

U.S. Outlook

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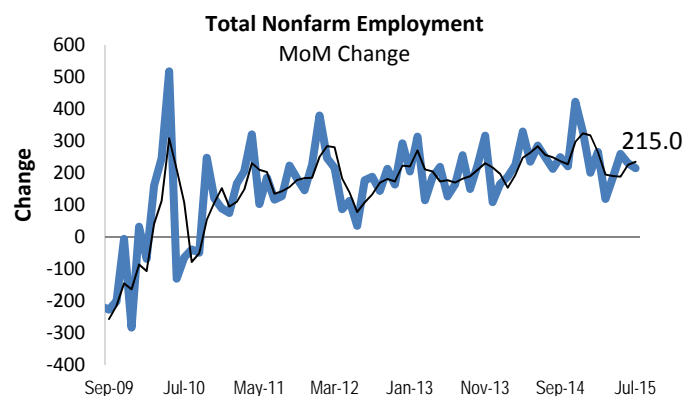
Date	Indicator	For	Estimate	Consensus*	Previous Period
10-Aug-2015	Labor Market Conditions Index Change	Jul	NA	NA	0.8
11-Aug-2015	NFIB Small Business Optimism	Jul	96.0	95.3	94.1
11-Aug-2015	Nonfarm Productivity	2Q P	1.3%	1.5%	-3.1%
11-Aug-2015	Unit Labor Costs	2Q P	-0.1%	-0.2%	6.7%
11-Aug-2015	Wholesale Inventories MoM	Jun	0.4%	0.4%	0.8%
12-Aug-2015	JOLTS Job Openings	Jun	NA	NA	5.363M
13-Aug-2015	Retail Sales Advance MoM	Jul	0.6%	0.5%	-0.3%
13-Aug-2015	Retail Sales Ex Auto MoM	Jul	0.5%	0.4%	-0.1%
13-Aug-2015	Import Price Index MoM	Jul	-1.0%	-1.1%	-0.1%
13-Aug-2015	Business Inventories	Jun	0.2%	0.3%	0.3%
13-Aug-2015	Initial Jobless Claims	Aug 8	268K	NA	270K
14-Aug-2015	PPI Final Demand MoM	Jul	0.0%	0.1%	0.4%
14-Aug-2015	PPI Ex Food and Energy MoM	Jul	0.1%	0.1%	0.3%
14-Aug-2015	Industrial Production MoM	Jul	0.3%	0.3%	0.2%
14-Aug-2015	Capacity Utilization	Jul	77.9%	78.0%	77.8%
14-Aug-2015	U. of Mich. Sentiment	Aug P	94.5	93.5	93.1

*Consensus from Bloomberg

It's All About the Jobs

The July jobs report came in about as we and the consensus expected. There is nothing in the report that should dissuade the FOMC from their initial rate increase in September. The net 215K nonfarm jobs created in July brings the year-to-date job creation total to 1.479 million, and the three-month average monthly gain to 235K. With only one more employment report before the September FOMC meeting, it would probably take a sharp slowdown in job growth in August, perhaps well below +100K jobs or even negative job growth for the FOMC to delay their initial rate hike until December.

Solid Job Growth Continued in July



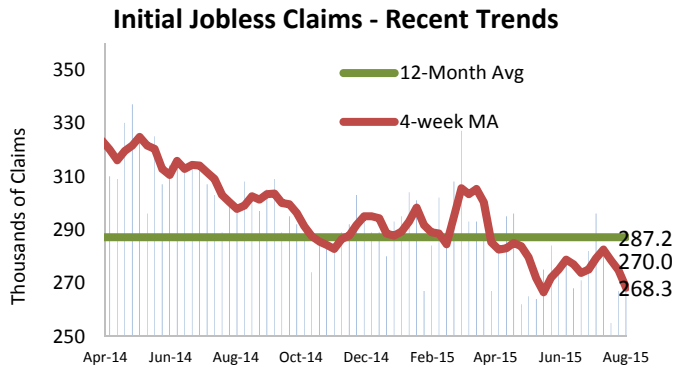
Source: U.S. Bureau of Labor Statistics

Thankfully, there is little to suggest that August job growth will suddenly stall. Initial jobless claims moved up a touch (+3K) last week, but only to return to the 4-week trend of around 268K. Moreover, recent jobless claim increases have had more to do with seasonal adjustment problems around auto industry retooling than anything else. Bottom-

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line: Recent jobless claims data continue to signal decent job growth for August.

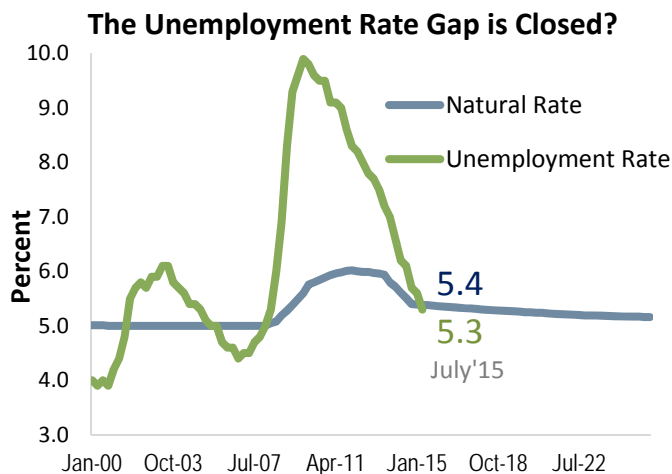
Jobless Claims Signal Decent Job Gains For August



Source: US Employment & Training Administration

The unemployment rate held steady at 5.3% in July, but that was due to more jobseekers entering the labor force, and not a big downshift in hiring. We expect the unemployment rate to slowly decline over the balance of the year to 5.0 percent by December.

Competition For Labor Intensifying



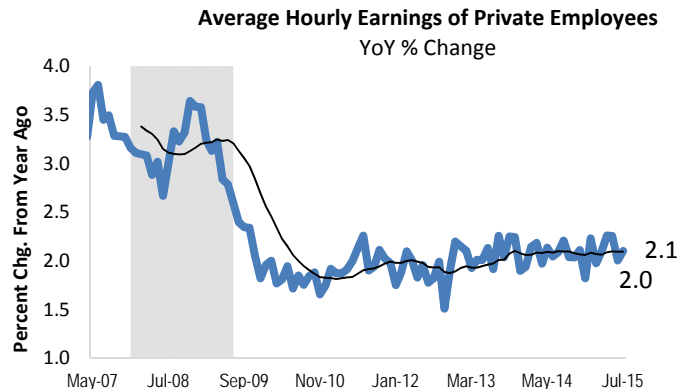
Source: Congressional Budget Office/Bureau of Labor Statistics

The sharp slowdown in the growth of the Employment Cost Index for the second quarter created some doubt about the ability of U.S. wage growth to accelerate in the current economic environment and in-turn the timing of the first interest rate hike from the Fed, but those concerns were partly assuaged as average hourly earnings growth improved, up 0.2% on the month, and 2.1% year-on-year in July from 2.0% reported in June. As the unemployment rate continues to drop, we expect

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further acceleration in average hourly earnings in the months ahead.

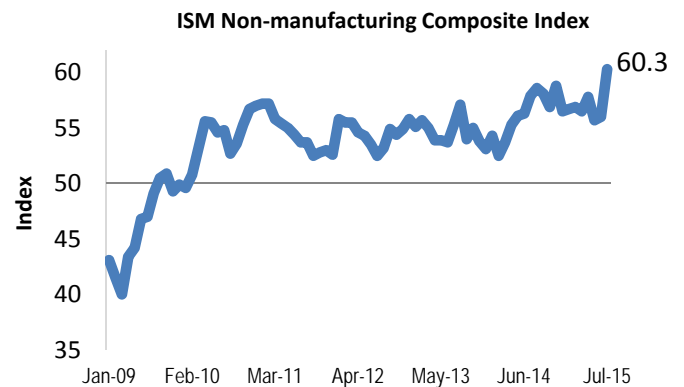
Average Hourly Earnings Growth Picks Up in July



Source: Bureau of Labor Statistics

Perhaps the strongest signal of improving economic conditions comes from the ISM Non-manufacturing index, which hit its highest level of the expansion in July. Service business new orders, employment and business activity all hit expansion highs, and even price gains strengthened.

Service Business Expansion Accelerating



Source: Institute for Supply Management

With the July employment and earnings data behind us, the markets will turn their attention back to the inflation side of the Fed's mandate. Next week, we get the first reads on import prices and the producer price index for July. We forecast another month of weak price inflation as commodity and oil prices resumed their downward march. However, much of the weakness on price inflation is due to a strong dollar and weakness abroad, particularly in China, while service industry price trends appear to be firming on rising domestic demand. Without further signs of deflation beyond commodities, it will be hard to justify delaying an initial Fed rate hike. I continue to forecast a September Fed rate hike.

Major Economic Indicators

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	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*	-0.9	4.6	4.3	2.1	0.6	2.3	2.9	2.9	2.7	2.8	2.7	2.7	1.5	2.4	2.3	2.8
Personal Consumption Expenditures*	1.3	3.8	3.5	4.3	1.7	2.9	3.5	3.4	3.1	3.1	2.9	2.8	1.7	2.7	3.1	3.2
Non-residential Fixed Investment*	8.3	4.4	9.0	0.7	1.6	-0.6	3.7	5.0	4.7	4.6	4.6	4.1	3.0	6.2	2.6	4.3
Private Housing Starts (000s units)	934	984	1,029	1,055	978	1,144	1,175	1,195	1,220	1,235	1,240	1,260	928	1,001	1,123	1,239
Vehicle Sales (mill. Units, annualized)	15.7	16.5	16.7	16.8	16.6	17.1	17.3	17.2	17.3	17.3	17.2	17.2	15.5	16.4	17.1	17.3
Industrial Production*	3.6	5.7	3.9	4.7	-0.2	-1.7	3.0	3.0	3.2	3.2	3.3	3.3	1.9	3.7	1.9	2.9
Nonfarm Payroll Employment (mil.)	137.8	138.6	139.4	140.2	141.0	141.6	142.3	143.0	143.6	144.3	145.0	145.7	136.4	139.0	142.0	144.7
Unemployment rate	6.6	6.2	6.1	5.7	5.6	5.4	5.2	5.1	5.0	4.9	4.9	4.8	7.4	6.2	5.3	4.9
Consumer Price Index* (percent)	2.1	2.4	1.2	-0.9	-3.1	3.0	2.0	2.0	2.0	2.0	2.0	2.1	1.5	1.6	0.3	2.1
"Core" CPI* (percent)	1.8	2.2	1.4	1.5	1.7	2.5	1.8	1.9	1.9	1.9	2.0	2.0	1.8	1.7	1.8	2.0
PPI (finished goods)* (percent)	4.1	3.5	0.4	-5.1	-11.2	3.6	1.8	1.7	1.7	1.7	1.8	1.8	1.2	1.9	-2.6	1.9
Trade Weighted Dollar (Fed BOG, major)	76.9	76.4	77.5	82.5	89.3	90.0	92.1	92.3	92.4	92.4	93.1	93.0	75.9	78.4	90.9	92.7
Crude Oil Prices -WTI (\$ per barrel)	99	103	98	73	48	58	50	52	55	57	59	60	98	93	52	58

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

Financial Data	History				Forecast								Annual Average			
	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	2,064	2,102							1,644			
Dow Jones Industrial Average	16,177	16,604	16,954	17,345	17,808	18,004							15,010			
Federal Funds Rate (effective)	0.07	0.09	0.09	0.10	0.11	0.12	0.21	0.38	0.63	0.88	1.13	1.38	0.11	0.08	0.21	1.00
Treasury-3 Month Bills (yield)	0.05	0.03	0.03	0.02	0.02	0.02	0.05	0.24	0.53	0.78	1.03	1.28	0.06	0.03	0.08	0.91
Treasury-2 Year Notes (yield)	0.37	0.42	0.52	0.54	0.60	0.61	0.74	0.98	1.35	1.65	1.90	2.23	0.31	0.45	0.73	1.78
Treasury-5 Year Notes (yield)	1.60	1.66	1.70	1.60	1.46	1.53	1.68	1.90	2.34	2.54	2.79	2.92	1.17	1.63	1.64	2.65
Treasury-10 Year Notes (yield)	2.77	2.62	2.50	2.28	1.97	2.16	2.35	2.51	2.71	2.84	2.95	3.18	2.35	2.54	2.25	2.92
Treasury-30 Year Notes (yield)	3.68	3.44	3.27	2.97	2.55	2.88	3.10	3.22	3.31	3.37	3.50	3.63	3.44	3.34	2.94	3.44
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.33	3.50	3.75	4.00	4.25	4.50	3.25	3.25	3.33	4.13
Libor 3-Mo. U.S. Dollar	0.26	0.25	0.24	0.25	0.30	0.30	0.32	0.50	0.75	1.00	1.25	1.50	0.28	0.25	0.36	1.13
Mortgage-30 Year (yield)	4.36	4.23	4.14	3.96	3.72	3.82	4.08	4.23	4.52	4.65	4.76	4.99	3.98	4.17	3.96	4.73
BAA Corporate (yield)	5.12	4.82	4.74	4.73	4.50	4.83	5.22	5.30	5.55	5.70	5.82	6.05	5.10	4.86	4.96	5.78

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