

Date	Indicator	For	Estimate	Consensus*	Previous Period
17-Sep-2018	Empire Manufacturing	Sep	23.0	23.1	25.6
18-Sep-2018	NAHB Housing Market Index	Sep	66.0	66.0	67.0
18-Sep-2018	Net Long-term TIC Flows	Jul	NA	NA	-\$36.5b
19-Sep-2018	Current Account Balance	2Q	NA	-\$103.3b	-\$124.1b
19-Sep-2018	Housing Starts	Aug	1248k	1229k	1168k
19-Sep-2018	Building Permits	Aug	1295k	1307k	1303k
20-Sep-2018	Philadelphia Fed Business Outlook	Sep	15.0	15.5	11.9
20-Sep-2018	Initial Jobless Claims	15-Sep	210k	NA	204k
20-Sep-2018	Leading Index	Aug	0.4%	0.5%	0.6%
20-Sep-2018	Existing Home Sales	Aug	5.38m	5.35m	5.34m
20-Sep-2018	Household Change in Net Worth	2Q	NA	NA	\$1028b
21-Sep-2018	Markit US Manufacturing PMI	Sep P	54.5	55.0	54.7
21-Sep-2018	Markit US Services PMI	Sep P	54.6	54.8	54.8
21-Sep-2018	Markit US Composite PMI	Sep P	NA	NA	54.7

*Consensus from Bloomberg

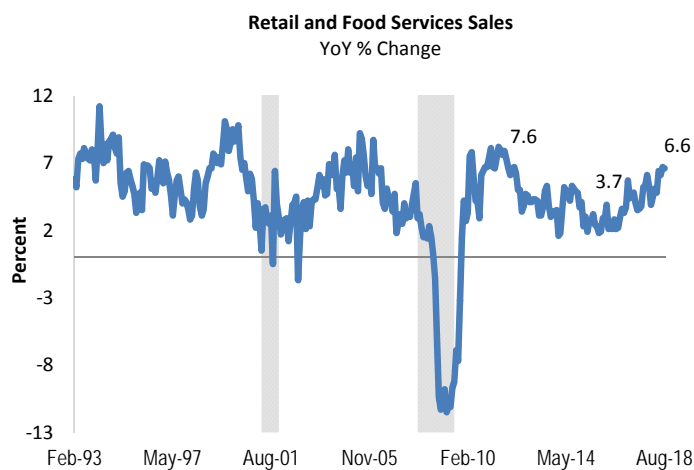
Consumers Are On a Roll – How Long Can it Last?

Consumer spending has been robust. Growth in nominal retail sales, including food services, was 6.6% in August from a year ago and has exceeded 6.0% over the last four months – a clear sign of household strength and resilience at this stage of the expansion. Moreover, annual growth in 2018 has averaged 6.1% through August compared to 4.1% over the same period in 2017.

What Explains the Acceleration in Spending Growth?

While there are many factors that influence a consumers' ability and willingness to spend, we see several primary factors driving consumer spending higher this year. These include elevated levels of consumer confidence, increased household wealth – from both rising home prices and near record equity prices – and steady and widespread job creation.

Nominal Retail Sales Growth Has Been Accelerating

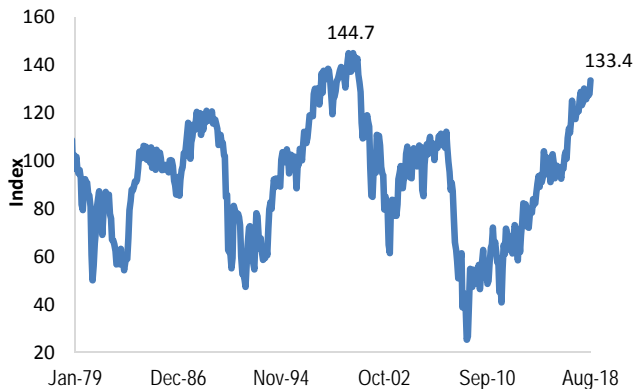


Source: U.S. Census Bureau

Consumers are finally a confident bunch. Consumer confidence, which has been in relative short supply throughout this expansion, rose to an expansion high 133.4 in August. The index is now at the highest level since October 2000. According to the Conference Board, confidence at these high levels should continue to support consumer spending in the near term.

Consumer Confidence Close To 18-Year High in August

Conference Board's Consumer Confidence Index

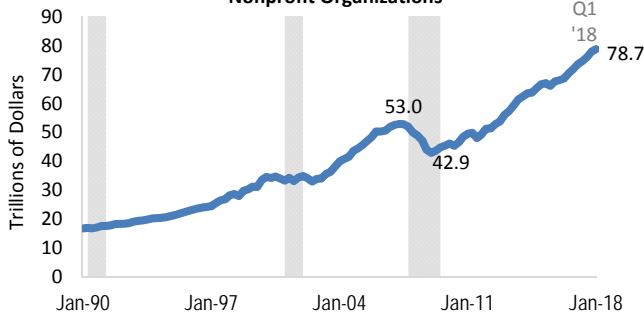


Source: Conference Board

Real household wealth continues to set record highs. Household wealth influences consumer spending via the wealth effect. If household wealth is rising, consumers are inclined to spend more, and vice versa, when wealth is declining. Real net worth bottomed out at \$42.9 trillion in the first quarter of 2009, has been rising ever since, and hit a record high of \$76.7 trillion in the first quarter of 2018.

Net Worth Hit a Record High in the First Quarter

Real Total Net Worth - Balance Sheet of Households and Nonprofit Organizations



Source: Federal Reserve System

Where Consumers Are Spending

Breaking down retail sales by category gives you a sense of where consumers have been concentrating their spending over the past year. On a year-ago basis in August, the fastest growing categories have been gasoline stations (+20.3%), nonstore retailers (+10.4%),

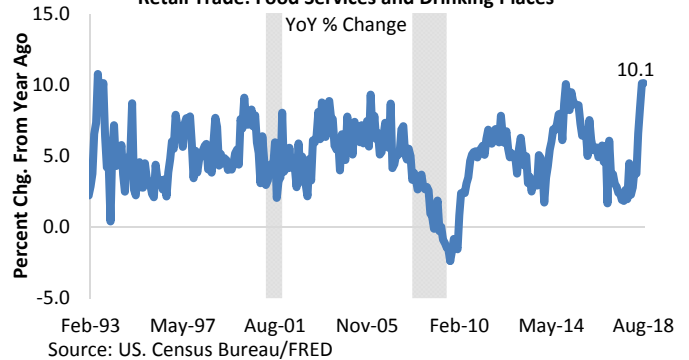
and restaurants and bars (+10.1%). The only major spending category that declined was sporting goods, hobby, and book and music stores (-4.8%).

For the most part, the solid increase in sales at gasoline stations was due to a 19% increase in prices at the pump, as opposed to more gas being consumed. The growth in spending at nonstore retailers (e-commerce) is primarily due to consumers increasingly choosing to shop online instead of in brick and mortar stores.

The most interesting category, however, is restaurants and bars, arguably the most discretionary spending of all. It is very unusual to see close to double-digit growth in this category this late in an economic expansion. In fact, a sharp deceleration in growth in this category typically occurs prior to the beginning of recession. This suggests that the economic expansion has a ways to go before consumers throw in the towel and a consumer driven downturn ensues.

Spending at Restaurants and Bars Up Sharply Since May

Retail Trade: Food Services and Drinking Places



Source: US Census Bureau/FRED

The Spending Outlook

Despite the surge in real PCE growth to 3.8% at an annual rate in the second quarter – up from just 0.5% in the first – our forecast is for growth to decelerate to 3.5% in the current quarter and then drop back to 2.5% year-over-year in 2019. Real average hourly earnings growth in the private sector, tepid to start the year, has slowed to 0.2% year-over-year in August. While personal savings rates still remain healthy, without faster real income growth to support it, consumer spending will inevitably slow.

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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*	1.8	3.0	2.8	2.3	2.2	4.2	3.4	2.2	1.9	1.9	1.9	1.8	1.5	2.2	2.9	2.3
Personal Consumption Expenditures*	1.8	2.9	2.2	3.9	0.5	3.8	3.5	2.7	2.1	2.1	2.0	1.8	2.7	2.5	2.6	2.5
Non-residential Fixed Investment*	9.6	7.3	3.4	4.8	11.5	8.5	4.2	4.2	3.6	4.0	3.4	2.7	-0.6	5.3	7.0	4.1
Private Housing Starts (000s units)	1,231	1,171	1,172	1,259	1,317	1,254	1,220	1,240	1,270	1,280	1,277	1,275	1,176	1,208	1,258	1,276
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	2.5	5.1	3.0	2.6	2.2	2.0	1.7	1.5	-1.2	1.6	3.7	2.4
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	3.9	3.8	3.7	3.8	3.9	4.0	4.9	4.4	3.9	3.9
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	3.6	2.7	2.5	2.0	1.8	1.8	1.7	1.7	-1.0	3.2	3.2	2.0
Trade Weighted Dollar (Fed BOG, major)	94.4	93.0	88.3	88.9	86.2	88.2	90.4	91.4	91.1	90.4	89.6	88.5	91.6	91.1	89.0	89.9
Crude Oil Prices -WTI (\$ per barrel)	52	48	48	55	63	68	68	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	1.91	2.21	2.46	2.63	2.63	2.63	0.39	1.00	1.83	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	2.62	2.77	2.91	3.01	3.02	2.97	0.84	1.40	2.51	2.98
Treasury-5 Year Notes (yield)	1.95	1.81	1.81	2.07	2.53	2.77	2.79	2.91	3.05	3.15	3.16	3.11	1.34	1.91	2.75	3.12
Treasury-10 Year Notes (yield)	2.45	2.26	2.24	2.37	2.76	2.92	2.91	3.02	3.19	3.28	3.27	3.21	1.84	2.33	2.90	3.24
Treasury-30 Year Notes (yield)	3.05	2.90	2.82	2.82	3.03	3.09	3.03	3.11	3.26	3.35	3.34	3.28	2.60	2.90	3.07	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	2.35	2.50	2.70	2.85	2.80	2.80	0.74	1.26	2.28	2.79
Mortgage-30 Year (yield)	4.17	3.98	3.88	3.92	4.28	4.54	4.52	4.60	4.77	4.87	4.88	4.85	3.66	3.99	4.49	4.84
BAA Corporate (yield)	4.66	4.49	4.33	4.27	4.47	4.78	4.79	5.04	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