

Date	Indicator	For	Estimate	Consensus*	Previous Period
15-May-2018	Empire Manufacturing	May	14.8	15.0	15.8
15-May-2018	Retail Sales Advance MoM	Apr	0.4%	0.4%	0.6%
15-May-2018	Retail Sales Ex Auto MoM	Apr	0.5%	0.5%	0.2%
15-May-2018	Business Inventories	Mar	0.2%	0.2%	0.6%
15-May-2018	NAHB Housing Market Index	May	69.0	70.0	69.0
15-May-2018	Net Long-term TIC Flows	Mar	NA	NA	\$49.0b
16-May-2018	Housing Starts	Apr	1330k	1323k	1319k
16-May-2018	Building Permits	Apr	1350k	1355k	1379k
16-May-2018	Industrial Production MoM	Apr	0.2%	0.6%	0.5%
16-May-2018	Capacity Utilization	Apr	78.2%	78.4%	78.0%
17-May-2018	Initial Jobless Claims	12-May	218k	NA	211k
17-May-2018	Philadelphia Fed Business Outlook	May	21.0	21.7	23.2
17-May-2018	Leading Index	Apr	0.3%	0.4%	0.3%

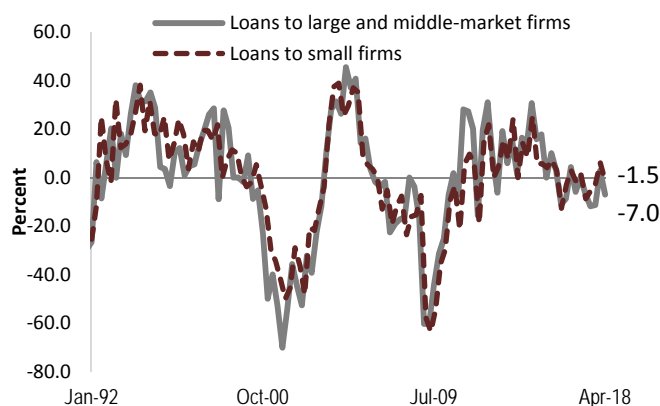
*Consensus from Bloomberg

Reading the Tea Leaves from the Loan Officer Survey

The Federal Reserve earlier this week released results from the April Senior Loan Officers Survey on Bank Lending Practices, which tracks changes in bank credit standards and terms and demand for bank loans from businesses and consumers over the last three months. If tax reform was about to unleash a surge in business investment and consumer spending, as advertised, we would expect to see some of the earliest signs in bank lending surveys such as these. So what stood out to us in the Fed's latest report was the continued broad-based weakness in loan demand from both businesses and households. Banks reported that demand for commercial & industrial and commercial real estate loans weakened in the first quarter.

C&I and CRE Loan Demand Weakened in Q1

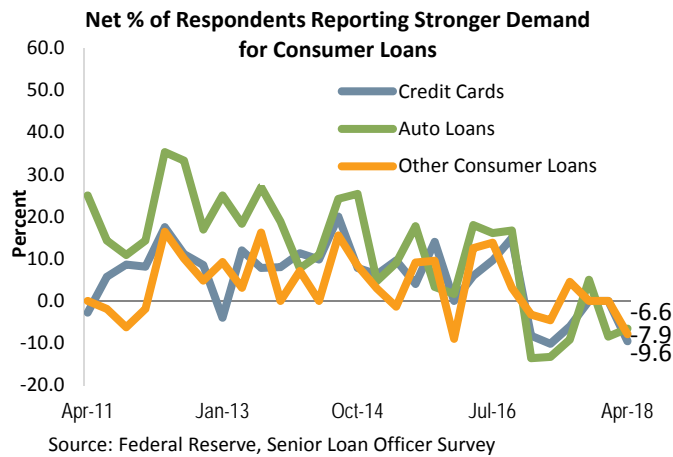
Net % of Domestic Respondents Reporting Stronger Demand for Commercial & Industrial Loans



Source: Federal Reserve System

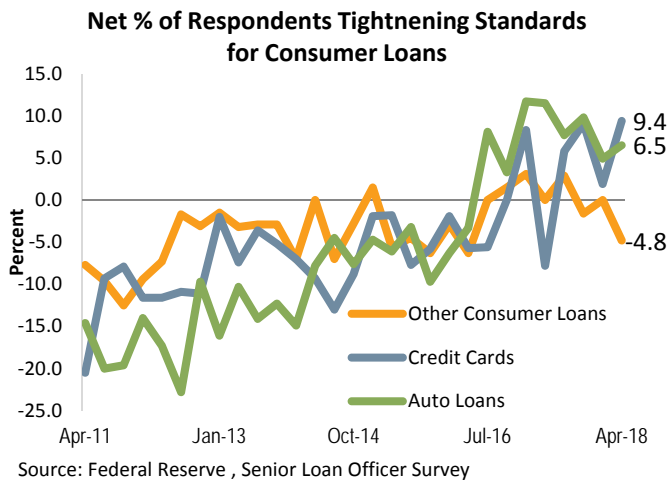
Banks also reported weaker demand for auto loans, credit cards, and most categories of residential real estate loans.

Consumer Loan Demand Softens in the First Quarter too



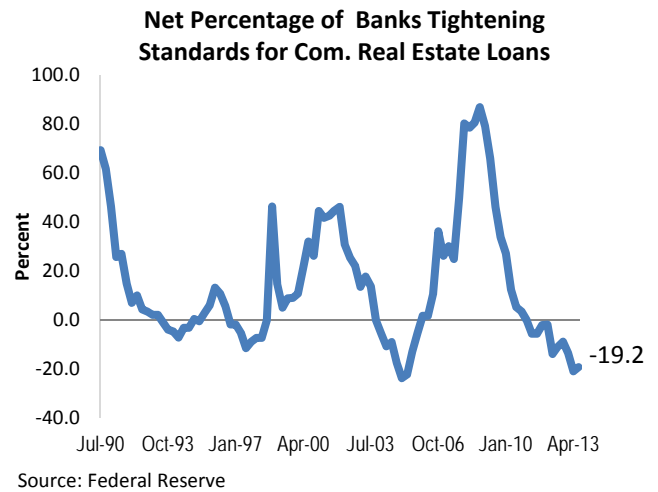
Bank credit standards and terms also tightened for several categories of business and consumer loans last quarter, from multifamily CRE loans to consumer automobile and credit card loans.

Banks More Cautious About Some Types of Credit Risks



Most banks reported easing CRE credit policies, including maximum loan size and the spread of loan rates over their cost of funds. Almost all banks cited more aggressive competition from other banks and nonbank lenders as an important reason for easing.

Aggressive Competition in CRE Lending



In short, the latest reading from the Fed’s senior loan officer survey looks like a classic late-cycle lending report, with weakening loan demand and gradually tightening lending standards and terms. There is no evidence yet of a business investment or consumer spending surge coming from the U.S. banking industry. This evidence from the banks at the very least raises question marks about economists’ consensus expectations around a large growth spurt driven by loose fiscal policy. If banks on net were truly expecting a sustainably stronger U.S. economy, they would be aggressively loosening credit standards today, not tightening them.

Perhaps this sobering senior loan officer survey is just a reflection of the lackluster consumer spending and slowdown in overall U.S. GDP growth in the first quarter, rather than a cautionary tale about the expected gains and multiplier effects from tax reform and government spending. Loan demand could improve, and banks might begin to feel more generous about extending new credit. But given the Federal Reserve’s determination to continue raising short-term interest rates into 2019, I don’t see bank lending conditions materially improving from here.

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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	2.9	2.3	3.0	2.6	2.6	2.3	2.2	2.1	2.0	1.5	2.3	2.8	2.4
Personal Consumption Expenditures*	1.9	3.3	2.2	4.0	1.1	2.7	2.4	2.4	2.1	2.0	2.0	2.0	2.7	2.8	2.5	2.2
Non-residential Fixed Investment*	7.2	6.7	4.7	6.8	6.1	4.8	5.6	5.7	5.1	5.1	4.4	4.1	-0.6	4.7	5.8	5.2
Private Housing Starts (000s units)	1,238	1,167	1,172	1,256	1,318	1,265	1,275	1,285	1,290	1,298	1,300	1,300	1,176	1,208	1,286	1,297
Vehicle Sales (mill. Units, annualized)	17.1	16.8	17.1	17.7	17.2	17.3	17.0	16.9	16.5	16.5	16.4	16.3	17.5	17.2	17.1	16.4
Industrial Production*	1.0	5.0	-1.5	7.8	4.5	3.9	3.0	2.6	2.2	2.0	1.7	1.5	-1.2	1.6	4.0	2.4
Nonfarm Payroll Employment (mil.)	145.9	146.3	146.9	147.4	148.1	148.6	149.0	149.5	149.9	150.4	150.7	151.1	144.3	146.6	148.8	150.5
Unemployment rate	4.7	4.3	4.3	4.1	4.1	3.9	3.8	3.6	3.8	3.9	4.0	4.1	4.9	4.4	3.9	4.0
Consumer Price Index* (percent)	3.0	0.1	2.1	3.3	3.5	2.2	2.0	2.0	2.0	2.0	2.1	2.1	1.3	2.1	2.6	2.0
"Core" CPI* (percent)	2.2	0.8	1.8	2.2	3.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.2	1.8	2.2	2.1
PPI (finished goods)* (percent)	5.7	1.0	1.4	6.0	2.4	1.8	1.6	1.6	1.6	1.6	1.7	1.7	-1.0	3.2	2.6	1.6
Trade Weighted Dollar (Fed BOG, major)	94.4	93.0	88.3	88.9	86.5	86.9	87.7	88.1	87.8	87.4	86.9	85.8	91.6	91.2	87.3	87.0
Crude Oil Prices -WTI (\$ per barrel)	52	48	48	55	63	68	66	63	62	61	61	58	43	51	65	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	2,733								2,093	2,449		
Dow Jones Industrial Average	20,406	20,994	21,891	23,689	25,127								17,916	21,745		
Federal Funds Rate (effective)	0.70	0.95	1.15	1.20	1.44	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	1.58	1.78	1.90	2.00	2.15	2.40	2.40	2.36	0.32	0.95	1.82	2.33
Treasury-2 Year Notes (yield)	1.24	1.30	1.36	1.69	2.16	2.43	2.52	2.60	2.74	2.90	2.92	2.87	0.84	1.40	2.43	2.86
Treasury-5 Year Notes (yield)	1.95	1.81	1.81	2.07	2.53	2.72	2.83	2.90	2.98	3.15	3.10	3.15	1.34	1.91	2.75	3.10
Treasury-10 Year Notes (yield)	2.45	2.26	2.24	2.37	2.76	2.90	2.98	3.10	3.30	3.53	3.52	3.50	1.84	2.33	2.94	3.46
Treasury-30 Year Notes (yield)	3.05	2.90	2.82	2.82	3.03	3.10	3.28	3.40	3.69	3.85	3.90	3.96	2.60	2.90	3.20	3.85
Prime Rate	3.80	4.05	4.25	4.29	4.52	4.75	4.98	5.06	5.23	5.48	5.48	5.48	3.51	4.10	4.83	5.42
Libor 3-Mo. U.S. Dollar	1.07	1.21	1.31	1.46	1.93	2.36	2.43	2.46	2.50	2.60	2.58	2.56	0.74	1.26	2.29	2.56
Mortgage-30 Year (yield)	4.17	3.98	3.88	3.92	4.28	4.70	4.80	4.93	5.10	5.30	5.29	5.25	3.66	3.99	4.68	5.24
BAA Corporate (yield)	4.66	4.49	4.33	4.27	4.47	4.75	4.98	5.25	5.60	5.80	6.00	6.30	4.71	4.44	4.86	5.93

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