

# U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
10-November -2014	Labor Market Conditions Index	OCT	NA	NA	NA
11-November -2014	NFIB Small Business Optimism	OCT	95.5	95.0	95.3
12-November -2014	Wholesale Inventories MoM	SEP	0.0%	0.2%	0.7%
13-November -2014	Initial Jobless Claims	11/08	280K	280K	278K
13-November -2014	JOLTS Job Openings	SEP	N/A	N/A	4835
13-November -2014	Monthly Budget Statement	OCT	NA	-\$111.7B	NA
14-November -2014	Retail Sales Advance MoM	OCT	0.4%	0.3%	-0.3%
14-November -2014	Retail Sales Ex. Autos MoM	OCT	0.3%	0.2%	-0.2%
14-November -2014	Import Price Index MoM	OCT	-1.8%	-1.6%	-0.5%
14-November -2014	Univ. of Michigan Confidence- Preliminary	NOV	87.5	87.5	86.9
14-November -2014	Business Inventories	SEP	0.2%	0.2%	0.2%

\*Consensus from Bloomberg

## Updating Our Virtuous Cycle Checklist

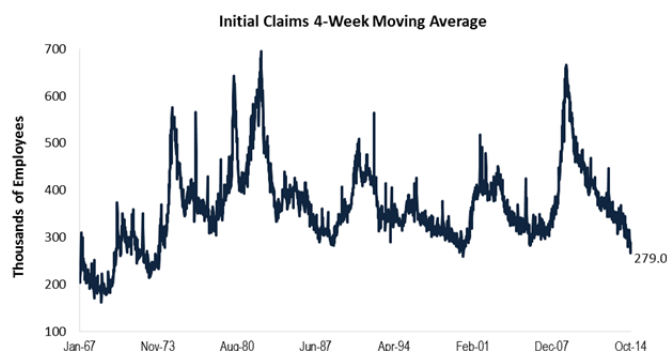
There she blows! Like Captain Ahab trying to locate the elusive white whale from Moby-Dick, economists have been trying to spot a pro-growth virtuous cycle that would signal to the Fed that it's okay to normalize interest rates and to others that it's okay to come out of our bunkers.

Noticeably absent in this economic expansion, so far, has been the pro-growth dynamics normally described as a virtuous cycle, where better job and productivity growth, begets stronger wage growth, pushing consumer demand for products and housing higher, and signaling to businesses to ramp up production and investment, which in turn leads to more jobs and productivity growth. Instead, we have gotten short bursts of activity followed by stagnation and retrenchment. In this week's report we make the case that a virtuous cycle may finally be near in the United States.

First let's start with the labor market. The October payroll report adds to the evidence of significant labor market progress, which the FOMC cited in its October statement. Another 214K jobs created in October with a net upward revision of 31K jobs from prior months. The unemployment rate dropped again to 5.8%, the lowest level since July 2008. This is close to levels that economists consider a fully-employed economy. In fact, one has to go all the way back to 2000 to see the four-week moving average of jobless claims as low as it is

today. I think we can check off the first box – a strong job market – on our virtuous cycle checklist.

## Jobless Claims At Fourteen Year Lows

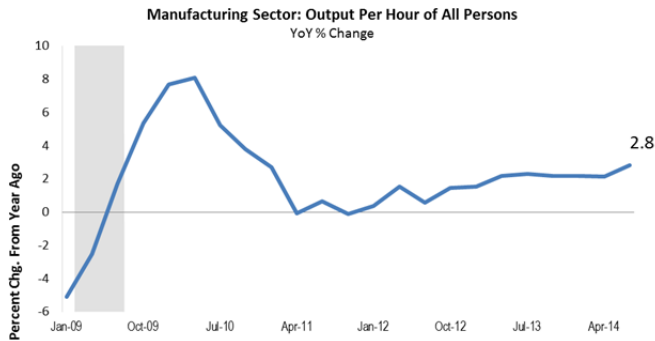


Source: U.S. Employment and Training Administration

What about productivity? We have been seeing better growth here as well. Third quarter productivity growth released earlier this week easily beat consensus expectations and the second quarter's productivity growth was revised up as well. Check box number two.

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**Productivity Growth Turning Higher**



Source: U.S. Bureau of Labor Statistics

Wages are the trickiest box to fill-in, but there is some recent evidence supporting a stronger outlook for wages. The employment cost index, a broad measure of labor market compensation has jumped over the last two quarters at its fastest pace since 2008.

**Emerging Signs of Wage Inflation**



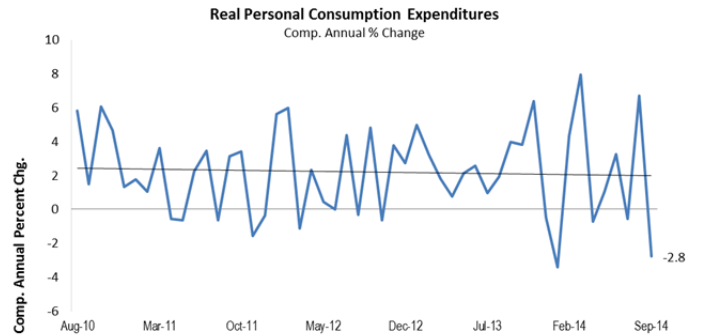
Source: Bureau of Labor Statistics

So while it is still early days on the wage evidence, more signs point to labor market tightening leading to better nominal and real wage gains ahead. I think we can at least check this box with a pencil, just in case we need to erase our answer down the road.

Where we fall short, I believe, and where we have not yet seen full follow through is from the U.S. consumer. The latest personal spending and income report was a sobering read. No clear sign yet of acceleration in real personal spending.

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**Positive Trend in Consumer Spending Growth Disappears**

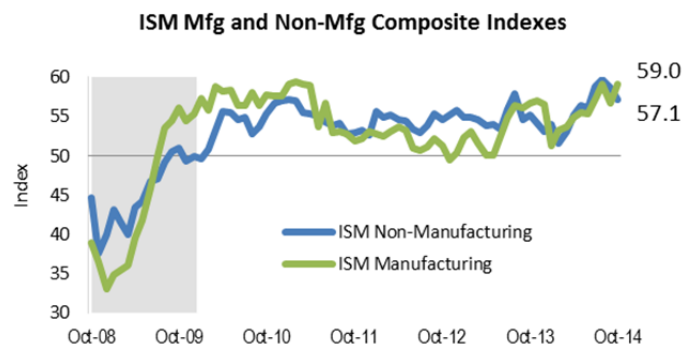


Source: U.S. Bureau of Economic Analysis

Consumers, so far, have squirreled away any wage or income windfall they have managed to get. However, we remain confident real consumer spending growth is set to improve. The personal savings rate is relatively high, debt service burdens low and household wealth on the rise. Consumer confidence is rising nicely now in lock step with labor market improvement and better wages. Lower gas prices should give consumers the ability to spend in other more discretionary areas. It shouldn't be too long before that is reflected in higher real consumer spending growth. We expect real consumer spending growth to re-accelerate toward 2.8 percent annualized in the fourth quarter and increase 2.7 in 2015, about a 23 percent faster growth rate than in 2014.

Finally, U.S. Purchasing Managers' Indexes for October are holding near expansion highs with strength in production, employment and new orders -- good signs that business is stepping up to the plate as well with new investment and hiring-despite fragile global growth and exports.

**U.S. PMIs Holding Near Expansion Highs**



Source: Institute for Supply Management

In short, we may have spotted our white whale; the elusive virtuous-cycle for the U.S. economy appears tantalizingly close.

## 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*	2.7	1.8	4.5	3.5	-2.1	4.6	3.5	2.7	3.0	3.0	2.9	2.9	2.3	2.2	2.2	3.1
Personal Consumption Expenditures*	3.6	1.8	2.0	3.7	1.2	2.5	1.8	2.8	2.9	2.8	2.7	2.7	1.8	2.4	2.2	2.7
Non-residential Fixed Investment*	1.5	1.6	5.5	10.4	1.6	9.7	5.5	5.3	4.9	4.9	4.9	4.9	7.2	3.0	5.9	5.4
Private Housing Starts (000s units)	947	865	882	1,025	925	985	1,023	1,040	1,096	1,100	1,121	1,143	784	930	993	1,115
Vehicle Sales (mill. Units, annualized)	15.3	15.5	15.7	15.6	15.6	16.5	16.7	16.8	17.0	17.1	17.2	17.3	14.4	15.5	16.4	17.2
Industrial Production*	4.2	1.9	2.5	4.9	3.9	5.5	2.7	4.5	3.5	3.3	3.3	3.2	3.8	2.9	4.0	3.7
Nonfarm Payroll Employment (mil.)	135.5	136.1	136.6	137.2	137.8	138.5	139.1	139.7	140.4	141.4	141.7	142.3	134.1	136.4	138.8	141.4
Unemployment rate	7.7	7.5	7.2	7.0	6.7	6.2	6.1	5.8	5.7	5.6	5.5	5.5	8.1	7.4	6.2	5.6
Consumer Price Index* (percent)	1.2	0.4	2.2	1.1	1.9	3.0	0.5	0.9	0.5	1.7	1.9	1.9	2.1	1.5	1.7	1.2
"Core" CPI* (percent)	2.0	1.4	1.8	1.6	1.6	2.5	0.9	1.1	1.6	1.7	1.7	1.8	2.1	1.8	1.7	1.5
PPI (finished goods)* (percent)	0.8	-1.0	2.3	1.2	3.9	3.7	-0.3	-0.1	0.0	0.3	1.0	1.1	2.0	1.2	2.0	0.4
Trade Weighted Dollar (Fed BOG, major)	74.8	76.6	76.8	76.0	77.1	76.6	77.0	80.5	82.0	82.5	83.2	83.8	73.6	76.1	77.8	82.9
Crude Oil Prices -WTI (\$ per barrel)	94	94	106	98	99	103	98	82	84	84	86	87	94	98	96	85

\*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	1,900	1,976						1,379	1,644		
Dow Jones Industrial Average	13,994	14,959	15,286	15,736	16,177	16,604	16,954						12,965	15,010		
Federal Funds Rate (effective)	0.15	0.12	0.09	0.09	0.07	0.09	0.09	0.08	0.10	0.13	0.34	0.60	0.14	0.11	0.08	0.29
Treasury-3 Month Bills (yield)	0.09	0.05	0.03	0.06	0.05	0.03	0.03	0.03	0.03	0.11	0.34	0.66	0.09	0.06	0.04	0.29
Treasury-2 Year Notes (yield)	0.26	0.27	0.37	0.33	0.37	0.42	0.52	0.46	0.74	0.90	1.13	1.43	0.28	0.31	0.44	1.05
Treasury-5 Year Notes (yield)	0.82	0.91	1.50	1.44	1.60	1.66	1.70	1.64	1.70	1.91	2.12	2.40	0.76	1.17	1.65	2.03
Treasury-10 Year Notes (yield)	1.95	1.99	2.71	2.74	2.77	2.62	2.50	2.40	2.60	2.82	3.06	3.21	1.80	2.35	2.57	2.92
Treasury-30 Year Notes (yield)	3.13	3.14	3.71	3.79	3.68	3.44	3.27	3.12	3.43	3.63	3.73	3.83	2.92	3.44	3.38	3.66
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	0.24	0.24	0.25	0.28	0.49	0.75	0.42	0.28	0.25	0.44
Mortgage-30 Year (yield)	3.50	3.67	4.44	4.29	4.36	4.23	4.14	4.07	4.27	4.46	4.70	4.84	3.66	3.98	4.20	4.57
BAA Corporate (yield)	4.81	4.82	5.40	5.36	5.12	4.82	4.74	4.73	4.78	4.94	5.16	5.32	4.94	5.10	4.85	5.05

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