

# U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
22-Jun-2016	FHFA House Price Index MoM	Apr	0.6%	0.6%	0.7%
22-Jun-2016	Existing Home Sales	May	5.52m	5.55m	5.45m
23-Jun-2016	Chicago Fed Nat Activity Index	May	NA	NA	0.10
23-Jun-2016	Initial Jobless Claims	18-Jun	273K	NA	277K
23-Jun-2016	Markit US Manufacturing PMI	Jun P	50.5	50.3	50.7
23-Jun-2016	New Home Sales	May	590k	565k	619k
23-Jun-2016	Leading Index	May	-0.1%	0.2%	0.6%
23-Jun-2016	Kansas City Fed Manufacturing Activity	Jun	NA	NA	-5
24-Jun-2016	Durable Goods Orders	May P	-1.0%	-0.8%	3.4%
24-Jun-2016	Durables Ex Transportation	May P	0.1%	0.0%	0.5%
24-Jun-2016	U. of Mich. Sentiment	Jun F	94.0	94.1	94.3

\*Consensus from Bloomberg

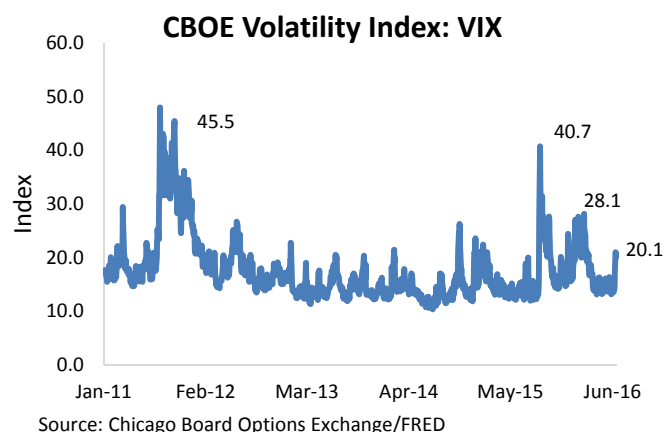
## U.S. Economy: Dark Clouds on the Horizon

Dark clouds are gathering once again on the economic and financial horizon. Financial volatility is on the rise and uncertainty is high enough to keep the FOMC in a holding pattern until the storm clouds dissipate.

So will these dark clouds pass us by without a drop of rain? Or instead, will it be a passing sun shower- a mild inconvenience and disappointment, but hardly a reason to call the game. Or are we about to be soaked from an unexpected downpour?

A loss of U.S. labor market momentum, fear of financial contagion from a U.K. exit from the Eurozone, a China hard landing, and an uncertain interest rate path from the FOMC are just some of the risks weighing on investors' minds today.

## U.S. Stock Market Volatility Heating Up in June

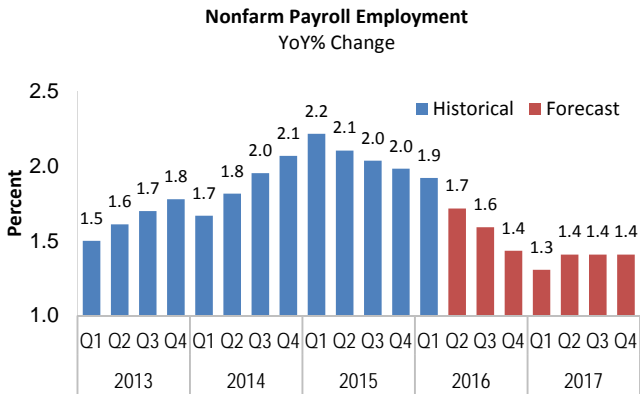


The shockingly weak May payroll report put everyone on notice that the U.S. economic expansion might be more fragile than expected. While we see last month's anemic 38K net nonfarm payroll gain as a fluke, we do think payroll growth is beginning a longer-term slowdown that could continue into 2017.

Weaknesses in demand of manufacturing, exports, and commodities have been the catalyst, but service sector momentum has recently ebbed as well and service businesses have yet to fully adjust their future hiring plans to this new economic reality.

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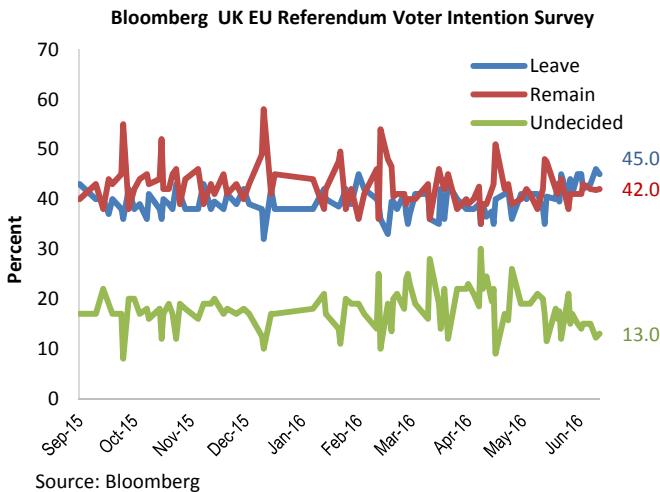
**Job Growth Slowdown Expected to Linger into 2017**



Source: U.S. Bureau of Labor Statistics; Bank of the West Economics

But it's Brexit, or the possibility of a British exit from the Eurozone that is causing investors and policymakers the most consternation today. The British referendum on whether to leave or stay in the Eurozone, taking place on June 23, is the preeminent concern for investors and U.S. policymakers today. The latest polls have shifted convincingly toward the leave camp, contrary to conventional wisdom and gambling sites that have been placing much higher odds for the stay camp.

**Should We Stay Or Should We Go Now?**



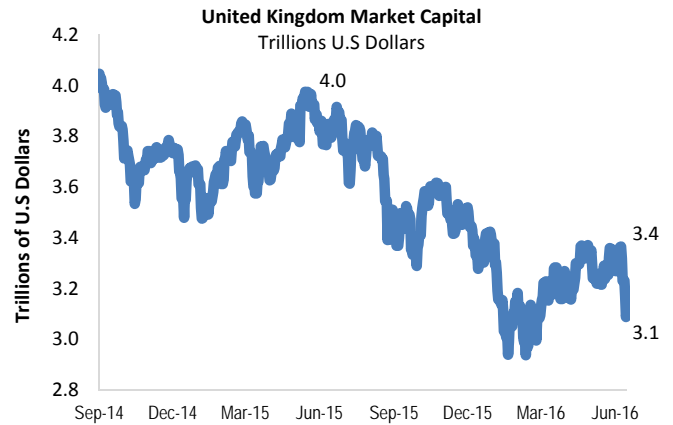
Source: Bloomberg

The Bloomberg Composite UK EU Referendum Voter Intention Survey has the leave vote at 45%, the remain vote at 42%, and the undecided at 13.0%. All the polls are too close to call and the undecided vote is clearly within the margin of error. This uncertainty has started to give global markets indigestion. Safe haven flows have pushed down bond yields in Japan, Germany, and the United States. The Japanese Yen and gold are surging

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as investors look to hedge and preserve wealth should Britain decide to go it alone again. Meanwhile, the risk-off trade is hitting global stock markets. The market capitalization of the U.K. stock market has dropped by nearly a trillion dollars, or 25.0%, since June 2015 and by about \$300 billion in the past week as the Brexit vote nears. The British Pound has slipped 3.2% against the USD over the past month even with a Federal Reserve interest rate hike pause.

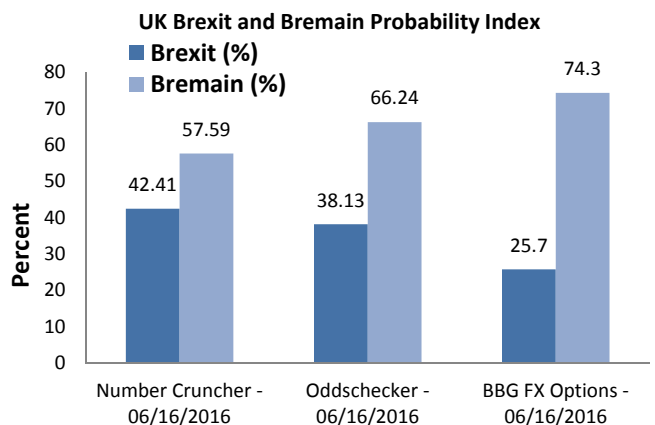
**A Wipe Out For British Stocks?**



Source: Bloomberg

British Odds makers still give the nod toward an ultimate stay vote next week. Depending on the site, odds of staying are currently between 57.6% and 74.3%. However, probabilities have been volatile over the past week and the gap between stay and leave has been closing.

**Gaming Sites Still Give the Nod to the Stay Camp**



Source: Number Cruncher Politics; Oddschecker; Bloomberg

A stay vote would mean the recent financial market volatility is just a passing sun shower, but with an exit vote- get out your raincoat, because we could be in for a downpour.

## 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	2.7	2.2	2.3	2.2	2.3	2.2	1.9	2.4	2.4	1.9	2.3
Personal Consumption Expenditures*	1.7	3.6	3.0	2.4	1.9	3.9	2.9	2.8	2.5	2.5	2.4	2.3	2.7	3.1	2.8	2.7
Non-residential Fixed Investment*	1.6	4.1	2.6	-2.1	-6.2	1.5	2.7	3.0	3.2	3.4	3.4	3.4	6.2	2.8	-0.6	3.1
Private Housing Starts (000s units)	978	1,158	1,158	1,135	1,147	1,195	1,200	1,220	1,240	1,250	1,280	1,300	1,001	1,107	1,191	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	-1.6	1.4	1.9	1.8	1.7	1.8	1.7	1.7	3.7	-0.5	-0.4	1.8
Nonfarm Payroll Employment (mil.)	140.8	141.5	142.2	142.9	143.5	143.9	144.4	144.9	145.4	145.9	146.4	147.0	138.9	141.8	144.2	146.2
Unemployment rate	5.6	5.4	5.2	5.0	4.9	4.8	4.8	4.7	4.6	4.6	4.6	4.5	6.2	5.3	4.8	4.6
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	-4.7	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	90.0	91.9	93.1	93.4	92.8	92.3	91.9	78.4	91.0	92.1	92.6
Crude Oil Prices -WTI (\$ per barrel)	48	58	46	42	33	46	48	46	46	46	47	48	93	49	43	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	0.46	0.71	0.88	1.04	1.21	1.46	0.09	0.13	0.48	1.15
Treasury-3 Month Bills (yield)	0.02	0.02	0.04	0.13	0.33	0.27	0.36	0.61	0.83	1.00	1.17	1.42	0.03	0.05	0.39	1.11
Treasury-2 Year Notes (yield)	0.60	0.61	0.69	0.84	0.83	0.78	0.79	1.02	1.26	1.43	1.68	2.01	0.46	0.69	0.86	1.60
Treasury-5 Year Notes (yield)	1.46	1.53	1.56	1.58	1.36	1.26	1.35	1.51	1.74	1.91	2.16	2.44	1.64	1.53	1.37	2.06
Treasury-10 Year Notes (yield)	1.97	2.16	2.22	2.19	1.91	1.77	1.75	2.00	2.37	2.52	2.67	2.92	2.54	2.14	1.86	2.62
Treasury-30 Year Notes (yield)	2.55	2.88	2.96	2.96	2.72	2.59	2.56	2.75	3.07	3.22	3.37	3.57	3.34	2.84	2.66	3.31
Prime Rate	3.25	3.25	3.25	3.29	3.50	3.50	3.58	3.83	4.00	4.17	4.33	4.58	3.25	3.26	3.60	4.27
Libor 3-Mo. U.S. Dollar	0.30	0.30	0.33	0.43	0.63	0.64	0.73	0.91	1.13	1.29	1.46	1.71	0.25	0.34	0.73	1.40
Mortgage-30 Year (yield)	3.72	3.82	3.95	3.90	3.74	3.61	3.55	3.80	4.15	4.30	4.45	4.70	4.17	3.85	3.68	4.40
BAA Corporate (yield)	4.50	4.83	5.24	5.42	5.30	4.69	4.68	4.92	5.35	5.51	5.65	5.90	4.85	5.00	4.90	5.60

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