U.S. Outlook

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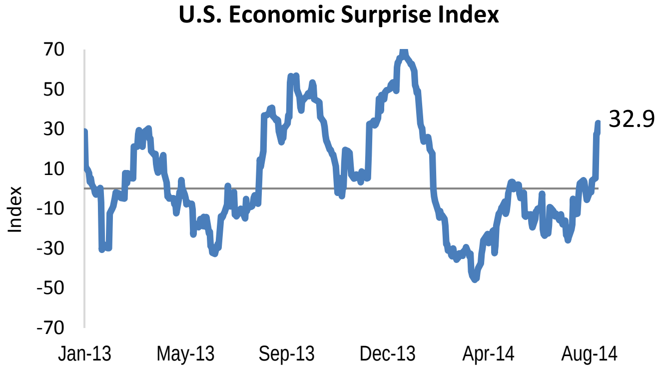
Date	Indicator	For	Estimate	Consensus*	Previous Period
02-September-2014	ISM Manufacturing - Final	AUG	57.4	56.8	57.1
02-September-2014	Construction Spending MoM	JUL	1.0%	0.8%	-1.8%
03-September-2014	Factory Orders	JUL	12.0%	10.8%	1.1%
03-September-2014	Total Vehicle Sales	AUG	16.6M	16.5M	16.4M
04-September-2014	ADP Employment Report	AUG	230K	215K	218K
04-September-2014	Trade Balance	JUL	$-42.0B	-$42.5B	-$41.5B
04-September-2014	Initial Jobless Claims	08/30	302K	N/A	298K
04-September-2014	Nonfarm Productivity-Final	Q2	2.5%	2.5%	2.5%
04-September-2014	Unit Labor Costs-Final	Q2	0.6%	0.6%	0.6%
04-September-2014	ISM Non-Mfg Composite Index	AUG	58.0	57.4	58.7
05-September-2014	Nonfarm Payrolls	AUG	240K	220K	209K
05-September-2014	Manufacturing Payrolls	AUG	30K	20K	28K
05-September-2014	Unemployment Rate	AUG	6.1%	6.1%	6.2%
05-September-2014	Average Hourly Earnings	AUG	0.2%	0.2%	0.0%
05-September-2014	Average Weekly Hours	AUG	34.5	34.5	34.5

*Consensus from Bloomberg

Trouble Abroad

Left to itself, the U.S. economy appears to be on a solid and sustainable path for growth. The overall strength of U.S. economic data continue to impress analysts with positive surprises far outweighing negative ones so far in August.

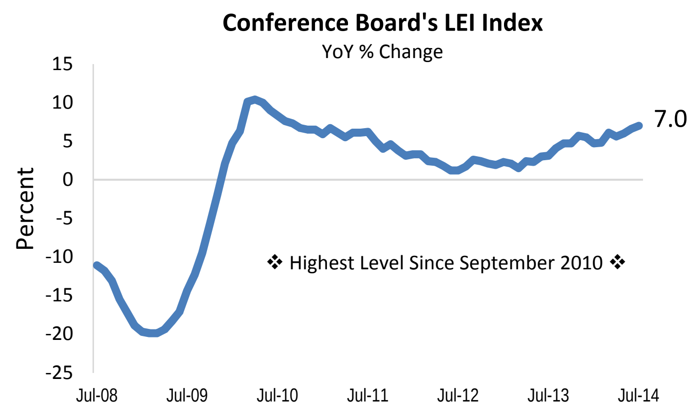
U.S. Economic Indicators Better Than Expected This Month



Source: Bloomberg; Citigroup Global Markets

The Conference Board's Leading Economic Indicators Index is in the midst of its fastest growth spurt since 2010 when the U.S. economy was just emerging from recession.

Leading Indicators Show Economy Has More Room To Run



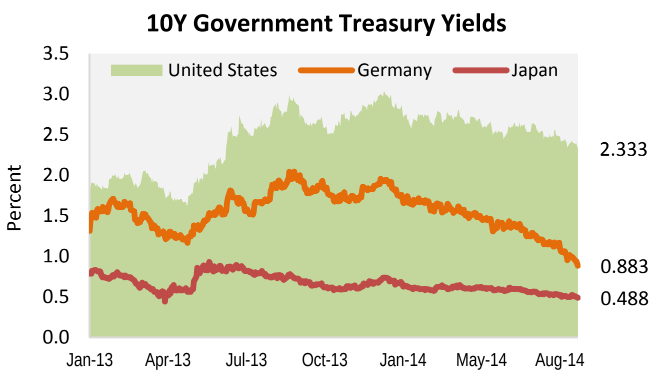
Source: Conference Board

Yet doubts remain. One ominous indication that all is not so well comes from the fixed income markets. The ten-year Treasury yield sank to 15 month lows recently. U.S. inflation expectations have slumped as West Texas Intermediate oil prices dropped 8.0 percent over the past month and 2.0 percent over the last five days, helping to push long-term interest rates in the U.S. even lower.

However, recent economic data suggest there is a deeper problem with the global outlook. The interest rate declines from abroad have been even more dramatic than those in the United States, suggesting a whiff of deflation and real global growth concern is in the air.

For now, lower interest rates in the U.S. seem to be a positive for the housing market, which has begun to show some backbone for the first-time this year. **(See last week's US Outlook Report: Is Housing Getting Back on Its Feet? for a more detailed review)** Unfortunately, the U.S. economy is not immune to economic, geopolitical, and financial events abroad, which are eventually transmitted through prices, trade and financial market shocks. The interconnectedness of global markets means that deflation abroad could migrate to our shores.

Global Long-Term Interest Rates Plunging



Source: Bloomberg

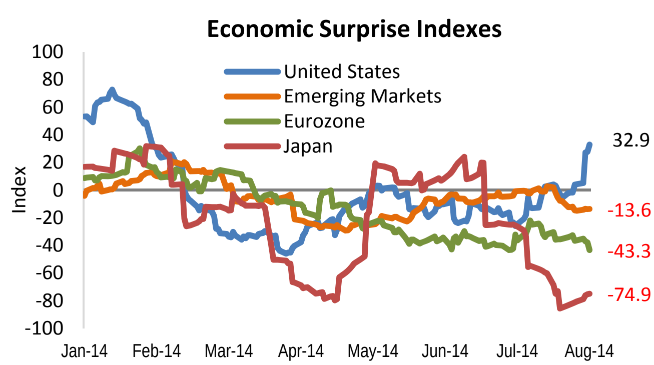
Global economic data almost everywhere, except in the United States, is turning ugly. Economic surprise indexes for the Eurozone, Japan, and Emerging Markets are slipping, indicating weaker than expected economic performance.

In July, the International Monetary Fund marked down its forecast for global growth on a weaker emerging market outlook, and cuts to the forecasts for China and Russia this year.

Eurozone growth has been sputtering and unbalanced. The initial reading on Q2 GDP growth came in flat for the Eurozone as a whole, with little to no growth from its three largest economies: Germany, France, and Italy. The conflict in Ukraine and sanctions on Russia are already having a negative impact on German business confidence. With Eurozone unemployment still above the U.S. peak unemployment rate during the "Great Recession" labor market slack will continue to put downward pressure on consumer prices in Europe. Mario Draghi's comments at last week's Jackson Hole Conference in Wyoming, have raised expectations of large-scale asset purchases in Europe to help offset the deflation scare, but it remains to be seen if this tactic will be soon enough or forceful enough to stem the tide of lower prices. History suggests that monetary policy works with a lag of at least six months to a year, and it is not even clear that the monetary transmission mechanism in Europe will function properly.

At the same time, China's economy has weakened again despite government stimulus attempts. Retail sales and industrial production for July were weaker than expected. Aggregate credit growth slowed sharply again last month, and foreign direct investment in China was down 17.0 percent from a year ago. But China's biggest problem is property prices that are now falling almost across-the-board -- not just in second- and third-tier cities. Property prices fell last month in 64 of 70 major cities (91% of the total and the highest percentage since records began in 2005). Chinese banks are increasing reserves substantially, bracing for higher loan losses. More loosening of monetary and/or fiscal policy in China looks appropriate.

Global Economy Struggling For Lift-Off



Source: Bloomberg; Citigroup Global Markets

So while the baseline U.S. outlook is sanguine, my biggest concern today centers around a weak global economy that begins to tarnish our economic fundamentals. Downside growth risks from trouble abroad give the doves on the FOMC another reason to hold off on raising short-term interest rates beyond residual labor market slack in the United States.

Major Economic Indicators

	History						Forecast						Yr/Yr % chg or Annual Avg.			
Economic Data	**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*	2.7	1.8	4.5	3.5	-2.1	4.2	3.1	3.0	3.0	3.0	2.9	2.9	2.3	2.2	2.1	3.1
Personal Consumption Expenditures*	3.6	1.8	2.0	3.7	1.2	2.5	2.1	2.9	2.9	2.8	2.7	2.7	1.8	2.4	2.3	2.7
Non-residential Fixed Investment*	1.5	1.6	5.5	10.4	1.6	8.4	6.0	5.5	4.9	4.9	4.9	4.9	7.2	3.0	5.8	5.4
Private Housing Starts (000s units)	947	865	882	1,025	925	997	1,040	1,096	1,100	1,121	1,143	1,155	784	930	1,015	1,130
Vehicle Sales (mill. Units, annualized)	15.3	15.5	15.7	15.6	15.6	16.5	16.7	16.8	16.9	17.0	17.1	17.0	14.4	15.5	16.4	17.0
Industrial Production*	4.2	1.9	2.5	4.9	3.9	5.5	5.5	5.0	4.5	4.4	4.4	4.3	3.8	2.9	4.4	4.8
Nonfarm Payroll Employment (mil.)	135.5	136.1	136.6	137.2	137.8	138.5	139.2	140.0	140.7	141.4	142.2	142.9	134.1	136.4	138.9	141.8
Unemployment rate	7.7	7.5	7.2	7.0	6.7	6.2	6.0	5.9	5.8	5.7	5.6	5.5	8.1	7.4	6.2	5.7
Consumer Price Index* (percent)	1.2	0.4	2.2	1.1	1.9	3.7	2.2	2.0	1.8	1.8	1.9	1.9	2.1	1.5	2.1	2.0
"Core" CPI* (percent)	2.0	1.4	1.8	1.6	1.6	3.0	2.0	1.9	1.8	1.8	1.8	1.8	2.1	1.8	2.0	1.9
PPI (finished goods)* (percent)	0.8	-1.0	2.3	1.2	3.7	3.9	3.0	2.4	1.6	1.4	1.3	1.3	2.0	1.2	2.6	2.0
Trade Weighted Dollar (Fed BOG, major)	74.8	76.6	76.8	76.0	77.1	76.6	76.8	77.0	79.0	79.5	80.2	80.8	73.6	76.1	76.9	79.9
Crude Oil Prices -WTI ($ per barrel)	94	94	106	98	98	103	99	96	97	97	97	96	94	98	99	97

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

	History						Forecast						Annual Average			
Financial Data	**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	1,900							1,379	1,644		
Dow Jones Industrial Average	13,994	14,959	15,286	15,736	16,177	16,604							12,965	15,010		
Federal Funds Rate (effective)	0.15	0.12	0.09	0.09	0.07	0.07	0.08	0.08	0.10	0.25	0.38	0.87	0.14	0.11	0.08	0.40
Treasury-3 Month Bills (yield)	0.09	0.05	0.03	0.06	0.05	0.04	0.03	0.04	0.05	0.20	0.33	0.83	0.09	0.06	0.04	0.35
Treasury-2 Year Notes (yield)	0.26	0.27	0.37	0.33	0.37	0.38	0.50	0.60	1.00	1.06	1.29	1.59	0.28	0.31	0.46	1.24
Treasury-5 Year Notes (yield)	0.82	0.91	1.50	1.44	1.60	1.63	1.65	1.77	1.93	2.14	2.35	2.63	0.76	1.17	1.66	2.26
Treasury-10 Year Notes (yield)	1.95	1.99	2.71	2.74	2.77	2.69	2.50	2.70	3.00	3.17	3.41	3.56	1.80	2.35	2.67	3.29
Treasury-30 Year Notes (yield)	3.13	3.14	3.71	3.79	3.68	3.55	3.30	3.50	3.76	3.96	4.06	4.16	2.92	3.44	3.51	3.99
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	0.24	0.24	0.26	0.27	0.36	0.60	0.97	0.42	0.28	0.25	0.55
Mortgage-30 Year (yield)	3.50	3.67	4.44	4.29	4.36	4.28	4.20	4.40	4.55	4.74	4.98	5.12	3.66	3.98	4.31	4.85
BAA Corporate (yield)	4.81	4.82	5.40	5.36	5.12	4.85	4.70	4.82	5.00	5.18	5.40	5.56	4.94	5.10	4.87	5.29

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