

Date	Indicator	For	Estimate	Consensus*	Previous Period
3-Jun-2019	Markit US Manufacturing PMI	May F	50.6	NA	50.6
3-Jun-2019	ISM Manufacturing	May	52.2	53.0	52.8
3-Jun-2019	Construction Spending MoM	Apr	0.2%	0.5%	-0.9%
3-Jun-2019	Wards Total Vehicle Sales	May	16.80m	16.80m	16.40m
4-Jun-2019	Factory Orders	Apr	-1.1%	-0.9%	1.9%
5-Jun-2019	ADP Employment Change	May	185k	175k	275k
5-Jun-2019	Markit US Services PMI	May F	50.9	NA	50.9
5-Jun-2019	Markit US Composite PMI	May F	NA	NA	50.9
5-Jun-2019	ISM Non-Manufacturing Index	May	54.7	55.7	55.5
5-Jun-2019	U.S. Federal Reserve Releases Beige Book				
6-Jun-2019	Nonfarm Productivity	1Q F	3.3%	3.6%	3.6%
6-Jun-2019	Unit Labor Costs	1Q F	-0.6%	-0.9%	-0.9%
6-Jun-2019	Initial Jobless Claims	01-Jun	220k	NA	215k
6-Jun-2019	Trade Balance	Apr	-\$51.0b	-\$50.5b	-\$50.0b
6-Jun-2019	Household Change in Net Worth	1Q	NA	NA	-\$3730b
7-Jun-2019	Change in Nonfarm Payrolls	May	195k	190k	263k
7-Jun-2019	Change in Manufacturing Payrolls	May	2k	5k	4k
7-Jun-2019	Unemployment Rate	May	3.7%	3.6%	3.6%
7-Jun-2019	Average Hourly Earnings MoM	May	0.3%	0.3%	0.2%
7-Jun-2019	Average Weekly Hours All Employees	May	34.5	34.5	34.4
7-Jun-2019	Wholesale Inventories MoM	Apr F	NA	NA	-0.1%
7-Jun-2019	Consumer Credit	Apr	\$10.000b	\$12.000b	\$10.281b

*Consensus from Bloomberg

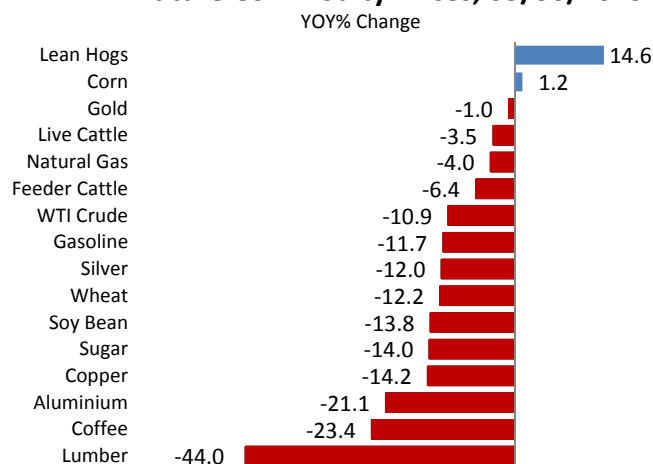
When Giants Fight

When giants fight, folks get trampled. A prolonged and escalating U.S. trade war with China is now our baseline view and no longer a downside risk to our outlook.

The impact of the trade war escalation is clearly visible in our lowered U.S. forecasts for GDP growth, interest rates and inflation. We have cut our near-term consumer inflation forecasts as oil, energy, and metals prices plunge and the U.S. dollar strengthens on flight-to-safety capital flows.

Weaker Demand Weighing on Commodity Prices

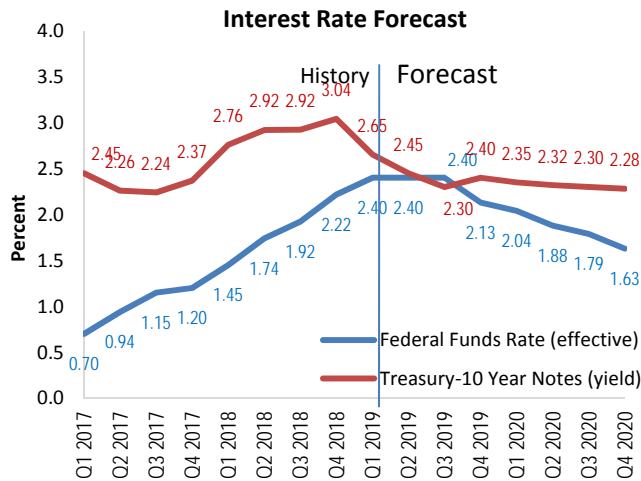
Future Commodity Prices, 05/30/2019



Source: Bloomberg

The combination of weaker U.S. growth and inflation and a more dovish Federal Reserve has prompted us to make some meaningful cuts to our near-term interest rate forecasts. Yield curve inversion will remain until the Fed cuts rates.

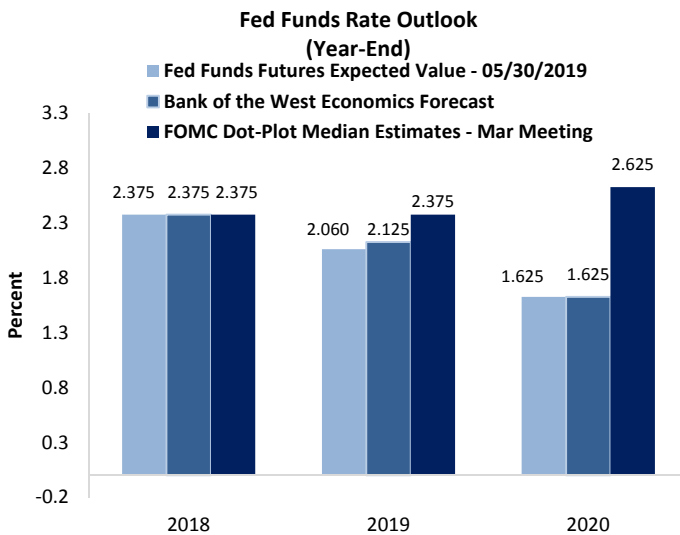
Low Interest Rates Are Here to Stay



Source: Federal Reserve; Bank of the West Economics

We were one of the first bank economics groups to predict three quarter-point Fed funds rate cuts by the end of 2020. We now expect the first Fed rate cut to occur even earlier, sometime between September and December of 2019.

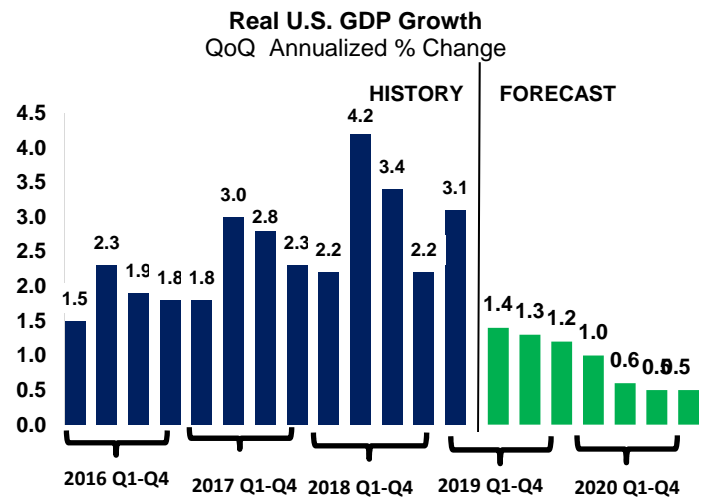
Three Fed Rate Cuts Fully Priced Into Markets



Source: Chicago Board of Trade; Federal Reserve; Bank of the West

The trade war escalation could also trigger a sizable global stock market correction and global profits recession that would choke U.S. and global growth and take the Fed further away from achieving its 2.0% inflation target. We see U.S. GDP growth slowing to around a 1.4% annualized rate in the second quarter, with no rebound expected in the second half of the year, rattling stock investors and sending portfolio flows into the relative safety of U.S. Treasuries.

Trimming Our Growth Forecasts for the Rest of the Year



Source: Bureau of Economic Analysis; Bank of the West Economics

This economic outlook should become obvious to the majority of FOMC voting members by the fall of 2019, when U.S. growth fails to bounce from the second quarter slowdown that is already taking shape. There is still a chance one of the giants preparing to fight gets a glimpse of their economic future and decides to de-escalate the trade war. However, this is no longer our base case. In the meantime, the warning from the bond market gets louder and louder as the Treasury yield curve continues to drop and become more inverted. Are either of the giants listening?

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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	3.1	1.4	1.3	1.2	1.0	0.6	0.5	0.5	2.2	2.9	2.3	0.9
Personal Consumption Expenditures*	0.5	3.8	3.5	2.5	1.3	2.6	2.1	1.8	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	2.3	-0.9	1.9	2.0	1.0	1.0	1.0	1.0	5.3	6.9	2.6	1.2
Private Housing Starts (000s units)	1,321	1,260	1,233	1,185	1,203	1,170	1,185	1,175	1,165	1,150	1,135	1,130	1,208	1,250	1,183	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	3.9	-1.9	0.3	0.8	0.1	-0.5	-1.0	-1.0	-1.0	1.6	3.9	1.3	-0.4
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	1.8	1.9	1.9	1.7	1.7	1.7	1.6	2.1	2.4	1.6	1.8
"Core" CPI* (percent)	2.7	1.9	2.0	2.2	2.3	2.1	2.0	2.0	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	1.9	1.6	1.6	1.2	1.3	1.3	1.3	3.2	3.1	0.6	1.4
Trade Weighted Dollar (Fed BOG, major)	86.2	88.2	90.2	91.4	91.5	92.4	91.6	90.5	90.3	90.0	89.5	89.0	91.1	89.0	91.5	89.7
Crude Oil Prices -WTI (\$ per barrel)	63	68	70	60	55	62	58	57	56	54	54	53	51	65	58	54

*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	2.13	2.04	1.88	1.79	1.63	1.00	1.83	2.33	1.84
Treasury-3 Month Bills (yield)	1.58	1.87	2.07	2.36	2.44	2.33	2.29	2.16	2.08	1.92	1.80	1.64	0.95	1.97	2.30	1.86
Treasury-2 Year Notes (yield)	2.16	2.48	2.67	2.80	2.49	2.25	2.10	2.09	2.11	2.01	1.92	1.87	1.40	2.53	2.23	1.98
Treasury-5 Year Notes (yield)	2.53	2.77	2.81	2.88	2.46	2.24	2.05	2.10	2.14	2.05	2.07	2.05	1.91	2.75	2.21	2.08
Treasury-10 Year Notes (yield)	2.76	2.92	2.92	3.04	2.65	2.45	2.30	2.40	2.35	2.32	2.30	2.28	2.33	2.91	2.45	2.31
Treasury-30 Year Notes (yield)	3.03	3.09	3.06	3.27	3.01	2.85	2.70	2.75	2.72	2.71	2.70	2.72	2.90	3.11	2.83	2.71
Prime Rate	4.53	4.80	5.01	5.28	5.50	5.50	5.50	5.25	5.14	4.98	4.87	4.69	4.10	4.90	5.44	4.92
Libor 3-Mo. U.S. Dollar	1.93	2.34	2.34	2.62	2.69	2.56	2.50	2.30	2.24	2.13	2.10	1.94	1.26	2.31	2.51	2.10
Mortgage-30 Year (yield)	4.28	4.54	4.57	4.78	4.37	4.10	4.05	4.15	4.12	4.10	4.10	4.15	3.99	4.54	4.17	4.12
BAA Corporate (yield)	4.47	4.78	4.81	5.14	4.97	4.63	4.95	5.20	5.90	6.10	6.10	6.10	4.44	4.80	4.94	6.05

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