

U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
25-Jul-2016	Dallas Fed Manf. Activity	Jul	-6.0	-10.0	-18.3
26-Jul-2016	S&P/CS 20 City MoM SA	May	0.1%	0.0%	0.5%
26-Jul-2016	Markit US Services PMI	Jul P	52.0	NA	51.4
26-Jul-2016	Markit US Composite PMI	Jul P	52.3	NA	51.2
26-Jul-2016	Consumer Confidence Index	Jul	95.0	95.5	98
26-Jul-2016	Richmond Fed Manufacturing Index	Jul	-1	-4	-7
26-Jul-2016	New Home Sales	Jun	564k	560k	551k
27-Jul-2016	Durable Goods Orders	Jun P	-1.0%	-1.0%	-2.3%
27-Jul-2016	Durables Ex Transportation	Jun P	0.3%	0.3%	-0.3%
27-Jul-2016	Pending Home Sales MoM	Jun	1.2%	1.8%	-3.7%
27-Jul-2016	FOMC Rate Decision (Upper Bound)	27-Jul	0.50%	0.50%	0.50%
27-Jul-2016	FOMC Rate Decision (Lower Bound)	27-Jul	0.25%	0.25%	0.25%
28-Jul-2016	Advance Goods Trade Balance	Jun	-\$62.1b	-\$61.1b	-\$60.6b
28-Jul-2016	Initial Jobless Claims	23-Jul	260K	NA	253K
28-Jul-2016	Kansas City Fed Manf. Activity	Jul	NA	NA	2
29-Jul-2016	Employment Cost Index	2Q	0.6%	0.6%	0.6%
29-Jul-2016	GDP Annualized QoQ	2Q A	2.5%	2.6%	1.1%
29-Jul-2016	GDP Price Index	2Q A	2.0%	1.9%	0.4%
29-Jul-2016	Chicago Purchasing Manager	Jul	54.8	53.0	56.8
29-Jul-2016	U. of Mich. Sentiment	Jul F	90.3	90.5	89.5

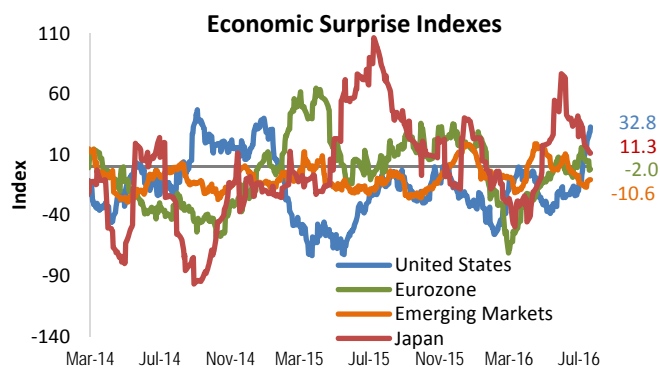
*Consensus from Bloomberg

U.S. Economy Dancing to a Different Beat

Before Brexit raised the level of global economic uncertainty at the end of June, the U.S. economy was clearly experiencing a growth spurt that has largely laid to rest investors' concerns since the start of the year about an impending U.S. recession – even with a Brexit global economic shock likely still to come. Just when you thought the economic doldrums would last forever, the U.S. economy is suddenly dancing to a different beat.

Economic surprise indexes tell the unfolding story. Growing signs of economic weakness abound in the wake of Brexit vote, including Japan, Europe, and emerging markets, while the economic reports out of the United States have largely surpassed consensus expectations.

U.S. Economic Surprises Turn Convincingly Positive



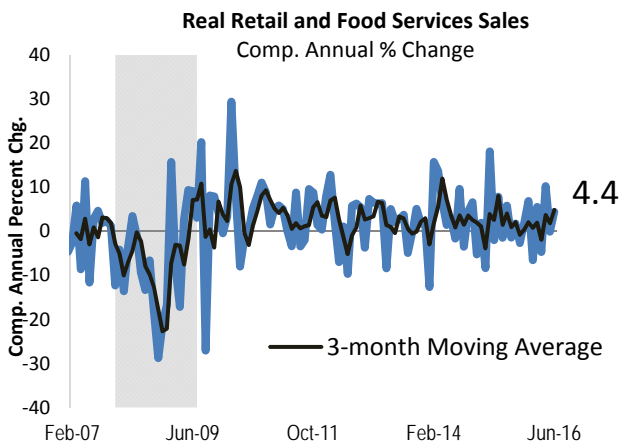
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In fact, U.S. economic reports haven't surpassed analyst expectations this consistently since 2014.

It all started with a robust June payroll report that showed broad-based job growth across nearly all major sectors of the economy – a net +287K jobs created overall. Moreover, initial jobless claims so far for July suggest this labor market momentum is continuing into late summer.

This has put consumers and investors in the mood to buy. Retail sales excluding motor vehicles increased at a 8.8% annualized pace in June. The three-month moving average of real retail sales (i.e. retail sales subtracting out the effects of inflation) increased at an impressive 4.4% pace.

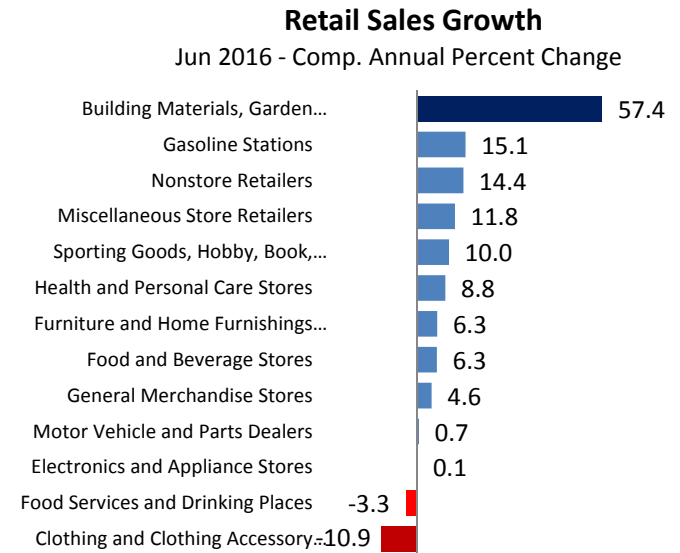
U.S. Consumers Shrugging Off Brexit?



Source: Federal Reserve Bank of St. Louis

Retail sales were strong for most categories in June, except for clothing, food service and drinking places, electronics, and motor vehicles. Sales have lagged in clothing and electronics as lower foreign import prices hold down overall price increases.

Retailers Seeing Better Sales Growth

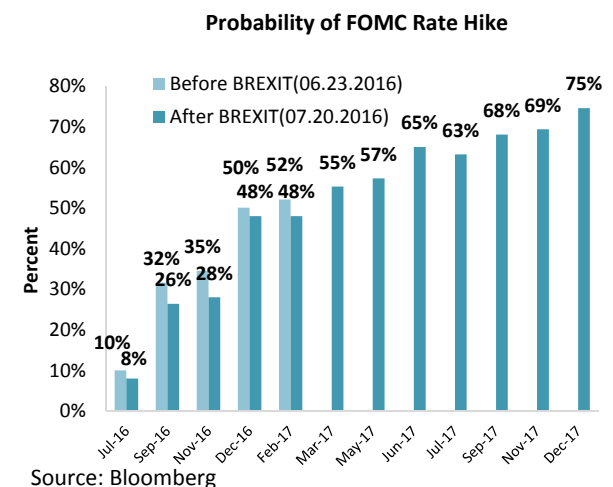


Source: US. Bureau of the Census

Global and U.S. equity market valuations are now about \$1 trillion above the level they were at before the Brexit vote as anticipation of more monetary stimulus in Japan, Europe, and the U.K. is combined with a resilient U.S. consumer spending outlook.

Not surprisingly, Fed funds futures market expectations of another rate hike from the FOMC before the end of the year are on the rise. Market expectations of a December rate hike are nearly 50-50 today at about 48%. We continue to expect in our baseline forecast one rate hike in December from the Fed and another two quarter-point increases coming in 2017.

Markets Put December Rate Hike Back On the Table



Source: Bloomberg

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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	1.1	2.5	1.9	1.9	2.0	2.1	2.0	1.8	2.4	2.4	1.9	2.0
Personal Consumption Expenditures*	1.7	3.6	3.0	2.4	1.5	4.2	2.8	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	-4.5	0.3	1.8	2.0	2.7	2.8	2.9	2.8	6.2	2.8	-0.6	2.4
Private Housing Starts (000s units)	978	1,158	1,158	1,135	1,151	1,195	1,200	1,220	1,240	1,250	1,280	1,300	1,001	1,107	1,192	1,268
Vehicle Sales (mill. Units, annualized)	16.7	17.1	17.8	17.8	17.1	17.1	17.0	17.1	17.0	17.0	16.9	16.9	16.4	17.3	17.1	17.0
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	144.8	145.3	145.8	146.3	146.7	138.9	141.8	144.2	146.0
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	89.5	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	45	47	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	2,075							1,930	2,061		
Dow Jones Industrial Average	17,808	18,004	17,077	17,475	16,663	17,768							16,770	17,591		
Federal Funds Rate (effective)	0.11	0.13	0.13	0.16	0.36	0.37	0.38	0.46	0.63	0.63	0.88	0.96	0.09	0.13	0.39	0.78
Treasury-3 Month Bills (yield)	0.02	0.02	0.04	0.13	0.29	0.26	0.27	0.35	0.53	0.53	0.80	0.88	0.03	0.05	0.29	0.69
Treasury-2 Year Notes (yield)	0.60	0.61	0.69	0.84	0.84	0.78	0.65	0.80	1.04	1.06	1.31	1.41	0.46	0.69	0.77	1.21
Treasury-5 Year Notes (yield)	1.46	1.53	1.56	1.58	1.37	1.25	1.05	1.20	1.49	1.57	1.77	1.87	1.64	1.53	1.22	1.68
Treasury-10 Year Notes (yield)	1.97	2.16	2.22	2.19	1.91	1.76	1.50	1.75	2.02	2.17	2.32	2.47	2.54	2.14	1.73	2.25
Treasury-30 Year Notes (yield)	2.55	2.88	2.96	2.96	2.72	2.58	2.26	2.50	2.77	2.92	3.12	3.32	3.34	2.84	2.52	3.03
Prime Rate	3.25	3.25	3.25	3.29	3.50	3.50	3.50	3.58	3.75	3.75	4.00	4.08	3.25	3.26	3.52	3.90
Libor 3-Mo. U.S. Dollar	0.30	0.30	0.33	0.43	0.67	0.65	0.64	0.72	0.89	0.90	1.14	1.22	0.25	0.34	0.67	1.04
Mortgage-30 Year (yield)	3.72	3.82	3.95	3.90	3.74	3.60	3.50	3.64	3.91	4.06	4.21	4.36	4.17	3.85	3.62	4.14
BAA Corporate (yield)	4.50	4.83	5.24	5.42	5.30	4.67	4.35	4.62	5.00	5.16	5.32	5.60	4.85	5.00	4.74	5.27

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