BANK OF THE WEST
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# U.S. Outlook

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| Date | Indicator | For | Estimate | Consensus* | Previous Period |
|---|---|---|---|---|---|
| 25-Sep-2017 | Chicago Fed Nat Activity Index | Aug | NA | NA | -1.0% |
| 25-Sep-2017 | Dallas Fed Manufacturing Activity | Sep | 9.0 | 13.0 | 17.0 |
| 26-Sep-2017 | S&P CoreLogic CS 20-City HPI MoM | Jul | 0.3% | NA | 0.1% |
| 26-Sep-2017 | New Home Sales | Aug | 575k | 590k | 571k |
| 26-Sep-2017 | Conf. Board Consumer Confidence | Sep | 118.5 | 119.3 | 122.9 |
| 26-Sep-2017 | Richmond Fed Manufacturing Index | Sep | 15.0 | 13.0 | 14.0 |
| 27-Sep-2017 | Durable Goods Orders | Aug P | 0.6% | 0.9% | -6.8% |
| 27-Sep-2017 | Durables Ex Transportation | Aug P | 0.0% | 0.2% | 0.6% |
| 27-Sep-2017 | Pending Home Sales MoM | Aug | -0.4% | -0.3% | -0.8% |
| 28-Sep-2017 | GDP Annualized QoQ | 2Q T | 3.1% | 3.1% | 3.0% |
| 28-Sep-2017 | GDP Price Index | 2Q T | 1.0% | 1.0% | 1.0% |
| 28-Sep-2017 | Initial Jobless Claims | 23-Sep | 275k | NA | 259k |
| 28-Sep-2017 | Advance Goods Trade Balance | Aug | -$65.1b | -$65.1b | -$63.9b |
| 28-Sep-2017 | Wholesale Inventories MoM | Aug P | 0.4% | NA | 0.6% |
| 28-Sep-2017 | Kansas City Fed Manufacturing Activity | Sep | 14.0 | NA | 16.0 |
| 29-Sep-2017 | Personal Income | Aug | 0.2% | 0.3% | 0.4% |
| 29-Sep-2017 | Personal Spending | Aug | 0.0% | 0.1% | 0.3% |
| 29-Sep-2017 | PCE Deflator MoM | Aug | 0.3% | 0.3% | 0.1% |
| 29-Sep-2017 | PCE Core MoM | Aug | 0.2% | 0.2% | 0.1% |
| 29-Sep-2017 | Chicago Purchasing Manager | Sep | 58.5 | 57.5 | 58.9 |
| 29-Sep-2017 | U. of Mich. Sentiment | Sep F | 95.5 | 95.3 | 95.3 |

*Consensus from Bloomberg

## Global Economy Firing on All Cylinders

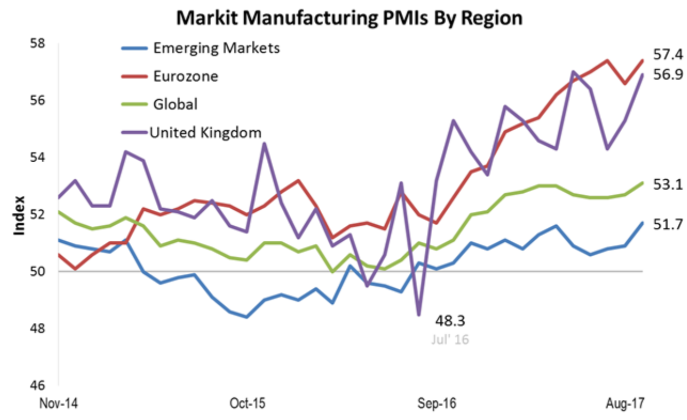
We have written about this before, but it bears repeating today. One of the reasons the FOMC felt comfortable going ahead with the balance sheet normalization plan and signaling another rate hike before the end of the year was the significant progress that has been made on global economic growth and the improving global economic outlook for 2018. Concerns about the stability of the global economy, from a China hard landing to Eurozone disintegration, have slowed the Fed's ability to normalize U.S. monetary policy in the past. However, today it appears such fears are a far more distant concern.

In fact, the global economy has only recently been hitting its stride in this expansion after many false starts and numerous setbacks. The global economy is now more or less firing on all cylinders. Really for the first time in this expansion, we are experiencing a synchronized global growth rebound where central bank monetary tightening is one of the emerging risks.

Eurozone and U.K. economic strength have been some of the biggest surprises for the global economic outlook this year. After the Brexit vote many analysts thought the U.K. economy would fall into recession this year and the Eurozone economy would be struggling to grow again. But a Brexit financial shock never really materialized; and the Bank of England could be the next major central bank to start raising interest rates, perhaps as soon as

November. Brexit is still expected to be a drag on U.K. economic growth, but it will be more of a long-term structural shock to the U.K. economy's potential growth rather than a one-time cyclical shock to activity.

**Synchronized Global Growth Rebound Gains Strength**




Source: Markit

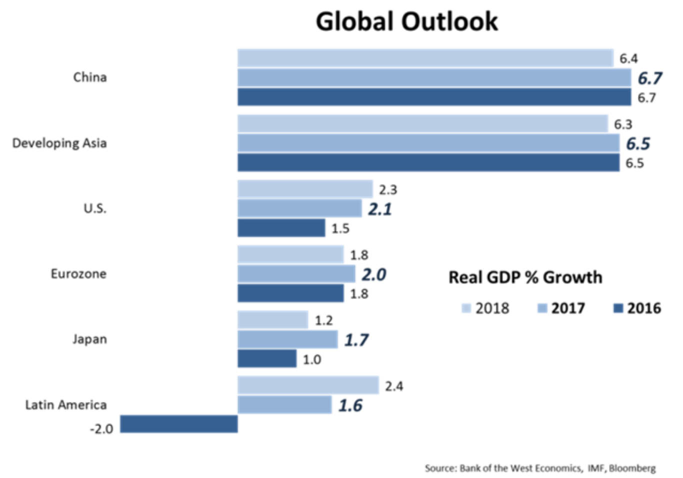
Global growth started gaining traction last summer and hasn't looked back since. We have bumped up our forecasts for the Eurozone, China, and Japan real GDP growth since the beginning of the year.

The Eurozone is benefiting from aggressive quantitative easing by the European Central Bank and low price inflation that is boosting European purchasing power and real consumer spending. The political risk of Eurozone break-up is also declining as the continent appears to be turning away from the anti-immigrant and anti-trade populist movements that allowed Brexit and swept the Trump Administration into power.

Japan's economy, too, is turning the corner. Japan is likely to continue to grow above trend over the next few years on central bank asset purchases and yield curve targeting. Japan's unemployment rate is at low levels last seen during the mid-1990s.

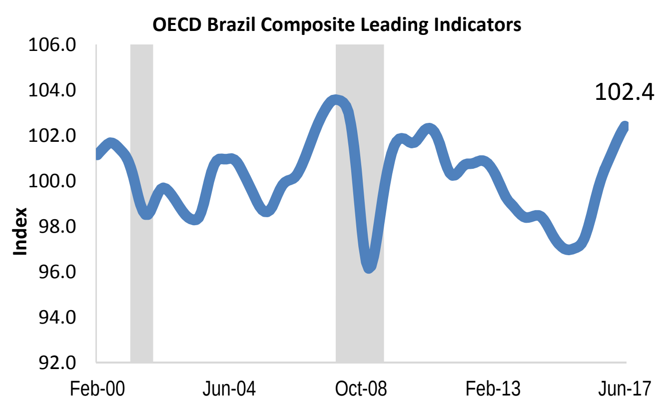
Moreover, China hard landing fears have dissipated this year as China's capital outflows were brought under control using aggressive capital controls and China's credit growth was goosed to bolster the economy heading into the National Party Congress, scheduled for this fall. This has arrested for the moment fears of a Chinese-driven financial crisis stemming from currency collapse or asset price declines. However, these economic policy actions could still be setting China up for a harder fall further down the road.

**Major Developed Economies Performing Better**




Even large emerging market economies more dependent on robust commodity prices, like Russia and Brazil, are just now returning to growth after contracting last year.

**Brazil Leading Indicators at Highest Level Since 2008**




Source: Organization for Economic Cooperation and Development

In short, the Fed no longer has the crutch of a moribund global economy to blame for not embarking on monetary policy normalization. The 10% decline in the trade weighted dollar so far this year will also help U.S. businesses take advantage of the newfound demand coming from more and more of our global trading partners. Finally, the worst case fears of Trump trade policies sparking new trade frictions or trade wars have not yet come to pass. This gives the Fed a small window of opportunity to keep on a gradual normalization path.

## Major Economic Indicators

| | History | | | | | | Forecast | | | | | | Yr/Yr % chg or Annual Avg. | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Economic Data** | **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* | 0.6 | 2.2 | 2.8 | 1.8 | 1.2 | 3.0 | 1.9 | 2.8 | 2.2 | 2.1 | 2.1 | 2.1 | 2.6 | 1.5 | 2.1 | 2.3 |
| Personal Consumption Expenditures* | 1.8 | 3.8 | 2.8 | 2.9 | 1.9 | 3.3 | 1.9 | 3.1 | 2.4 | 2.2 | 2.1 | 2.1 | 3.2 | 2.7 | 2.7 | 2.5 |
| Non-residential Fixed Investment* | -4.0 | 3.3 | 3.4 | 0.2 | 7.2 | 6.9 | 2.2 | 3.8 | 3.2 | 3.4 | 3.9 | 4.4 | 2.1 | -0.6 | 4.2 | 3.7 |
| Private Housing Starts (000s units) | 1,153 | 1,158 | 1,150 | 1,248 | 1,238 | 1,165 | 1,230 | 1,256 | 1,263 | 1,265 | 1,275 | 1,285 | 1,108 | 1,177 | 1,222 | 1,272 |
| Vehicle Sales (mill. Units, annualized) | 17.3 | 17.2 | 17.5 | 17.8 | 17.1 | 16.8 | 16.2 | 16.8 | 16.7 | 16.4 | 16.4 | 16.4 | 17.4 | 17.5 | 16.7 | 16.5 |
| Industrial Production* | -1.3 | -0.7 | 0.8 | 0.7 | 1.6 | 5.2 | 1.8 | 1.9 | 2.2 | 2.3 | 2.2 | 2.2 | 0.3 | -1.2 | 2.0 | 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 | 148.7 | 149.2 | 141.8 | 144.3 | 146.5 | 148.4 |
| Unemployment rate | 4.9 | 4.9 | 4.9 | 4.7 | 4.7 | 4.4 | 4.3 | 4.2 | 4.2 | 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 | -0.3 | 1.9 | 2.2 | 2.2 | 2.0 | 2.0 | 2.0 | 0.1 | 1.3 | 2.0 | 1.9 |
| "Core" CPI* (percent) | 2.5 | 2.1 | 2.1 | 2.0 | 2.5 | 0.6 | 1.9 | 2.0 | 2.1 | 2.1 | 2.1 | 2.1 | 1.8 | 2.2 | 1.9 | 2.0 |
| PPI (finished goods)* (percent) | -3.9 | 3.0 | 1.7 | 3.4 | 6.3 | 0.4 | 3.2 | 2.8 | 2.1 | 1.8 | 1.6 | 1.6 | -3.3 | -1.0 | 3.3 | 2.1 |
| Trade Weighted Dollar (Fed BOG, major) | 93.2 | 89.5 | 90.3 | 93.5 | 94.5 | 93.1 | 89.0 | 89.7 | 90.2 | 90.5 | 90.2 | 90.0 | 90.9 | 91.6 | 91.6 | 90.2 |
| Crude Oil Prices -WTI ($ per barrel) | 33 | 45 | 45 | 49 | 52 | 48 | 47 | 48 | 49 | 49 | 50 | 50 | 50 | 43 | 49 | 50 |

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

| | History | | | | | | Forecast | | | | | | Annual Average | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Financial Data** | **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 | 2,398 | | | | | | | 2,061 | 2,093 | | |
| Dow Jones Industrial Average | 16,663 | 17,764 | 18,372 | 18,865 | 20,406 | 20,994 | | | | | | | 17,591 | 17,916 | | |
| Federal Funds Rate (effective) | 0.36 | 0.37 | 0.39 | 0.45 | 0.70 | 0.94 | 1.15 | 1.21 | 1.38 | 1.46 | 1.63 | 1.71 | 0.13 | 0.39 | 1.00 | 1.55 |
| Treasury-3 Month Bills (yield) | 0.29 | 0.26 | 0.30 | 0.43 | 0.61 | 0.91 | 1.03 | 1.10 | 1.28 | 1.38 | 1.57 | 1.67 | 0.05 | 0.32 | 0.91 | 1.48 |
| Treasury-2 Year Notes (yield) | 0.84 | 0.77 | 0.73 | 1.01 | 1.24 | 1.30 | 1.33 | 1.45 | 1.71 | 1.92 | 2.17 | 2.29 | 0.69 | 0.84 | 1.33 | 2.02 |
| Treasury-5 Year Notes (yield) | 1.37 | 1.24 | 1.13 | 1.61 | 1.95 | 1.81 | 1.82 | 1.92 | 2.18 | 2.36 | 2.58 | 2.69 | 1.53 | 1.34 | 1.88 | 2.45 |
| Treasury-10 Year Notes (yield) | 1.91 | 1.75 | 1.56 | 2.14 | 2.45 | 2.26 | 2.28 | 2.44 | 2.68 | 2.90 | 3.06 | 3.17 | 2.14 | 1.84 | 2.36 | 2.95 |
| Treasury-30 Year Notes (yield) | 2.72 | 2.57 | 2.28 | 2.83 | 3.05 | 2.90 | 2.88 | 3.01 | 3.27 | 3.52 | 3.75 | 3.84 | 2.84 | 2.60 | 2.96 | 3.60 |
| Prime Rate | 3.50 | 3.50 | 3.50 | 3.55 | 3.80 | 4.05 | 4.25 | 4.30 | 4.50 | 4.55 | 4.75 | 4.82 | 3.26 | 3.51 | 4.10 | 4.66 |
| Libor 3-Mo. U.S. Dollar | 0.62 | 0.64 | 0.79 | 0.92 | 1.07 | 1.21 | 1.31 | 1.36 | 1.51 | 1.59 | 1.75 | 1.83 | 0.34 | 0.74 | 1.24 | 1.67 |
| Mortgage-30 Year (yield) | 3.74 | 3.59 | 3.45 | 3.84 | 4.17 | 3.98 | 3.95 | 4.14 | 4.40 | 4.62 | 4.80 | 4.98 | 3.85 | 3.66 | 4.06 | 4.70 |
| BAA Corporate (yield) | 5.30 | 4.66 | 4.26 | 4.64 | 4.66 | 4.49 | 4.36 | 4.60 | 4.90 | 5.13 | 5.32 | 5.48 | 5.00 | 4.71 | 4.53 | 5.21 |

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