

| Date | Indicator | For | Estimate | Consensus* | Previous Period |
|-------------|--|--------|----------|------------|-----------------|
| 20-May-2019 | Chicago Fed Nat Activity Index | Apr | NA | NA | -0.15 |
| 21-May-2019 | Existing Home Sales | Apr | 5.30m | 5.35m | 5.21m |
| 22-May-2019 | FOMC Meeting Minutes | May | | | |
| 23-May-2019 | Initial Jobless Claims | 18-May | 220k | NA | 212k |
| 23-May-2019 | Markit US Manufacturing PMI | May P | 53.0 | NA | 52.6 |
| 23-May-2019 | Markit US Services PMI | May P | 53.2 | NA | 53.0 |
| 23-May-2019 | Markit US Composite PMI | May P | NA | NA | 53.0 |
| 23-May-2019 | New Home Sales | Apr | 680k | 675k | 692k |
| 23-May-2019 | Kansas City Fed Manufacturing Activity | May | 7.0 | NA | 5.0 |
| 24-May-2019 | Durable Goods Orders | Apr P | -2.8% | -1.5% | 2.6% |
| 24-May-2019 | Durables Ex Transportation | Apr P | 0.2% | 0.3% | 0.3% |

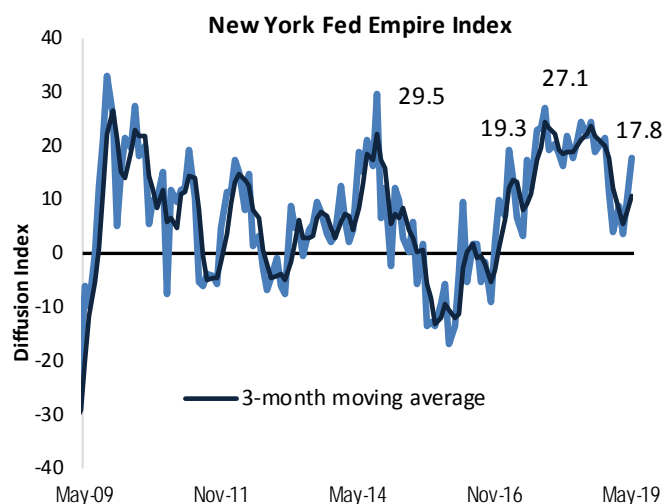
*Consensus from Bloomberg

U.S. Economic Indicators Send Mixed Signals

What are the near-term prospects for the U.S. economy? Is the glass half-full or half-empty as we move through the second quarter? It's a tough call. Right now both answers probably are the right one. We believe the U.S. economy will grow at around 1.7% annualized in the second quarter. This is significantly lower than the first quarter's 3.2% pace, but still slightly above the U.S. economy's potential growth rate of around 1.6%. Indeed, in many respects, the U.S. economic expansion continues to trundle along, with few signs of abating.

This week we saw a decent improvement in both the Empire State and Philadelphia Fed manufacturing indexes, both of which comprise our first look at manufacturing activity in the month of May. The Empire State General Business Conditions Index jumped to 17.8, the second consecutive month of improvement in this index and a level that is well-above its six-month average of 9.3. Shipments have been leading the advance in this index over the last two months, and the new orders sub-index has also improved over the same period.

May Looking Better for Manufacturing Activity

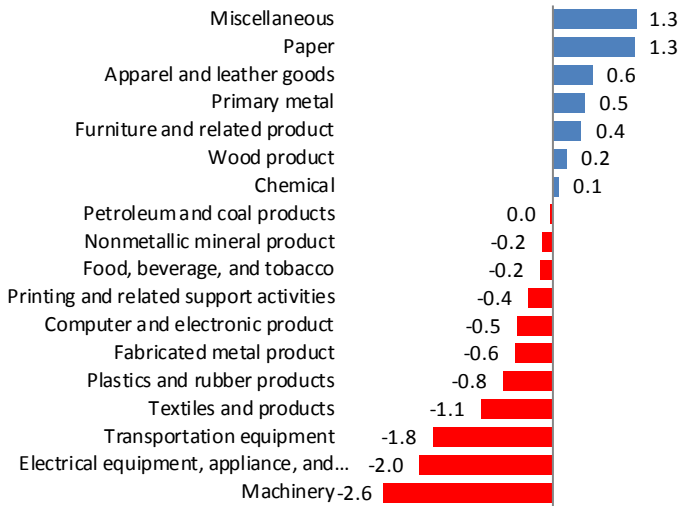


Source: Federal Reserve Bank of New York

However, April U.S. industrial production felt terrible, dropping another 0.5% after declining at a 1.9% annualized rate in the first quarter. April saw big declines in machinery production, electrical equipment and appliances, transportation equipment, and textiles.

Manufacturing Production Falters Again in April

Industrial Production MoM% Growth
April 2019



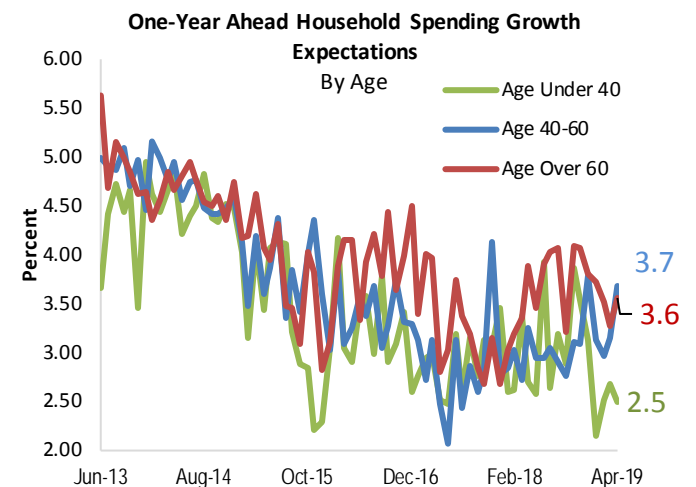
Source: Board of Governors of the Federal Reserve System (US)

Preliminary durable goods orders for April, due next Friday, are forecast to drop a sharp 2.8% from March. But after factoring out volatile Boeing aircraft orders (think 737 Max 8s), durable orders could actually manage a 0.2% increase. There is little doubt that increasing import and export tariffs with China will be a major cost and supply chain hurdle for U.S. manufacturers in the months and quarters ahead. In the meantime, U.S. manufacturers are starting from a somewhat more solid starting point than the industrial production data would have us believe.

Moreover, the U.S. labor market shows no sign of buckling under the strain of global economic slowdown and the escalating trade war with China. Initial jobless claims just last week returned to a one-month low of 212k, revealing the momentum and resilience of this economic expansion.

Our economic future depends on how U.S. consumers deal with the increased uncertainty of the trade war. Will confidence and spending remain strong, or will consumers start to hunker down to prepare for a rainy day? The New York Fed Survey of Consumer Expectations shows a widening gap in one-year ahead household spending expectations. Young consumers (under 40-years-old) and consumers in the Northeast and Midwest regions appear to be curtailing their spending expectations more than others.

Consumers Planning to Curtail Their Spending



Source: New York Fed Survey of Consumer Expectations

We also note that real consumer spending has increased 2.9% over the past year through March, while real personal income is up only 1.8%. A gap between real spending and income growth can occur for a while, but eventually it will force consumers to scale back on their future purchases. Real consumer spending growth is expected to rebound to a respectable 2.6% annualized this quarter, but we do not see a return to the heady 3% or more consumer spending growth we saw in the middle of last year (shortly after the Tax Reform and Jobs Act was passed). Moreover, obstacles to consumer spending look like they will only increase from here and spending growth is expected to dip below 2% by 2020. So is the glass half-full or half-empty? Right now the truth is all of the above.

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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 | 1,193 | 1,170 | 1,185 | 1,175 | 1,165 | 1,150 | 1,135 | 1,130 | 1,208 | 1,249 | 1,181 | 1,145 | |
| 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 | 151.3 | 151.8 | 152.3 | 152.6 | 152.7 | 152.3 | 152.1 | 146.6 | 149.1 | 151.5 | 152.4 | |
| 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 | 0.4 | -2.4 | 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 | 54 | 53 | 51 | 65 | 59 | 56 | |

*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 | 2.37 | 2.36 | 2.34 | 2.30 | 2.05 | 1.80 | 1.64 | 0.95 | 1.97 | 2.38 | 1.95 | |
| Treasury-2 Year Notes (yield) | 2.16 | 2.48 | 2.67 | 2.80 | 2.49 | 2.27 | 2.21 | 2.23 | 2.17 | 2.15 | 1.92 | 1.87 | 1.40 | 2.53 | 2.30 | 2.03 | |
| Treasury-5 Year Notes (yield) | 2.53 | 2.77 | 2.81 | 2.88 | 2.46 | 2.28 | 2.22 | 2.25 | 2.21 | 2.20 | 2.10 | 2.05 | 1.91 | 2.75 | 2.30 | 2.14 | |
| Treasury-10 Year Notes (yield) | 2.76 | 2.92 | 2.92 | 3.04 | 2.65 | 2.48 | 2.50 | 2.55 | 2.45 | 2.39 | 2.30 | 2.28 | 2.33 | 2.91 | 2.55 | 2.36 | |
| Treasury-30 Year Notes (yield) | 3.03 | 3.09 | 3.06 | 3.27 | 3.01 | 2.90 | 2.95 | 3.00 | 2.97 | 2.88 | 2.85 | 2.80 | 2.90 | 3.11 | 2.97 | 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 | 2.69 | 2.56 | 2.55 | 2.54 | 2.55 | 2.35 | 2.10 | 1.94 | 1.26 | 2.31 | 2.58 | 2.24 | |
| Mortgage-30 Year (yield) | 4.28 | 4.54 | 4.57 | 4.78 | 4.37 | 4.14 | 4.18 | 4.25 | 4.23 | 4.17 | 4.10 | 4.15 | 3.99 | 4.54 | 4.24 | 4.16 | |
| BAA Corporate (yield) | 4.47 | 4.78 | 4.81 | 5.14 | 4.97 | 4.73 | 5.05 | 5.30 | 6.00 | 6.20 | 6.10 | 6.10 | 4.44 | 4.80 | 5.01 | 6.10 | |

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