

U.S. Outlook

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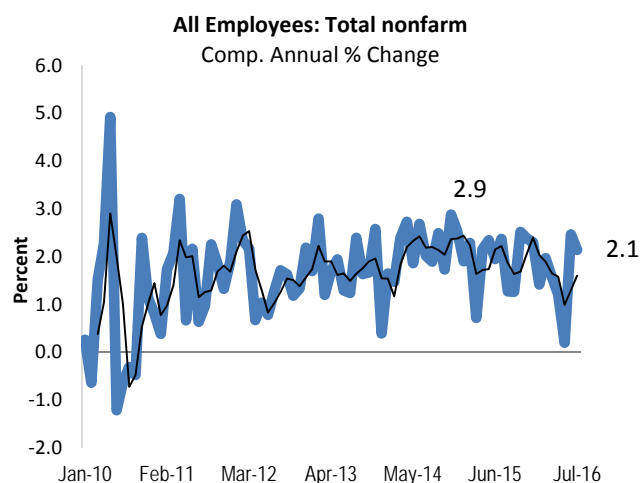
Date	Indicator	For	Estimate	Consensus*	Previous Period
22-Aug-2016	Chicago Fed National Activity Index	Jul	NA	NA	0.16
23-Aug-2016	Markit US Manufacturing PMI	Aug P	52.6	52.7	52.9
23-Aug-2016	Richmond Fed Manufacturing Index	Aug	6	5	10
23-Aug-2016	New Home Sales	Jul	587k	575k	592k
24-Aug-2016	FHFA House Price Index MoM	Jun	0.3%	0.3%	0.2%
24-Aug-2016	Existing Home Sales	Jul	5.53m	5.55m	5.57m
25-Aug-2016	Durable Goods Orders	Jul P	3.2%	3.6%	-3.9%
25-Aug-2016	Durables Ex Transportation	Jul P	0.3%	0.3%	-0.4%
25-Aug-2016	Initial Jobless Claims	20-Aug	266K	NA	262K
25-Aug-2016	Markit US Services PMI	Aug P	51.2	NA	51.4
25-Aug-2016	Markit US Composite PMI	Aug P	NA	NA	51.8
25-Aug-2016	Kansas City Fed Manufacturing Activity	Aug	-3	-2	-6
26-Aug-2016	Advance Goods Trade Balance	Jul	-\$63.3b	-\$62.8b	-\$64.5b
26-Aug-2016	GDP Annualized QoQ	2Q S	1.1%	1.2%	1.2%
26-Aug-2016	GDP Price Index	2Q S	2.2%	2.2%	2.2%
26-Aug-2016	U. of Mich. Sentiment	Aug F	90.5	90.5	90.4

*Consensus from Bloomberg

U.S. Economy: Q3 Off To a Good Start

The July FOMC minutes released this week revealed a cautious Fed in the wake the Brexit vote. Concerns regarding a persistent undershoot on inflation and risks to growth abroad still weigh heavy on some FOMC member minds, yet most saw the downside risks to the U.S. economy as diminishing, noting a reacceleration in job growth and consumer spending in the second quarter combined with a general easing of financial conditions despite some intermeeting volatility in global currency and equity markets.

Solid Two-Month Rebound in Net New Jobs

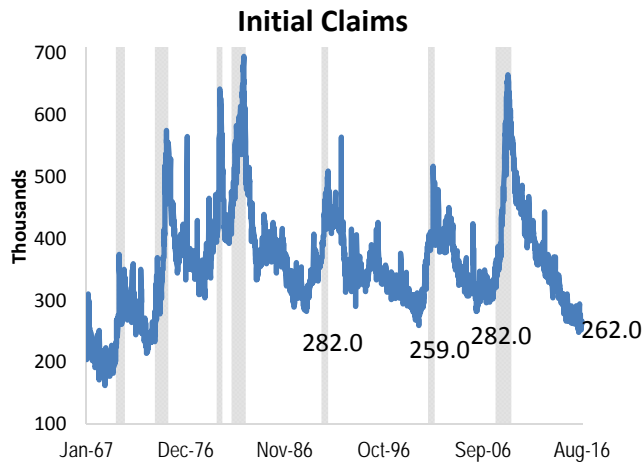


Source: U.S. Bureau of Labor Statistics

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Today, we see that growth momentum is largely carrying through into the third quarter, driven again by robust consumer spending, steady job growth, and a modest rebound in government and equipment spending. Business inventories will also add a bit to growth as inventory declines become moderate increases.

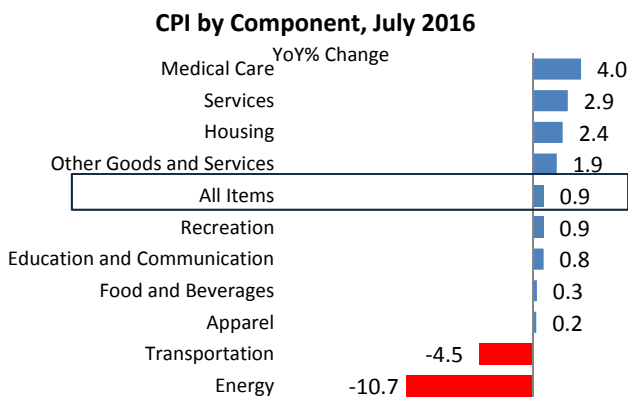
Jobless Claims Holding Near Historical Lows in August



Source: U.S. Employment and Training Administration

While not without some remaining wrinkles, U.S. economic data continue to impress, leading us to slightly bump up our estimates for real GDP and consumer spending growth in the third quarter. The flat reading on July CPI and weaker-than-expected increase in CPI (ex. Food and Energy) released this week (+0.1%), means a bigger projected increase in real consumer spending in Q3.

Consumer Inflation Pace Slips in July

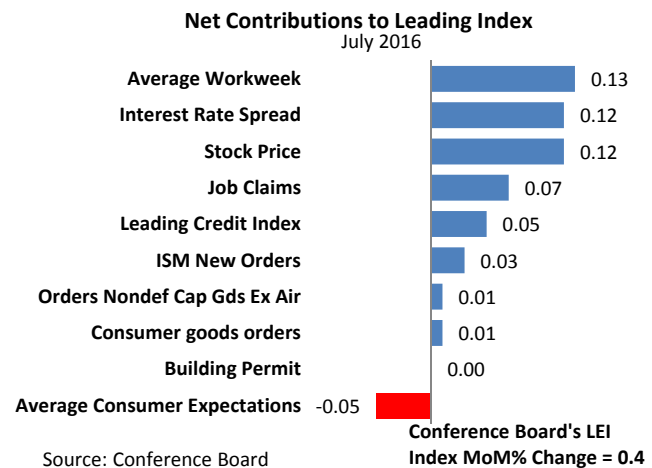


Source: Bureau of Labor Statistics

Our estimate for real consumer spending in the third quarter is now a healthy 3.0% annualized, with real GDP growth at 2.9%.

Looking into our near-term economic future, the Conference Board's leading economic indicators provide a soothing balm. The Index gained another 0.4% in July on top of a solid 0.3% gain in June.

Leading Indicators Making a Convincing Bounce



Source: Conference Board

Even July industrial production came in juiced, increasing a better-than-expected 0.7% last month with decent monthly gains in motor vehicles, energy, machinery, and business equipment production.

Putting it together, I think the U.S. economy remains on track for a December Fed funds rate hike from the FOMC. Nothing in the July minutes or recent economic indicators suggest otherwise. No doubt a September Fed funds rate hike will get some serious discussion at the next FOMC meeting, as Vice Chairman Dudley's recent public comments suggest; but the lack of consumer inflation in July should provide comfort to most that waiting a few months longer -- i.e. until after the national election -- to pull the trigger would probably do little harm. In fact, a rekindling of U.S. economic growth may just be what the doctor ordered.

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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*	2.0	2.6	2.0	0.9	0.8	1.2	2.9	2.2	2.2	2.1	2.0	1.8	2.4	2.7	1.5	2.2
Personal Consumption Expenditures*	2.4	2.9	2.7	2.3	1.6	4.2	3.0	2.8	2.5	2.5	2.4	2.3	2.7	3.1	2.7	2.7
Non-residential Fixed Investment*	1.3	1.6	3.9	-3.3	-3.4	-2.2	2.6	2.0	2.7	2.8	2.9	2.8	6.2	2.4	-0.9	2.3
Private Housing Starts (000s units)	986	1,156	1,156	1,135	1,151	1,160	1,200	1,220	1,240	1,250	1,280	1,300	1,001	1,108	1,183	1,268
Vehicle Sales (mill. Units, annualized)	16.9	17.2	17.7	17.8	17.3	17.1	17.0	17.1	17.0	17.0	16.9	16.9	16.4	17.4	17.1	17.0
Industrial Production*	-1.9	-2.7	1.5	-3.3	-1.8	-1.0	1.9	1.8	1.7	1.8	1.7	1.7	3.7	-0.5	-0.8	1.6
Nonfarm Payroll Employment (mil.)	140.8	141.5	142.2	142.9	143.5	144.0	144.5	145.0	145.5	146.0	146.6	147.1	138.9	141.8	144.3	146.3
Unemployment rate	5.6	5.4	5.2	5.0	4.9	4.9	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	2.5	2.0	2.1	2.2	2.2	2.3	2.3	1.6	0.1	1.2	2.2
"Core" CPI* (percent)	1.7	2.3	1.8	2.2	2.7	2.1	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	3.2	2.1	2.5	2.4	2.2	2.0	2.0	1.9	-3.3	-1.0	2.4
Trade Weighted Dollar (Fed BOG, major)	89.3	90.1	91.7	93.1	93.3	89.6	90.5	92.0	92.3	92.8	92.3	91.9	78.4	91.1	91.3	92.3
Crude Oil Prices -WTI (\$ per barrel)	48	58	46	42	33	45	45	47	47	47	48	49	93	49	43	48

*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	17,764							16,770	17,591		
Federal Funds Rate (effective)	0.11	0.13	0.13	0.16	0.36	0.37	0.40	0.48	0.63	0.63	0.88	0.96	0.09	0.13	0.40	0.77
Treasury-3 Month Bills (yield)	0.02	0.02	0.04	0.13	0.29	0.26	0.28	0.35	0.53	0.53	0.80	0.88	0.03	0.05	0.30	0.69
Treasury-2 Year Notes (yield)	0.60	0.61	0.69	0.84	0.84	0.77	0.69	0.80	1.04	1.06	1.31	1.41	0.46	0.69	0.78	1.21
Treasury-5 Year Notes (yield)	1.46	1.53	1.56	1.58	1.37	1.24	1.09	1.20	1.49	1.57	1.77	1.87	1.64	1.53	1.23	1.68
Treasury-10 Year Notes (yield)	1.97	2.16	2.22	2.19	1.91	1.75	1.52	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	2.57	2.26	2.50	2.77	2.92	3.12	3.32	3.34	2.84	2.51	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	0.75	0.85	0.94	0.95	1.17	1.25	0.25	0.34	0.73	1.08
Mortgage-30 Year (yield)	3.72	3.82	3.95	3.90	3.74	3.59	3.45	3.59	3.86	4.01	4.16	4.31	4.17	3.85	3.59	4.09
BAA Corporate (yield)	4.50	4.83	5.24	5.42	5.30	4.66	4.25	4.52	4.90	5.06	5.22	5.50	4.85	5.00	4.68	5.17

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