

Date	Indicator	For	Estimate	Consensus*	Previous Period
29-Oct-2018	Personal Income	Sep	0.4%	0.4%	0.3%
29-Oct-2018	Personal Spending	Sep	0.4%	0.4%	0.3%
29-Oct-2018	PCE Deflator MoM	Sep	0.1%	0.1%	0.1%
29-Oct-2018	PCE Core MoM	Sep	0.1%	0.1%	0.0%
29-Oct-2018	Dallas Fed Manufacturing Activity	Oct	25.0	29.0	28.1
30-Oct-2018	S&P CoreLogic CS 20-City MoM SA	Aug	0.2%	0.2%	0.1%
30-Oct-2018	Conf. Board Consumer Confidence	Oct	136.2	135.9	138.4
31-Oct-2018	ADP Employment Change	Oct	195k	190k	230k
31-Oct-2018	Employment Cost Index	3Q	0.7%	0.7%	0.6%
31-Oct-2018	Chicago Purchasing Manager	Oct	59.5	60.5	60.4
1-Nov-2018	Nonfarm Productivity	3Q P	1.9%	1.8%	2.9%
1-Nov-2018	Unit Labor Costs	3Q P	1.1%	1.2%	-1.0%
1-Nov-2018	Initial Jobless Claims	27-Oct	213k	NA	215k
1-Nov-2018	Markit US Manufacturing PMI	Oct F	55.8	NA	55.9
1-Nov-2018	Construction Spending MoM	Sep	0.1%	0.1%	0.1%
1-Nov-2018	ISM Manufacturing	Oct	59.0	59.5	59.8
1-Nov-2018	Wards Total Vehicle Sales	Oct	16.9m	17.00m	17.40m
2-Nov-2018	Trade Balance	Sep	-\$53.8b	-\$52.2b	-\$53.2b
2-Nov-2018	Change in Nonfarm Payrolls	Oct	190k	190k	134k
2-Nov-2018	Change in Manufacturing Payrolls	Oct	16k	20k	18k
2-Nov-2018	Unemployment Rate	Oct	3.7%	3.7%	3.7%
2-Nov-2018	Average Hourly Earnings MoM	Oct	0.2%	0.2%	0.3%
2-Nov-2018	Average Weekly Hours All Employees	Oct	34.5	34.5	34.5
2-Nov-2018	Factory Orders	Sep	0.3%	0.0%	2.3%

*Consensus from Bloomberg

Why Recent GDP Growth Doesn't Look Sustainable

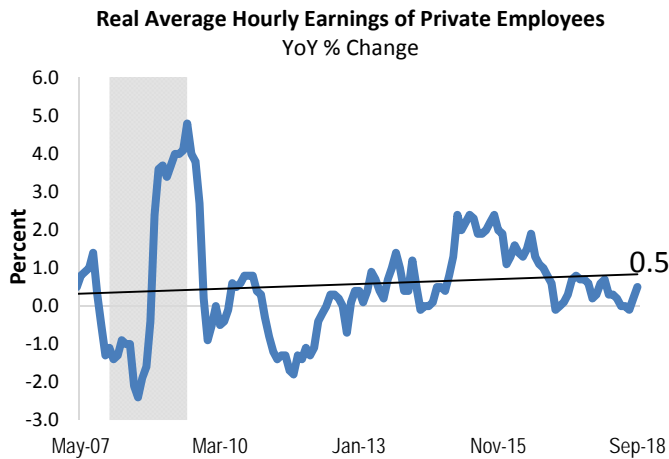
Headline third quarter GDP growth came in at a robust 3.5% after coming off of a sizzling 4.2% pace of growth in the second quarter. A back-to-back quarterly performance for the U.S. economy we haven't seen since 2014. However, the foundation that this growth is built upon is looking a little shaky.

Robust consumer spending and inventory building drove the strong GDP growth last quarter. Real consumer spending skyrocketed to 4.0% growth from 3.8% in the second quarter. A healthy labor market, improving consumer confidence, and added Federal government spending and tax cuts, have been underpinning the

consumer's strong spending performance over the past two quarters. Interest rate sensitive durable goods spending was up a solid 6.9% annualized last quarter as consumers likely tried to lock in lower financing costs before interest rates rise further. Durable goods spending is likely to slow in the quarters ahead as the Fed continues to hike interest rates. Residential construction spending is already contracting, dropping at a 4.0% pace in the third quarter. Expect more housing pain to come as long as the Fed continues to make it more expensive to buy a house. At the same time, real average hourly earnings growth continues to seriously lag consumer spending growth. Bottom line, consumers are going to have to give their pocketbook a rest before too long.

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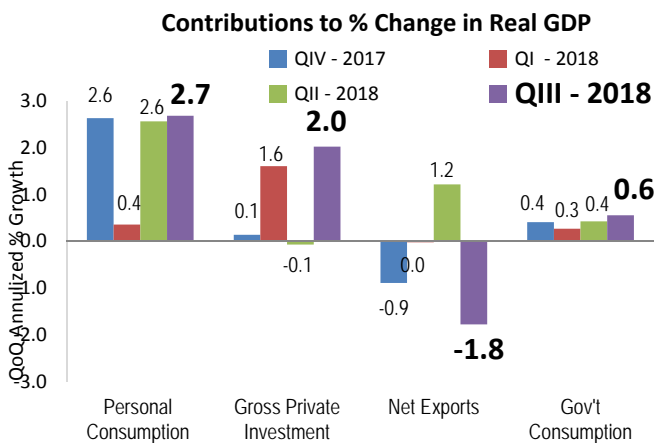
Consumer Spending Driven By Tax Cuts Not Wage Growth



Source: Bureau of Labor Statistics

Together consumer spending and business inventories added 4.76 percentage points of the 3.5% GDP growth last quarter. The surge in business inventories is likely not to be repeated as it was driven in part by the implementation of import tariffs with China. Many retailers and manufacturers chose to bolster their inventories last quarter in order to avoid supply chain disruptions down the road, and to keep their input costs down before new tariffs increase their costs of production even further. This is visible in the net export component of GDP, which subtracted a whopping 1.78 percentage points from GDP growth as imports surged by 9.1% on an annualized basis.

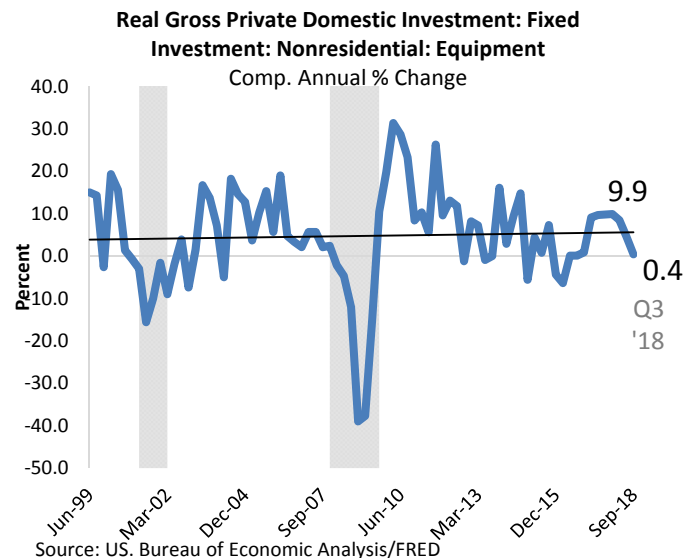
Consumer Spending and Inventory Building Drive GDP in Q3



Source: Bureau of Economic Analysis

Perhaps the most convincing reason to be skeptical about continued growth at recent rates is the fact that business participation in the expansion is declining, rather than ramping up. Despite significant windfalls from corporate tax cuts and equipment expensing, there is no sign businesses' animal spirits are being rekindled. Business equipment spending has been slipping now for three consecutive quarters and increased at only a 0.4% pace in Q3. Structural investment, basically commercial construction, dropped last quarter at a 7.9% annualized pace. The whole case for the tax reform was driven by an assumption it would stoke business investment and U.S. productivity growth allowing a more permanent boost to U.S. growth rates.

Businesses Pulling Back on Investment



Source: US. Bureau of Economic Analysis/FRED

So where do we go from here? We expect U.S. GDP growth to slow again in the fourth quarter to around a 2.4% pace, and continue to gradually slow in 2019. We made no adjustments to our GDP forecasts due to today GDP release. It only adds to our expectation that recent GDP growth is not sustainable as tighter financial conditions, slowing global growth, escalating trade war, and fading fiscal stimulus conspire to slowdown this economy in the quarters ahead.

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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	3.5	2.4	2.2	2.1	1.9	1.8	1.5	2.2	2.9	2.5
Personal Consumption Expenditures*	1.8	2.9	2.2	3.9	0.5	3.8	4.0	2.6	2.3	2.3	2.1	1.9	2.7	2.5	2.7	2.6
Non-residential Fixed Investment*	9.6	7.3	3.4	4.8	11.5	8.7	0.8	5.7	3.9	4.1	3.7	3.4	-0.6	5.3	6.7	4.2
Private Housing Starts (000s units)	1,231	1,171	1,172	1,259	1,317	1,261	1,218	1,280	1,290	1,280	1,277	1,275	1,176	1,208	1,269	1,281
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	5.3	3.3	2.6	2.2	2.0	1.7	1.5	-1.2	1.6	3.7	2.5
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	3.6	3.7	3.8	4.9	4.4	3.9	3.7
Consumer Price Index* (percent)	3.0	0.1	2.1	3.3	3.5	1.7	2.0	3.0	2.5	2.0	2.1	2.1	1.3	2.1	2.5	2.3
"Core" CPI* (percent)	2.2	0.8	1.8	2.2	3.0	1.8	2.0	2.3	2.4	2.2	2.1	2.1	2.2	1.8	2.2	2.2
PPI (finished goods)* (percent)	5.7	1.0	1.6	5.7	3.6	2.7	2.2	4.1	1.9	1.8	1.7	1.7	-1.0	3.2	3.2	2.3
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	70	70	67	66	65	63	43	51	68	65

*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	2.71	2.88	2.88	0.39	1.00	1.83	2.73
Treasury-3 Month Bills (yield)	0.61	0.91	1.05	1.23	1.58	1.87	2.07	2.22	2.48	2.73	2.90	2.89	0.32	0.95	1.94	2.75
Treasury-2 Year Notes (yield)	1.24	1.30	1.36	1.69	2.16	2.48	2.67	2.90	2.96	3.06	3.07	3.06	0.84	1.40	2.55	3.04
Treasury-5 Year Notes (yield)	1.95	1.81	1.81	2.07	2.53	2.77	2.81	3.03	3.15	3.25	3.27	3.21	1.34	1.91	2.78	3.22
Treasury-10 Year Notes (yield)	2.45	2.26	2.24	2.37	2.76	2.92	2.92	3.15	3.29	3.42	3.48	3.41	1.84	2.33	2.94	3.40
Treasury-30 Year Notes (yield)	3.05	2.90	2.82	2.82	3.03	3.09	3.06	3.31	3.51	3.65	3.64	3.57	2.60	2.90	3.12	3.59
Prime Rate	3.80	4.05	4.25	4.29	4.53	4.80	5.01	5.25	5.50	5.75	6.00	6.00	3.51	4.10	4.90	5.81
Libor 3-Mo. U.S. Dollar	1.07	1.21	1.31	1.46	1.93	2.34	2.34	2.43	2.66	2.91	3.02	3.03	0.74	1.26	2.26	2.91
Mortgage-30 Year (yield)	4.17	3.98	3.88	3.92	4.28	4.54	4.57	4.80	4.97	5.08	5.13	5.05	3.66	3.99	4.55	5.06
BAA Corporate (yield)	4.66	4.49	4.33	4.27	4.47	4.78	4.81	5.08	5.40	5.60	5.80	6.10	4.71	4.44	4.78	5.73

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