

# U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
13-Mar-2017	Labor Market Conditions Index Change	Feb	NA	NA	NA
14-Mar-2017	NFIB Small Business Optimism	Feb	105.6	NA	105.9
14-Mar-2017	PPI Final Demand MoM	Feb	0.1%	0.0%	0.6%
14-Mar-2017	PPI Ex Food and Energy MoM	Feb	0.2%	0.2%	0.4%
15-Mar-2017	Empire Manufacturing	Mar	14.0	15.0	18.7
15-Mar-2017	CPI MoM	Feb	0.1%	0.0%	0.6%
15-Mar-2017	CPI Ex Food and Energy MoM	Feb	0.2%	0.2%	0.3%
15-Mar-2017	Retail Sales Advance MoM	Feb	-0.2%	-0.1%	0.4%
15-Mar-2017	Retail Sales Ex Auto MoM	Feb	0.0%	0.1%	0.8%
15-Mar-2017	NAHB Housing Market Index	Mar	64	65	65
15-Mar-2017	Business Inventories	Jan	0.2%	0.3%	0.4%
15-Mar-2017	FOMC Rate Decision (Upper Bound)	15-Mar	1.00%	1.00%	0.75%
15-Mar-2017	FOMC Rate Decision (Lower Bound)	15-Mar	0.75%	0.75%	0.50%
15-Mar-2017	Net Long-term TIC Flows	Jan	NA	NA	-\$12.9b
16-Mar-2017	Housing Starts	Feb	1259k	1255k	1246k
16-Mar-2017	Building Permits	Feb	1250k	1250k	1293k
16-Mar-2017	Initial Jobless Claims	11-Mar	242K	NA	243K
16-Mar-2017	Philadelphia Fed Business Outlook	Mar	30.0	25.0	43.3
16-Mar-2017	JOLTS Job Openings	Jan	NA	NA	5501
17-Mar-2017	Industrial Production MoM	Feb	0.1%	0.2%	-0.3%
17-Mar-2017	Capacity Utilization	Feb	75.2%	75.5%	75.3%
17-Mar-2017	U. of Mich. Sentiment	Mar P	97.0	97.0	96.3
17-Mar-2017	Leading Index	Feb	0.2%	0.3%	0.6%

\*Consensus from Bloomberg

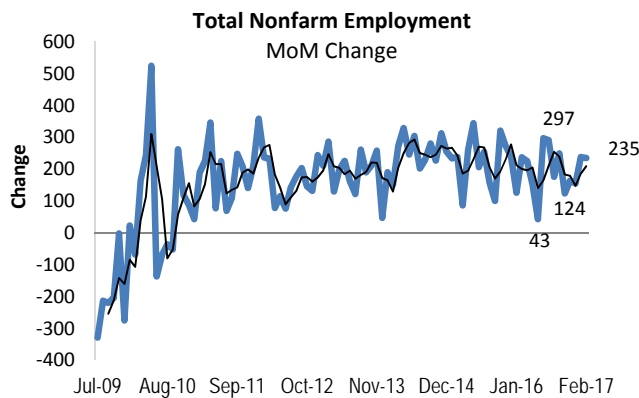
## An Early Spring for the Jobs Report

Spring in February: Is it global warming, stock market gains, Donald Trump, or a rekindling of animal spirits that helped push up the job growth numbers last month? The blowout ADP report released earlier this week flagged a strong payroll report for February, and the estimates we got this morning did not disappoint. February nonfarm payrolls gained 235K jobs in February; our forecast was for 220K jobs on the month. January gains were also revised higher to 238K from an originally reported 227K jobs.

This is being touted as a “Trump bump,” as it represents the first full month of job gains under the new administration. But since no new economic policies have yet been enacted and a warmer-than-normal February occurred, the increased momentum could also have something to do with unusually mild winter weather playing havoc on the Bureau of Labor Statistics’ seasonal adjustment factors.

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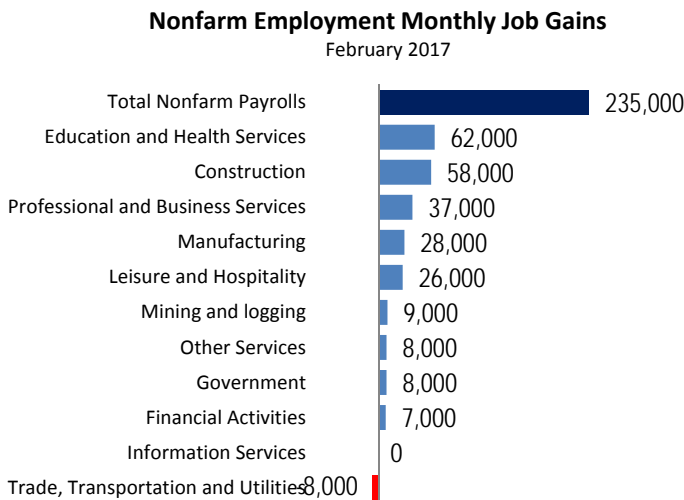
**Nonfarm Payrolls Spring Higher in January and February**



Source: U.S. Bureau of Labor Statistics

The stronger-than-normal gains in construction payrolls of 58K in February could be a sign of this issue. Construction payroll gains averaged just 19K jobs a month in the final three months of 2016. So the job strength in this sector could end up being a bit of a mirage. Yet, there is no denying the U.S. labor market remains firm and the economy continues to make progress toward the Fed mandate for full employment.

**Construction and Manufacturing Job Growth Accelerates**



Source: BLS, Bank of the West

Average monthly job gains in the United States of just 100K to 125K per month should be sufficient to keep the unemployment rate steady. So monthly job gains north of 200K is a sizzling hot number of new jobs, keeping the FOMC focused on raising interest rates again sooner rather than later. A March Fed rate hike is a near-certainty now with this strong payroll report under our belt. It also

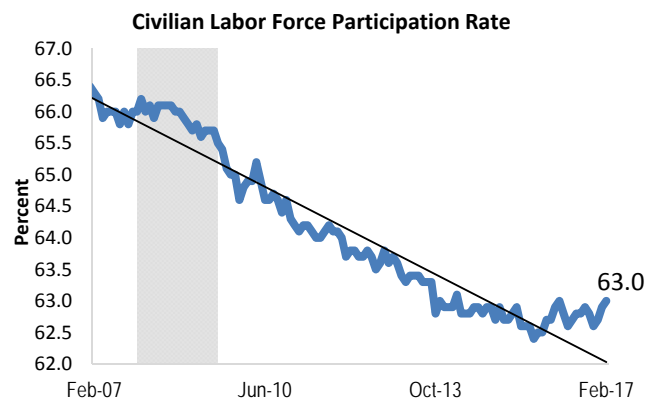
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raises the possibility of another rate hike as soon as the June meeting, though our baseline forecast is still for a September move.

Manufacturing job growth was also solid. Manufacturers adding a net 28K jobs last month, about double the number added in recent months. On a weaker note, private services job growth slowed to 132K last month from 167K in January. The slowdown largely came from business services +37K and financial services +7K. Retailers lost 26K jobs, and information jobs were unchanged.

The U.S. headline unemployment rate dropped a tenth of a percentage point to 4.7% in February, and the U6 measure of unemployment, a measure of unemployment that includes those working part-time for economic reasons and those only marginally attached to the labor force, dropped another two-tenths to 9.2%. Finally, the labor force participation rate improved to 63.0% from 62.9%. It's more good progress on reducing under-employment and bringing folks back into the U.S. labor force.

**Labor Force Participation On the Rise**



Source: U.S. Bureau of Labor Statistics

Wage growth was in-line with our expectations with average hourly earnings increasing 0.2% last month and increasing 2.8% from a year ago. Average hourly earnings growth has been accelerating as the economy rapidly absorbs remaining slack in the labor market. Average hourly earnings growth has been trending closer to 2.0% for much of this eight-year expansion. Strong job gains will be an important support for consumer confidence and spending in the months ahead; but they call into the question the need for a huge federal fiscal stimulus package, which may need to be offset with a more aggressive rate hike path from the Federal Reserve.

## 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	1.6	2.2	2.2	2.2	2.2	2.3	2.4	2.4	2.6	1.6	2.1	2.3
Personal Consumption Expenditures*	1.6	4.3	3.0	3.0	2.1	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	1.3	5.9	4.1	2.9	2.8	2.7	3.4	3.9	4.4	2.1	-0.5	3.3	3.3
Private Housing Starts (000s units)	1,151	1,159	1,145	1,249	1,200	1,210	1,220	1,240	1,252	1,265	1,275	1,285	1,108	1,176	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	1.7	0.4	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.)	143.4	144.0	144.7	145.2	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	4.7	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)	0.1	2.3	1.8	3.0	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)	2.5	2.1	2.1	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)	-3.9	3.0	1.7	3.6	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	0.71	0.88	0.96	1.21	1.46	1.71	1.88	2.13	0.13	0.39	0.94	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