

U.S. Outlook

SCOTT ANDERSON, Ph.D | Chief Economist | 415.765.8020
www.bankofthewest.com



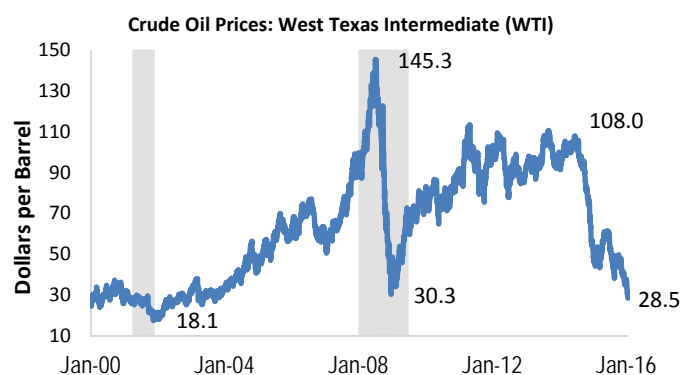
Date	Indicator	For	Estimate	Consensus*	Previous Period
25-Jan-2016	Dallas Fed Manf. Activity	Jan	-17.0	-12.5	-20.1
26-Jan-2016	FHFA House Price Index MoM	Nov	0.4%	0.4%	0.5%
26-Jan-2016	S&P/CS 20 City MoM SA	Nov	0.6%	0.7%	0.84%
26-Jan-2016	Markit US Services PMI	Jan P	NA	NA	54.3
26-Jan-2016	Markit US Composite PMI	Jan P	NA	NA	54.0
26-Jan-2016	Consumer Confidence Index	Jan	97.5	96.8	96.5
26-Jan-2016	Richmond Fed Manufacturing. Index	Jan	1	2	6
27-Jan-2016	New Home Sales	Dec	498k	500k	490k
27-Jan-2016	FOMC Rate Decision (Lower Bound)	27-Jan	0.25%	0.25%	0.25%
27-Jan-2016	FOMC Rate Decision (Upper Bound)	27-Jan	0.50%	0.50%	0.50%
28-Jan-2016	Initial Jobless Claims	23-Jan	290K	NA	293K
28-Jan-2016	Durable Goods Orders	Dec P	-1.0%	-0.5%	0.0%
28-Jan-2016	Durables Ex Transportation	Dec P	0.1%	0.0%	0.0%
28-Jan-2016	Pending Home Sales MoM	Dec	0.8%	1.0%	-0.9%
28-Jan-2016	Kansas City Fed Manf. Activity	Jan	NA	NA	-9
29-Jan-2016	Employment Cost Index	4Q	0.5%	0.6%	0.6%
29-Jan-2016	Advance Goods Trade Balance	Dec	-\$59.5b	-\$60.0b	-\$60.5b
29-Jan-2016	GDP Annualized QoQ	4Q A	0.8%	0.9%	2.0%
29-Jan-2016	GDP Price Index	4Q A	0.6%	0.8%	1.3%
29-Jan-2016	Chicago Purchasing Manager	Jan	45.0	45.8	42.9
29-Jan-2016	U. of Mich. Sentiment	Jan F	93.1	93.0	93.3

*Consensus from Bloomberg

Keep One Eye on the Fundamentals

Periods of high financial market volatility and plunging oil prices like we have seen so far this year have a way of playing on your emotions. It's easy to sour on the economic outlook when really your stock portfolio is what's making you a little queasy. It's important to remember that the stock market and oil market are not the U.S. economy.

Stomach Churning Declines in the Crude Oil Markets

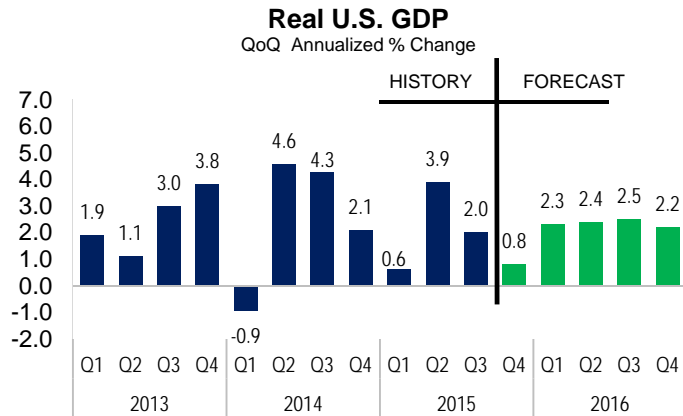


Source: U.S. Energy Information Administration

The discussions and information contained in this document are the opinions of BOTW chief economist Dr. Scott Anderson and economist Myasnik "Nik" Poghosyan and should not be construed or used as a specific recommendation for the investment of assets, and is not intended as an offer, or a solicitation of an offer, to purchase or sell any security or financial instrument. Nor does the information constitute advice or an expression of the Bank's view as to whether a particular security or financial instrument is appropriate for you or meets your financial objectives. Economic and market observations and forecasts, such as those offered by Dr. Anderson and Poghosyan, reflect subjective judgments and assumptions, and unexpected events may occur. There can be no assurance that developments will transpire as forecasted. Nothing in this document should be interpreted to state or imply that past results are an indication of future performance.

Adding fodder for the bears next week will be the release of U.S. Q4 real GDP. We are expecting a weak print when the numbers come out next Friday. Our current estimate is 0.8% GDP growth on an annualized basis. That's pretty close to zero U.S. growth in the fourth quarter, since this is an annualized number.

Fourth Quarter U.S. GDP Growth Was a Dud



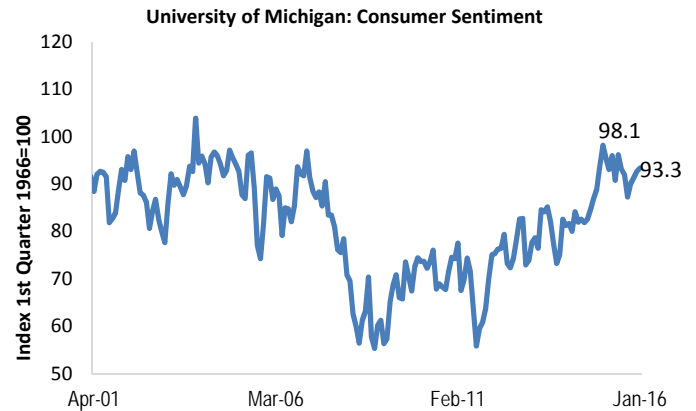
Source: Bureau of Economic Analysis

Why the sharp drop from the third quarter's 2.0 percent pace you ask? We will likely see a measurable slowing in real consumer spending growth to around 1.8% from the third quarter's 3.0% annualized pace. Retail sales were lighter than expected the last few months and December saw a sharp drop in unit vehicle sales. At the same time, recent construction reports suggest another contraction in non-residential construction, while business equipment spending growth slowed. Given the strong dollar and weak growth abroad we also expect a sizable 2.5% annualized contraction in U.S. export growth on the quarter.

If that weren't enough to overcome, inventory growth is slowing fast and the change in business inventories alone could shave another 0.8 percentage points away from the fourth quarter's GDP estimate.

Now let me make the case why this isn't the beginning of the end for the U.S. expansion. First, the U.S. consumer is still in a good position to accelerate spending in the quarters ahead. Real personal income growth is running well ahead of spending, personal savings rates have built up over the past six months, and plunging gasoline prices appear to be lifting consumers' spirits.

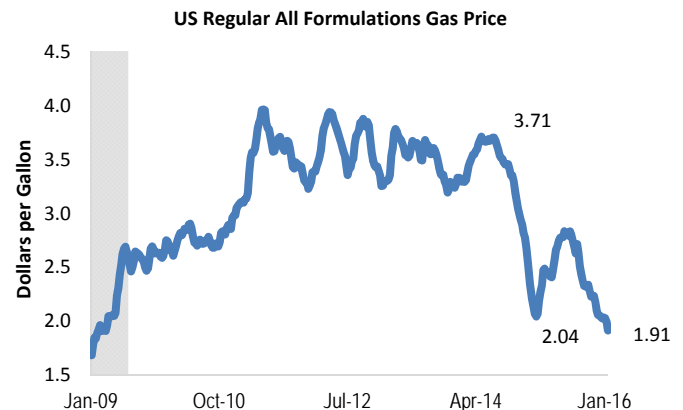
Consumer Sentiment has Been Rising for Past 3 Months



Source: Thomson Reuters/Univ. Of Michigan

Plunging oil prices also means plunging gasoline prices. From a consumer perspective, the level of national gasoline prices has hardly looked better at \$1.91 per gallon. We expect real consumer spending to rebound into the 2.9 percent to 3.0 percent range over the next few quarters as a result.

Low Gasoline Prices Helping to Boost Consumers Spirits



Source: U.S. Energy Information Administration

Moreover, residential construction activity and housing will benefit from the continuation of low mortgage rates for a while longer. And don't forget about the government sector. The Bipartisan Budget Act of 2015 increased government spending for FY 2016 and FY 2017 by \$32 billion and \$35 billion respectively relative to the spending caps implemented under the Budget Control Act, according to the CBO. This ensures government spending will remain an important support for real GDP growth over the next two years.

The discussions and information contained in this document are the opinions of BOTW chief economist Dr. Scott Anderson and economist Myasnik "Nik" Poghosyan and should not be construed or used as a specific recommendation for the investment of assets, and is not intended as an offer, or a solicitation of an offer, to purchase or sell any security or financial instrument. Nor does the information constitute advice or an expression of the Bank's view as to whether a particular security or financial instrument is appropriate for you or meets your financial objectives. Economic and market observations and forecasts, such as those offered by Dr. Anderson and Poghosyan, reflect subjective judgments and assumptions, and unexpected events may occur. There can be no assurance that developments will transpire as forecasted. Nothing in this document should be interpreted to state or imply that past results are an indication of future performance.

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	3.9	2.0	0.8	2.3	2.4	2.5	2.2	1.5	2.4	2.4	2.2
Personal Consumption Expenditures*	1.3	3.8	3.5	4.3	1.7	3.6	3.0	1.8	2.9	3.0	2.9	2.8	1.7	2.7	3.1	2.9
Non-residential Fixed Investment*	8.3	4.4	9.0	0.7	1.6	4.1	2.6	3.0	2.8	2.3	2.7	3.0	3.0	6.2	3.2	2.9
Private Housing Starts (000s units)	934	984	1,029	1,055	978	1,158	1,153	1,133	1,170	1,225	1,230	1,250	928	1,001	1,105	1,219
Vehicle Sales (mill. Units, annualized)	15.7	16.5	16.7	16.8	16.6	17.1	17.8	17.8	17.9	17.8	17.6	17.6	15.5	16.4	17.3	17.7
Industrial Production*	3.6	5.7	3.9	4.7	-0.3	-2.3	2.8	-3.4	1.8	1.9	1.9	1.8	1.9	3.7	1.3	0.7
Nonfarm Payroll Employment (mil.)	137.8	138.6	139.4	140.2	141.0	141.6	142.2	143.0	143.5	144.1	144.7	145.2	136.4	139.0	142.0	144.4
Unemployment rate	6.6	6.2	6.1	5.7	5.6	5.4	5.2	5.0	4.9	4.8	4.8	4.7	7.4	6.2	5.3	4.8
Consumer Price Index* (percent)	2.1	2.4	1.2	-0.9	-3.1	3.0	1.6	0.2	0.9	2.0	2.0	2.1	1.5	1.6	0.1	1.4
"Core" CPI* (percent)	1.8	2.2	1.4	1.5	1.7	2.5	1.7	2.1	1.8	1.8	1.9	2.0	1.8	1.7	1.8	1.9
PPI (finished goods)* (percent)	4.1	3.5	0.4	-5.1	-11.2	3.6	0.4	-5.8	-1.0	1.6	2.1	2.5	1.2	1.9	-3.3	-0.4
Trade Weighted Dollar (Fed BOG, major)	76.9	76.4	77.6	82.5	89.3	90.1	91.7	93.1	95.2	96.4	97.5	98.7	75.9	78.4	91.0	97.0
Crude Oil Prices -WTI (\$ per barrel)	99	103	98	73	48	58	46	42	32	34	38	41	98	93	49	36

*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	2009	2,064	2,102	2,027	2,052					1,644	1,930	2,061	
Dow Jones Industrial Average	16,177	16,604	16,954	17,345	17,808	18,004	17,077	17,475					15,010	16,770	17,591	
Federal Funds Rate (effective)	0.07	0.09	0.09	0.10	0.11	0.12	0.13	0.16	0.36	0.63	0.71	0.96	0.11	0.09	0.13	0.67
Treasury-3 Month Bills (yield)	0.05	0.03	0.03	0.02	0.02	0.02	0.04	0.13	0.25	0.50	0.60	0.85	0.06	0.03	0.05	0.55
Treasury-2 Year Notes (yield)	0.37	0.42	0.52	0.54	0.60	0.61	0.69	0.84	0.94	1.26	1.37	1.63	0.31	0.46	0.69	1.30
Treasury-5 Year Notes (yield)	1.60	1.66	1.70	1.60	1.46	1.53	1.56	1.58	1.58	1.82	1.97	2.10	1.17	1.64	1.53	1.87
Treasury-10 Year Notes (yield)	2.77	2.62	2.50	2.28	1.97	2.16	2.22	2.19	2.12	2.30	2.40	2.57	2.35	2.54	2.14	2.35
Treasury-30 Year Notes (yield)	3.68	3.44	3.27	2.97	2.55	2.88	2.96	2.96	2.92	2.99	3.08	3.21	3.44	3.34	2.84	3.05
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.29	3.50	3.75	3.83	4.08	3.25	3.25	3.26	3.79
Libor 3-Mo. U.S. Dollar	0.26	0.25	0.24	0.25	0.30	0.30	0.33	0.43	0.62	0.87	0.95	1.20	0.28	0.25	0.34	0.91
Mortgage-30 Year (yield)	4.36	4.23	4.14	3.96	3.72	3.82	3.95	3.90	3.91	4.09	4.19	4.36	3.98	4.17	3.85	4.14
BAA Corporate (yield)	5.12	4.82	4.74	4.73	4.50	4.83	5.24	5.42	5.49	5.64	5.75	5.98	5.10	4.85	5.00	5.72

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