

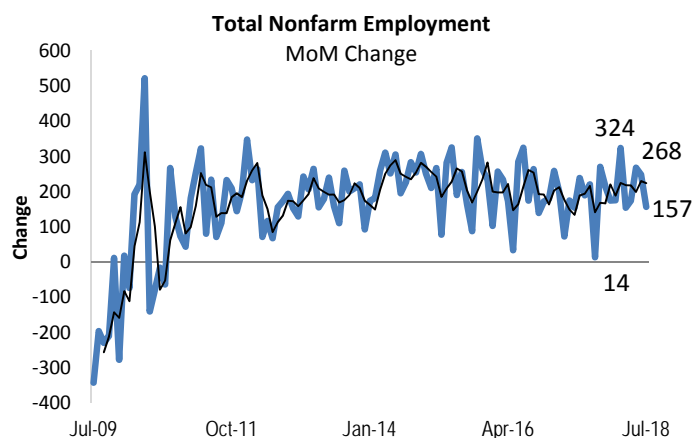
Date	Indicator	For	Estimate	Consensus*	Previous Period
7-Aug-2018	JOLTS Job Openings	Jun	NA	NA	6.64M
7-Aug-2018	Consumer Credit	Jun	\$18.000B	\$16.000B	\$24.559B
9-Aug-2018	Initial Jobless Claims	04-Aug	220k	NA	218k
9-Aug-2018	PPI Final Demand MoM	Jul	0.2%	0.3%	0.3%
9-Aug-2018	PPI Ex Food and Energy MoM	Jul	0.2%	0.3%	0.3%
9-Aug-2018	Wholesale Inventories MoM	Jun F	0.0%	NA	0.0%
10-Aug-2018	CPI MoM	Jul	0.2%	0.2%	0.1%
10-Aug-2018	CPI Ex Food and Energy MoM	Jul	0.2%	0.2%	0.2%

\*Consensus from Bloomberg

## Job Growth Cools in July

Nonfarm payroll growth slipped to 157K in July, the slowest pace of monthly job gains since March and somewhat below consensus estimates looking for 190K jobs. Despite the miss on the headline job growth last month, it is impossible to describe the labor market as soft. There was a big 59K net upward revision in job gains for May and June.

### July Job Growth Cools, But Labor Market Still Solid

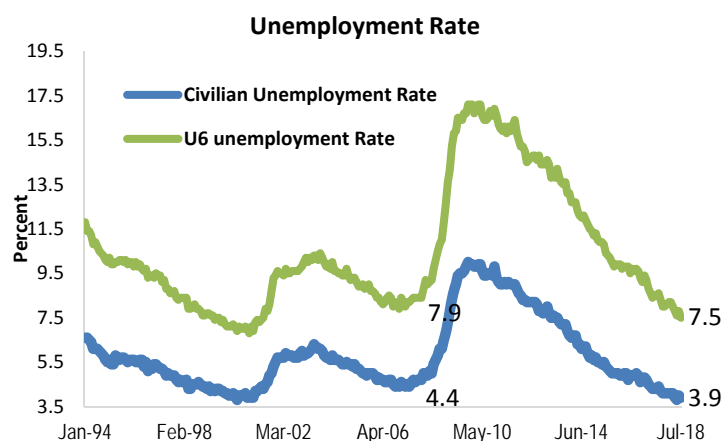


Source: U.S. Bureau of Labor Statistics

The most obvious sign the labor market continues to perform is the drop in the U.S. unemployment rate to 3.9% in July from 4.0% in June. The employment gain in the household survey used to calculate the unemployment rate was a huge 389K, while the labor force increase downshifted to just 105K, helping to push

the unemployment rate down a tenth of a percentage point to sub-4.0% levels yet again.

### Ultra-Tight Labor Market Tightens Further



Source: U.S. Bureau of Labor Statistics

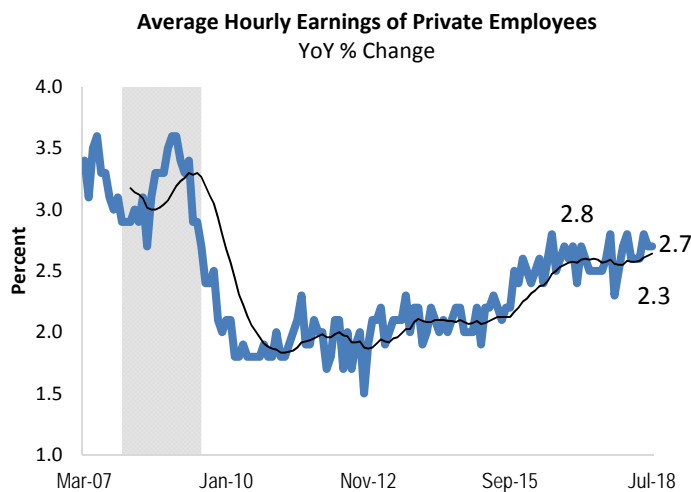
Moreover, the broader U6 unemployment rate, which includes marginally attached workers and those working part-time for economic reasons, fell by a whopping three-tenths of a percentage point to 7.5%. This was the lowest U6 unemployment rate since May 2001, suggesting that there aren't a lot of idle workers waiting on the sidelines to enter the labor pool.

If job gains continue near the current pace, the U.S. unemployment rate will continue to move lower over the coming months. Indeed, we are forecasting the U.S.

unemployment rate will average 3.6% by the fourth quarter of this year.

Despite the obvious tightness of the labor market last month, there were no obvious signs of building wage pressures to match. Average hourly earnings growth was in line with our expectations, increasing 0.3% last month and holding steady at 2.7% from a year ago. Average hourly earnings growth has remained in a range of 2.3% to 2.8% since July of 2016. Today's data for July doesn't provide any evidence wage growth is breaking out of the current range.

**Wage Gains Steady But Haven't Accelerated Since 2016**



Source: Bureau of Labor Statistics

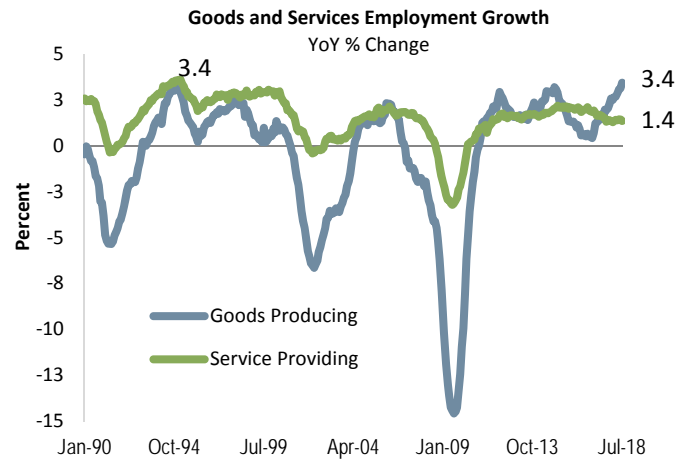
Job gains in July would have been better if wasn't for a 31.8K job loss for sporting goods and hobby stores, which is probably due to the shutdown of Toys R Us stores.

The strength in job creation we have seen coming from the goods-producing sectors of the economy in recent months accelerated in July. Manufacturers added 37K net new jobs last month, up from 33K in June. Manufacturing job growth improved 2.6% from a year ago. Construction employment increased by 19K jobs in July, up from 13K in June. The goods-producing side of the economy hasn't been adding jobs at the current pace since the mid-1990s. There is no sign in the July jobs data that the trade war is negatively impacting the U.S. job growth engine. However, we still think it is too early to

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tell. We will see negative impacts, if they develop from the trade war, hitting business confidence first before we see it in the monthly employment report – stay tuned.

**Manufacturers Haven't Been Growing Jobs Like This Since 1990s**



Source: U.S. Bureau of Labor Statistics

Job gains last month were driven by business services (+51K), leisure and hospitality (+40K), and manufacturing (+37K). There were pockets of weakness. Retail trade added only 7K jobs. Information payrolls held steady, while financial services and government sectors shed 5K and 13K jobs, respectively.

Bottom line: Despite falling short of consensus estimates on headline job creation last month, this is in no way a weak labor market or even a weakening labor market. Coming off of two consecutive months of job growth that was better than previously reported, it is not surprising to see job growth take a bit of a breather here. The Fed and most economists will continue to focus on the declining unemployment rate and the amount of available labor market slack still on the sidelines. Today's drop in labor force growth suggests there may not be as much labor market slack as some people think, though the lack of wage growth remains a huge puzzle. The law of supply and demand means faster wage growth has to start kicking in at some point here. The Fed will continue its gradual monetary tightening this year. You can expect two more quarter-point rate hikes from the Fed before year-end.

## 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