

Date	Indicator	For	Estimate	Consensus*	Previous Period
30-Jul-2018	Pending Home Sales MoM	Jun	0.1%	0.4%	-0.5%
30-Jul-2018	Dallas Fed Manufacturing Activity	Jul	32.0	31.0	36.5
31-Jul-2018	Employment Cost Index	2Q	0.6%	0.7%	0.8%
31-Jul-2018	Personal Income	Jun	0.3%	0.4%	0.4%
31-Jul-2018	Personal Spending	Jun	0.4%	0.5%	0.2%
31-Jul-2018	PCE Deflator MoM	Jun	0.1%	0.1%	0.2%
31-Jul-2018	PCE Core MoM	Jun	0.1%	0.1%	0.2%
31-Jul-2018	S&P CoreLogic CS 20-City MoM SA	May	0.2%	NA	0.2%
31-Jul-2018	Chicago Purchasing Manager	Jul	62.0	61.9	64.1
31-Jul-2018	Conf. Board Consumer Confidence	Jul	125.5	126.0	126.4
1-Aug-2018	ADP Employment Change	Jul	185k	175k	177k
1-Aug-2018	Markit US Manufacturing PMI	Jul F	55.5	NA	55.4
1-Aug-2018	Construction Spending MoM	Jun	0.2%	0.3%	0.4%
1-Aug-2018	ISM Manufacturing	Jul	59.5	59.2	60.2
1-Aug-2018	FOMC Rate Decision (Upper Bound)	01-Aug	2.00%	2.00%	2.00%
1-Aug-2018	FOMC Rate Decision (Lower Bound)	01-Aug	1.75%	1.75%	1.75%
1-Aug-2018	Wards Total Vehicle Sales	Jul	17.1m	NA	17.38m
2-Aug-2018	Initial Jobless Claims	28-Jul	220k	NA	217k
2-Aug-2018	Factory Orders	Jun	0.6%	2.0%	0.4%
3-Aug-2018	Trade Balance	Jun	-\$46.7b	-\$43.3b	-\$43.1b
3-Aug-2018	Change in Nonfarm Payrolls	Jul	195k	185k	213k
3-Aug-2018	Change in Manufacturing Payrolls	Jul	27k	23k	36k
3-Aug-2018	Unemployment Rate	Jul	3.9%	3.9%	4.0%
3-Aug-2018	Average Hourly Earnings MoM	Jul	0.3%	0.3%	0.2%
3-Aug-2018	Average Weekly Hours All Employees	Jul	34.5	34.5	34.5
3-Aug-2018	Markit US Services PMI	Jul F	56.2	NA	56.2
3-Aug-2018	Markit US Composite PMI	Jul F	NA	NA	55.9
3-Aug-2018	ISM Non-Manufacturing Composite	Jul	58.7	58.8	59.1

\*Consensus from Bloomberg

## Economy Runs Hot in the Second Quarter

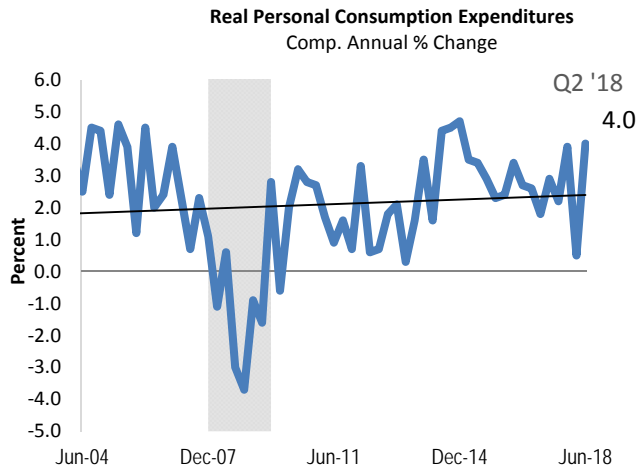
Second quarter real GDP pierced the 4.0% barrier, as we expected, with the advance estimate from the BEA coming in at a sizzling 4.1%. This was just below our forecast of 4.2%, but first quarter GDP was also revised up to 2.2% from 2.0%. The above-trend growth last quarter was driven by a number of factors. The primary engine of growth was the U.S. consumer. Real consumer spending came roaring back even stronger than we estimated in the second quarter, rising 4.0% annualized

up from a downwardly revised 0.5% growth rate in the first quarter. Consumers' durable goods spending surged 9.3% in the second quarter following a first quarter 2.0% decline. Consumer spending alone was responsible for 2.7 percentage points of the 4.1% gain in U.S. real GDP growth last quarter. While the labor market remains strong and financial conditions favorable for consumers, the 4.0% pace of consumer spending in the second quarter is not sustainable longer-term and was in part driven by a one-time rebound from weaker-than-normal

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spending in the first quarter. We forecast real consumer spending growth of around 2.4% annualized in the third quarter.

### Consumer Spending Comes Roaring Back



Source: U.S. Bureau of Economic Analysis

U.S. exports also surged 9.3% in the second quarter, with goods exports jumping at a 13.3% annualized pace. Exports alone added over 1.0 percentage point of the GDP growth last quarter. This also appears to be a one-time surge related to the Trump administration's trade war and the timing of foreign retaliation. Many foreign importers of U.S. goods, especially U.S. soybeans, were rushing to buy to beat retaliatory tariffs on U.S. exports. We expect U.S. exports to decline 0.2% in the current quarter.

Business spending growth decelerated, but continued to grow at a healthy-enough pace to contribute another 1.0 percentage point to GDP growth last quarter. Non-residential fixed investment increased 7.3% in the second quarter, down from an 11.5% gain in the first quarter. Business equipment spending growth was even weaker, increasing only 3.9% last quarter, down from an 8.5% increase in Q1. So far corporate tax cuts have not generated a surge in business investment spending that would generate a sustained improvement in U.S. potential growth longer-term. We expect a modest lift in equipment spending growth to around 4.8% in the third quarter.

Government spending also contributed more than usual to growth last quarter, as federal spending increases enacted in January started to kick in. Federal spending growth increased by a full percentage point to 3.5%, with national defense spending jumping a robust 5.5%.

GDP growth would have been a lot stronger last quarter if there weren't a big drop in business inventories. Inventories fell by \$27.9 billion in Q2, following a \$30.3 billion build in Q1. The inventory swing alone was enough to subtract a full percentage point off of the Q2 GDP estimate. Inventories will need to be built back up in Q3 helping to bolster our Q3 GDP forecast. Residential investment also declined 1.1% last quarter – the second consecutive quarter of decline – confirming the housing market slowdown visible in other housing market data.

The Bureau of Economic Analysis also revised many of its historical GDP estimates today with its 15<sup>th</sup> comprehensive benchmarking revision, which featured improved price indexes for business investment and new seasonal adjustment factors. The revisions were generally small on an annual basis, but showed a slightly higher trend growth rate overall for business investment spending, exports, and government spending, and slightly weaker growth rates for consumer spending and faster import growth than previous estimates.

Bottom line: The 4.1% Q2 GDP print was impressive, but not sustainable in the quarters ahead. Real consumer spending growth will decelerate in the current quarter, and U.S. exports will turn into a drag on economic growth. Still, ongoing fiscal stimulus and an inventory build will help keep real GDP growth at around 3.0% in the third quarter, a marked improvement from the expansion average 2.0% annual pace. Growth should fade further in Q4 to around 2.7%. This economic growth is strong enough to keep the Fed on its gradual tightening path this year, and we continue to forecast the next FOMC rate hike in September and another in December.

### 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*	1.8	3.0	2.8	2.3	2.2	4.1	3.0	2.7	2.2	2.1	2.0	2.0	1.5	2.2	2.8	2.5
Personal Consumption Expenditures*	1.8	2.9	2.2	3.9	0.5	4.0	2.4	2.4	2.1	2.0	2.0	2.0	2.7	2.5	2.5	2.3
Non-residential Fixed Investment*	9.6	7.3	3.4	4.8	11.5	7.3	5.6	5.6	5.0	5.0	4.3	4.1	-0.6	5.3	7.1	5.3
Private Housing Starts (000s units)	1,231	1,171	1,172	1,259	1,317	1,262	1,290	1,295	1,290	1,292	1,290	1,285	1,176	1,208	1,291	1,289
Vehicle Sales (mill. Units, annualized)	17.1	16.8	17.1	17.7	17.1	17.1	17.1	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	7.7	2.4	6.0	3.0	2.6	2.2	2.0	1.7	1.5	-1.2	1.6	3.8	2.5
Nonfarm Payroll Employment (mil.)	145.9	146.3	146.9	147.4	148.1	148.7	149.3	149.8	150.3	150.7	151.1	151.5	144.3	146.6	149.0	150.9
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	1.7	2.2	2.1	2.0	2.0	2.1	2.1	1.3	2.1	2.5	2.1
"Core" CPI* (percent)	2.2	0.8	1.8	2.2	3.0	1.8	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	1.6	5.7	3.5	2.7	2.5	2.0	1.8	1.8	1.7	1.7	-1.0	3.2	3.1	2.0
Trade Weighted Dollar (Fed BOG, major)	94.4	93.0	88.3	88.9	86.2	88.2	90.0	89.1	88.8	88.1	87.6	86.5	91.6	91.1	88.4	87.8
Crude Oil Prices -WTI (\$ per barrel)	52	48	48	55	63	68	69	65	63	61	61	59	43	51	66	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	2,703							2,093	2,449		
Dow Jones Industrial Average	20,406	20,994	21,891	23,689	25,127	24,556							17,916	21,745		
Federal Funds Rate (effective)	0.70	0.95	1.15	1.20	1.45	1.74	1.96	2.21	2.46	2.63	2.63	2.63	0.39	1.00	1.84	2.59
Treasury-3 Month Bills (yield)	0.61	0.91	1.05	1.23	1.58	1.87	2.06	2.31	2.56	2.73	2.68	2.68	0.32	0.95	1.96	2.66
Treasury-2 Year Notes (yield)	1.24	1.30	1.36	1.69	2.16	2.48	2.65	2.80	2.94	3.03	3.02	2.97	0.84	1.40	2.52	2.99
Treasury-5 Year Notes (yield)	1.95	1.81	1.81	2.07	2.53	2.77	2.82	2.94	3.08	3.17	3.16	3.11	1.34	1.91	2.77	3.13
Treasury-10 Year Notes (yield)	2.45	2.26	2.24	2.37	2.76	2.92	2.93	3.04	3.19	3.28	3.27	3.21	1.84	2.33	2.91	3.24
Treasury-30 Year Notes (yield)	3.05	2.90	2.82	2.82	3.03	3.09	3.00	3.11	3.26	3.35	3.34	3.28	2.60	2.90	3.06	3.31
Prime Rate	3.80	4.05	4.25	4.29	4.53	4.80	5.00	5.25	5.50	5.75	5.75	5.75	3.51	4.10	4.90	5.69
Libor 3-Mo. U.S. Dollar	1.07	1.21	1.31	1.46	1.93	2.34	2.45	2.60	2.80	2.95	2.90	2.90	0.74	1.26	2.33	2.89
Mortgage-30 Year (yield)	4.17	3.98	3.88	3.92	4.28	4.54	4.45	4.60	4.73	4.87	4.88	4.85	3.66	3.99	4.47	4.83
BAA Corporate (yield)	4.66	4.49	4.33	4.27	4.47	4.78	4.80	5.05	5.40	5.60	5.80	6.10	4.71	4.44	4.77	5.73

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