

Date	Indicator	For	Estimate	Consensus*	Previous Period
5-Mar-2018	Markit US Services PMI	Feb F	55.9	NA	55.9
5-Mar-2018	Markit US Composite PMI	Feb F	NA	NA	55.9
5-Mar-2018	ISM Non-Manufacturing Composite	Feb	58.9	58.5	59.9
6-Mar-2018	Factory Orders	Jan	-0.8%	-0.3%	1.7%
7-Mar-2018	ADP Employment Change	Feb	200k	195k	234k
7-Mar-2018	Nonfarm Productivity	4Q F	0.0%	0.0%	-0.1%
7-Mar-2018	Unit Labor Costs	4Q F	2.0%	2.0%	2.0%
7-Mar-2018	Trade Balance	Jan	-\$54.0b	-\$52.5b	-\$53.1b
7-Mar-2018	U.S. Federal Reserve Releases Beige Book				
7-Mar-2018	Consumer Credit	Jan	\$16.000b	\$19.000b	\$18.447b
8-Mar-2018	Initial Jobless Claims	03-Mar	218k	NA	210k
8-Mar-2018	Household Change in Net Worth	4Q	NA	NA	\$1742b
9-Mar-2018	Change in Nonfarm Payrolls	Feb	215k	195k	200k
9-Mar-2018	Change in Manufacturing Payrolls	Feb	20k	15k	15k
9-Mar-2018	Unemployment Rate	Feb	4.0%	4.0%	4.1%
9-Mar-2018	Average Hourly Earnings MoM	Feb	0.3%	0.3%	0.3%
9-Mar-2018	Average Weekly Hours All Employees	Feb	34.5	34.5	34.3
9-Mar-2018	Wholesale Inventories MoM	Jan F	0.7%	NA	0.7%

\*Consensus from Bloomberg

## Trade Fears Mount - Weaker Forecast on Q1 GDP

More signs emerged this week that the Goldilocks view of the U.S. economic outlook could be in for a serious challenge in the weeks ahead. President Trump's announcement of 25% tariffs on all steel imports and 10% tariffs on all aluminum imports roiled global financial markets yesterday and again today. While these tariffs target only two industries, they will hit a large cross-section of our major trading partners, including the European Union, Canada, Mexico, as well as China.

Moreover, downstream U.S. industries that are heavy users of steel and aluminum, like motor vehicles, Boeing, Coca-Cola, and Caterpillar, could see higher input prices and possible supply shortages in the short run. U.S. steel and aluminum stock prices rose strongly yesterday, but the stock prices of these downstream companies with higher value production went down hard.

It could also add to inflationary pressures for consumers as import prices rise for some products due to the higher tariffs, while a weaker U.S. dollar pushes up prices for oil and other commodities priced in dollars.

Investor concerns center on the potential for retaliatory tariffs from the EU and China, and stalled negotiations on the NAFTA agreement with Canada and Mexico. Trump fanned the flames this morning by tweeting, "Trade wars are good and easy to win." I believe trade retaliation is likely.

Most economists agree that raising trade barriers and shrinking global trade make all countries worse off economically. If the stock market was looking for a reason to sell off, this could be the trigger, especially if this U.S. action touches off a serious global trade war.

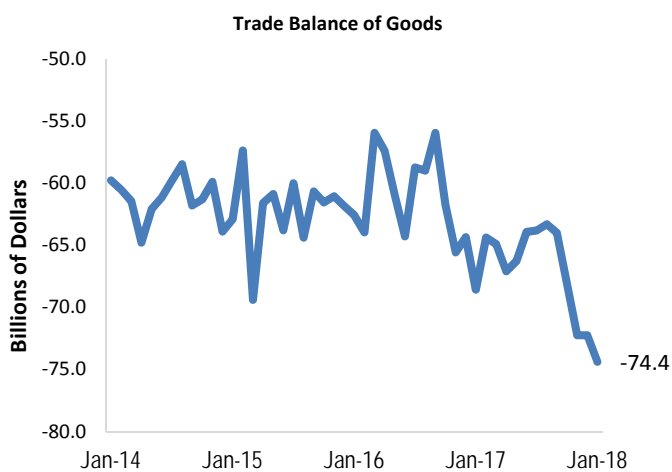
More subtle damage could be done to our financial system and position as the global reserve currency. The president's announcement adds to the evidence that the U.S. is turning away from the global trading system that it

established 70 years ago. Foreign investors who have traditionally sent their savings to the United States to buy U.S. stocks and ultra-safe U.S. Treasury bonds could start to think twice before investing in U.S. financial markets. A contributing factor in the U.S. dollar's recent weakness, despite economic strength, is that growing skepticism from foreign investors, in my opinion. It accelerates the replacement of the dollar as a global reserve currency and adds to inflationary pressures as import prices increase. In the end, it could force the Federal Reserve into overtightening monetary policy to head off a spike in inflation, which has been a catalyst for past U.S. recessions.

It is still too early to tell what the ultimate outcome will be, but the path the president's tariff policy has put us on is a high-stakes gamble that puts the near-term Goldilocks economic outlook in serious jeopardy. The stock market reaction to date is entirely appropriate, given the economic and financial risks that have been introduced into the system.

If that wasn't enough for investors to digest this week, downbeat readings on real consumer spending, new home sales, construction spending, vehicle sales, durable goods orders, and the advanced goods trade deficit reduced our estimates for Q1 consumer spending, equipment spending, structures, and residential investment.

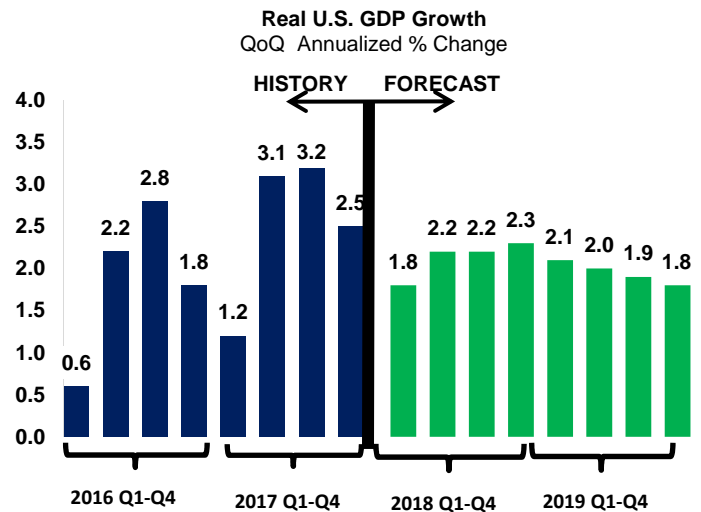
**Trade Deficit Is a Drag**



Source: Census Bureau

We lower our estimate of Q1 GDP to 1.8%, down from a downwardly revised 2.5% GDP growth in the fourth quarter.

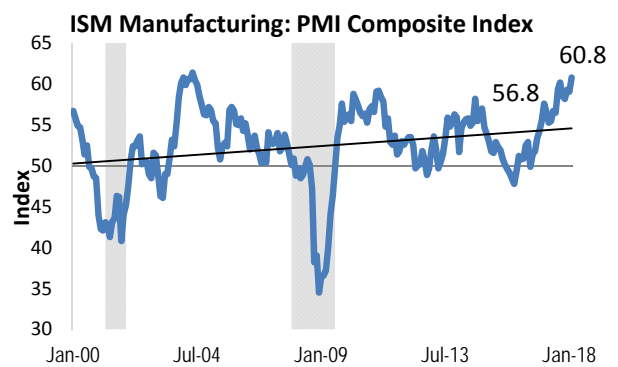
**Our Q1 GDP Growth Forecast Slips Below 2.0%**



Source: Bureau of Economic Analysis; Bank of the West Economics

On the bright side, U.S. initial jobless claims fell to the lowest levels since 1969 last week, bolstering our forecast for February job creation to 215K with the unemployment rate dropping to 4.0% from 4.1%. The ISM manufacturing index also hit its highest level in this expansion this week, and consumer confidence continued to rise. However, the manufacturing sector is most vulnerable to a reversal should a hot trade war develop.

**Manufacturing Sector Most Vulnerable to Hot Trade War**



Source: Institute for Supply Management

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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	2.5	1.8	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	1.9	2.6	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	6.6	3.2	4.5	5.6	5.7	5.1	5.0	4.4	4.1	-0.6	4.7	5.0	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