's nonfarm payrolls report. There was a small rate reaction after the releases and the USD largely shook them off.

Conference Board's consumer confidence index, June:

Actual: 121.5

Scotia: 130.0

Consensus: 131.0

Prior: 131.3 (revised from 134.1)

- Consumer confidence deteriorated by much more than expected this month. The nearly ten point drop returns confidence to about where it stood in January after the post October slide (chart 1). The nearly eleven point drop in the expectations component combined with an 8.1 drop in the present situation subindex to drive weakness across the details.
- This may be an over-correction owing to the sample period that positions the cutoff date for responses at mid-month. Hence the sample period might have been more skewed toward the period of Trump's Mexican stand-off than the relative improvements since. Still, deteriorations in sub-gauges like employment conditions likely reaffirm the effects of the disappointing nonfarm payrolls report for the prior month. Further, consumers are likely increasingly aware of the deterioration in US-China trade frictions.
- Consumer impressions toward labour market conditions did indeed deteriorate. The spread between jobs plentiful minus jobs hard to get fell by seven points for the lowest reading since a year ago. Consumers also said that business conditions were not as good during the month and said they would be worse in future.
- Plans to buy autos and major appliances slipped. Plans to purchase homes were roughly stable.
- Consumers' inflation expectations climbed half a point to 5.1, but this is probably the most heavily discounted of the measures of inflation expectations.

U.S., New Home Sales SAAR (000s), May:

Actual: 626

Scotia: 693

Consensus: 684

Prior: 679 (revised from 673.0)

- US new home sales sharply disappointed expectations. May's 7.8% m/m decline was nearly ten points lower than consensus expectations and only partly due to a modest upward revision the prior month.

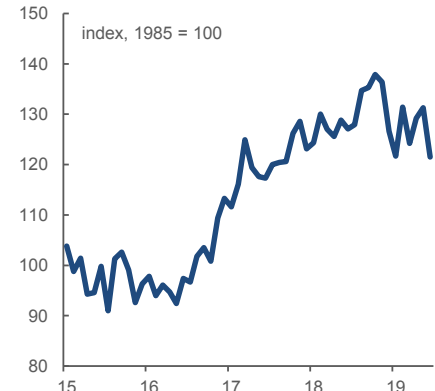
CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707

Scotiabank Economics

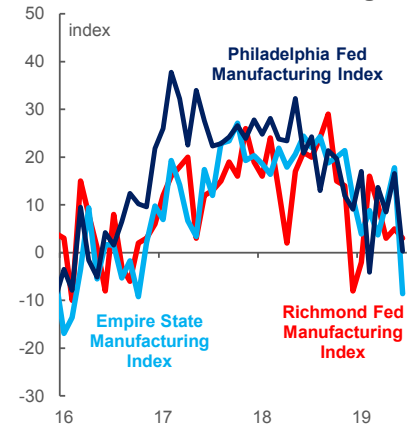
derek.holt@scotiabank.com

Waning US Consumer Confidence



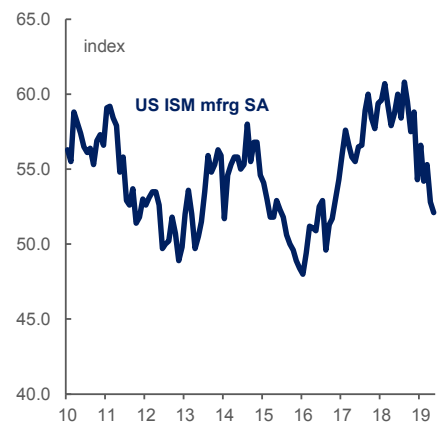
Sources: Scotiabank Economics,
US Conference Board.

Volatile US Manufacturing



Sources: Scotiabank Economics, Bloomberg.

More Downside To Come



Sources: Scotiabank Economics.

- Always be careful with the first stab at new home sales. They can be subject to large revisions. In fact, the Commerce Department said it all by noting that the 90% confidence interval on the print is between 545,246 and 706,754. Sales have been within that range pretty much since mid-2016.
- Sales fell especially hard in the west (-36% m/m) but also fell by 18% in the northeast. Sales increased by 5–6% in each of the Midwest and South.
- Months' supply climbed to 6.4 from 5.9 the prior month. That's the second consecutive rise.

Richmond Fed manufacturing index, June:

Actual: 3

Consensus: 2

Prior: 5

- While manufacturing conditions in the area around the Richmond Fed's district deteriorated this month, the report is the best of a bad lot of regional gauges. Each of the Philly, Empire and Dallas metrics fell by more, but a synchronous deterioration is evident (chart 2). The overall combination is likely to drive ISM lower on Monday and one cannot rule out a contractionary reading that would continue the deteriorating trend (chart 3). **A contraction signal would spook the Fed that has a history of explicitly pointing to ISM readings.**
- What drove the slippage were weaker hiring activity, softer wage growth and softer prices. New orders and shipments slightly improved.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a "call to action" or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.