

Date	Indicator	For	Estimate	Consensus*	Previous Period
29-Apr-2019	Personal Income	Mar	0.3%	0.4%	0.2%
29-Apr-2019	Personal Spending	Mar	0.7%	0.7%	NA
29-Apr-2019	PCE Deflator MoM	Mar	0.3%	0.3%	NA
29-Apr-2019	PCE Core Deflator MoM	Mar	0.1%	0.1%	NA
29-Apr-2019	Dallas Fed Manufacturing Activity	Apr	10.0	10.1	8.3
30-Apr-2019	Employment Cost Index	1Q	0.8%	0.7%	0.7%
30-Apr-2019	S&P CoreLogic CS 20-City MoM SA	Feb	0.2%	0.3%	0.1%
30-Apr-2019	MNI Chicago PMI	Apr	59.5	59.0	58.7
30-Apr-2019	Pending Home Sales MoM	Mar	1.5%	0.5%	-1.0%
30-Apr-2019	Conf. Board Consumer Confidence	Apr	126.0	126.0	124.1
1-May-2019	ADP Employment Change	Apr	190k	180k	129k
1-May-2019	Markit US Manufacturing PMI	Apr F	52.4	52.4	52.4
1-May-2019	ISM Manufacturing	Apr	55.5	55.0	55.3
1-May-2019	Construction Spending MoM	Mar	0.3%	0.2%	1.0%
1-May-2019	FOMC Rate Decision (Upper Bound)	01-May	2.50%	2.50%	2.50%
1-May-2019	FOMC Rate Decision (Lower Bound)	01-May	2.25%	2.25%	2.25%
1-May-2019	Wards Total Vehicle Sales	Apr	17.00m	17.00m	17.50m
2-May-2019	Nonfarm Productivity	1Q P	1.0%	1.2%	1.9%
2-May-2019	Unit Labor Costs	1Q P	2.2%	2.1%	2.0%
2-May-2019	Initial Jobless Claims	27-Apr	210k	215k	230k
2-May-2019	Factory Orders	Mar	1.1%	1.1%	-0.5%
3-May-2019	Advance Goods Trade Balance	Mar	-\$73.0b	-\$73.5b	-\$70.9b
3-May-2019	Wholesale Inventories MoM	Mar P	0.2%	0.2%	0.2%
3-May-2019	Change in Nonfarm Payrolls	Apr	190k	185k	196k
3-May-2019	Change in Manufacturing Payrolls	Apr	10k	13k	-6k
3-May-2019	Unemployment Rate	Apr	3.7%	3.8%	3.8%
3-May-2019	Average Hourly Earnings MoM	Apr	0.3%	0.3%	0.1%
3-May-2019	Average Weekly Hours All Employees	Apr	34.5	34.5	34.5
3-May-2019	Markit US Services PMI	Apr F	52.8	52.9	52.9
3-May-2019	Markit US Composite PMI	Apr F	NA	NA	52.8
3-May-2019	ISM Non-Manufacturing Index	Apr	56.8	57.0	56.1

*Consensus from Bloomberg

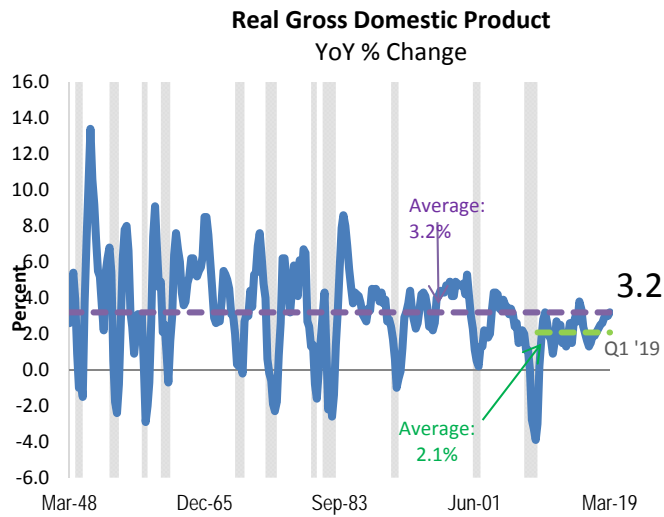
A First Quarter GDP Head Fake

The word “fake news” comes to mind with this morning’s Q1 advance GDP release. The Bureau of Economic Analysis reported a blowout headline 3.2% annualized GDP growth rate in the first quarter of 2019, a solid improvement on the fourth quarter’s 2.2% growth performance. This is the best first-quarter GDP growth

performance for the U.S. economy since 2015, breaking a string of three consecutive years of disappointment. On the surface, what’s not to like, right? Indeed, the president appeared impressed and was quick to tweet and take credit for the 3.0%-plus GDP growth rate last quarter.

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U.S. GDP Growth Continues to Impress



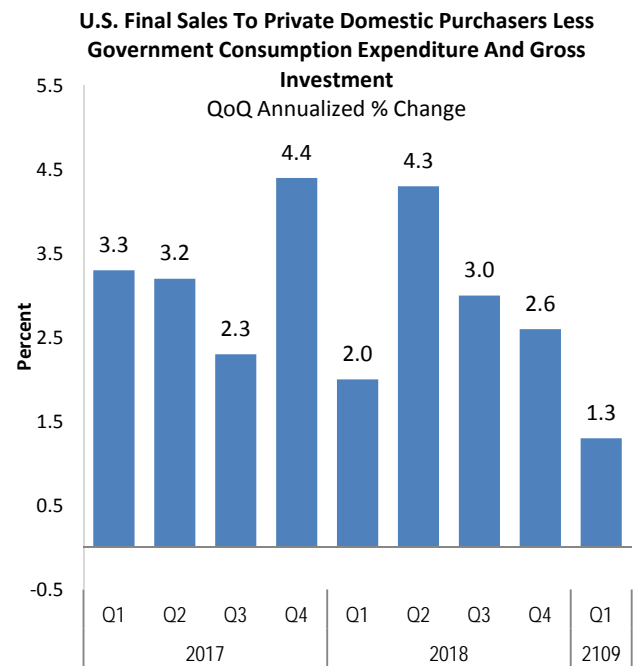
Source: U.S. Bureau of Economic Analysis

Even on a year-ago basis, U.S. GDP growth has been impressive, finally accelerating to 3.2%. This 12-month growth rate is right in line with the historical average for U.S. GDP going back to 1948, and well above the 2.1% average for the current economic cycle.

Unfortunately, the reports details point to broad-based underlying weakness in private demand, both consumer and business spending, and a troubling buildup of business inventories that sets the U.S. economy up for potential growth challenges in the quarters ahead.

The increase in business inventories and improvement in net exports added more than half of last quarter’s impressive GDP growth (1.68 percentage points of the 3.2% GDP growth rate). Meanwhile, final sales to private domestic purchasers continues to deteriorate. This is a measure of just real consumer spending plus gross fixed investment spending. After hitting a post-tax reform peak of 4.3% growth in the second quarter of last year, final sales to private domestic purchasers has been slumping for nine months now, hitting an anemic 1.3% annualized growth rate in the first quarter. The worst performance on this measure since the Trump administration came to power.

Private Domestic Purchases Slumping



Source: Bureau of Economic Analysis

Yes, U.S. growth bounced back in the first quarter, but it was from the wrong sources to sustain the momentum. Business inventories increased by a whopping \$128.4 billion in the first quarter and will need to be worked down in the quarters ahead. The U.S. trade balance improvement looks like it was largely a one-off 4.4% decline in U.S. imports as we anticipated and will not be repeated in the quarters ahead.

In short, we continue to forecast a sharp slowing in U.S. GDP growth in the second quarter to a 1.7% annualized growth rate, and our outlook for the second half of 2019 and 2020 remain unaltered by today’s upside GDP growth surprise. The economic data coming out of Japan, South Korea, and Germany continue to be ugly, coming in worse-than-consensus forecasts. It is telling that U.S. stock markets have been basically trading water since the Q1 GDP release and U.S. Treasury yields are dropping across the curve with the Fed funds futures market pricing in a higher and not lower chance of a rate cut by January 2020 (currently 70.3% probability of a rate cut).

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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	3.2	1.7	1.5	1.5	1.0	0.6	0.5	0.5	2.2	2.9	2.5	1.0
Personal Consumption Expenditures*	0.5	3.8	3.5	2.5	1.2	2.6	2.1	1.9	1.5	1.0	1.0	1.0	2.5	2.6	2.3	1.5
Non-residential Fixed Investment*	11.5	8.7	2.5	5.4	2.7	2.9	3.3	2.5	1.5	1.5	1.5	1.5	5.3	6.9	3.7	2.0
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	4.0	-0.3	1.0	1.7	1.0	-0.5	-1.0	-1.0	-1.0	1.6	4.0	2.0	0.0
Nonfarm Payroll Employment (mil.)	148.0	148.7	149.4	150.1	150.7	151.2	151.7	152.1	152.4	152.0	151.7	151.5	146.6	149.1	151.4	151.9
Unemployment rate	4.1	3.9	3.8	3.8	3.9	3.7	3.7	3.8	3.9	4.2	4.5	4.8	4.4	3.9	3.8	4.4
Consumer Price Index* (percent)	3.2	2.1	2.0	1.5	0.9	2.1	2.1	2.1	1.8	1.8	1.7	1.6	2.1	2.4	1.7	1.9
"Core" CPI* (percent)	2.7	1.9	2.0	2.2	2.3	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	0.5	-2.5	2.1	1.8	1.8	1.3	1.4	1.4	1.4	3.2	3.1	0.6	1.6
Trade Weighted Dollar (Fed BOG, major)	86.2	88.2	90.2	91.4	91.5	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	62	60	59	58	57	53	52	51	65	59	55

*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	2,721								2,449	2,746		
Dow Jones Industrial Average	25,127	24,556	25,595	24,916	25,147								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