U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
2-March -2015	Personal Income	JAN	0.4%	0.4%	0.3%
2-March -2015	Personal Spending	JAN	0.0%	-0.1%	-0.3%
2-March -2015	PCE Deflator M-o-M	JAN	-0.5%	-0.5%	-0.2%
2-March -2015	PCE Core M-o-M	JAN	0.1%	0.1%	0.0%
2-March -2015	Construction Spending M-o-M	JAN	0.4%	0.4%	0.4%
2-March -2015	ISM Manufacturing	FEB	53.0	53.2	53.5
3-March -2015	ISM New York	FEB	NA	NA	44.5
3-March -2015	Total Vehicle Sales	FEB	16.7M	16.7M	16.6M
4-March -2015	ADP Employment Change	FEB	220K	218K	213K
4-March -2015	ISM Non-Manufacturing Composite	FEB	57.0	56.5	56.7
5-March -2015	Nonfarm Productivity-Final	Q4	-2.4%	-2.4%	-1.8%
5-March -2015	Unit Labor Costs-Final	Q4	3.3%	3.3%	2.7%
5-March -2015	Initial Jobless Claims	02/28	295K	NA	313K
5-March -2015	Factory Orders	JAN	2.0%	0.0%	-3.4%
6-March -2015	Nonfarm Payrolls Change	FEB	250K	240K	257K
6-March -2015	Unemployment Rate	FEB	5.6%	5.6%	5.7%
6-March -2015	Average Hourly Earnings M-o-M	FEB	0.3%	0.2%	0.5%
6-March -2015	Trade Balance	JAN	-$42.0B	-$41.5B	-$46.6B
6-March -2015	Consumer Credit	JAN	$15.5B	$15.0B	$14.76B

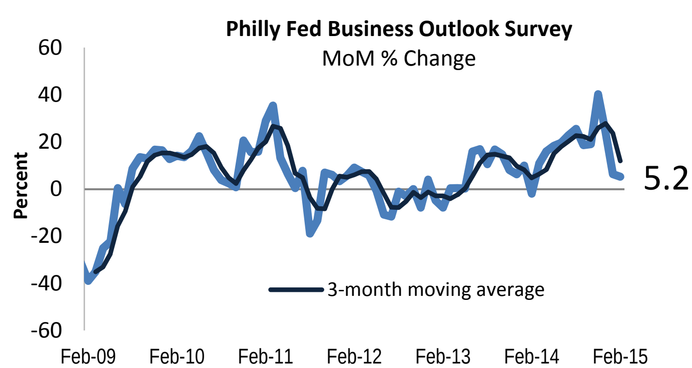
*Consensus from Bloomberg

Keeping the Faith on the U.S. Economy

The U.S. economy continues to perform in-line with our forecasts. U.S. real GDP growth cooled slightly to 2.2 percent in the fourth quarter, but appears to be growing at around a 2.4 percent annualized pace in the first quarter. However, worse-than-normal seasonal weather in much of the country is weighing on the incoming data as it did last year. An analysis by Macroeconomic Advisers out of Saint Louis puts the adverse weather impacts on the U.S. economy in the first quarter at -0.4 percentage points of real GDP. Add to that, the potential for the West Coast port slowdown to subtract another 0.1 to 0.2 percentage points, and U.S. GDP growth would be trending at around 2.8 percent or better over the first quarter of this year.

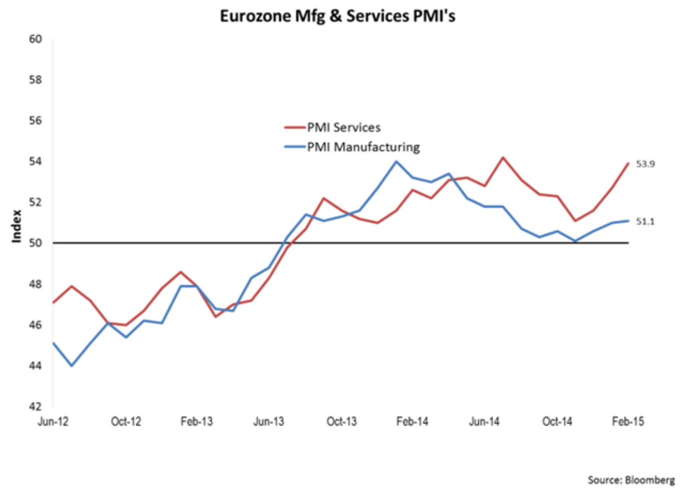
Headwinds from lower oil prices, a strengthening dollar, and weak global demand have become visible in the earnings of some large international companies, like Hewlett-Packard. These companies are likely to accelerate cost cutting by reducing non-essential staff and pulling in the reins on business investment. The recent weakness in manufacturing PMI's for January and February are a reflection of these headwinds.

February Manufacturing PMIs Mixed



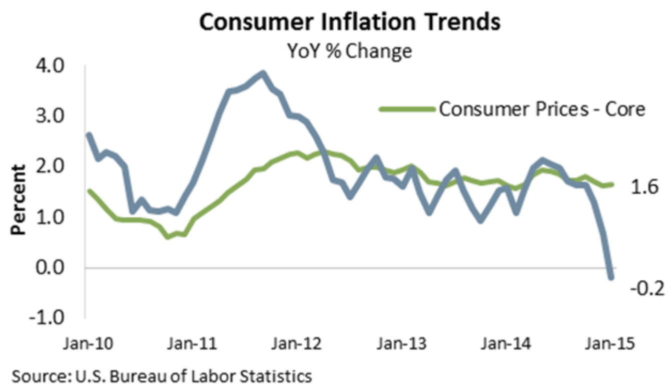
But all of this has already been factored into our Q1 forecasts. We don't see anything outside the box that would change our fundamental view of the U.S. economic or interest rate outlook for this year. If anything, the news on the international front has improved recently, reducing the risk of downside contagion from abroad.

Data Out of the Eurozone Looking Better



The January CPI data turned deflationary as we expected, but with better-than-expected resilience from core-consumer prices, which edged up another 0.2 percent last month. U.S. deflation remains contained in only a handful of categories, energy, commodities, transportation, and apparel. The year-on-year core-CPI inflation held steady at 1.6 percent. While core-consumer inflation remains below the Fed's 2.0 percent target range. If the headline inflation number only stops plunging in the months ahead, it could give the Federal Open Market Committee the confidence it needs to initiate its liftoff in June.

Core CPI Holds Up Better than Expected in January

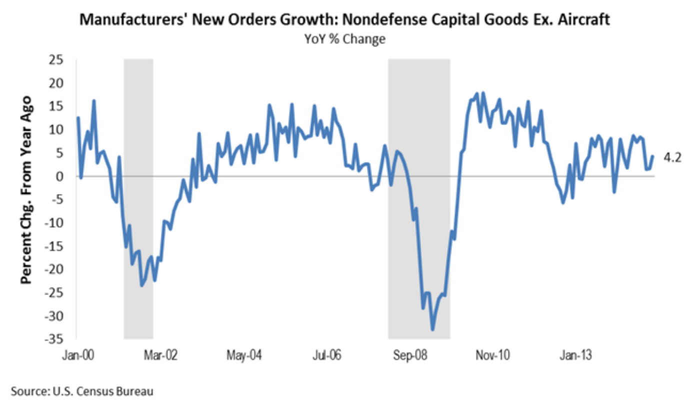


Chairwoman Janet Yellen won some more flexibility from the market this week by untying the removal of the "patient" language from the actual date of liftoff, instead opting to emphasize the data dependency of the rate hike decisions going forward. This is a brilliant way to de-link the removal of the patient language from market interest rate forecasts and should keep the market from having a "liftoff tantrum" like it did when Bernanke triggered the "taper tantrum" months before the Fed started tapering. This will ensure that financial conditions don't tighten too much before the Fed is ready to act. The March FOMC meeting will still be important, but perhaps less important than it would have been otherwise.

While the media and the markets initially interpreted Yellen's testimony in front of Congress as dovish for interest rates and monetary policy, I think this was over played. Yellen's de-linking of the "patient" language actually increases the likelihood that the FOMC removes the "patient" language from the statement at the March FOMC meeting. So June is still on the table for the first rate increase, should U.S. inflation and unemployment rate data cooperate. I see no reason to adjust my Fed funds rate forecasts for this year based on recent incoming economic data or Yellen's Congressional testimony.

Finally, an encouraging nugget on future U.S. business investment- U.S. non-defense capital goods orders excluding aircraft broke a four-month losing streak in January, rebounding more than the consensus expected on the month.

Durable Goods Orders Rebound Nicely Last Month



This bolsters the case that the recent sharp drop in business investment could be short-lived and won't fundamentally alter the sanguine economic outlook for this year.

Major Economic Indicators

	History				Forecast								Yr/Yr % chg or Annual Avg.			
Economic Data	**2014.1**	**2014.2**	**2014.3**	**2014.4**	**2015.1**	**2015.2**	**2015.3**	**2015.4**	**2016.1**	**2016.2**	**2016.3**	**2016.4**	**2013**	**2014**	**2015**	**2016**
Real GDP*	-2.1	4.6	5.0	2.6	2.4	2.7	2.9	3.0	2.5	2.8	2.6	2.7	2.2	2.4	3.1	2.8
Personal Consumption Expenditures*	1.2	2.5	3.2	4.3	3.4	3.4	3.5	3.4	3.1	3.1	2.9	2.8	2.4	2.5	3.5	3.2
Non-residential Fixed Investment*	1.6	9.7	8.9	1.9	4.3	5.0	5.0	5.0	4.7	4.6	4.6	4.2	3.0	6.1	5.0	4.8
Private Housing Starts (000s units)	925	985	1,030	1,075	1,090	1,100	1,121	1,143	1,165	1,180	1,240	1,260	930	1,004	1,114	1,211
Vehicle Sales (mill. Units, annualized)	15.6	16.5	16.7	16.8	17.0	17.1	17.2	17.2	17.2	17.2	17.3	17.3	15.5	16.4	17.2	17.2
Industrial Production*	3.9	5.7	4.1	5.6	3.5	3.3	3.3	3.2	3.4	3.4	3.4	3.4	2.9	4.3	4.0	3.4
Nonfarm Payroll Employment (mil.)	137.8	138.5	139.2	140.1	140.8	141.5	142.1	142.8	143.5	144.1	144.8	145.4	136.4	138.9	141.8	144.4
Unemployment rate	6.7	6.2	6.1	5.7	5.5	5.4	5.3	5.2	5.2	5.1	5.0	5.0	7.4	6.2	5.4	5.1
Consumer Price Index* (percent)	1.9	3.0	1.1	-1.2	-3.5	1.7	1.9	1.9	1.9	1.9	2.0	2.1	1.5	1.6	-0.1	1.9
"Core" CPI* (percent)	1.6	2.5	1.3	1.4	1.2	1.5	1.5	1.6	1.7	1.7	1.8	1.8	1.8	1.7	1.5	1.7
PPI (finished goods)* (percent)	3.9	3.9	0.8	-5.6	-4.7	0.3	1.0	1.1	1.3	1.3	1.4	1.4	1.2	1.9	-1.7	1.2
Trade Weighted Dollar (Fed BOG, major)	76.9	76.4	77.5	82.2	88.0	89.5	90.4	90.7	91.0	91.8	92.5	92.4	76.1	78.3	89.7	91.9
Crude Oil Prices -WTI ($ per barrel)	99	103	98	76	49	52	54	56	64	65	66	67	98	94	53	66

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

	History				Forecast								Annual Average			
Financial Data	**2014.1**	**2014.2**	**2014.3**	**2014.4**	**2015.1**	**2015.2**	**2015.3**	**2015.4**	**2016.1**	**2016.2**	**2016.3**	**2016.4**	**2013**	**2014**	**2015**	**2016**
S & P 500	1,835	1,900	1,976	2,009									1,644			
Dow Jones Industrial Average	16,177	16,604	16,954	17,345									15,010			
Federal Funds Rate (effective)	0.07	0.09	0.09	0.08	0.12	0.18	0.43	0.70	1.12	1.37	1.62	1.95	0.11	0.08	0.36	1.52
Treasury-3 Month Bills (yield)	0.05	0.03	0.03	0.02	0.02	0.10	0.33	0.60	1.08	1.32	1.57	1.90	0.06	0.03	0.26	1.47
Treasury-2 Year Notes (yield)	0.37	0.42	0.52	0.52	0.60	0.70	0.93	1.13	1.60	1.90	2.15	2.48	0.31	0.45	0.84	2.03
Treasury-5 Year Notes (yield)	1.60	1.66	1.70	1.57	1.45	1.58	1.79	2.07	2.54	2.74	2.99	3.12	1.17	1.63	1.72	2.85
Treasury-10 Year Notes (yield)	2.77	2.62	2.50	2.27	1.95	2.15	2.36	2.51	2.71	2.84	2.95	3.18	2.35	2.54	2.24	2.92
Treasury-30 Year Notes (yield)	3.68	3.44	3.27	2.97	2.55	2.63	2.80	2.90	3.11	3.22	3.40	3.48	3.44	3.34	2.72	3.30
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.43	3.70	4.12	4.37	4.62	4.95	3.25	3.25	3.41	4.52
Libor 3-Mo. U.S. Dollar	0.26	0.25	0.24	0.23	0.25	0.26	0.46	0.78	1.19	1.45	1.68	2.03	0.28	0.25	0.44	1.59
Mortgage-30 Year (yield)	4.36	4.23	4.14	4.03	3.71	3.97	4.21	4.35	4.52	4.65	4.76	4.99	3.98	4.19	4.06	4.73
BAA Corporate (yield)	5.12	4.82	4.74	4.74	4.45	4.48	4.66	4.82	5.05	5.20	5.32	5.55	5.10	4.86	4.60	5.28

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