

Date	Indicator	For	Estimate	Consensus*	Previous Period
14-Nov-2017	NFIB Small Business Optimism	Oct	103.5	104.5	103.0
14-Nov-2017	PPI Final Demand MoM	Oct	0.2%	0.1%	0.4%
14-Nov-2017	PPI Ex Food and Energy MoM	Oct	0.2%	0.2%	0.4%
15-Nov-2017	CPI MoM	Oct	0.2%	0.1%	0.5%
15-Nov-2017	CPI Ex Food and Energy MoM	Oct	0.2%	0.2%	0.1%
15-Nov-2017	Empire Manufacturing	Nov	26.0	25.8	30.2
15-Nov-2017	Retail Sales Advance MoM	Oct	0.2%	0.1%	1.6%
15-Nov-2017	Retail Sales Ex Auto MoM	Oct	0.3%	0.2%	1.0%
15-Nov-2017	Business Inventories	Sep	0.1%	0.0%	0.7%
15-Nov-2017	Net Long-term TIC Flows	Sep	NA	NA	\$67.2b
16-Nov-2017	Initial Jobless Claims	11-Nov	234k	NA	239k
16-Nov-2017	Philadelphia Fed Business Outlook	Nov	25.0	24.0	27.9
16-Nov-2017	Import Price Index MoM	Oct	0.4%	0.3%	0.7%
16-Nov-2017	Industrial Production MoM	Oct	0.3%	0.5%	0.3%
16-Nov-2017	Capacity Utilization	Oct	76.2%	76.3%	76.0%
16-Nov-2017	NAHB Housing Market Index	Nov	67.0	68.0	68.0
17-Nov-2017	Housing Starts	Oct	1172k	1186k	1127k
17-Nov-2017	Building Permits	Oct	1235k	1239k	1225k
17-Nov-2017	Kansas City Fed Manufacturing Activity	Nov	20.0	NA	23.0

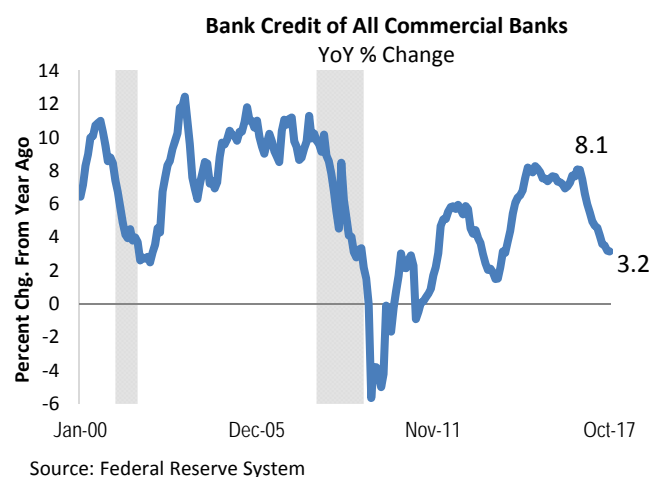
\*Consensus from Bloomberg

## What Is Going on With Bank Credit?

The U.S. labor market appears to be humming along at a decent clip, and the unemployment rate just hit a new expansion low of 4.1% in October. Consumer confidence is near 17-year highs, and business confidence is up. You would think banks would be busy making new loans in this sort of economic and financial environment, but you would be wrong.

Take a close look at the Fed's latest bank lending data and the October Senior Loan Officer Survey results, and it reveals a far more sobering picture of our economy's financial health. Loan demand is slowing across nearly all loan categories, and credit standards around consumers are being selectively tightened.

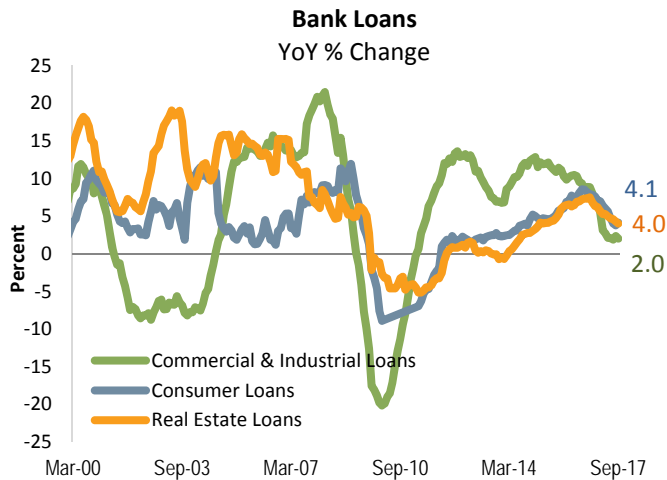
## Bank Lending Growth Skids



Overall commercial bank credit growth fell to 3.15% from a year ago in October. In October 2016, bank credit was growing at a rapid 8.1% year-on-year clip.

Moreover, the slowdown in loan growth appears to be broad-based. Commercial and industrial loan growth has slowed to just 2.0% from a year ago. Last year at this time, C&I loans were rising at 4 times the pace at an 8.9% growth rate. Real estate and consumer lending growth have slowed to about half the pace seen a year ago to 4.0% and 4.1% growth, respectively, according to Federal Reserve data.

**Slowdown Broad-Based Across Loan Categories**

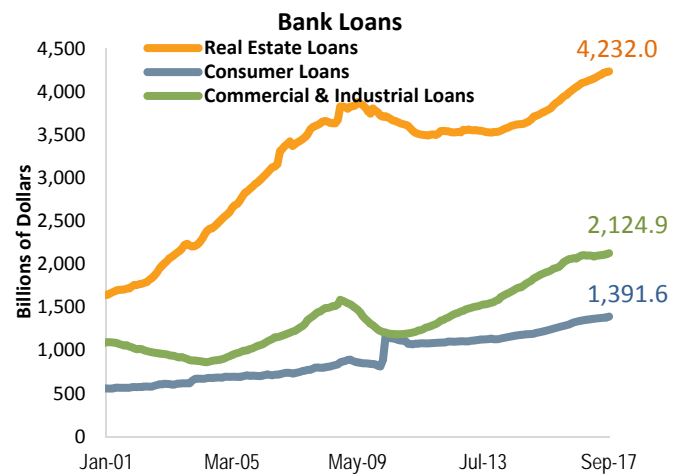


Source: Federal Reserve System

So, how to interpret the trend? An optimist might point out that, with low unemployment rates and rising wages, consumer borrowing needs have diminished; or that with business profit growth so strong, businesses don't need to borrow as much from the banks.

Another, more plausible possibility, in my opinion, is that the four Fed rate hikes to date combined with the pledge to shrink its balance sheet is already having a dampening impact on the supply and demand for bank loans. With a high level of debt outstanding, one shouldn't be surprised that banks are getting a little pickier about lending. Nine years into the current economic expansion, the dollar value of loans outstanding is high by historical standards. The nominal dollar values of various loan categories are well above peaks seen during the last expansion.

**Loans Outstanding at High Historical Levels**



Source: Federal Reserve System

As a share of GDP, C&I and consumer loans outstanding are already higher than their peaks in the last expansion.

The October Senior Loan Officer Survey report provides some interesting insights into what might be going on here. The first observation from the October survey is that loan demand continues to weaken. Banks on net reported weaker demand for commercial real estate loans, commercial and industrial loans, and residential real estate loans. Demand for auto and credit card loans were basically unchanged from the previous quarter.

Banks also tightened credit standards and terms for both auto and credit card loans, citing a less favorable or more uncertain economic outlook. Banks also cited concerns about 1) a deterioration in the quality, or expected deterioration in the quality, of their existing loan portfolios, 2) a reduced tolerance for risk, and 3) a less favorable or more uncertain expectation on the collateral values of their loan portfolios, especially in their auto loan portfolios.

In short, the Fed's rate hikes, so far, have significantly flattened the Treasury yield curve, reducing the profitability and appetite for new bank lending. At the same time, the interest rate sensitivity of new loan demand appears to be quite high, and demand for loans may already be faltering in the face of rising short-term interest rates. While not yet a red flag for additional monetary normalization, a caution flag needs to be raised.

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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*	0.6	2.2	2.8	1.8	1.2	3.1	3.0	2.9	2.2	2.1	2.1	2.2	2.6	1.5	2.3	2.5
Personal Consumption Expenditures*	1.8	3.8	2.8	2.9	1.9	3.3	2.4	2.9	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	6.7	3.9	5.9	3.2	3.4	3.9	4.4	2.1	-0.6	4.5	4.3
Private Housing Starts (000s units)	1,153	1,158	1,150	1,248	1,238	1,167	1,165	1,256	1,263	1,265	1,275	1,285	1,108	1,177	1,207	1,272
Vehicle Sales (mill. Units, annualized)	17.3	17.2	17.5	17.8	17.1	16.8	17.1	16.8	16.7	16.4	16.4	16.4	17.4	17.5	16.9	16.5
Industrial Production*	-1.3	-0.7	0.8	0.7	1.5	5.6	-1.5	1.9	2.2	2.3	2.2	2.2	0.3	-1.2	1.5	1.9
Nonfarm Payroll Employment (mil.)	143.4	144.0	144.7	145.2	145.7	146.2	146.7	147.2	147.7	148.1	148.5	149.0	141.8	144.3	146.4	148.3
Unemployment rate	4.9	4.9	4.9	4.7	4.7	4.4	4.3	4.1	4.0	3.9	4.0	4.1	5.3	4.9	4.4	4.0
Consumer Price Index* (percent)	0.1	2.3	1.8	3.0	3.1	-0.3	2.0	2.2	2.2	2.0	2.0	2.0	0.1	1.3	2.0	2.0
"Core" CPI* (percent)	2.5	2.1	2.1	2.0	2.5	0.6	1.7	2.0	2.1	2.1	2.1	2.1	1.8	2.2	1.8	1.9
PPI (finished goods)* (percent)	-3.9	3.0	1.7	3.4	6.3	0.8	0.6	2.8	2.1	1.8	1.6	1.6	-3.3	-1.0	3.0	1.8
Trade Weighted Dollar (Fed BOG, major)	93.1	89.5	90.3	93.6	94.4	93.1	88.4	89.0	90.2	90.8	90.5	90.2	90.9	91.6	91.2	90.4
Crude Oil Prices -WTI (\$ per barrel)	33	45	45	49	52	48	48	53	52	52	53	53	50	43	50	53

\*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	2,398	2,467						2,061	2,093		
Dow Jones Industrial Average	16,663	17,764	18,372	18,865	20,406	20,994	21,891						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	1.05	1.12	1.28	1.38	1.57	1.67	0.05	0.32	0.92	1.48
Treasury-2 Year Notes (yield)	0.84	0.77	0.73	1.01	1.24	1.30	1.36	1.55	1.81	2.02	2.17	2.29	0.69	0.84	1.36	2.07
Treasury-5 Year Notes (yield)	1.37	1.24	1.13	1.61	1.95	1.81	1.81	1.96	2.23	2.41	2.60	2.71	1.53	1.34	1.88	2.49
Treasury-10 Year Notes (yield)	1.91	1.75	1.56	2.14	2.45	2.26	2.24	2.44	2.68	2.90	3.06	3.17	2.14	1.84	2.35	2.95
Treasury-30 Year Notes (yield)	2.72	2.57	2.28	2.83	3.05	2.90	2.82	2.91	3.12	3.42	3.65	3.77	2.84	2.60	2.92	3.49
Prime Rate	3.50	3.50	3.50	3.55	3.80	4.05	4.25	4.30	4.50	4.58	4.75	4.83	3.26	3.51	4.10	4.67
Libor 3-Mo. U.S. Dollar	0.62	0.64	0.79	0.92	1.07	1.21	1.31	1.39	1.51	1.59	1.75	1.83	0.34	0.74	1.25	1.67
Mortgage-30 Year (yield)	3.74	3.59	3.45	3.84	4.17	3.98	3.88	3.95	4.30	4.52	4.70	4.88	3.85	3.66	4.00	4.60
BAA Corporate (yield)	5.30	4.66	4.26	4.64	4.66	4.49	4.33	4.40	4.75	5.03	5.28	5.43	5.00	4.71	4.47	5.12

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