

Date	Indicator	For	Estimate	Consensus*	Previous Period
10-Jan-18-Jan	Advance Goods Trade Balance	Nov	-\$76.0b	-\$76.1b	-\$77.0b
10-Jan-18-Jan	Wholesale Inventories MoM	Nov P	0.5%	0.5%	0.8%
10-Jan-18-Jan	New Home Sales	Nov	575k	566k	544k
10-Jan-18-Jan	Construction Spending MoM	Nov	0.2%	0.2%	-0.1%
10-Jan-18-Jan	Factory Orders	Nov	-0.3%	0.3%	-2.1%
10-Jan-18-Jan	Trade Balance	Nov	-\$54.5b	-\$54.0b	-\$55.5b
15-Jan-2019	Empire Manufacturing	Jan	13.0	12.0	10.9
15-Jan-2019	PPI Final Demand MoM	Dec	-0.2%	-0.1%	0.1%
15-Jan-2019	PPI Ex Food and Energy MoM	Dec	0.0%	0.2%	0.3%
16-Jan-2019	Retail Sales Advance MoM	Dec	0.1%	0.3%	0.2%
16-Jan-2019	Retail Sales Ex Auto MoM	Dec	0.0%	0.2%	0.2%
16-Jan-2019	Import Price Index MoM	Dec	-1.8%	-1.3%	-1.6%
16-Jan-2019	Business Inventories	Nov	0.3%	0.3%	0.6%
16-Jan-2019	NAHB Housing Market Index	Jan	58.0	57.0	56.0
16-Jan-2019	Federal Reserve Releases Beige Book				
16-Jan-2019	Net Long-term TIC Flows	Nov	NA	NA	\$31.3b
17-Jan-2019	Building Permits	Dec	1286k	1280k	1328k
17-Jan-2019	Housing Starts	Dec	1243k	1248k	1256k
17-Jan-2019	Initial Jobless Claims	12-Jan	225k	NA	216k
17-Jan-2019	Philadelphia Fed Business Outlook	Jan	11.0	10.0	9.4
18-Jan-2019	Industrial Production MoM	Dec	-0.1%	0.2%	0.6%
18-Jan-2019	Capacity Utilization	Dec	78.5%	78.5%	78.5%
18-Jan-2019	U. of Mich. Sentiment Index	Jan P	96.0	96.4	98.3

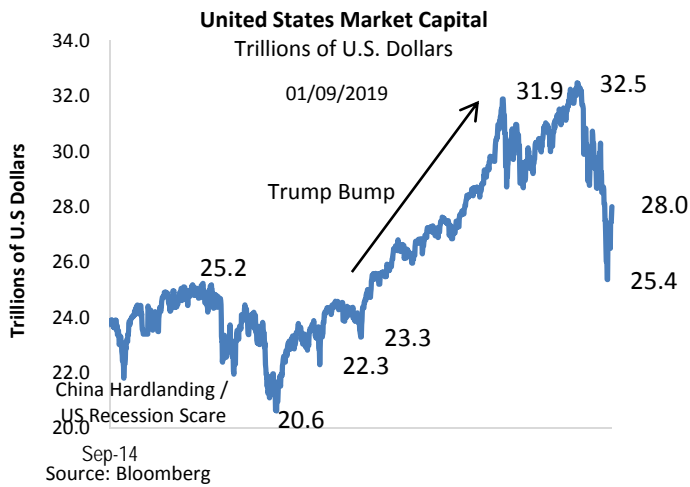
*Consensus from Bloomberg

Estimating the Economic Impact of the Market Decline

Since Trump's election in 2016 through last September, U.S. equity markets were on a one-way trip to the moon. U.S. total stock market capitalization swelled by \$9.2 trillion as financial markets factored in substantial corporate tax cuts and increased government spending into their after-tax earnings calculations. But U.S. equity markets have been on a roller coaster ride since hitting record-high levels at the end of September and are still off by some \$4.5 trillion from the September highs -- Nearly half of the stock market gains that have been accumulated over the last two years have been wiped out in three short months. But what starts on Wall Street rarely stays on Wall Street.

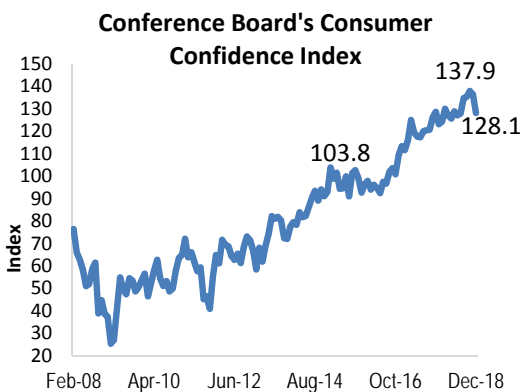
The discussions and information contained in this document are the opinions of the author and should not be construed or used as a specific recommendation for the investment of assets, and is not intended as an offer, or a solicitation of an offer, to purchase or sell any security or financial instrument. Nor does the information constitute advice or an expression of the Bank's view as to whether a particular security or financial instrument is appropriate for you or meets your financial objectives. Economic and market observations and forecasts, such as those offered by Bank of the West Economics reflect subjective judgments and assumptions, and unexpected events may occur. There can be no assurance that developments will transpire as forecasted. Nothing in this document should be interpreted to state or imply that past results are an indication of future performance.

Stock Wealth Declines Have Been Substantial



The stock declines we have seen, if sustained, will have real world impacts on our economic outlook for 2019 and beyond. Consumer confidence could be seriously impacted. While the Conference Board’s Consumer Confidence Index is still high by historical standards, it has already slipped by about 10 points since hitting an expansion high of 137.9 in October 2018. Further declines in consumer confidence can be expected as the reality of consumers’ lost wealth slowly sinks in.

Consumer Confidence Takes a Hit



Source: Conference Board

More importantly, the loss of household wealth on its own will cause many consumers to put their wallets away and start spending less. In this week’s outlook report, we tally up the potential economic damage from the stock wealth declines to date.

Macroeconomic studies show that for every dollar of stock market wealth lost, the hit to consumer spending is somewhere between 2 cents and 5 cents over a year’s time. So a simple back of the envelop calculation of the negative impact on consumer spending over the coming year comes to an astounding \$90B to \$225B, if the stock market declines to date hold.

Real consumer spending grew at a healthy 2.8% in 2018 Q4/Q4. We have been forecasting a slowdown in real consumer spending growth to 2.2% Q4/Q4 in 2019. But factoring in the negative impacts of a permanent loss in household wealth of \$4.5 trillion, the hit to real consumer spending growth could be an additional 0.7 to 1.7 percentage points this year. In short, real consumer spending growth in 2019 could slow to between 0.5 and 1.5% Q4/Q4.

In short, the real world economic impacts from the stock market carnage over the last three months could be substantial and may fundamentally alter the U.S. economic outlook over the coming year if sustained. It is little wonder the Federal Reserve has adopted a much more dovish tone regarding additional rate hikes since the stock market selloff has intensified. The U.S. consumer has been the driver of economic growth over the past year, but the strength of consumer spending could soon be called into question in 2019. In this context, the earnings warning from Macy’s takes on far more significance.

The discussions and information contained in this document are the opinions of the author should not be construed or used as a specific recommendation for the investment of assets, and is not intended as an offer, or a solicitation of an offer, to purchase or sell any security or financial instrument. Nor does the information constitute advice or an expression of the Bank’s view as to whether a particular security or financial instrument is appropriate for you or meets your financial objectives. Economic and market observations and forecasts, such as those offered by Bank of the West Economics reflect subjective judgments and assumptions, and unexpected events may occur. There can be no assurance that developments will transpire as forecasted. Nothing in this document should be interpreted to state or imply that past results are an indication of future performance.

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