

Date	Indicator	For	Estimate	Consensus*	Previous Period
21-Feb-2018	Markit US Manufacturing PMI	Feb P	55.3	55.5	55.5
21-Feb-2018	Markit US Services PMI	Feb P	54.0	NA	53.3
21-Feb-2018	Markit US Composite PMI	Feb P	NA	NA	53.8
21-Feb-2018	Existing Home Sales	Jan	5.68m	5.64m	5.57m
22-Feb-2018	Initial Jobless Claims	17-Feb	233k	NA	230k
22-Feb-2018	Leading Index	Jan	0.7%	0.7%	0.6%
22-Feb-2018	Kansas City Fed Manufacturing Activity	Feb	18.0	NA	16.0

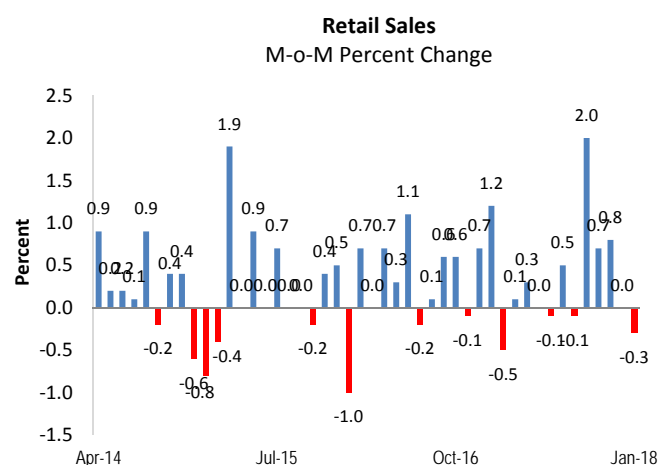
*Consensus from Bloomberg

A Softer Start to the Year

After two consecutive quarters of more than 3.0% real GDP growth in 2017 and the promise of federal fiscal stimulus through tax cuts and added government spending in 2018, you could be forgiven for starting to believe the hype around the administration's sustainable 3.0 or 4.0% annual growth forecasts for the coming years. Unfortunately the period of 3.0% GDP growth appears to already be in our rear-view mirror. Real GDP growth slipped to just 2.6% in the fourth quarter of last year, according to the initial estimate of the Bureau of Economic Analysis; and more recently released data on retail sales suggest that estimate could be revised down to 2.4%.

Moreover, it appears U.S. real GDP growth slowed even further in the first quarter of 2018, given the economic data we currently have since the start of the year. The big driver of this downturn in U.S. economic growth appears to be consumer spending. Nominal retail sales fell 0.3% in January and were unchanged in December. After a surge in real consumer spending in September, October, and November, consumers appear to have grown stingy in December and January.

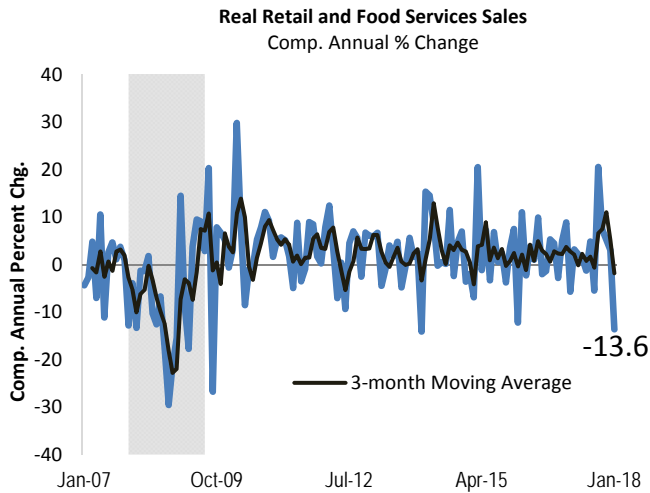
Consumers Stop Spending in December and January



Source: U.S. Census Bureau

This weakness in nominal retail sales is all the more unexpected since, at the same time consumer spending stalled, consumer prices were jumping on rising gasoline and energy prices. This means the decline in real retail sales during January was much worse than the nominal 0.3% decline implies. On an annualized basis, real retail sales dropped 13.6% in January.

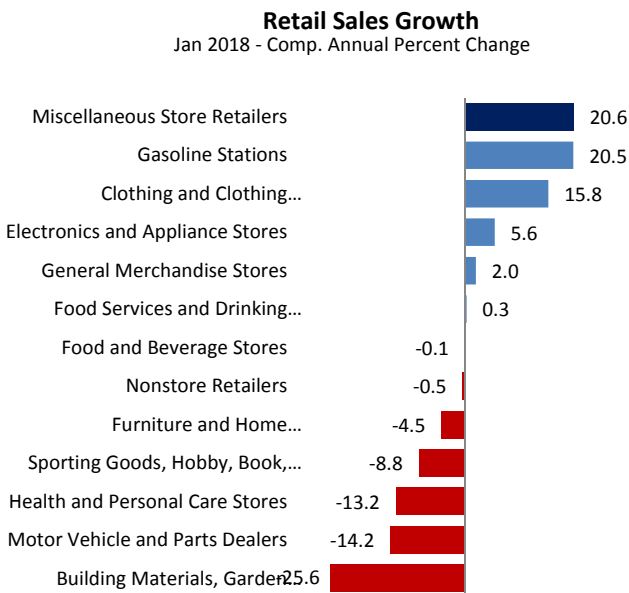
Drop in Real Retail Spending Is Even More Pronounced



Source: Federal Reserve Bank of St. Louis

Digging a little deeper in the retail sales data, we see outsized drops in building material and motor vehicle sales — which combined represent about 27% of total retail sales — drove much of the declines in January.

Drop in Real Retail Spending Is Even More Pronounced

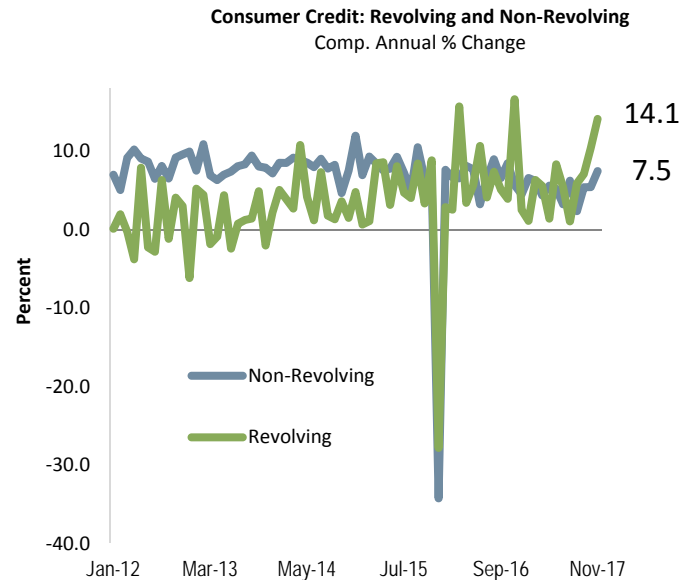


Source: US. Bureau of the Census

Bad weather in January could have contributed to the weakness in sales that month, as building projects were put on hold and car dealerships emptied out. But that isn't the whole story, in our opinion. U.S. consumers stretched their finances to increase their spending last

year. Revolving consumer credit (credit cards) growth jumped into the double digits in November, and consumers' personal savings rate hit an expansion low of 2.4% in December.

Consumers Load up on Credit Card Debt in November



Source: Federal Reserve System

So where do we go from here? Real consumer spending is expected to slow to around 2.0% growth in Q1 2018 from 3.8% in Q4 2017. This pushes our real GDP growth forecast for the first quarter of 2018 down to 2.1%, a far cry from the 3.0% GDP growth seen last year. We forecast real GDP growth Q4/Q4 in 2018 will slow to 2.2% from 2.5% in 2017, even with the fiscal stimulus put in place. An aging population and sluggish productivity growth are a gravitational pull on potential economic growth that is nearly impossible to overcome over a sustained period of time without collateral damage like higher inflation.

In all fairness, we probably are not yet seeing the impact of the personal tax cuts passed in December in these retail sales numbers, but it does suggest the wage increases and one-time bonuses announced by many businesses in response to the corporate tax cuts have done little to move the needle on the U.S. consumers' willingness and ability to spend so far.

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Major Economic Indicators

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2017.1	2017.2	2017.3	2017.4	2018.1	2018.2	2018.3	2018.4	2019.1	2019.2	2019.3	2019.4	2016	2017	2018	2019
Real GDP*	1.2	3.1	3.2	2.6	2.1	2.2	2.2	2.3	2.1	2.0	1.9	1.8	1.5	2.3	2.4	2.1
Personal Consumption Expenditures*	1.9	3.3	2.2	3.8	2.0	2.4	2.3	2.3	2.1	2.0	2.0	2.0	2.7	2.7	2.6	2.2
Non-residential Fixed Investment*	7.2	6.7	4.7	6.8	4.5	4.5	5.6	5.7	5.1	5.0	4.4	4.1	-0.6	4.7	5.4	5.2
Private Housing Starts (000s units)	1,238	1,167	1,172	1,251	1,269	1,265	1,275	1,285	1,294	1,303	1,312	1,321	1,176	1,207	1,274	1,308
Vehicle Sales (mill. Units, annualized)	17.1	16.8	17.1	17.7	17.0	16.9	16.9	16.9	16.5	16.5	16.4	16.3	17.5	17.2	16.9	16.4
Industrial Production*	1.5	5.6	-1.2	8.3	2.2	2.3	2.2	2.2	2.0	1.7	1.6	1.5	-1.2	2.0	3.1	2.0
Nonfarm Payroll Employment (mil.)	145.9	146.3	146.9	147.4	148.0	148.5	148.9	149.4	149.8	150.2	150.5	150.9	144.3	146.6	148.7	150.3
Unemployment rate	4.7	4.3	4.3	4.1	3.9	3.8	3.8	3.9	4.0	4.0	4.1	4.2	4.9	4.4	3.9	4.1
Consumer Price Index* (percent)	3.0	0.1	2.1	3.3	2.2	2.0	2.0	2.0	2.0	2.0	2.1	2.1	1.3	2.1	2.2	2.0
"Core" CPI* (percent)	2.2	0.8	1.8	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.2	1.9	2.0	2.1
PPI (finished goods)* (percent)	5.7	1.0	1.4	6.0	2.1	1.8	1.6	1.6	1.6	1.6	1.7	1.7	-1.0	3.2	2.5	1.6
Trade Weighted Dollar (Fed BOG, major)	94.4	93.0	88.3	88.9	87.2	87.8	87.5	87.2	88.0	87.7	87.0	86.5	91.6	91.2	87.4	87.3
Crude Oil Prices -WTI (\$ per barrel)	52	48	48	55	63	62	62	62	63	62	61	58	43	51	62	61

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

Financial Data	History				Forecast								Annual Average			
	2017.1	2017.2	2017.3	2017.4	2018.1	2018.2	2018.3	2018.4	2019.1	2019.2	2019.3	2019.4	2016	2017	2018	2019
S & P 500	2,326	2,398	2,467	2,603									2,093	2,449		
Dow Jones Industrial Average	20,406	20,994	21,891	23,689									17,916	21,745		
Federal Funds Rate (effective)	0.70	0.95	1.15	1.20	1.46	1.71	1.88	1.96	2.13	2.38	2.38	2.38	0.39	1.00	1.75	2.32
Treasury-3 Month Bills (yield)	0.61	0.91	1.05	1.23	1.42	1.67	1.85	1.93	2.10	2.35	2.34	2.35	0.32	0.95	1.72	2.29
Treasury-2 Year Notes (yield)	1.24	1.30	1.36	1.69	2.06	2.30	2.47	2.55	2.69	2.86	2.88	2.85	0.84	1.40	2.35	2.82
Treasury-5 Year Notes (yield)	1.95	1.81	1.81	2.07	2.47	2.60	2.78	2.85	2.96	3.15	3.10	3.15	1.34	1.91	2.68	3.09
Treasury-10 Year Notes (yield)	2.45	2.26	2.24	2.37	2.70	2.91	3.02	3.10	3.30	3.53	3.52	3.50	1.84	2.33	2.93	3.46
Treasury-30 Year Notes (yield)	3.05	2.90	2.82	2.82	3.00	3.16	3.33	3.45	3.74	3.90	3.93	4.01	2.60	2.90	3.24	3.90
Prime Rate	3.80	4.05	4.25	4.29	4.58	4.83	5.00	5.08	5.25	5.50	5.50	5.50	3.51	4.10	4.87	5.44
Libor 3-Mo. U.S. Dollar	1.07	1.21	1.31	1.46	1.80	1.95	2.10	2.15	2.30	2.50	2.50	2.46	0.74	1.26	2.00	2.44
Mortgage-30 Year (yield)	4.17	3.98	3.88	3.92	4.18	4.36	4.52	4.63	4.85	5.05	5.15	5.25	3.66	3.99	4.42	5.08
BAA Corporate (yield)	4.66	4.49	4.33	4.27	4.30	4.70	4.98	5.25	5.60	5.80	6.00	6.30	4.71	4.44	4.81	5.93

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