

Date	Indicator	For	Estimate	Consensus*	Previous Period
10-Dec-2018	JOLTS Job Openings	Oct	NA	NA	7,009
11-Dec-2018	NFIB Small Business Optimism	Nov	107.0	NA	107.4
11-Dec-2018	PPI Final Demand MoM	Nov	-0.1%	0.0%	0.6%
11-Dec-2018	PPI Ex Food and Energy MoM	Nov	0.1%	0.2%	0.5%
12-Dec-2018	CPI MoM	Nov	0.0%	0.0%	0.3%
12-Dec-2018	CPI Ex Food and Energy MoM	Nov	0.2%	0.2%	0.2%
13-Dec-2018	Import Price Index MoM	Nov	-1.0%	-0.7%	0.5%
13-Dec-2018	Initial Jobless Claims	08-Dec	234k	NA	231k
14-Dec-2018	Retail Sales Advance MoM	Nov	0.1%	0.2%	0.8%
14-Dec-2018	Retail Sales Ex Auto MoM	Nov	0.2%	0.3%	0.7%
14-Dec-2018	Industrial Production MoM	Nov	0.3%	0.3%	0.1%
14-Dec-2018	Capacity Utilization	Nov	78.5%	78.6%	78.4%
14-Dec-2018	Markit US Services PMI	Dec P	54.5	NA	54.7
14-Dec-2018	Markit US Manufacturing PMI	Dec P	55.1	NA	55.3
14-Dec-2018	Business Inventories	Oct	0.4%	0.5%	0.3%

*Consensus from Bloomberg

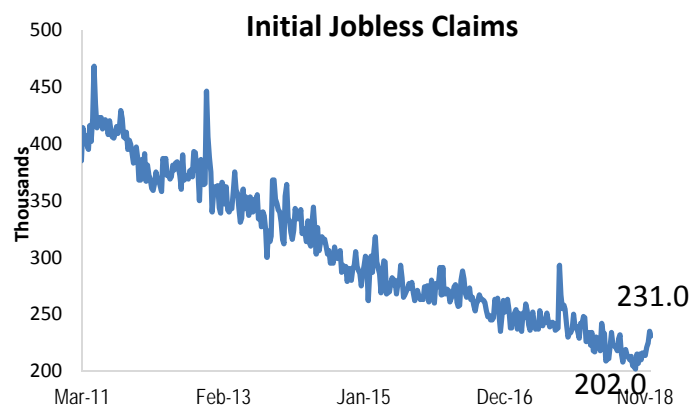
Job Growth Downshifts in November

The payroll report for November appears to confirm the recent market narrative and our own economic forecast that U.S. economic growth is decelerating in the fourth quarter. Nonfarm payroll gains slowed to only 155K last month, and the prior month's gain was revised down to 237K from 250K. The Bloomberg consensus had been forecasting 198K jobs for November – a fairly big miss on the downside for the U.S. labor market. U.S. job growth had been averaging over 200K jobs a month so far this year, but the 3-month average monthly gain has now slipped to 170K jobs.

This payroll report is consistent with the cooling labor market signal we have been receiving from the initial jobless claims data. Initial jobless claims have been rising gradually now since hitting a cyclical low on September 14. It is getting harder for the bulls to shrug off the weaker job growth as a one-off hurricane- or weather-related event.

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Jobless Claims Have Been Rising Gradually Since September

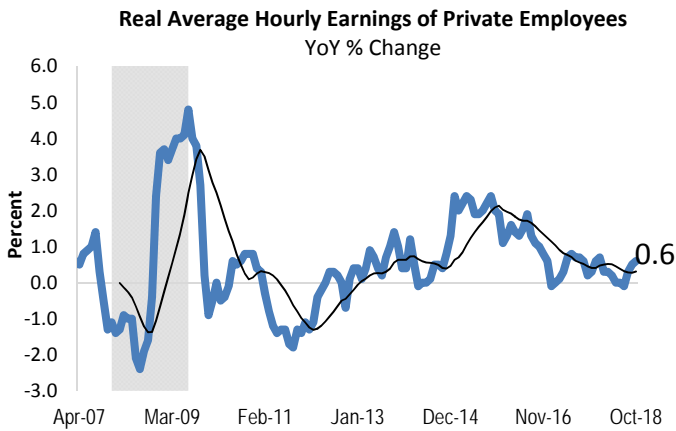


Source: U.S. Employment and Training Administration

The U.S. unemployment rate held steady for the third month in a row at a historically low 3.7%, but average hourly earnings growth increased less than forecast in November – up 0.2%; and October's gain was revised down to 0.1% from an originally reported 0.2%. Economists and the Federal Reserve itself have been waiting on low levels of unemployment to help bolster

U.S. real wage gains, but that is one labor market milestone the U.S. economy has not yet been able to achieve. Average weekly hours worked also unexpectedly fell to 34.4 from 34.5 hours.

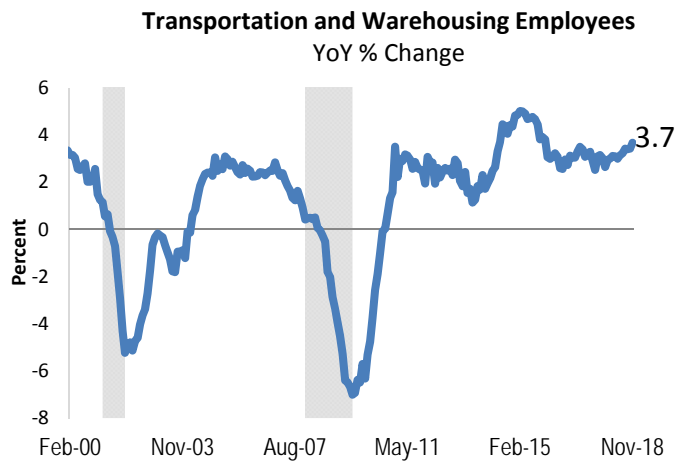
Real Average Hourly Earnings Growth Remains Lackluster



Source: Bureau of Labor Statistics

Job growth remained solid last month in education and health care, manufacturing, retail trade, and warehousing and transportation sectors. However, financial services, construction, leisure and hospitality, and temporary help job growth slowed sharply; and information, government, and mining and logging sectors lost jobs.

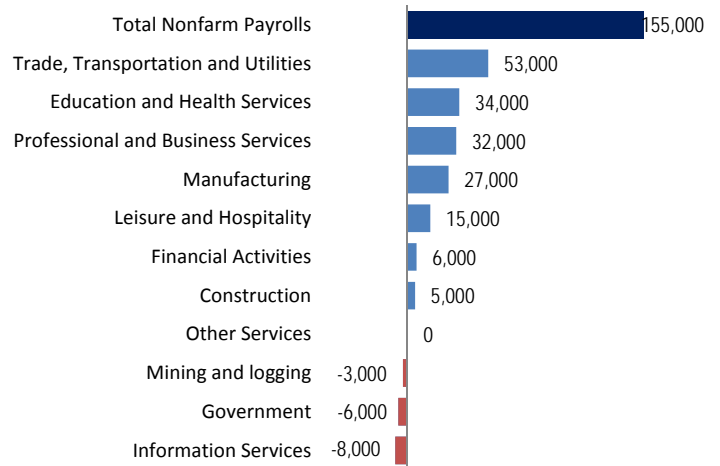
Transportation and Warehousing Remains a Bright Spot



Source: Bureau of Labor Statistics

Construction and Financial Services Job Growth Slows

Nonfarm Employment MoM Growth November 2018



Source: BLS, Bank of the West

Interest rate-sensitive sectors of the economy, like financial services and construction, appear to be paring back on their new hires, while the mining and logging job losses show weaker commodity and oil prices are starting to dampen growth in those sectors as well.

It is important to note that even with the payroll job growth slowdown underway, the monthly pace of job gains is still well above the Fed's estimates that only 60K to 100K jobs a month are needed today to hold the U.S. unemployment rate steady. So it is unlikely that today's payroll report will deter the FOMC from hiking the fed funds rate again in December. However, the number of rate hikes needed in 2019 is up for open debate. If the equity market selloff continues and more signs of slowing emerge in the months ahead, we will definitely see more FOMC members migrating their dot-plot estimates lower.

I still think it's too early to rule out two more rate hikes from the Fed next year, but the chance of fewer rate hikes from the Fed has definitely risen today, given the mediocre payroll report, especially since average hourly earnings growth does not appear to be an imminent threat to higher consumer inflation in the United States.

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Key Economic and Interest Rate Forecasts

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2018.1	2018.2	2018.3	2018.4	2019.1	2019.2	2019.3	2019.4	2020.1	2020.2	2020.3	2020.4	2017	2018	2019	2020
Real GDP*	2.2	4.2	3.5	2.4	2.1	2.0	1.8	1.7	1.0	0.6	0.5	0.5	2.2	2.9	2.4	1.1
Personal Consumption Expenditures*	0.5	3.8	3.6	2.4	2.3	2.3	2.1	1.9	1.5	1.0	1.0	1.0	2.5	2.6	2.5	1.5
Non-residential Fixed Investment*	11.5	8.7	2.5	6.4	3.8	4.1	3.7	3.4	1.5	1.5	1.5	1.5	5.3	7.0	4.5	2.3
Private Housing Starts (000s units)	1,317	1,261	1,225	1,250	1,260	1,240	1,220	1,210	1,190	1,185	1,180	1,175	1,208	1,263	1,233	1,183
Vehicle Sales (mill. Units, annualized)	17.1	17.1	16.9	16.9	16.7	16.6	16.5	16.4	16.2	15.9	15.6	15.9	17.2	17.0	16.6	15.9
Industrial Production*	2.5	5.3	4.7	2.7	2.1	2.0	1.7	1.5	-0.5	-1.0	-1.0	-1.0	1.6	3.9	2.6	0.1
Nonfarm Payroll Employment (mil.)	148.1	148.7	149.3	149.8	150.3	150.8	151.2	151.5	151.6	151.2	150.8	150.6	146.6	149.0	150.9	151.0
Unemployment rate	4.1	3.9	3.8	3.7	3.6	3.5	3.5	3.6	3.8	4.2	4.5	4.8	4.4	3.9	3.6	4.3
Consumer Price Index* (percent)	3.5	1.7	2.0	2.8	2.5	2.0	2.1	2.1	1.8	1.8	1.7	1.6	2.1	2.5	2.3	1.9
"Core" CPI* (percent)	3.0	1.8	2.0	1.9	2.2	2.1	2.1	2.1	2.0	1.9	1.8	1.8	1.8	2.1	2.1	2.0
PPI (finished goods)* (percent)	3.6	2.9	2.0	2.8	2.0	1.9	1.7	1.7	1.3	1.4	1.4	1.4	3.2	3.2	2.1	1.5
Trade Weighted Dollar (Fed BOG, major)	86.2	88.2	90.2	91.1	90.8	90.4	89.6	88.5	88.3	88.0	87.5	87.0	91.1	88.9	89.8	87.7
Crude Oil Prices -WTI (\$ per barrel)	63	68	70	63	52	52	51	51	50	50	46	47	51	66	52	48

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

Financial Data	History				Forecast								Annual Average			
	2018.1	2018.2	2018.3	2018.4	2019.1	2019.2	2019.3	2019.4	2020.1	2020.2	2020.3	2020.4	2017	2018	2019	2020
S & P 500	2,733	2,703	2,850										2,449			
Dow Jones Industrial Average	25,127	24,556	25,595										21,745			
Federal Funds Rate (effective)	1.45	1.74	1.92	2.19	2.46	2.71	2.88	2.88	2.79	2.54	2.29	2.04	1.00	1.83	2.73	2.42
Treasury-3 Month Bills (yield)	1.58	1.87	2.07	2.32	2.58	2.79	2.95	2.91	2.70	2.35	2.10	1.84	0.95	1.96	2.81	2.25
Treasury-2 Year Notes (yield)	2.16	2.48	2.67	2.85	2.91	3.00	2.98	2.95	2.90	2.65	2.40	2.15	1.40	2.54	2.96	2.53
Treasury-5 Year Notes (yield)	2.53	2.77	2.81	2.97	3.09	3.19	3.21	3.15	3.05	2.80	2.60	2.35	1.91	2.77	3.16	2.70
Treasury-10 Year Notes (yield)	2.76	2.92	2.92	3.10	3.22	3.32	3.38	3.31	3.21	3.00	2.80	2.65	2.33	2.93	3.31	2.92
Treasury-30 Year Notes (yield)	3.03	3.09	3.06	3.32	3.43	3.56	3.64	3.55	3.45	3.40	3.20	2.95	2.90	3.13	3.55	3.25
Prime Rate	4.53	4.80	5.01	5.25	5.50	5.75	6.00	6.00	5.90	5.60	5.35	5.10	4.10	4.90	5.81	5.49
Libor 3-Mo. U.S. Dollar	1.93	2.34	2.34	2.57	2.79	3.01	3.12	3.13	2.95	2.70	2.42	2.13	1.26	2.29	3.01	2.55
Mortgage-30 Year (yield)	4.28	4.54	4.57	4.75	4.92	5.03	5.09	5.02	4.95	4.75	4.60	4.50	3.99	4.53	5.02	4.70
BAA Corporate (yield)	4.47	4.78	4.81	5.15	5.40	5.60	5.80	6.10	6.30	6.40	6.35	6.20	4.44	4.80	5.73	6.31

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