

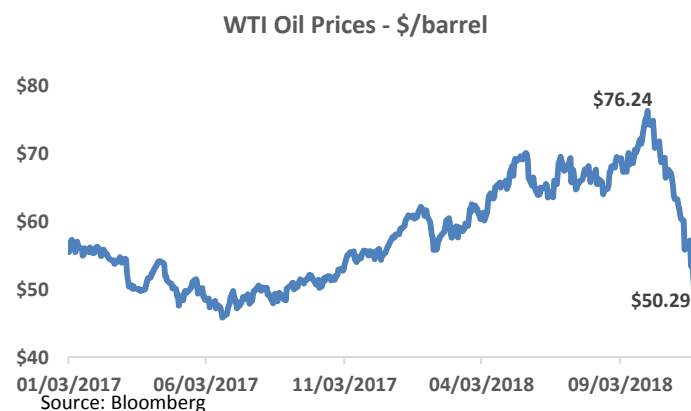
Date	Indicator	For	Estimate	Consensus*	Previous Period
3-Dec-2018	Markit US Manufacturing PMI	Nov F	55.4	NA	55.4
3-Dec-2018	ISM Manufacturing	Nov	57.2	57.9	57.7
3-Dec-2018	Construction Spending MoM	Oct	0.2%	0.4%	0.0%
3-Dec-2018	Wards Total Vehicle Sales	Nov	17.00m	17.10m	17.50m
5-Dec-2018	ADP Employment Change	Nov	195k	200k	227k
5-Dec-2018	Nonfarm Productivity	3Q F	2.2%	2.3%	2.2%
5-Dec-2018	Unit Labor Costs	3Q F	1.2%	1.1%	1.2%
5-Dec-2018	Markit US Services PMI	Nov F	54.4	NA	54.4
5-Dec-2018	Markit US Composite PMI	Nov F	NA	NA	54.4
5-Dec-2018	ISM Non-Manufacturing Index	Nov	59.5	59.5	60.3
5-Dec-2018	U.S. Federal Reserve Releases Beige Book				
6-Dec-2018	Trade Balance	Oct	-\$54.9b	-\$54.9b	-\$54.0b
6-Dec-2018	Initial Jobless Claims	01-Dec	229k	NA	234k
6-Dec-2018	Factory Orders	Oct	-2.0%	-2.0%	0.7%
6-Dec-2018	Household Change in Net Worth	3Q	NA	NA	\$2191b
7-Dec-2018	Change in Nonfarm Payrolls	Nov	190k	205k	250k
7-Dec-2018	Change in Manufacturing Payrolls	Nov	18k	20k	32k
7-Dec-2018	Unemployment Rate	Nov	3.7%	3.7%	3.7%
7-Dec-2018	Average Hourly Earnings MoM	Nov	0.3%	0.3%	0.2%
7-Dec-2018	Average Weekly Hours All Employees	Nov	34.5	34.5	34.5
7-Dec-2018	Wholesale Inventories MoM	Oct F	0.7%	NA	0.7%
7-Dec-2018	U. of Mich. Sentiment	Dec P	96.8	97.0	97.5
7-Dec-2018	Consumer Credit	Oct	\$15.000b	\$12.500b	\$10.923b

*Consensus from Bloomberg

What's Behind the Oil Price Plunge?

Crude oil prices had been generally rising in 2018 before peaking at \$76.24 on October 3. The year-to-date increase to the peak was an astounding 31.2%. Since then, there has been a sudden shift in underlying market dynamics, and oil prices declined for 12 straight sessions from October 29 to November 13. Oil prices stabilized for a few days before dropping again to a 2018 low of \$50.29 on November 28. At that point the decrease from the October 3 peak was 34.0%, with a year-to-date decline of 13.4%. This is volatile price action, even for the oil market. So what's behind the sharp change in trend? Is it telling us anything about underlying global growth, and what are the implications for consumer inflation?

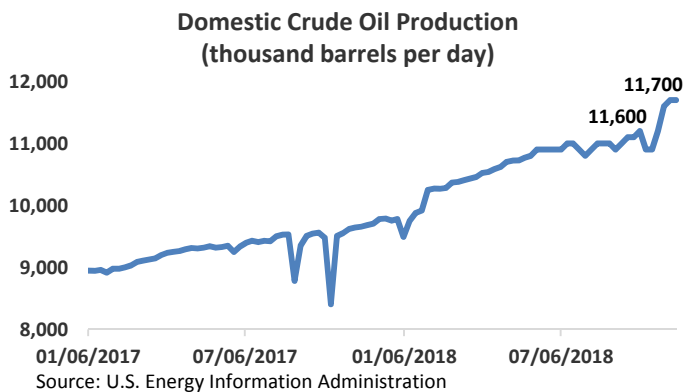
Oil Prices Plunged Beginning in October



Drivers Behind the Sharp Drop in Oil Prices

The primary driver is increasing U.S. and global oil supply. U.S. oil producers have been consistently ramping up production so far this year, producing an all-time high 11.7 million barrels of oil a day in early November. Also, Iranian oil sanctions turned out to be less onerous than the market expected, meaning Iranian oil will continue to flow into global markets. This supply increase puts downward pressure on oil prices, all else being equal.

U.S. Oil Production Hit Record-High in Early November



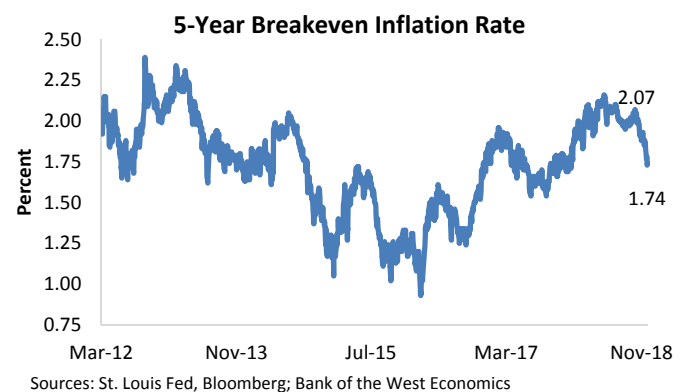
But all else hasn't been equal. Global oil demand forecasts have also been reduced. OPEC trimmed its global oil demand forecast for this year and next for the fourth straight month. In its latest monthly report covering October, OPEC said demand is expected to increase 1.5 million barrels per day (MBPD) to 98.79 MBPD in 2018, down 40,000 barrels per day from its previous estimate. This reflected lower-than-expected demand in the Middle East and China. For 2019, demand will likely grow by 1.29 MBPD to 100.08 MBPD – some 70,000 barrels per day less than in the previous report. The downward revision to global oil demand places additional downward pressure on oil prices. Overall, we believe the increase in oil supply rather than a decrease in oil demand is the primary driver of lower oil prices today, so the drop has less to do with faltering global growth than it does with the efficiency of U.S. and global oil producers.

Oil Price Plunge Pushes Down Inflation Expectations

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The sudden, sharp, and sustained decline in oil prices immediately reduced the inflation expectations of bond investors. The 5-year inflation breakeven – a key bond market-derived measure of expected future inflation – was 2.07% on October 3 when oil peaked at \$76.24. The rate dropped to 1.74% with oil prices down 34% from the peak. In short, investors are now expecting lower consumer inflation over the next five years compared to early October, largely as a result of the dramatic plunge in oil and other commodities prices.

Inflation Expectations Recede on Lower Oil Prices



The Outlook for WTI Crude Oil Prices

Bank of the West Economics expects West Texas Intermediate Crude to average \$62.50 per barrel in the fourth quarter, and average just \$51.50 per barrel in 2019. This is close to the 2017 average WTI oil price of \$50.80 per barrel and nearly \$15 per barrel lower than the 2018 average.

What's the upside for consumers? U.S. consumers will benefit from lower oil prices to the extent that they filter through to lower prices at the gas pump. Through November 26, gasoline prices have declined almost 12% from October 3 (the day oil prices peaked); so consumers should have more disposable income to spend in other categories. The JP Morgan Chase Institute estimates that consumers spend about 80% of their savings at the gas pump. The largest shares are spent at restaurants (18%) and grocery stores (10%). This additional consumer spending power should also help some retailers during the 2018 holiday shopping season.

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	2.1	2.0	1.8	1.7	1.5	2.2	2.9	2.4
Personal Consumption Expenditures*	1.8	2.9	2.2	3.9	0.5	3.8	3.6	2.4	2.3	2.3	2.1	1.9	2.7	2.5	2.6	2.5
Non-residential Fixed Investment*	9.6	7.3	3.4	4.8	11.5	8.7	2.5	6.4	3.8	4.1	3.7	3.4	-0.6	5.3	7.0	4.5
Private Housing Starts (000s units)	1,231	1,171	1,172	1,259	1,317	1,261	1,225	1,250	1,260	1,240	1,220	1,210	1,176	1,208	1,263	1,233
Vehicle Sales (mill. Units, annualized)	17.1	16.8	17.1	17.7	17.1	17.1	16.9	16.9	16.7	16.6	16.5	16.4	17.5	17.2	17.0	16.6
Industrial Production*	1.0	5.0	-1.5	7.7	2.5	5.3	4.7	2.7	2.1	2.0	1.7	1.5	-1.2	1.6	3.9	2.6
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	151.6	144.3	146.6	149.0	151.0
Unemployment rate	4.7	4.3	4.3	4.1	4.1	3.9	3.8	3.7	3.6	3.5	3.5	3.6	4.9	4.4	3.9	3.6
Consumer Price Index* (percent)	3.0	0.1	2.1	3.3	3.5	1.7	2.0	2.8	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	1.9	2.2	2.1	2.1	2.1	2.2	1.8	2.1	2.1
PPI (finished goods)* (percent)	5.7	1.0	1.6	5.7	3.6	2.9	2.0	2.8	2.0	1.9	1.7	1.7	-1.0	3.2	3.2	2.1
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	63	52	52	51	51	43	51	66	52

*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	2.19	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	2.32	2.58	2.79	2.95	2.91	0.32	0.95	1.96	2.81
Treasury-2 Year Notes (yield)	1.24	1.30	1.36	1.69	2.16	2.48	2.67	2.85	2.91	3.00	2.98	2.95	0.84	1.40	2.54	2.96
Treasury-5 Year Notes (yield)	1.95	1.81	1.81	2.07	2.53	2.77	2.81	2.97	3.09	3.19	3.21	3.15	1.34	1.91	2.77	3.16
Treasury-10 Year Notes (yield)	2.45	2.26	2.24	2.37	2.76	2.92	2.92	3.10	3.22	3.32	3.38	3.31	1.84	2.33	2.93	3.31
Treasury-30 Year Notes (yield)	3.05	2.90	2.82	2.82	3.03	3.09	3.06	3.32	3.43	3.56	3.64	3.55	2.60	2.90	3.13	3.55
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	2.57	2.79	3.01	3.12	3.13	0.74	1.26	2.29	3.01
Mortgage-30 Year (yield)	4.17	3.98	3.88	3.92	4.28	4.54	4.57	4.75	4.92	5.03	5.09	5.02	3.66	3.99	4.53	5.02
BAA Corporate (yield)	4.66	4.49	4.33	4.27	4.47	4.78	4.81	5.15	5.40	5.60	5.80	6.10	4.71	4.44	4.80	5.73

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