

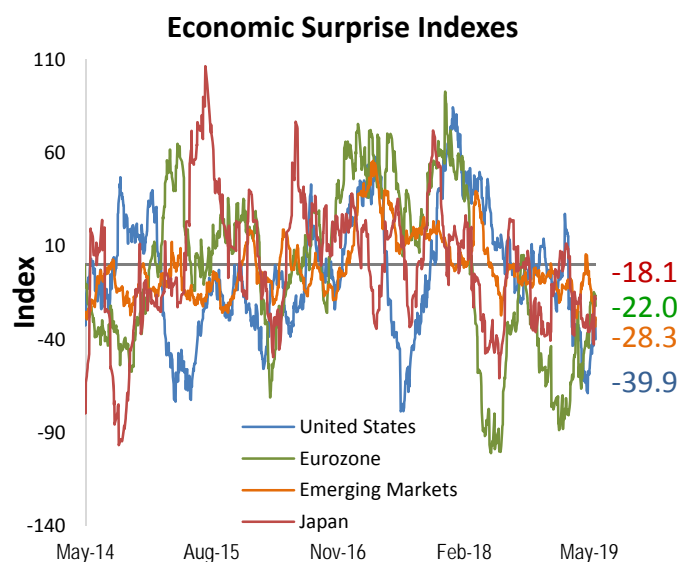
Date	Indicator	For	Estimate	Consensus*	Previous Period
28-May-2019	FHFA House Price Index MoM	Mar	0.2%	NA	0.3%
28-May-2019	S&P CoreLogic CS 20-City MoM SA	Mar	0.4%	NA	0.2%
28-May-2019	Conf. Board Consumer Confidence	May	130.0	130.5	129.2
28-May-2019	Dallas Fed Manufacturing Activity	May	5.0	7.0	2.0
29-May-2019	Richmond Fed Manufacturing Index	May	4.0	7.0	3.0
30-May-2019	Wholesale Inventories MoM	Apr P	0.1%	NA	-0.1%
30-May-2019	GDP Annualized QoQ	1Q S	2.8%	3.1%	3.2%
30-May-2019	GDP Price Index	1Q S	0.9%	0.9%	0.9%
30-May-2019	Initial Jobless Claims	25-May	219k	NA	211k
30-May-2019	Advance Goods Trade Balance	Apr	-\$72.0b	-\$72.5b	-\$71.4b
30-May-2019	Pending Home Sales MoM	Apr	0.8%	1.0%	3.8%
31-May-2019	Personal Income	Apr	0.3%	0.3%	0.1%
31-May-2019	Personal Spending	Apr	0.2%	0.2%	0.9%
31-May-2019	PCE Deflator MoM	Apr	0.3%	0.3%	0.2%
31-May-2019	PCE Core Deflator MoM	Apr	0.2%	0.2%	0.0%
31-May-2019	PCE Core Deflator YoY	Apr	NA	1.6%	1.6%
31-May-2019	U. of Mich. Sentiment	May F	102.0	101.5	102.4

\*Consensus from Bloomberg

## The Global Economy - A Cloudy Outlook Gets Darker

Bad news about the global economy seems to be piling up. Last week the OECD cut its 2019 global growth estimate to only 3.2% from 3.3% forecast just two months ago. I suspect that most economists will be getting out their pencils to mark down global economic growth estimates for this year and next as well. Economic surprises have remained uniformly negative across most of the world through the middle of May, implying that economic indicators are still falling well short of economists' diminishing expectations.

## Global Economic Surprises Uniformly Negative



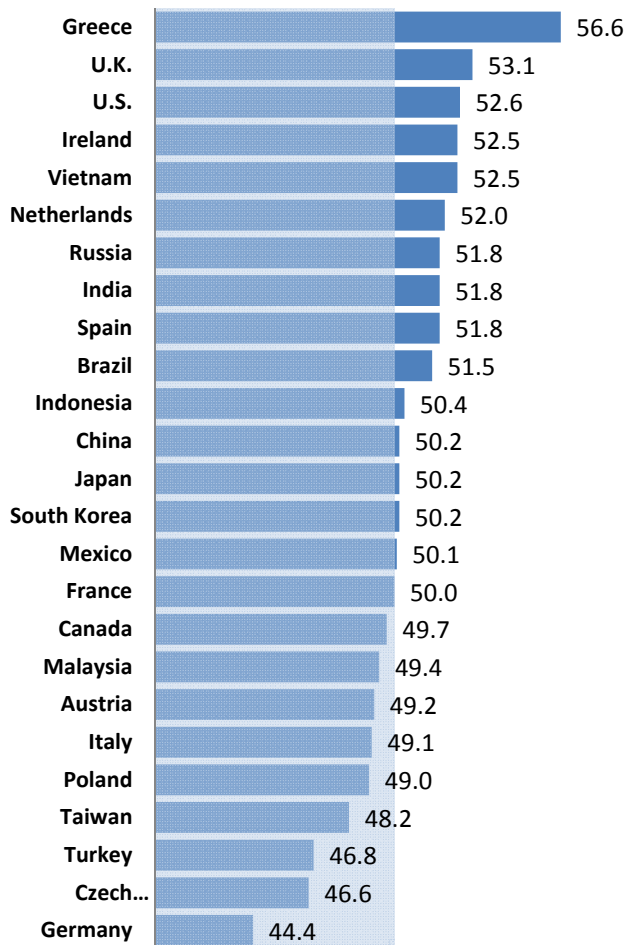
Source: Bloomberg

Nearly two-thirds of Markit Manufacturing Purchasing Managers' Indexes (PMIs) from major economies are either at the threshold between expansion and contraction or already in decline.

**A Global Manufacturing Downturn**

**Markit Manufacturing PMIs**

April-2019



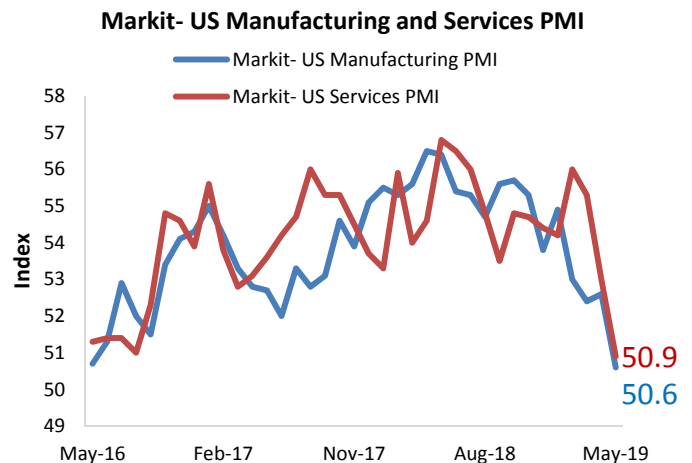
Source: Markit

The recent collapse in trade negotiations between the U.S. and China and hardening rhetoric and actions on both sides make a protracted trade war the most likely outcome. Moreover, the risk of further escalation remains high. As we have warned in the past, the technology sectors in the U.S. and China and U.S. consumers will be squarely in the crosshairs in the fight to come. In the U.S.,

equity markets appear vulnerable to this outcome, raising the risk of a serious financial market correction that could amplify the negative impact of the trade war on the U.S. and global economies.

The U.S. still has a rock solid labor market, but other, timelier indicators of business conditions are flashing amber, auguring what is ahead of us economically and financially if we stay on the present course. Yesterday, investors awoke to news that the preliminary Markit Manufacturing and Service Sector PMIs for May plunged to levels barely above the break-even between expansion and contraction. This suggests a significant impact to the U.S. economy and our economic outlook from the latest escalation in trade tensions. The Manufacturing PMI measure has been slowly deteriorating since hitting cyclical highs last spring, but the drop has accelerated in the past few months as the trade war has dragged on without an agreement. The Service Sector PMI has joined the manufacturing one and has been deteriorating since February as well, with negative implications for future U.S. GDP growth.

**Business Expansion Stalls in May**



Source: Bloomberg

Other economic forecasters have been counting on improving growth in Europe and a rebound in emerging market growth in the year ahead to help stabilize the world economy. Now that feels like a big stretch.

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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