

Date	Indicator	For	Estimate	Consensus*	Previous Period
1-Apr-2019	Retail Sales Advance MoM	Feb	0.3%	0.3%	0.2%
1-Apr-2019	Retail Sales Ex Auto MoM	Feb	0.5%	0.4%	0.9%
1-Apr-2019	Markit US Manufacturing PMI	Mar F	52.5	52.5	52.5
1-Apr-2019	ISM Manufacturing	Mar	54.0	54.1	54.2
1-Apr-2019	Construction Spending MoM	Feb	-0.3%	-0.1%	1.3%
1-Apr-2019	Business Inventories	Jan	0.3%	0.4%	0.6%
2-Apr-2019	Durable Goods Orders	Feb P	-1.8%	-1.2%	0.3%
2-Apr-2019	Durables Ex Transportation	Feb P	-0.1%	0.3%	-0.2%
2-Apr-2019	Wards Total Vehicle Sales	Mar	16.7m	16.65m	16.56m
3-Apr-2019	ADP Employment Change	Mar	175k	180k	183k
3-Apr-2019	Markit US Services PMI	Mar F	54.8	NA	54.8
3-Apr-2019	Markit US Composite PMI	Mar F	NA	NA	54.3
3-Apr-2019	ISM Non-Manufacturing Index	Mar	58.4	58.0	59.7
4-Apr-2019	Initial Jobless Claims	30-Mar	218k	NA	211k
5-Apr-2019	Change in Nonfarm Payrolls	Mar	170k	175k	20k
5-Apr-2019	Change in Manufacturing Payrolls	Mar	8k	NA	4k
5-Apr-2019	Unemployment Rate	Mar	3.8%	3.8%	3.8%
5-Apr-2019	Average Hourly Earnings MoM	Mar	0.3%	0.2%	0.4%
5-Apr-2019	Average Weekly Hours All Employees	Mar	34.5	34.5	34.4
5-Apr-2019	Consumer Credit	Feb	\$18.000b	\$17.500b	\$17.049b

\*Consensus from Bloomberg

## Will Consumers Resurface in the Second Quarter?

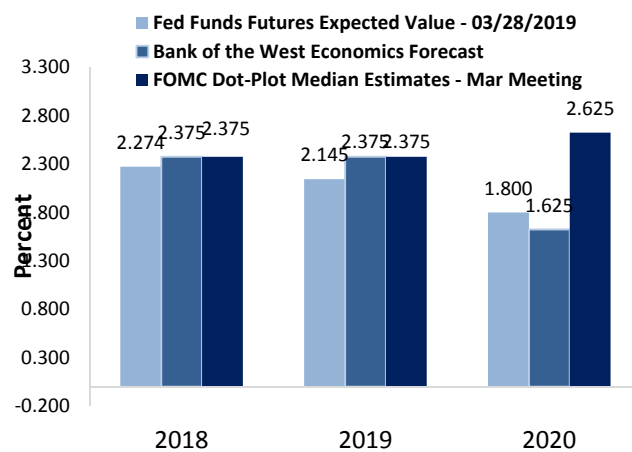
Our forecast for a second quarter rebound in U.S. GDP growth to around 2.0% will largely depend on U.S. consumers returning to the stores and opening their wallets despite the worrying recession signals coming from the U.S. Treasury bond market.

The Treasury yield curve has moved deeper into inversion since last week's FOMC meeting. And the Fed funds futures market has begun to price in not one, but two or more quarter-point rate hikes before the end of 2020. A recession probability model from the Cleveland Fed is flashing amber (32.7% probability) at the possibility of a downturn beginning about 12 months from now. But despite all the hand wringing over the yield curve inversion, corporate credit spreads remain historically tight and show little concern for future credit losses. Moreover, the stock market is about ready to close out its

best quarterly performance in ten years. Year-to-date the S&P 500 is up 12.8%.

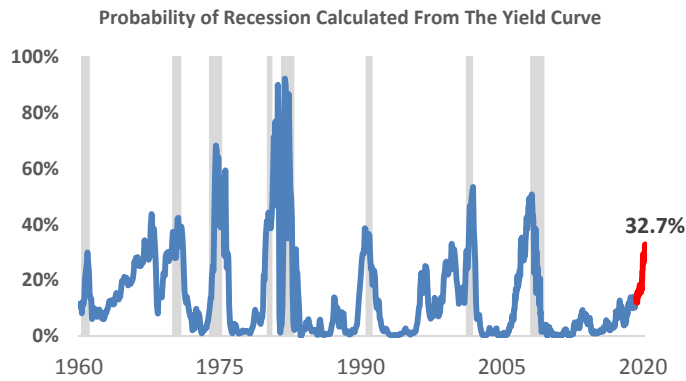
## Real Average Hourly Earnings Growth Accelerates

### Fed Funds Rate Outlook (Year-End)



Source: Chicago Board of Trade; Federal

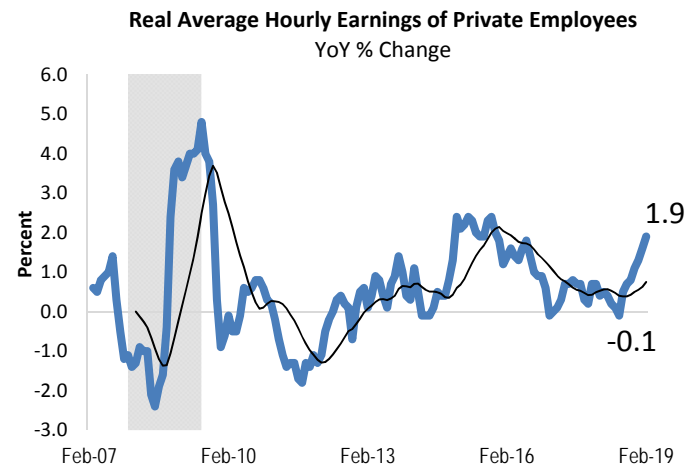
**Probability of Recession A Year from Now**



Source: Cleveland Fed

Here is why we are forecasting a consumer spending comeback into the 2.3% annualized growth range in the second quarter. First, sub-4.0% unemployment rates are finally leading to stronger real average hourly earnings growth. Real average hourly earnings growth has accelerated rapidly in recent months, hitting 1.9% for the first time since 2015. Stronger average hourly earnings growth will ensure consumer spending growth continues at a decent pace over the near-term.

**Real Average Hourly Earnings Growth Accelerates**

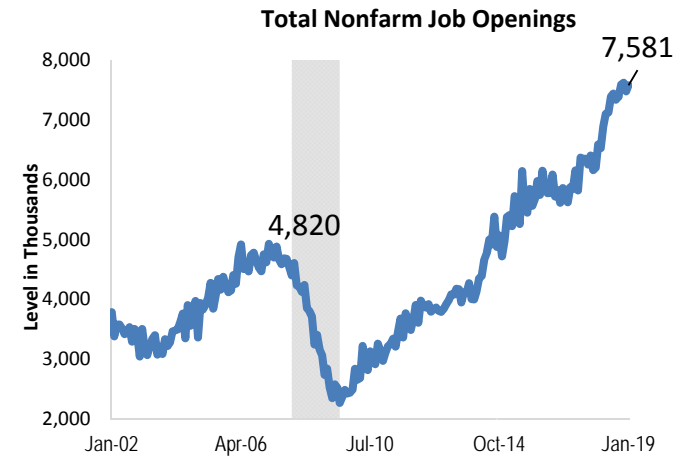


Source: Bureau of Labor Statistics

Second, the U.S. labor market shows few signs of buckling. U.S. job opening are just below November’s record high levels and initial jobless claims are still near historical lows well into March. We are forecasting an acceleration in

nonfarm payroll growth in March to around 170K from 20K in February when the employment report is released next Friday.

**Job Openings Just Below Record High Levels**



Source: U.S. Bureau of Labor Statistics

Third, the S&P 500 is now only 3.6% shy of its September 20<sup>th</sup> record high level. Household net worth dropped in the fourth quarter from record high levels in the third quarter, but a strong stock market rebound in Q1 2019 is bound to bring household net worth back to record high levels again.

In short, U.S. consumers have a lot going for them right now. China and Europe’s economic slowdown, and the U.K. Brexit do not even register on households’ income and balance sheet statements today. They are a distant curiosity at this point. More ever-present for consumers is the Federal Reserve’s pivot to the sidelines on further interest rate hikes, which is helping to bring down borrowing costs for consumers and businesses alike. The 30-year mortgage rate has dropped about 0.8 percentage points since its November 2018 high. And mortgage purchase applications are surging as a result - up 8.3% over the last month alone.

So watch out bond market, the U.S. consumer still has a little more gas in the tank. The economic rebound and strength of the consumer in the second quarter could take the Treasury bond market by surprise.

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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	2.2	1.1	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	2.5	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	5.4	3.6	4.1	3.7	3.4	1.5	1.5	1.5	1.5	5.3	6.9	4.2	2.3
Private Housing Starts (000s units)	1,317	1,261	1,234	1,185	1,260	1,240	1,220	1,210	1,190	1,185	1,180	1,175	1,208	1,249	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*	2.3	4.6	5.2	3.7	0.3	1.0	1.7	1.0	-0.5	-1.0	-1.0	-1.0	1.6	3.9	2.1	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	91.4	91.6	90.6	89.5	89.3	89.0	88.5	88.0	91.1	89.0	90.8	88.7
Crude Oil Prices -WTI (\$ per barrel)	63	68	70	60	55	57	56	55	53	52	49	47	51	65	56	50

\*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