

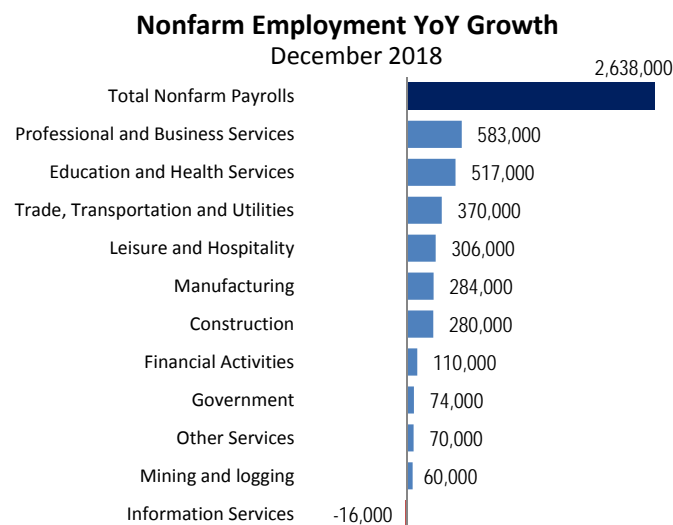
Date	Indicator	For	Estimate	Consensus*	Previous Period
7-Jan-11-Jan	Advance Goods Trade Balance	Nov	-\$76.0b	-\$76.0b	-\$77.0b
7-Jan-11-Jan	Wholesale Inventories MoM	Nov P	0.5%	0.5%	0.8%
7-Jan-11-Jan	New Home Sales	Nov	575k	568k	544k
7-Jan-11-Jan	Construction Spending MoM	Nov	0.2%	0.2%	-0.1%
7-Jan-2019	Factory Orders	Nov	-0.3%	0.3%	-2.1%
7-Jan-2019	ISM Non-Manufacturing Index	Dec	58.0	59.5	60.7
8-Jan-2019	NFIB Small Business Optimism	Dec	103.0	103.5	104.8
8-Jan-2019	Trade Balance	Nov	-\$54.5b	-\$54.0b	-\$55.5b
8-Jan-2019	JOLTS Job Openings	Nov	NA	NA	7079.0
8-Jan-2019	Consumer Credit	Nov	\$16.000b	\$14.250b	\$25.384b
9-Jan-2019	FOMC Meeting Minutes	Dec 19			
10-Jan-2019	Initial Jobless Claims	05-Jan	245k	NA	231k
10-Jan-2019	Wholesale Inventories MoM	Nov F	0.5%	0.5%	NA
11-Jan-2019	CPI MoM	Dec	-0.1%	-0.1%	0.0%
11-Jan-2019	CPI Ex Food and Energy MoM	Dec	0.2%	0.2%	0.2%

*Consensus from Bloomberg

Jobs Report Eases Near-Term Recession Concerns

Following yesterday's plunge in the ISM Manufacturing index for December, investor fear of a near-term recession reached a fever pitch and Fed funds futures started pricing in a Fed rate cut in 2019. What a difference a day makes. The December employment report exceeded all analysts' expectations. The U.S. economy added another 312k jobs in December, a 2.5% annualized pace, bringing the 3-month average of monthly job gains to a sizzling 254k. Job growth in the fourth quarter was the strongest in more than two years. The U.S. economy created 2.6 million net new jobs in 2018 up from a 2.2 million jobs in 2017.

2018 Was the Year of the Job

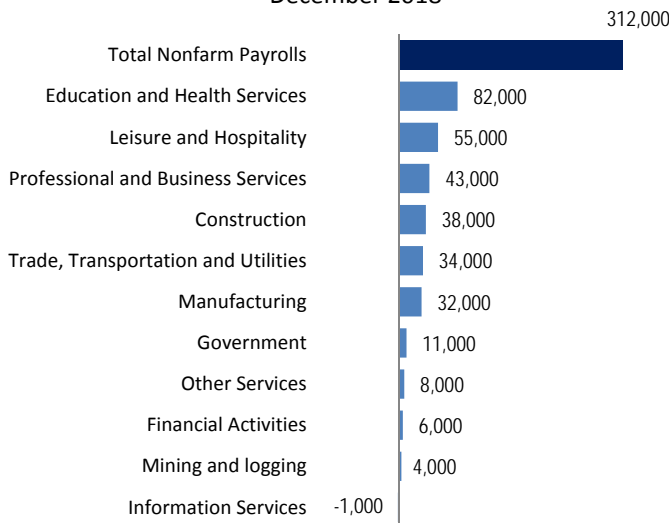


Source: BLS, Bank of the West

Job growth accelerated last month in education and health care (+82k), leisure and hospitality (+55k), construction (+38k), and manufacturing (+32k).

Construction and Manufacturing Job Creation Accelerates

Nonfarm Employment MoM Growth
December 2018

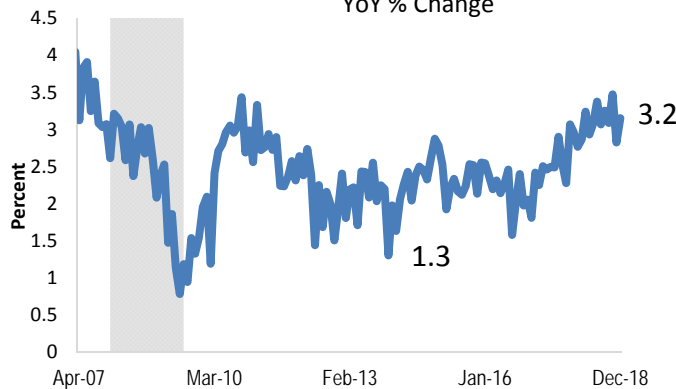


Source: BLS, Bank of the West

Wage growth also improved last month. Average hourly earnings growth increased 0.4% in December compared to a 0.2% gain in November. From a year ago, average hourly earnings growth improved to 3.2% from 3.1%.

Average Hourly Earnings Growth Improves

Average Weekly Earnings of Private Employees
YoY % Change



Source: Bureau of Labor Statistics

The U.S. unemployment rate did increase by two-tenths of a percentage point in December to 3.9%. The number of unemployed persons increased by 276K last month, but that was largely due to folks voluntarily quitting. Job leavers increased by 142K in December. This increase in the unemployment rate is not a sign of new weakness in the labor market or economy.

Bottom line, the U.S. economy is still performing quite well despite the recent stock market volatility. Strong job growth and improving average hourly earnings will keep consumer spending and the U.S. expansion going at a decent pace in the first half of 2019. We still see U.S. GDP growth slowing to around a 2.0% pace in the first half of 2019.

Implications for Monetary Policy and Interest Rates

For the Fed, the near-term risk of a U.S. recession remains low, but the stock and bond markets are signaling significant concern about the U.S. and global growth outlook, if the Federal Reserve carries out two additional quarter point rate hikes in 2019. Global stock market declines already realized will generate negative wealth effects that will dent U.S. consumer and business spending and confidence.

The drop in WTI crude oil prices to around \$45 a barrel, and coincident drop in commodity prices, has led us to reduce our consumer inflation forecasts for the fourth quarter and the first quarter of 2019. This will keep consumer inflation pressures low in 2019 and give the Federal Reserve more room to pause the current rate hike path. We no longer expect a Fed rate hike in March and have only one quarter point rate hike in 2019 at the June meeting. Fewer Fed rate hikes and reduced inflation have also pushed down our nominal interest rate forecasts across the Treasury yield curve. We see the 10-Year Treasury yield peaking at around 3.02% in the third quarter of 2019.

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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	3.4	2.5	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	3.5	3.5	2.3	2.3	2.1	1.9	1.5	1.0	1.0	1.0	2.5	2.7	2.7	1.5
Non-residential Fixed Investment*	11.5	8.7	2.5	5.7	3.8	4.1	3.7	3.4	1.5	1.5	1.5	1.5	5.3	6.9	4.4	2.3
Private Housing Starts (000s units)	1,317	1,261	1,234	1,250	1,260	1,240	1,220	1,210	1,190	1,185	1,180	1,175	1,208	1,266	1,233	1,183
Vehicle Sales (mill. Units, annualized)	17.1	17.1	16.9	17.5	16.9	16.8	16.7	16.5	16.2	15.9	15.6	15.9	17.2	17.1	16.7	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	150.0	150.4	150.9	151.3	151.6	151.7	151.3	150.9	150.7	146.6	149.0	151.0	151.1
Unemployment rate	4.1	3.9	3.8	3.8	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	1.5	0.6	2.0	2.1	2.1	1.8	1.8	1.7	1.6	2.1	2.4	1.6	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	0.1	-0.1	2.1	1.8	1.8	1.3	1.4	1.4	1.4	3.2	3.0	1.1	1.6
Trade Weighted Dollar (Fed BOG, major)	86.2	88.2	90.2	91.4	91.0	90.6	89.6	88.5	88.3	88.0	87.5	87.0	91.1	89.0	89.9	87.7
Crude Oil Prices -WTI (\$ per barrel)	63	68	70	60	47	49	48	48	47	47	44	45	51	65	48	46

*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	2,699									2,449	2,746		
Dow Jones Industrial Average	25,127	24,556	25,595	24,916									21,745	25,048		
Federal Funds Rate (effective)	1.45	1.74	1.92	2.22	2.38	2.46	2.63	2.63	2.54	2.29	2.04	1.79	1.00	1.83	2.53	2.17
Treasury-3 Month Bills (yield)	1.58	1.87	2.07	2.36	2.45	2.56	2.73	2.74	2.65	2.40	2.15	1.94	0.95	1.97	2.62	2.29
Treasury-2 Year Notes (yield)	2.16	2.48	2.67	2.80	2.55	2.67	2.85	2.80	2.75	2.60	2.35	2.15	1.40	2.53	2.72	2.46
Treasury-5 Year Notes (yield)	2.53	2.77	2.81	2.88	2.56	2.69	2.86	2.80	2.70	2.50	2.30	2.25	1.91	2.75	2.73	2.44
Treasury-10 Year Notes (yield)	2.76	2.92	2.92	3.04	2.72	2.87	3.02	2.96	2.93	2.80	2.60	2.50	2.33	2.91	2.89	2.71
Treasury-30 Year Notes (yield)	3.03	3.09	3.06	3.27	2.95	3.12	3.29	3.25	3.22	3.10	2.90	2.80	2.90	3.11	3.15	3.01
Prime Rate	4.53	4.80	5.01	5.28	5.50	5.58	5.73	5.73	5.63	5.38	5.13	4.87	4.10	4.90	5.64	5.25
Libor 3-Mo. U.S. Dollar	1.93	2.34	2.34	2.62	2.80	2.88	3.05	3.04	2.95	2.70	2.42	2.13	1.26	2.31	2.94	2.55
Mortgage-30 Year (yield)	4.28	4.54	4.57	4.78	4.53	4.72	4.85	4.85	4.85	4.70	4.50	4.40	3.99	4.54	4.74	4.61
BAA Corporate (yield)	4.47	4.78	4.81	5.14	5.20	5.40	5.60	5.90	6.10	6.20	6.20	6.10	4.44	4.80	5.53	6.15

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