

U.S. Outlook

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| Date | Indicator | For | Estimate | Consensus* | Previous Period |
|-------------|-------------------------------------|-------|----------|------------|-----------------|
| 22-May-2014 | Chicago Fed National Activity Index | APR | N/A | N/A | 0.20 |
| 22-May-2014 | Initial Jobless Claims | 05/17 | 310K | N/A | 297K |
| 22-May-2014 | Existing Home Sales | APR | 4.71M | 4.68M | 4.59M |
| 22-May-2014 | Existing Home Sales MoM | APR | 2.5% | 2.0% | -0.2% |
| 22-May-2014 | Leading Index | APR | 0.3% | 0.3% | 0.8% |
| 23-May-2014 | New Home Sales | APR | 432K | 428K | 384K |
| 23-May-2014 | New Home Sales MoM | APR | 12.5% | 11.3% | -14.5 % |

*Consensus from Bloomberg

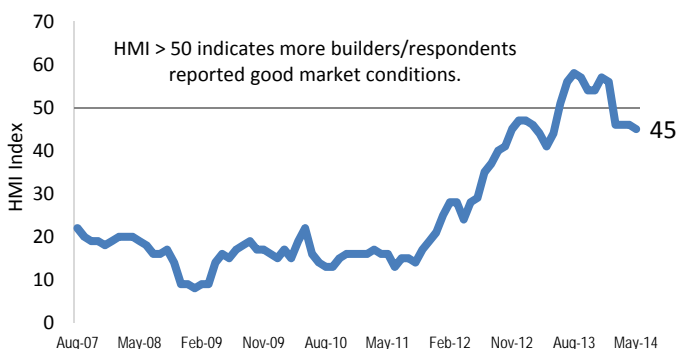
Is Housing Still On Fragile Ground?

Janet Yellen, in her recent testimony to Congress raised the possibility that the housing slowdown, seen in the first quarter of this year, could end up being more prolonged than a winter lull. She hinted that housing was an important downside risk for the U.S. economic outlook that could loom large in debates on monetary policy.

The National Association of Homebuilders' housing market index has dropped more than 10 points since January. The May reading of 45 was below consensus expectations and below April's reading of 46, continuing the deterioration in this index so far this year. Any reading below 50 is an indication of a poor market.

Homebuilder Confidence Shaken Since Start of the Year

NAHB Housing Market Index

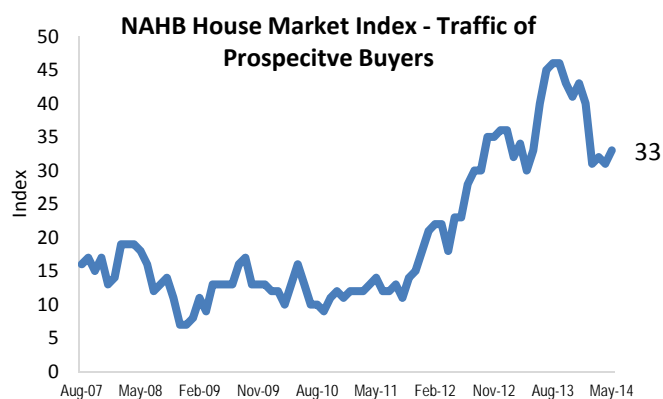


Source: National Association of Home Builders

Weakness is coming from builders' perception of present sales. On a brighter note, builders' expectations of future sales and prospective buyer traffic were the strongest

since January. So is the U.S. housing recovery still on fragile ground?

Buyer Traffic Picking Back Up



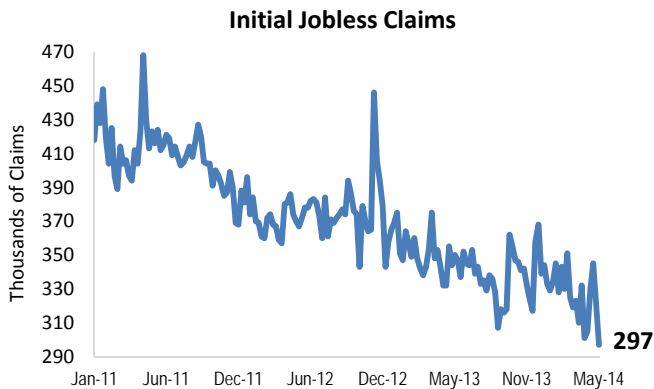
Source: National Association of Home Builders

We get some important new data points to help gauge the pace of the housing slowdown next week when April existing and new home sales are released. We are forecasting improvement on both new and existing home sales on the month. Pending home sales increased 3.4 percent in March, foreshadowing stronger home sales in April.

Here are some of our reasons for near-term optimism on housing. First, job and income growth appear to be on the rise. Initial jobless claims fell below 300K last week, the best reading on jobless calms so far in this expansion.

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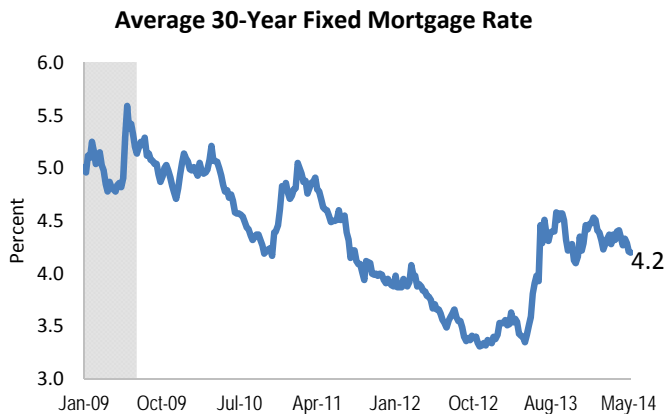
Jobless Claims at Expansion Lows



Source: U.S. Employment and Training Administration

Second, 30-year mortgage rates remain historically low, averaging 4.2 percent last week. Mortgage rates have fallen by about 0.3 percentage points since the beginning of the year, according to Freddie Mac.

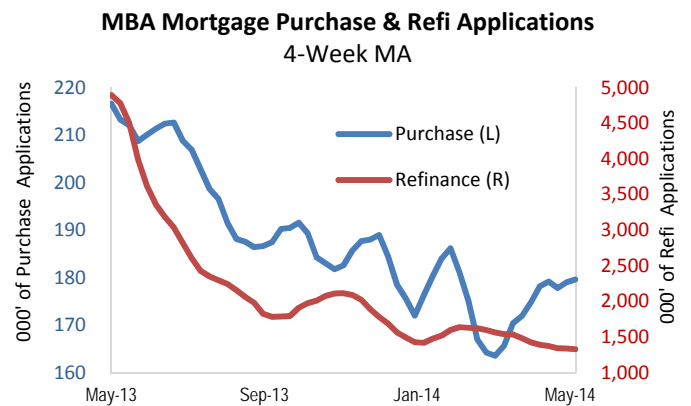
Mortgage Rates at Lowest Level Since Last October



Source: Freddie Mac

Lower mortgage rates have helped purchase applications to recover a bit from recent declines. The four-week moving average of purchase applications bottomed in March, according to the Mortgage Bankers Association, and has been rising gradually ever since.

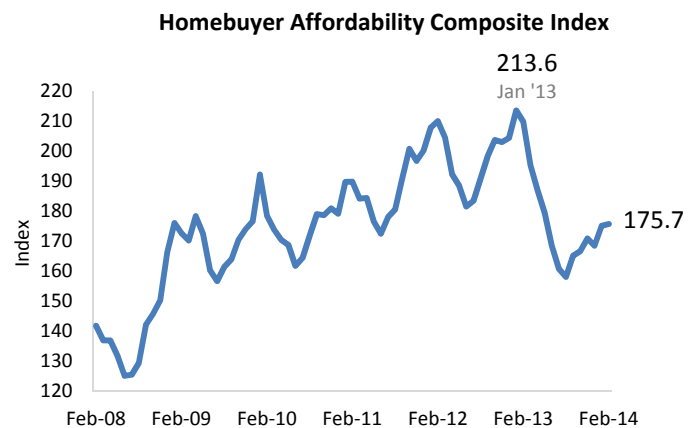
Purchase Applications Are Up On Lower Interest Rates



Source: Mortgage Brokers Association

Third, home price appreciation is decelerating at the national level. According to the National Association of Realtors, median existing home prices were up only 7.9 percent from a year ago in March, after peaking at a 13.4 percent year-on-year appreciation rate in August of last year. In short, rising incomes, lower interest rates, and slowing home price appreciation have all helped rebuild housing affordability after sinking to expansion lows last August.

Housing Affordability Rising Again



Source: National Association of Realtors

So while housing has had some trouble adjusting to the rate and price shock that occurred last year, we expect the combination of a stronger economy, pent-up housing demand, and low interest rates to rekindle some positive momentum to the housing market in the months ahead.

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Major Economic Indicators

| Economic Data | History | | | | Forecast | | | | | | | | Yr/Yr % chg or Annual Avg. | | | |
|---|---------|--------|--------|--------|----------|--------|--------|--------|--------|--------|--------|--------|----------------------------|-------|-------|-------|
| | 2013.1 | 2013.2 | 2013.3 | 2013.4 | 2014.1 | 2014.2 | 2014.3 | 2014.4 | 2015.1 | 2015.2 | 2015.3 | 2015.4 | 2012 | 2013 | 2014 | 2015 |
| Real GDP* | 1.1 | 2.5 | 4.1 | 2.6 | 0.1 | 3.6 | 3.3 | 3.4 | 3.1 | 3.1 | 2.8 | 2.6 | 2.8 | 1.9 | 2.5 | 3.2 |
| Personal Consumption Expenditures* | 2.3 | 1.8 | 2.0 | 3.3 | 3.0 | 3.5 | 3.2 | 3.2 | 2.7 | 2.8 | 2.6 | 2.6 | 2.2 | 2.0 | 3.0 | 2.9 |
| Non-residential Fixed Investment* | -4.6 | 4.7 | 4.8 | 5.7 | -2.1 | 4.9 | 4.7 | 4.6 | 4.6 | 4.8 | 4.7 | 4.6 | 7.3 | 2.7 | 3.2 | 4.8 |
| Private Housing Starts (000s units) | 957 | 869 | 882 | 1,008 | 923 | 990 | 1,005 | 1,030 | 1,106 | 1,171 | 1,173 | 1,178 | 783 | 929 | 987 | 1,157 |
| Vehicle Sales (mill. Units, annualized) | 15.3 | 15.5 | 15.7 | 15.6 | 15.9 | 16.1 | 16.2 | 16.3 | 16.4 | 16.5 | 16.7 | 16.6 | 14.4 | 15.5 | 16.1 | 16.6 |
| Industrial Production* | 4.2 | 1.9 | 2.5 | 4.9 | 4.5 | 4.6 | 4.7 | 4.5 | 4.2 | 4.1 | 4.1 | 4.0 | 3.8 | 2.9 | 4.2 | 4.4 |
| Nonfarm Payroll Employment (mil.) | 135.5 | 136.1 | 136.6 | 137.2 | 137.8 | 138.5 | 139.2 | 139.9 | 140.7 | 141.4 | 142.1 | 142.8 | 134.1 | 136.4 | 138.8 | 141.8 |
| Unemployment rate | 7.7 | 7.5 | 7.2 | 7.0 | 6.7 | 6.4 | 6.3 | 6.2 | 6.1 | 6.0 | 5.9 | 5.8 | 8.1 | 7.4 | 6.4 | 6.0 |
| Consumer Price Index* (percent) | 1.2 | 0.4 | 2.2 | 1.1 | 1.9 | 2.0 | 2.0 | 1.7 | 1.7 | 1.7 | 1.8 | 1.8 | 2.1 | 1.5 | 1.7 | 1.8 |
| "Core" CPI* (percent) | 2.0 | 1.4 | 1.8 | 1.6 | 1.6 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 2.1 | 1.8 | 1.7 | 1.8 |
| PPI (finished goods)* (percent) | 0.8 | -1.0 | 2.3 | 1.2 | 3.5 | 4.4 | 1.9 | 1.8 | 1.5 | 1.3 | 1.2 | 1.3 | 2.0 | 1.2 | 2.5 | 1.7 |
| Trade Weighted Dollar (Fed BOG, major) | 74.8 | 76.6 | 76.8 | 76.0 | 77.1 | 76.8 | 77.3 | 78.0 | 79.5 | 80.0 | 80.7 | 81.3 | 73.6 | 76.1 | 77.3 | 80.4 |
| Crude Oil Prices -WTI (\$ per barrel) | 94 | 94 | 106 | 98 | 98 | 101 | 101 | 101 | 99 | 99 | 99 | 98 | 94 | 98 | 101 | 99 |

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

| Financial Data | History | | | | Forecast | | | | | | | | Annual Average | | | |
|--------------------------------|---------|--------|--------|--------|----------|--------|--------|--------|--------|--------|--------|--------|----------------|--------|------|------|
| | 2013.1 | 2013.2 | 2013.3 | 2013.4 | 2014.1 | 2014.2 | 2014.3 | 2014.4 | 2015.1 | 2015.2 | 2015.3 | 2015.4 | 2012 | 2013 | 2014 | 2015 |
| S & P 500 | 1,514 | 1,610 | 1,675 | 1,769 | 1,835 | | | | | | | | 1,379 | 1,644 | | |
| Dow Jones Industrial Average | 13,994 | 14,959 | 15,286 | 15,736 | 16,177 | | | | | | | | 12,965 | 15,010 | | |
| Federal Funds Rate (effective) | 0.15 | 0.12 | 0.09 | 0.09 | 0.07 | 0.07 | 0.08 | 0.08 | 0.15 | 0.25 | 0.38 | 0.87 | 0.14 | 0.11 | 0.08 | 0.41 |
| Treasury-3 Month Bills (yield) | 0.09 | 0.05 | 0.03 | 0.06 | 0.05 | 0.04 | 0.05 | 0.06 | 0.10 | 0.20 | 0.33 | 0.83 | 0.09 | 0.06 | 0.05 | 0.37 |
| Treasury-2 Year Notes (yield) | 0.26 | 0.27 | 0.37 | 0.33 | 0.37 | 0.38 | 0.49 | 0.62 | 1.00 | 1.06 | 1.29 | 1.59 | 0.28 | 0.31 | 0.47 | 1.24 |
| Treasury-5 Year Notes (yield) | 0.82 | 0.91 | 1.50 | 1.44 | 1.60 | 1.65 | 1.70 | 1.74 | 1.98 | 2.19 | 2.40 | 2.68 | 0.76 | 1.17 | 1.67 | 2.31 |
| Treasury-10 Year Notes (yield) | 1.95 | 1.99 | 2.71 | 2.74 | 2.77 | 2.72 | 3.00 | 3.10 | 3.20 | 3.38 | 3.61 | 3.76 | 1.80 | 2.35 | 2.90 | 3.49 |
| Treasury-30 Year Notes (yield) | 3.13 | 3.14 | 3.71 | 3.79 | 3.68 | 3.60 | 3.85 | 3.90 | 4.14 | 4.30 | 4.41 | 4.51 | 2.92 | 3.44 | 3.76 | 4.34 |
| Prime Rate | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.38 | 3.87 | 3.25 | 3.25 | 3.25 | 3.44 |
| Libor 3-Mo. U.S. Dollar | 0.29 | 0.28 | 0.28 | 0.28 | 0.26 | 0.25 | 0.25 | 0.26 | 0.27 | 0.36 | 0.60 | 0.97 | 0.42 | 0.28 | 0.26 | 0.55 |
| Mortgage-30 Year (yield) | 3.50 | 3.67 | 4.44 | 4.29 | 4.36 | 4.28 | 4.47 | 4.65 | 4.75 | 4.94 | 5.16 | 5.31 | 3.66 | 3.98 | 4.44 | 5.04 |
| BAA Corporate (yield) | 4.81 | 4.82 | 5.40 | 5.36 | 5.12 | 4.90 | 5.07 | 5.19 | 5.30 | 5.48 | 5.70 | 5.86 | 4.94 | 5.10 | 5.07 | 5.59 |

Source: Bank of the West Economics, Bloomberg, Federal Reserve