

Date	Indicator	For	Estimate	Consensus*	Previous Period
25-Mar-2019	Chicago Fed Nat Activity Index	Feb	NA	-0.25	-0.43
25-Mar-2019	Dallas Fed Manufacturing Activity	Mar	7.0	9.6	13.1
26-Mar-2019	Housing Starts	Feb	1236k	1218k	1230k
26-Mar-2019	Building Permits	Feb	1300k	1320k	1317k
26-Mar-2019	FHFA House Price Index MoM	Jan	0.3%	0.4%	0.3%
26-Mar-2019	S&P CoreLogic CS 20-City MoM SA	Jan	0.3%	0.3%	0.2%
26-Mar-2019	Richmond Fed Manufacturing Index	Mar	10.0	12.0	16.0
26-Mar-2019	Conf. Board Consumer Confidence	Mar	131.8	132.1	131.4
27-Mar-2019	Trade Balance	Jan	-\$56.4b	-\$57.5b	-\$59.8b
27-Mar-2019	Current Account Balance	4Q	-\$129.0b	-\$130.0b	-\$124.8b
28-Mar-2019	GDP Annualized QoQ	4Q T	2.2%	2.4%	2.6%
28-Mar-2019	GDP Price Index	4Q T	1.8%	1.8%	1.8%
28-Mar-2019	Initial Jobless Claims	23-Mar	226k	225k	221k
28-Mar-2019	Pending Home Sales MoM	Feb	0.8%	0.0%	4.6%
28-Mar-2019	Kansas City Fed Manufacturing Activity	Mar	0.0	NA	1.0
29-Mar-2019	Personal Income	Feb	0.2%	0.3%	-0.1%
29-Mar-2019	Personal Spending	Jan	0.4%	0.3%	-0.5%
29-Mar-2019	PCE Deflator MoM	Jan	0.1%	0.0%	0.1%
29-Mar-2019	PCE Core MoM	Jan	0.2%	0.2%	0.2%
29-Mar-2019	Chicago Purchasing Manager	Mar	60.0	61.0	64.7
29-Mar-2019	New Home Sales	Feb	627k	620k	607k
29-Mar-2019	U. of Mich. Sentiment	Mar F	97.5	97.8	97.8

*Consensus from Bloomberg

Manufacturing Leading the Way Lower

U.S. industrial production eked out a 0.1% gain last month after declining -0.4% in January. While the rebound seems like a positive development, it was largely due to a one-time 3.7% winter weather jump in utilities output after two consecutive declines.

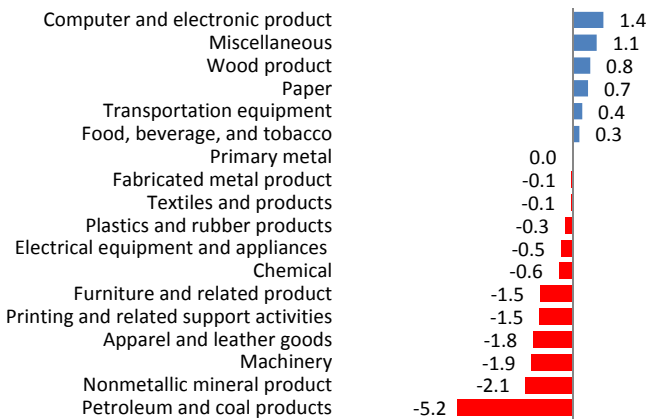
What really caught our attention was the 0.4% decline in manufacturing output following a 0.5% drop the previous month. These are the first back-to-back declines in U.S. manufacturing production since the index dropped for three consecutive months beginning in July 2017. Furthermore, manufacturing output is now up just a modest 1.2% from a year ago.

Production declines occurred across most manufacturing industries last month, led by petroleum and coal products (-5.2%), nonmetallic mineral products (-2.1%) and machinery (-1.9%). The decline in machinery is particularly noteworthy as it could be pointing to a further pullback in business investment spending, which would weigh on GDP growth. Machinery production has now declined in two of the last three months and the 1.9% decline in February was the steepest since June 2015 when it contracted 2.3%.

Only six of 18 major manufacturing sectors experienced positive growth in February with computer and electronic products (+1.4%), wood products (+0.8%) and paper (+0.7%) expanding at the fastest rates.

Production Declined in Most Manufacturing Industries

Industrial Production MoM% Growth
February 2019

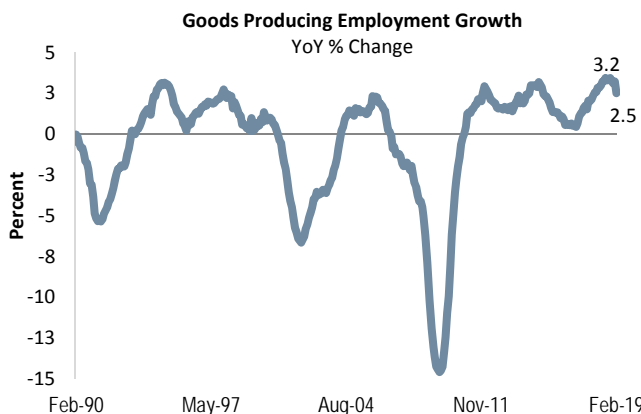


Source: Board of Governors of the Federal Reserve System (US)

Goods Producing Employment Growth is Slowing Too

Consistent with the recent declines in manufacturing output is a noticeable deceleration in employment growth in goods producing industries. Growth from a year earlier fell from 3.2% in January to 2.5% in February, the slowest pace since November 2017. The pick-up in employment growth in goods producing industries was largely responsible for the resilience in total non-farm job growth last year. The loss of momentum in job creation in goods producing industries is a harbinger of slower overall U.S. job growth ahead.

Goods Producing Employment Growth Slowed in February

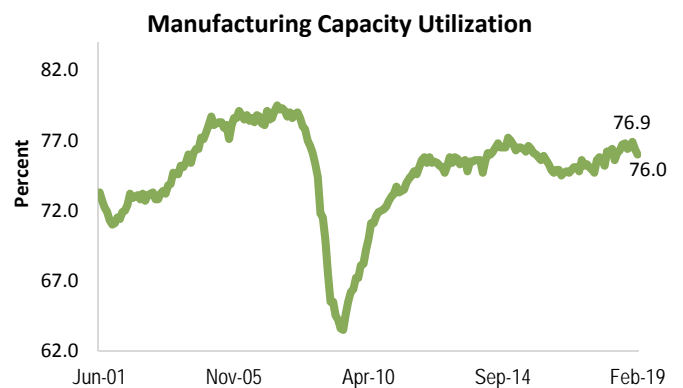


Source: U.S. Bureau of Labor Statistics

Manufacturing Capacity Constraints Are Easing

Moreover, manufacturing capacity utilization may have already peaked for this cycle. Capacity utilization for manufacturing fell 0.4 percentage points in February to 76.0%. This is the second straight monthly decline, leaving capacity utilization about three percentage points below the long-run average from 1972-2018. The easing in capacity constraints in manufacturing implies less inflationary pressures in the production pipeline and has important implications for monetary policy ahead.

Manufacturing Capacity Utilization Has Been Declining



Source: Federal Reserve System

The Industrial Production Outlook

Industrial production growth from a year earlier reached a peak of 5.1% in the third quarter of 2018 and then moderated to 4.2% in the fourth quarter. We are forecasting industrial production of only 0.3% annualized in the first quarter of 2019 and by the end of 2019 industrial production growth from a year ago is expected to fall back to a modest 1.0%. Taking a peak into 2020, the pace of industrial production growth could be even slower.

Historically, the manufacturing sector weakens ahead of the overall economy due to its cyclical nature. But eventually the weakness spreads from manufacturing to the services side of the economy, triggering a more general economic slowdown. There is little reason to believe the next U.S. economic downturn will unfold any differently.

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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	2.6	1.0	2.0	1.8	1.7	1.0	0.6	0.5	0.5	2.2	2.9	2.1	1.1
Personal Consumption Expenditures*	0.5	3.8	3.5	2.8	0.9	2.3	2.1	1.9	1.5	1.0	1.0	1.0	2.5	2.6	2.2	1.5
Non-residential Fixed Investment*	11.5	8.7	2.5	6.2	4.2	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	1,234	1,151	1,260	1,240	1,220	1,210	1,190	1,185	1,180	1,175	1,208	1,241	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	5.2	4.9	4.0	0.3	1.0	1.7	1.0	-0.5	-1.0	-1.0	-1.0	1.6	4.0	2.2	0.0
Nonfarm Payroll Employment (mil.)	148.0	148.7	149.4	150.1	150.6	151.1	151.6	152.1	152.4	152.0	151.6	151.4	146.6	149.1	151.4	151.8
Unemployment rate	4.1	3.9	3.8	3.8	3.8	3.7	3.6	3.7	3.9	4.2	4.5	4.8	4.4	3.9	3.7	4.4
Consumer Price Index* (percent)	3.2	2.1	2.0	1.5	1.2	2.1	2.1	2.1	1.8	1.8	1.7	1.6	2.1	2.4	1.8	1.9
"Core" CPI* (percent)	2.7	1.9	2.0	2.2	2.0	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)	3.8	2.7	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	91.3	90.6	89.6	88.5	88.3	88.0	87.5	87.0	91.1	89.0	90.0	87.7
Crude Oil Prices -WTI (\$ per barrel)	63	68	70	60	54	54	53	53	51	50	47	46	51	65	54	49

*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	2.40	2.40	2.40	2.40	2.29	2.04	1.79	1.63	1.00	1.83	2.40	1.94
Treasury-3 Month Bills (yield)	1.58	1.87	2.07	2.36	2.44	2.45	2.44	2.43	2.30	2.05	1.80	1.64	0.95	1.97	2.44	1.95
Treasury-2 Year Notes (yield)	2.16	2.48	2.67	2.80	2.51	2.45	2.45	2.46	2.38	2.15	1.92	1.87	1.40	2.53	2.47	2.08
Treasury-5 Year Notes (yield)	2.53	2.77	2.81	2.88	2.50	2.40	2.42	2.48	2.41	2.22	2.10	2.05	1.91	2.75	2.45	2.20
Treasury-10 Year Notes (yield)	2.76	2.92	2.92	3.04	2.65	2.55	2.60	2.68	2.62	2.51	2.30	2.28	2.33	2.91	2.62	2.43
Treasury-30 Year Notes (yield)	3.03	3.09	3.06	3.27	3.02	2.99	3.05	3.06	3.00	2.88	2.85	2.80	2.90	3.11	3.03	2.88
Prime Rate	4.53	4.80	5.01	5.28	5.50	5.50	5.50	5.50	5.38	5.13	4.87	4.69	4.10	4.90	5.50	5.02
Libor 3-Mo. U.S. Dollar	1.93	2.34	2.34	2.62	2.71	2.65	2.65	2.68	2.60	2.35	2.10	1.94	1.26	2.31	2.67	2.25
Mortgage-30 Year (yield)	4.28	4.54	4.57	4.78	4.41	4.33	4.40	4.50	4.53	4.45	4.40	4.38	3.99	4.54	4.41	4.44
BAA Corporate (yield)	4.47	4.78	4.81	5.14	5.01	4.95	5.40	5.70	6.20	6.20	6.10	6.10	4.44	4.80	5.27	6.15

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