

U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
6-Jun-2016	Labor Market Conditions Index Change	May	NA	NA	-0.9
7-Jun-2016	Nonfarm Productivity	1Q F	-0.5%	-0.6%	-1.0%
7-Jun-2016	Unit Labor Costs	1Q F	4.0%	4.0%	4.1%
7-Jun-2016	Consumer Credit	Apr	\$21.0B	\$19.0B	\$29.7B
8-Jun-2016	JOLTS Job Openings	Apr	NA	NA	5.76M
9-Jun-2016	Initial Jobless Claims	04-Jun	272K	NA	267K
9-Jun-2016	Wholesale Inventories MoM	Apr	-0.1%	0.0%	0.1%
9-Jun-2016	Household Change in Net Worth	1Q	NA	NA	\$1,637B
10-Jun-2016	U. of Mich. Sentiment	Jun P	93.7	94.5	94.7

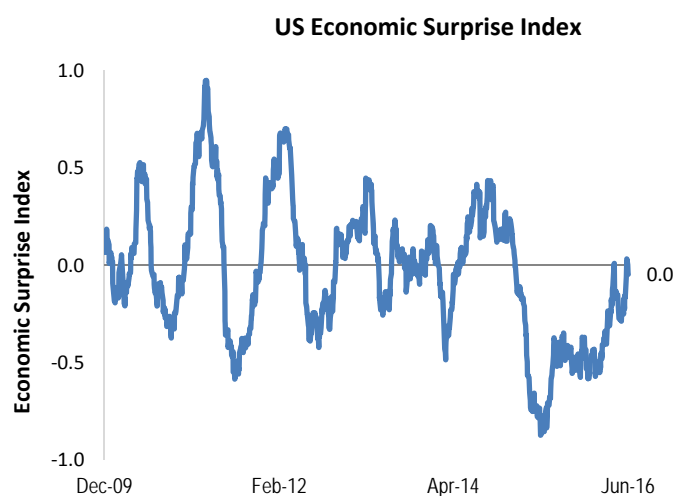
*Consensus from Bloomberg

U.S. Economy: Glass Half-Full or Half-Empty?

The mixed picture of U.S. economic growth continued this week and the May jobs number was more than disappointing. April construction spending plunged on weaker public and non-residential construction activity, while regional manufacturing purchasing managers' indexes and the national ISM manufacturing index remained moribund in May. In the end, however, firming personal spending in April largely offset the bad news coming from construction and manufacturing sectors, laying the ground-cover for the Federal Reserve to hike interest rates another quarter percentage point by the September FOMC meeting. Overall we still see the economic outlook as half-full rather than half-empty today.

Economic surprises have turned neutral in recent days. Bloomberg's U.S. Economic Surprise Index is around zero today, an improvement from a month ago when economic surprises were generally on the negative side. A positive number on this index indicates economic data is generally coming in above consensus expectations, while a negative number means economic data is generally missing consensus expectations.

U.S. Economic Surprise Index Turns Neutral in Early June



Source:

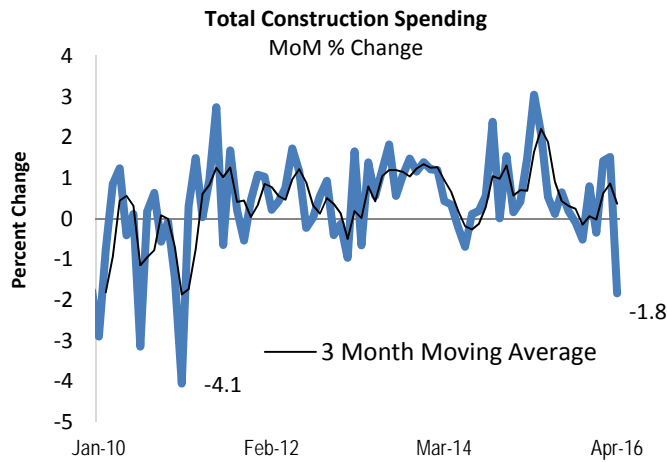
U.S. construction spending fell 1.8% in the month of April, the worst monthly drop for total construction spending since January 2011. It was fueled by large monthly declines in nearly all categories of construction; private and public. Total public construction spending fell 2.8%, while total private construction spending dropped 1.5%.

According the Federal Reserve's latest Senior Loan Officer Survey, banks tightened lending standards and terms around commercial real estate loans in the first quarter. Concerns around global overcapacity in

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manufacturing and declining profits are impacting industrial lending terms. Multi-family lending terms have tightened in some cities where over-building is becoming a concern, and retail lending terms are being impacted as e-commerce steals more and more market share from brick and mortar retailers.

Drop in Construction Spending Shocking But Not Disaster

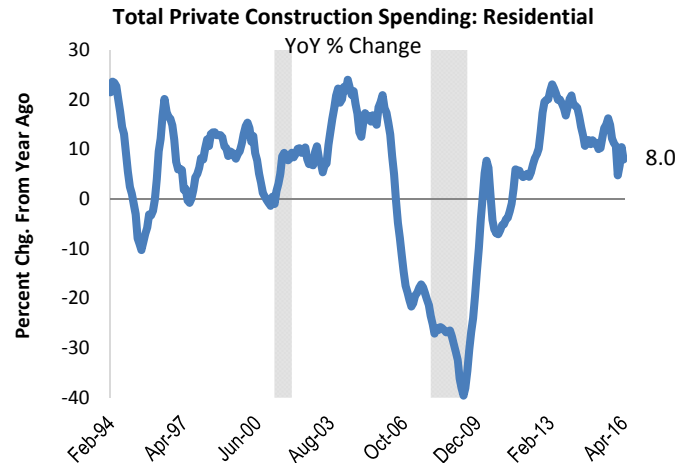


Source: U.S. Census Bureau

It is too early to panic about the April construction spending drop. As you can see in the chart above construction spending can be very volatile month-to-month and it's not unusual for a plunge one month to be followed by a sharp jump the next. Moreover, the less volatile 3-month moving average on total construction spending remains in expansion territory.

On a year ago basis, total construction spending is still up 4.5%. Residential construction remains the bright-spot-up a healthy 8.0% from a year ago. Non-residential construction is up a more modest 3.4% from a year ago, while public construction spending was the weakest up only 1.2% from last year at this time. Bottom-line, don't count-out continued construction spending growth in the months ahead, even though the pace of non-residential and public construction spending growth could continue to lag private residential construction spending.

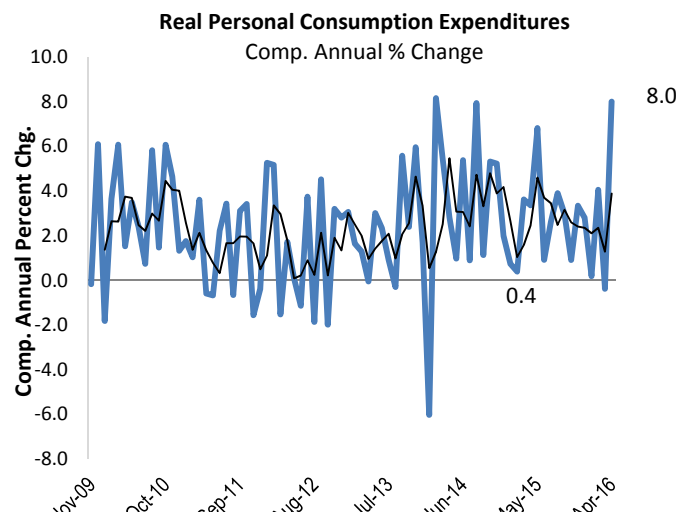
Residential Construction Spending a Relative Bright-Spot



Source: U.S. Census Bureau

More importantly, the slump in construction spending in April is a mere smudge on the economy's performance in the second quarter compared to the huge improvement in real consumer spending growth on the month. Real consumer spending increased at a sizzling 8.0% rate on an annualized basis in April. This better than expected increase pushed up our tracking estimate of real consumer spending growth in the second quarter to 3.5% and kept our real GDP growth estimate for Q2 at 2.3% despite the plunge in construction spending.

Consumer Spending Makes A Dramatic Comeback



Source: U.S. Bureau of Economic Analysis

Add in rebound in job growth before September and the Fed has a green light for one more rate hike before the November election. Now we just need to get past the June 23rd Brexit vote in one piece.

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Major Economic Indicators

Economic Data	History								Forecast				Yr/Yr % chg or Annual Avg.			
	2015.1	2015.2	2015.3	2015.4	2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4	2014	2015	2016	2017
Real GDP*	0.6	3.9	2.0	1.4	0.8	2.3	2.4	2.2	2.2	2.3	2.2	1.9	2.4	2.4	1.8	2.2
Personal Consumption Expenditures*	1.7	3.6	3.0	2.4	1.9	3.5	2.9	2.8	2.5	2.5	2.4	2.3	2.7	3.1	2.7	2.7
Non-residential Fixed Investment*	1.6	4.1	2.6	-2.1	-6.2	1.2	2.7	3.0	3.2	3.4	3.4	3.4	6.2	2.8	-0.7	3.1
Private Housing Starts (000s units)	978	1,158	1,158	1,135	1,133	1,195	1,200	1,220	1,240	1,250	1,280	1,300	1,001	1,107	1,187	1,268
Vehicle Sales (mill. Units, annualized)	16.7	17.1	17.8	17.8	17.1	17.4	17.5	17.5	17.4	17.4	17.3	17.3	16.4	17.3	17.4	17.4
Industrial Production*	-1.9	-2.7	1.5	-3.3	-2.2	1.4	1.9	1.8	1.7	1.8	1.7	1.7	3.7	-0.5	-0.6	1.8
Nonfarm Payroll Employment (mil.)	140.8	141.5	142.2	142.9	143.5	144.2	144.7	145.3	145.9	146.5	147.1	147.7	138.9	141.8	144.4	146.8
Unemployment rate	5.6	5.4	5.2	5.0	4.9	4.9	4.9	4.8	4.7	4.7	4.7	4.6	6.2	5.3	4.9	4.7
Consumer Price Index* (percent)	-2.9	2.4	1.4	0.8	-0.3	2.0	2.0	2.1	2.2	2.2	2.3	2.3	1.6	0.1	1.1	2.2
"Core" CPI* (percent)	1.7	2.3	1.8	2.2	2.7	1.8	1.9	2.0	2.0	2.0	2.1	2.1	1.7	1.8	2.2	2.0
PPI (finished goods)* (percent)	-11.0	3.4	-0.4	-4.8	-4.9	1.6	2.1	2.5	2.4	2.2	2.0	2.0	1.9	-3.3	-1.3	2.2
Trade Weighted Dollar (Fed BOG, major)	89.3	90.1	91.7	93.1	93.2	91.0	92.9	94.1	94.4	93.8	93.3	92.9	78.4	91.0	92.8	93.6
Crude Oil Prices -WTI (\$ per barrel)	48	58	46	42	33	45	47	44	45	46	47	48	93	49	42	47

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

Financial Data	History								Forecast				Annual Average			
	2015.1	2015.2	2015.3	2015.4	2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4	2014	2015	2016	2017
S & P 500	2,064	2,102	2,027	2,052	1,951								1,930	2,061		
Dow Jones Industrial Average	17,808	18,004	17,077	17,475	16,663								16,770	17,591		
Federal Funds Rate (effective)	0.11	0.13	0.13	0.16	0.36	0.38	0.63	0.71	0.96	1.13	1.38	1.71	0.09	0.13	0.52	1.29
Treasury-3 Month Bills (yield)	0.02	0.02	0.04	0.13	0.33	0.28	0.56	0.64	0.90	1.07	1.32	1.65	0.03	0.05	0.45	1.24
Treasury-2 Year Notes (yield)	0.60	0.61	0.69	0.84	0.83	0.82	1.02	1.25	1.48	1.65	1.90	2.23	0.46	0.69	0.98	1.82
Treasury-5 Year Notes (yield)	1.46	1.53	1.56	1.58	1.36	1.31	1.58	1.74	1.96	2.13	2.38	2.66	1.64	1.53	1.50	2.28
Treasury-10 Year Notes (yield)	1.97	2.16	2.22	2.19	1.91	1.85	2.10	2.26	2.50	2.65	2.80	3.05	2.54	2.14	2.03	2.75
Treasury-30 Year Notes (yield)	2.55	2.88	2.96	2.96	2.72	2.66	2.77	2.96	3.15	3.30	3.45	3.65	3.34	2.84	2.78	3.39
Prime Rate	3.25	3.25	3.25	3.29	3.50	3.50	3.75	3.83	4.08	4.25	4.50	4.83	3.25	3.26	3.65	4.42
Libor 3-Mo. U.S. Dollar	0.30	0.30	0.33	0.43	0.63	0.63	0.83	0.91	1.16	1.33	1.58	1.89	0.25	0.34	0.75	1.49
Mortgage-30 Year (yield)	3.72	3.82	3.95	3.90	3.74	3.60	3.77	3.94	4.15	4.30	4.45	4.65	4.17	3.85	3.76	4.39
BAA Corporate (yield)	4.50	4.83	5.24	5.42	5.30	4.76	4.93	5.16	5.48	5.64	5.78	6.03	4.85	5.00	5.04	5.73

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