

Date	Indicator	For	Estimate	Consensus*	Previous Period
30-May-2017	Personal Income	Apr	0.4%	0.4%	0.2%
30-May-2017	Personal Spending	Apr	0.3%	0.4%	0.0%
30-May-2017	PCE Deflator MoM	Apr	0.2%	0.2%	-0.2%
30-May-2017	PCE Core MoM	Apr	0.1%	0.1%	-0.1%
30-May-2017	S&P CoreLogic CS 20-City HPI MoM	Mar	0.9%	0.8%	0.7%
30-May-2017	Conf. Board Consumer Confidence	May	119.6	119.9	120.3
30-May-2017	Dallas Fed Manufacturing Activity	May	15.4	15.0	16.8
31-May-2017	Chicago Purchasing Manager	May	56.7	57.0	58.3
31-May-2017	Pending Home Sales MoM	Apr	0.6%	1.0%	-0.8%
31-May-2017	U.S. Federal Reserve Releases Beige Book				
1-Jun-2017	ADP Employment Change	May	185k	180k	177k
1-Jun-2017	Nonfarm Productivity	1Q F	-0.6%	-0.6%	-0.6%
1-Jun-2017	Unit Labor Costs	1Q F	3.0%	3.0%	3.0%
1-Jun-2017	Initial Jobless Claims	27-May	237K	NA	234K
1-Jun-2017	Markit US Manufacturing PMI	May F	52.4	NA	52.5
1-Jun-2017	ISM Manufacturing	May	54.5	54.8	54.8
1-Jun-2017	Construction Spending MoM	Apr	0.5%	0.5%	-0.2%
1-Jun-2017	Wards Total Vehicle Sales	May	17.09m	17.00m	16.81m
2-Jun-2017	Change in Nonfarm Payrolls	May	188K	177k	211k
2-Jun-2017	Change in Manufacturing Payrolls	May	5k	5k	6k
2-Jun-2017	Unemployment Rate	May	4.4%	4.4%	4.4%
2-Jun-2017	Average Hourly Earnings MoM	May	0.2%	0.3%	0.3%
2-Jun-2017	Average Weekly Hours All Employees	May	34.4	34.4	34.4
2-Jun-2017	Trade Balance	Apr	-\$45.5b	-\$44.0b	-\$43.7b

*Consensus from Bloomberg

Fingers Crossed: We Need a Bounce in GDP Growth

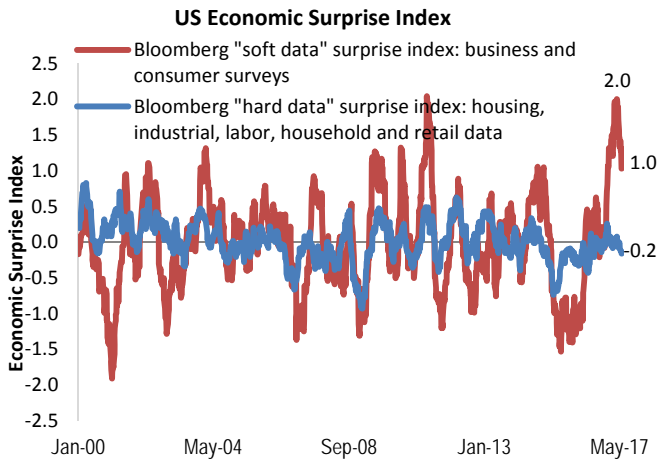
This morning's second estimate for Q1 GDP growth didn't do much to alter the original view that the U.S. economy got off to a rough start this year. The revisions increased the headline GDP growth rate to 1.2% annualized in Q1 from an originally reported 0.7% gain. However, the mix of that growth was somewhat more encouraging than in the initial estimate. We saw upward revisions in the growth rate for consumer and government spending, structures, and residential investment, while new estimates for equipment spending and business inventories partially offset with subtractions from growth.

The May FOMC minutes, released earlier this week, held to the opinion that the first quarter slowdown was due primarily to temporary factors (transitory soft consumer spending and

inventory investment) that shouldn't dissuade from further Fed rate hikes or the start of Fed balance sheet reductions before year end. But much depends on a second quarter bounce in activity.

High-frequency indicators aren't entirely convincing at the moment. Looking at the economic surprise indexes generally shows a U.S. economy struggling to surprise on the upside. For the most part, U.S. economic indicators continue to miss analyst consensus expectations. The "soft" economic indicators of business and consumer sentiment have turned lower, as we expected; and even the hard data have begun to miss expectations, too, rather than strengthening to meet elevated expectations. This is what we have been forecasting for some time and now appears to be an evolving economic reality.

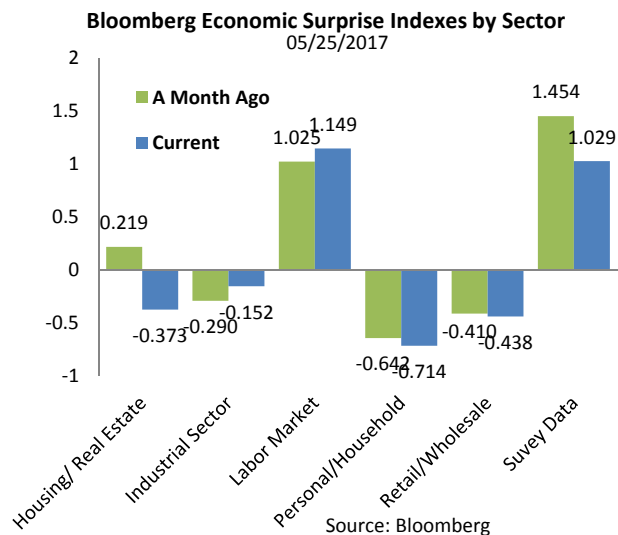
Soft and Hard Economic Surprises Moving in the Wrong Direction



Source:

So how are the economic surprises stacking up compared to a month ago across categories?

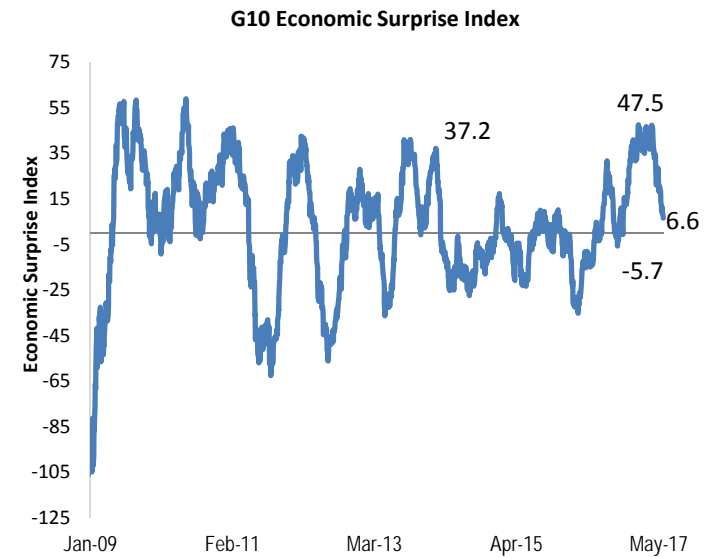
Economic Surprises Are Disappointing Outside of the Labor Market



Only labor market surprises became more positive over the past month. Indeed, we are forecasting another strong jobs report for May next Friday. We are looking for another 188K net nonfarm jobs created last month, 10K more jobs than the consensus expectation. The unemployment rate should hold at the expansion low of 4.4%. Housing, real estate, and personal/household data have missed more regularly over the past month, while retail/wholesale and industrial sectors continue to underperform expectations.

And it is not just the United States seeing some economic disappointment recently. A G10 Economic Surprise Index has weakened noticeably since March.

A G10 Economic Slowdown Developing Again?



Source: Citigroup Global Markets

The United Kingdom, Canada, and China have also seen noticeable misses in economic indicator expectations recently. For now the Eurozone appears to be bucking the global trend, holding strong and exceeding scaled-down expectations for growth.

So where does the U.S. economy go from here? Next week's economic indicators should prove telling. Tuesday brings personal income and spending data for April that should help us calibrate our forecasts and expectations for Q2 real consumer spending growth. We are looking for a decent rebound in consumer spending growth to around 3.2% annualized from a nearly stagnant 0.6% growth rate in the first quarter. This should be sufficient to push second quarter GDP growth up to a more respectable 3.0% pace, if one adds in more help from rising business inventories.

But if the consumer spending recovery doesn't materialize, watch out for falling growth forecasts. We are already forecasting a slowdown in second quarter business investment and export growth from the first quarter's pace. Commercial and Industrial loan growth has been unexpectedly soft so far this year, pointing to potential near-term problems for business investment and loan demand. In short, there will not be much help from other sectors to replace any unexpected slack coming from the consumer.

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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	2.1	1.2	3.0	2.3	2.2	2.3	2.3	2.4	2.4	2.6	1.6	2.2	2.4
Personal Consumption Expenditures*	1.6	4.3	3.0	3.5	0.6	3.2	2.5	2.4	2.4	2.4	2.4	2.4	3.2	2.7	2.5	2.5
Non-residential Fixed Investment*	-3.4	1.0	1.4	0.9	11.4	3.6	2.9	2.8	2.8	3.4	3.9	4.4	2.1	-0.5	4.4	3.2
Private Housing Starts (000s units)	1,153	1,158	1,150	1,248	1,242	1,250	1,255	1,261	1,263	1,265	1,275	1,285	1,108	1,177	1,252	1,272
Vehicle Sales (mill. Units, annualized)	17.3	17.1	17.5	18.0	17.2	17.1	17.1	17.0	16.9	16.9	16.8	16.8	17.4	17.5	17.1	16.9
Industrial Production*	-1.3	-0.7	0.8	0.7	1.8	1.7	2.4	2.5	2.4	2.3	2.2	2.2	0.3	-1.2	1.4	2.3
Nonfarm Payroll Employment (mil.)	143.4	144.0	144.7	145.2	145.7	146.3	146.8	147.3	147.8	148.3	148.8	149.4	141.8	144.3	146.5	148.6
Unemployment rate	4.9	4.9	4.9	4.7	4.7	4.4	4.3	4.2	4.1	4.1	4.2	4.3	5.3	4.9	4.4	4.2
Consumer Price Index* (percent)	0.1	2.3	1.8	3.0	3.1	2.0	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	2.2	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	3.4	6.3	3.0	2.7	2.5	2.4	2.1	2.0	2.1	-3.3	-1.0	3.7	2.4
Trade Weighted Dollar (Fed BOG, major)	93.2	89.5	90.3	93.3	94.5	94.8	96.0	95.7	96.2	96.8	96.2	96.0	90.9	91.6	95.3	96.3
Crude Oil Prices -WTI (\$ per barrel)	33	45	45	49	52	49	50	50	51	51	52	53	50	43	50	52

*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	2,326								2,061	2,093		
Dow Jones Industrial Average	16,663	17,764	18,372	18,865	20,406								17,591	17,916		
Federal Funds Rate (effective)	0.36	0.37	0.39	0.45	0.70	0.94	1.21	1.38	1.46	1.71	1.96	2.13	0.13	0.39	1.06	1.81
Treasury-3 Month Bills (yield)	0.29	0.26	0.30	0.43	0.61	0.85	1.15	1.34	1.47	1.73	1.92	2.17	0.05	0.32	0.99	1.82
Treasury-2 Year Notes (yield)	0.84	0.77	0.73	1.01	1.24	1.28	1.51	1.70	1.94	2.21	2.35	2.61	0.69	0.84	1.43	2.28
Treasury-5 Year Notes (yield)	1.37	1.24	1.13	1.61	1.95	1.85	2.10	2.30	2.64	2.87	3.03	3.30	1.53	1.34	2.05	2.96
Treasury-10 Year Notes (yield)	1.91	1.75	1.56	2.14	2.45	2.33	2.55	2.75	3.07	3.27	3.44	3.70	2.14	1.84	2.52	3.37
Treasury-30 Year Notes (yield)	2.72	2.57	2.28	2.83	3.05	2.98	3.23	3.43	3.72	3.92	4.09	4.35	2.84	2.60	3.17	4.02
Prime Rate	3.50	3.50	3.50	3.55	3.80	4.06	4.32	4.50	4.60	4.85	5.00	5.25	3.26	3.51	4.17	4.93
Libor 3-Mo. U.S. Dollar	0.62	0.64	0.79	0.92	1.07	1.19	1.47	1.65	1.73	1.97	2.15	2.40	0.34	0.74	1.35	2.06
Mortgage-30 Year (yield)	3.74	3.59	3.45	3.84	4.17	4.17	4.38	4.58	4.90	5.10	5.29	5.55	3.85	3.66	4.33	5.21
BAA Corporate (yield)	5.30	4.66	4.26	4.64	4.66	4.57	4.86	5.15	5.52	5.75	5.92	6.18	5.00	4.71	4.81	5.84

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