

U.S. Outlook

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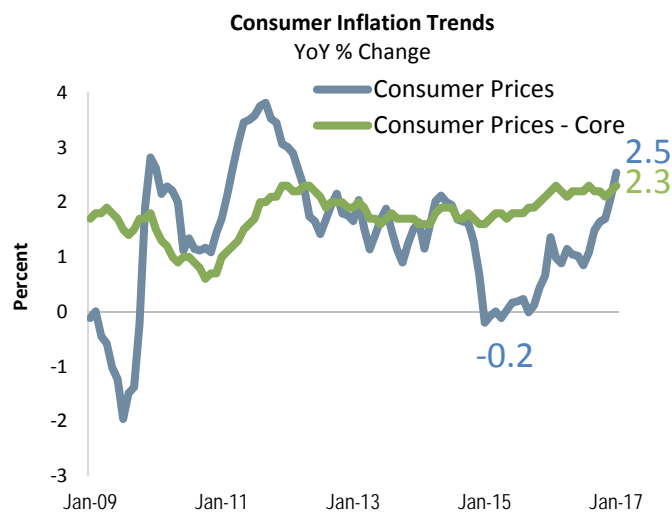
Date	Indicator	For	Estimate	Consensus*	Previous Period
21-Feb-2017	Markit US Manufacturing PMI	Feb P	55.2	54.7	55.0
21-Feb-2017	Markit US Services PMI	Feb P	55.8	NA	55.6
21-Feb-2017	Markit US Composite PMI	Feb P	NA	NA	55.8
22-Feb-2017	Existing Home Sales	Jan	5.52m	5.55m	5.49m
23-Feb-2017	Chicago Fed Nat Activity Index	Jan	NA	NA	0.1
23-Feb-2017	Initial Jobless Claims	18-Feb	242K	NA	239K
23-Feb-2017	FHFA House Price Index MoM	Dec	0.4%	NA	0.5%
23-Feb-2017	Kansas City Fed Manufacturing Activity	Feb	14.0	NA	9.0
24-Feb-2017	New Home Sales	Jan	565k	575k	536k
24-Feb-2017	U. of Mich. Sentiment	Feb F	96.2	96.0	95.7

*Consensus from Bloomberg

Inflation Runs Hot, Will The Fed?

The urgency to hike interest rates once again is ramping up in the United States on the heels of stronger than expected producer and consumer inflation in January.

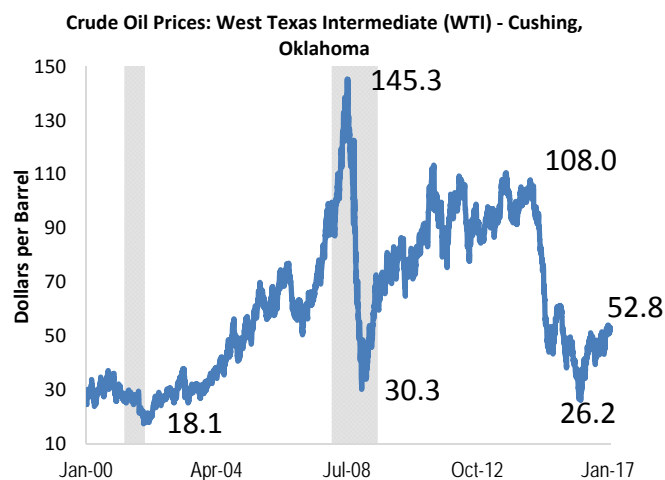
Consumer Inflation Back On Investors Radar Screen



Source: U.S. Bureau of Labor Statistics

January headline and core consumer inflation -- at 2.5% and 2.3% from a year ago -- hasn't been this high in five years. Headline inflation's climb has been even more impressive, climbing swiftly from -0.2% two years ago. Indeed, inflation pressure has visibly accelerated over the past year under a tightening labor market and stronger wage gains, a convincing rebound in energy and commodity prices, and accommodative monetary policy and financial conditions.

Oil Prices – Start of a New Super Cycle?

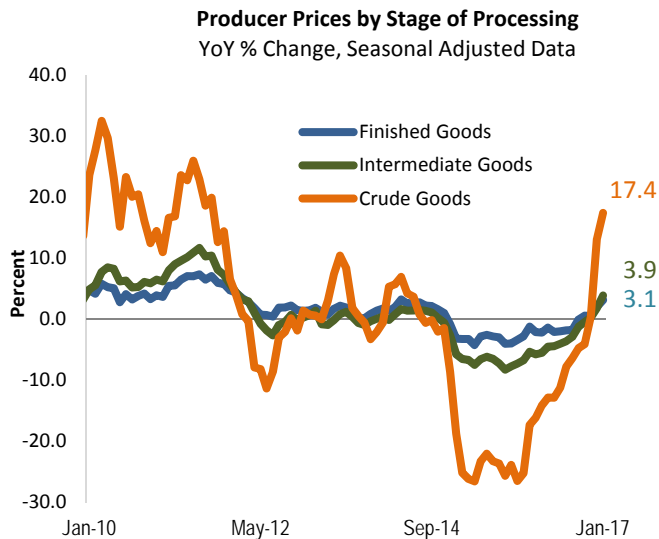


Source: U.S. Energy Information Administration

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WTI crude oil prices have more than doubled since January of 2016. Goods producers are already feeling the cost pressures. Hot early stage producer inflation has already pushed up producer intermediate goods inflation to nearly 4.0% from a year ago.

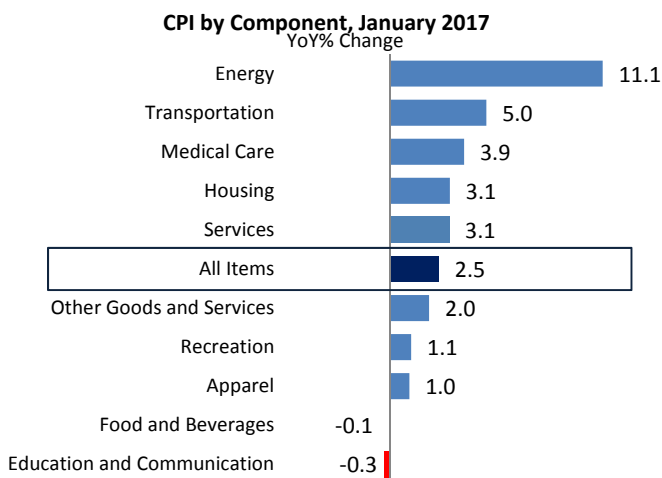
Cost Pressures Intensify for Goods Producers



Source: U.S. Bureau of Labor Statistics

With economic slack fading fast and consumer demand solid, price increases at the producer level are increasingly being passed onto the consumer.

Double-Digit Price Increases Return

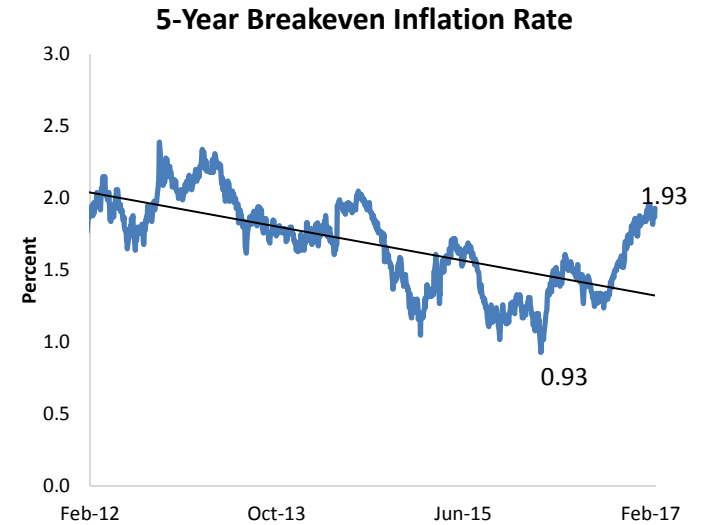


Source: Bureau of Labor Statistics

How much longer can the Fed turn a blind eye to emerging inflation? Up until this week's Humphry Hawkins testimony, Yellen and the FOMC has downplayed the trend, noting that inflation expectations remain reasonably well-anchored and that survey measures of longer-term

inflation expectations have changed little on balance in recent months. But Yellen repeating that "...waiting too long to remove accommodation would be unwise...." has put markets on notice that another Fed rate could come sooner rather than later.

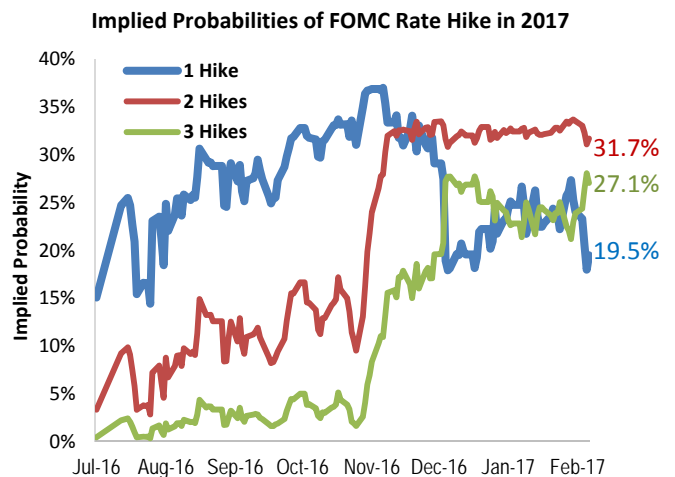
Inflation Expectations Still Well-Anchored?



Source: Federal Reserve Bank of St. Louis; Bank of the West Economics

The Fed funds futures market is starting to hedge their dovish Fed bets. Suddenly, a March or May rate hike from the Fed is not out of the realm of possibility, and three rate hikes from the Fed this year is looking more likely.

Two or Three Rate Hikes This Year?



Source: Bloomberg

We have been expecting three rate hikes this year since the December FOMC meeting – that hasn't changed -- but we believe a May rate hike is looking more likely than a June hike now that Fed inflation targets could be hit sooner than they forecast.

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Major Economic Indicators

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4	2018.1	2018.2	2018.3	2018.4	2015	2016	2017	2018
Real GDP*	0.8	1.4	3.5	1.9	2.1	2.1	2.2	2.2	2.2	2.3	2.4	2.4	2.6	1.6	2.2	2.3
Personal Consumption Expenditures*	1.6	4.3	3.0	2.5	2.6	2.5	2.5	2.4	2.4	2.4	2.4	2.4	3.2	2.7	2.7	2.4
Non-residential Fixed Investment*	-3.4	1.0	1.4	2.4	4.5	2.8	2.9	2.8	2.7	3.4	3.9	4.4	2.1	-0.4	2.9	3.2
Private Housing Starts (000s units)	1,151	1,159	1,145	1,216	1,200	1,210	1,220	1,240	1,252	1,265	1,275	1,285	1,108	1,168	1,218	1,269
Vehicle Sales (mill. Units, annualized)	17.3	17.1	17.5	18.0	17.5	17.5	17.4	17.4	17.3	17.3	17.2	17.2	17.4	17.5	17.5	17.3
Industrial Production*	-1.7	-0.8	1.8	-0.6	1.5	1.7	2.4	2.5	2.4	2.3	2.2	2.2	0.3	-0.9	1.4	2.3
Nonfarm Payroll Employment (mil.)	143.5	144.0	144.6	145.1	145.7	146.2	146.7	147.2	147.7	148.2	148.8	149.3	141.8	144.3	146.4	148.5
Unemployment rate	4.9	4.9	4.9	4.7	4.6	4.6	4.5	4.5	4.4	4.5	4.5	4.5	5.3	4.9	4.6	4.5
Consumer Price Index* (percent)	-0.3	2.5	1.6	3.4	2.2	2.5	2.3	2.3	2.3	2.2	2.2	2.2	0.1	1.3	2.5	2.3
"Core" CPI* (percent)	2.7	2.1	1.9	2.0	2.5	2.0	2.1	2.1	2.2	2.2	2.2	2.3	1.8	2.2	2.2	2.2
PPI (finished goods)* (percent)	-5.3	3.6	1.9	4.0	0.4	3.0	2.7	2.5	2.4	2.1	2.0	2.1	-3.3	-1.0	2.2	2.4
Trade Weighted Dollar (Fed BOG, major)	93.2	89.5	90.3	93.3	94.5	95.9	97.0	96.7	97.2	97.8	97.2	97.0	90.9	91.6	96.0	97.3
Crude Oil Prices -WTI (\$ per barrel)	33	45	45	49	53	54	54	54	55	55	55	56	50	43	54	55

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

Financial Data	History				Forecast								Annual Average			
	2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4	2018.1	2018.2	2018.3	2018.4	2015	2016	2017	2018
S & P 500	1,951	2,075	2,162	2,185									2,061	2,093		
Dow Jones Industrial Average	16,663	17,764	18,372	18,865									17,591	17,916		
Federal Funds Rate (effective)	0.36	0.37	0.39	0.45	0.63	0.79	0.96	1.21	1.46	1.71	1.88	2.13	0.13	0.39	0.90	1.79
Treasury-3 Month Bills (yield)	0.29	0.26	0.30	0.43	0.55	0.72	0.95	1.18	1.47	1.73	1.92	2.17	0.05	0.32	0.85	1.82
Treasury-2 Year Notes (yield)	0.84	0.77	0.73	1.01	1.23	1.36	1.56	1.75	1.99	2.26	2.40	2.66	0.69	0.84	1.48	2.33
Treasury-5 Year Notes (yield)	1.37	1.24	1.13	1.61	1.97	2.17	2.41	2.61	2.86	3.06	3.23	3.49	1.53	1.34	2.29	3.16
Treasury-10 Year Notes (yield)	1.91	1.75	1.56	2.14	2.53	2.64	2.87	3.05	3.30	3.50	3.67	3.93	2.14	1.84	2.77	3.60
Treasury-30 Year Notes (yield)	2.72	2.57	2.28	2.83	3.14	3.27	3.48	3.68	3.90	4.10	4.26	4.53	2.84	2.60	3.39	4.20
Prime Rate	3.50	3.50	3.50	3.55	3.75	3.89	4.10	4.35	4.60	4.85	5.00	5.25	3.26	3.51	4.02	4.93
Libor 3-Mo. U.S. Dollar	0.62	0.64	0.79	0.92	1.05	1.17	1.35	1.56	1.80	1.97	2.17	2.42	0.34	0.74	1.28	2.09
Mortgage-30 Year (yield)	3.74	3.59	3.45	3.84	4.20	4.31	4.50	4.70	4.90	5.10	5.39	5.65	3.85	3.66	4.43	5.26
BAA Corporate (yield)	5.30	4.66	4.26	4.64	4.80	4.94	5.24	5.49	5.85	6.01	6.20	6.45	5.00	4.71	5.12	6.13

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