

Date	Indicator	For	Estimate	Consensus*	Previous Period
9-Oct-2018	NFIB Small Business Optimism	Sep	108.0	109.0	108.8
10-Oct-2018	PPI Final Demand MoM	Sep	0.2%	0.2%	-0.1%
10-Oct-2018	PPI Ex Food and Energy MoM	Sep	0.2%	0.2%	-0.1%
10-Oct-2018	Wholesale Inventories MoM	Aug F	0.8%	NA	0.8%
11-Oct-2018	CPI MoM	Sep	0.2%	0.2%	0.2%
11-Oct-2018	CPI Ex Food and Energy MoM	Sep	0.2%	0.2%	0.1%
11-Oct-2018	Initial Jobless Claims	06-Oct	212k	NA	207k
12-Oct-2018	Import Price Index MoM	Sep	0.2%	0.3%	-0.6%
12-Oct-2018	U. of Mich. Sentiment	Oct P	99.5	100.8	100.1

*Consensus from Bloomberg

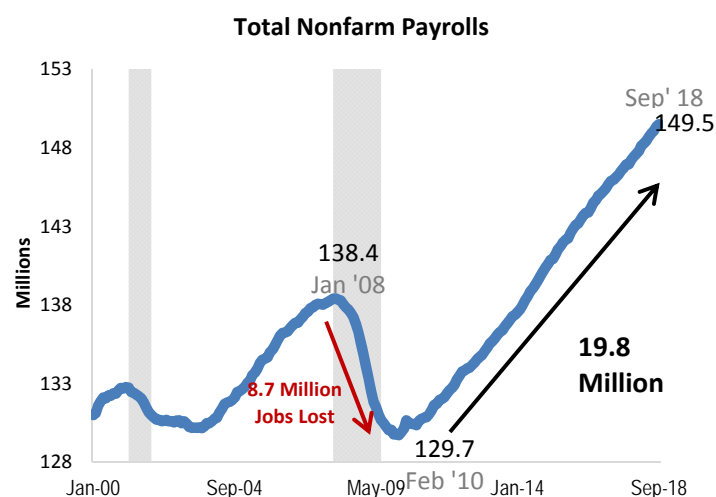
Don't Let the Headline Fool You – Job Engine Intact

Hurricane Florence muddied the waters of the September payroll report. However, the U.S. labor market managed to reveal its underlying strength and resilience despite the miss on the headline jobs number. Employers added only 134K net new jobs last month, but there was a huge 87K net upward revision to jobs over the previous two months. So adding the revision to the headline jobs gain, you come up with a much more respectable 221K jobs. August job growth was revised up to a hot 270K jobs from an originally reported 201K – the best monthly job gain since October 2017.

How hot is the labor market today, you ask? The U.S. economy has managed to add over 200K jobs a month over the first three quarters of 2018. The last time the U.S. economy managed that feat was way back in 2015 when the unemployment rate was much higher than it is today (over 5.0%).

In short, there was very little to complain about in this jobs report, except that it will stoke investor fears that the Fed may need to keep hiking interest rates for a while longer than people thought to slow this economic train down. And interest rates and inflation could continue to climb.

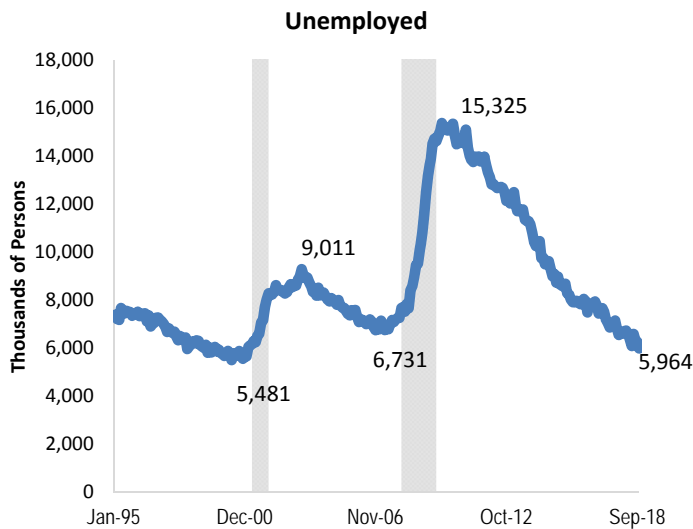
Labor Market Reveals Underlying Strength and Resilience



Source: U.S. Bureau of Labor Statistics

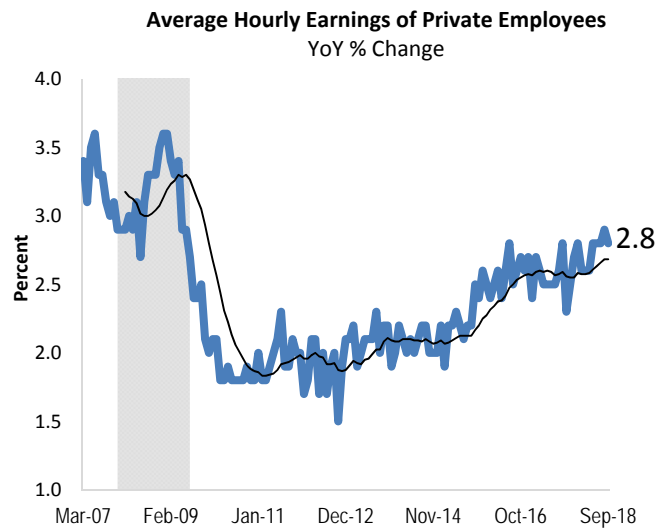
The Fed and markets will likely focus on the two-tenths of a percentage point drop in the U.S. unemployment rate to 3.7% from 3.9% in August. The unemployment rate has dropped swiftly since June, when it was at 4.0%. The labor force increased by only 150K people, but household employment jumped by a whopping 420K. Only 5.964 million people are classified as unemployment in the United States today, yet we have nearly 7.0 million open positions.

Unemployment Drops Below 6 Million



Source: Bureau of Labor Statistics

Wage Growth Remains Tame, But for How Much Longer?



Source: Bureau of Labor Statistics

Average hourly earnings growth was a respectable 0.3% last month, in line with expectations, but the year-on-year growth rate failed to accelerate, slipping back to 2.8% from 2.9% in August. The ultra-low unemployment rate and lackluster wage growth remain a significant macroeconomic puzzle that will keep economists talking about what the actual natural unemployment rate in the United States is. The tame wage growth we are seeing today seems to suggest the U.S. can operate at lower levels of unemployment than the Fed or private sector economists thought possible without stoking a wage-price spiral.

Of the 134K jobs created last month, the biggest gain was seen in professional and business services (+54K). Construction (+23K) and manufacturing (+18K) payrolls saw another solid increase. Education and health care (+18K) and financial services (+13K) added more jobs, too. However, retail trade and leisure and hospitality lost 20K and 17K, respectively, showing the effects of the hurricane, while information payrolls were flat.

Despite the headline miss on jobs last month, the underlying strength of the labor market, averaging 206K jobs a month last quarter, has prompted some minor adjustments to our forecasts for job growth and unemployment in the quarters ahead. We see a more gradual slowdown in job growth in Q4 to around 186K jobs a month, with the U.S. unemployment rate averaging just 3.6% in Q1 2019 and remaining under 4.0% next year. The report this morning also increases the odds the Fed will raise the Fed funds rate two more times next year. Our baseline forecast has been for one increase in December and another in March of 2019.

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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	3.1	2.2	1.9	1.9	1.9	1.8	1.5	2.2	2.8	2.3
Personal Consumption Expenditures*	1.8	2.9	2.2	3.9	0.5	3.8	3.4	3.1	2.1	2.1	2.0	1.8	2.7	2.5	2.7	2.5
Non-residential Fixed Investment*	9.6	7.3	3.4	4.8	11.5	8.7	2.4	4.2	3.6	4.0	3.4	2.7	-0.6	5.3	6.8	3.9
Private Housing Starts (000s units)	1,231	1,171	1,172	1,259	1,317	1,261	1,220	1,240	1,270	1,280	1,277	1,275	1,176	1,208	1,260	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	149.9	150.4	150.9	151.3	151.7	144.3	146.6	149.0	151.1
Unemployment rate	4.7	4.3	4.3	4.1	4.1	3.9	3.8	3.7	3.6	3.7	3.8	3.9	4.9	4.4	3.9	3.8
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	90.2	91.1	90.8	90.4	89.6	88.5	91.6	91.1	88.9	89.8
Crude Oil Prices -WTI (\$ per barrel)	52	48	48	55	63	68	69	69	66	65	65	61	43	51	67	64

*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	2,850						2,093	2,449		
Dow Jones Industrial Average	20,406	20,994	21,891	23,689	25,127	24,556	25,595						17,916	21,745		
Federal Funds Rate (effective)	0.70	0.94	1.15	1.20	1.45	1.74	1.92	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	2.07	2.20	2.44	2.61	2.61	2.61	0.32	0.95	1.93	2.57
Treasury-2 Year Notes (yield)	1.24	1.30	1.36	1.69	2.16	2.48	2.67	2.81	2.91	3.01	3.02	2.97	0.84	1.40	2.53	2.98
Treasury-5 Year Notes (yield)	1.95	1.81	1.81	2.07	2.53	2.77	2.81	2.93	3.05	3.15	3.16	3.11	1.34	1.91	2.76	3.12
Treasury-10 Year Notes (yield)	2.45	2.26	2.24	2.37	2.76	2.92	2.92	3.02	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	3.06	3.14	3.26	3.35	3.34	3.28	2.60	2.90	3.08	3.31
Prime Rate	3.80	4.05	4.25	4.29	4.53	4.80	5.01	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	2.34	2.40	2.64	2.81	2.80	2.80	0.74	1.26	2.25	2.76
Mortgage-30 Year (yield)	4.17	3.98	3.88	3.92	4.28	4.54	4.57	4.70	4.87	4.97	4.98	4.85	3.66	3.99	4.52	4.92
BAA Corporate (yield)	4.66	4.49	4.33	4.27	4.47	4.78	4.81	4.98	5.30	5.50	5.70	6.00	4.71	4.44	4.76	5.63

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