

Date	Indicator	For	Estimate	Consensus*	Previous Period
10-Jun-2019	JOLTS Job Openings	Apr	NA	NA	7,488
11-Jun-2019	NFIB Small Business Optimism	May	101.0	NA	103.5
11-Jun-2019	PPI Final Demand MoM	May	0.1%	0.1%	0.2%
11-Jun-2019	PPI Ex Food and Energy MoM	May	0.1%	0.2%	0.1%
12-Jun-2019	CPI MoM	May	0.1%	0.1%	0.3%
12-Jun-2019	CPI Ex Food and Energy MoM	May	0.2%	0.2%	0.1%
13-Jun-2019	Import Price Index MoM	May	-0.3%	-0.3%	0.2%
13-Jun-2019	Initial Jobless Claims	08-Jun	221k	NA	218k
14-Jun-2019	Retail Sales Advance MoM	May	0.5%	0.6%	-0.2%
14-Jun-2019	Retail Sales Ex Auto MoM	May	0.3%	0.5%	0.1%
14-Jun-2019	Industrial Production MoM	May	-0.1%	0.2%	-0.5%
14-Jun-2019	Capacity Utilization	May	77.9%	78.0%	77.9%
14-Jun-2019	U. of Mich. Sentiment	Jun P	97.0	97.0	100.0
14-Jun-2019	Business Inventories	Apr	0.3%	0.3%	0.0%

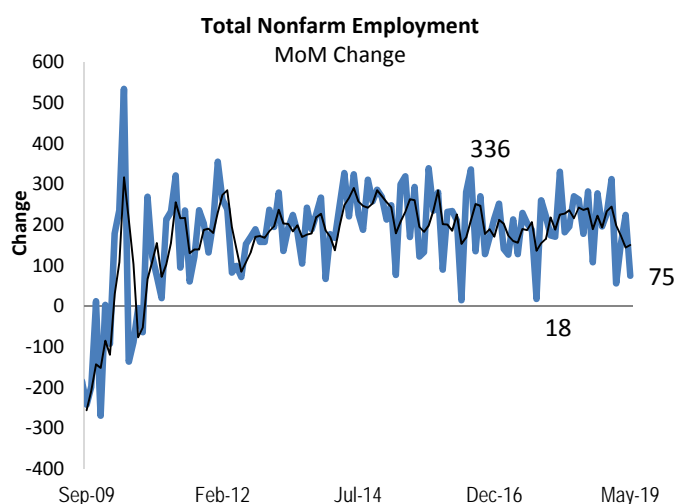
\*Consensus from Bloomberg

## A Warning from the Jobs Report

The May U.S. jobs report gave us a taste of what's ahead if trade war threats continue to escalate and tariffs continue to go higher. Hiring faded across the board in May with just 75,000 net new jobs created in the United States last month. The U.S. economy also created 75,000 fewer jobs in March and April than previously reported.

Moreover, this is not just a one-off hiccup in the data, but part of a broader more prolonged pattern of labor market softening. At the end of last year, the three-month average of nonfarm payroll growth was more than 230,000 net new jobs a month. In May that three-month average slipped to just 151,000 jobs.

## A U.S. Job Growth Slowdown Takes Shape



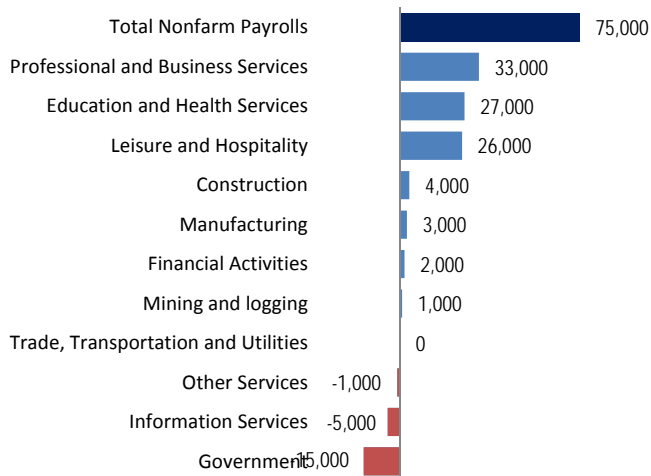
Source: U.S. Bureau of Labor Statistics

This is not yet a labor market disaster: we are still in a jobs growth the slowdown and not in an impending recession with this jobs data. But it should be a clear warning to the Trump Administration and the Federal Reserve to tread very carefully on the policy front. A de-escalation of the trade war with Mexico and a Federal Reserve interest rate cut would be a step in the right direction at this point. The current expansion is not on as firm a foundation as some people think. Maintaining a solid labor market in the months ahead will be critical for sustaining consumer spending growth and the U.S. expansion in the face of a darkening global outlook. World economic data continue to deteriorate, international trade is backpedaling, and U.S. business investment is stagnant.

The May jobs gains were weak across categories. Construction and manufacturing combined created only 7,000 jobs last month. The retail trade sector lost another net 8,000 jobs, the fourth consecutive month of job decline for this segment. Government payrolls dropped by 15,000 jobs, while information services lost 5,000 jobs in May for the second consecutive month. But the big driver of the lurch lower in nonfarm job gains was the weakness evident in service sector hiring. Financial services added just 2,000 net new jobs, and business services and education and health care added about half the number of jobs they did a month ago.

**A Broad-Based Deterioration Across Sectors**

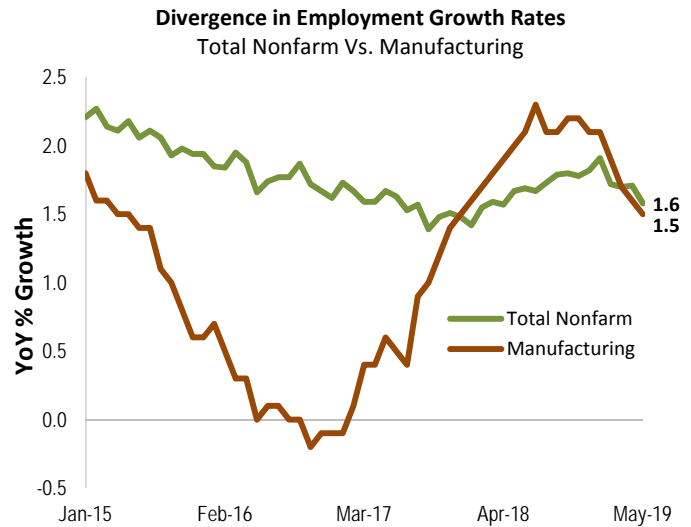
**Nonfarm Employment MoM Growth**  
May 2019



Source: Bureau of Labor Statistics, Bank of the West Economics

The negative impact of the trade wars and deterioration in global trade is most evident in the manufacturing and information services jobs data, and overall nonfarm payroll growth is suffering as a result. Manufacturing job growth peaked on a year-on-year basis in July 2018 and has been on a steady downtrend since. But tight monetary policy and the inversion of the yield curve is also doing damage to job growth in sectors like financial services and residential construction.

**Trade War Fingerprints All Over This Report**



Source: BLS, Bank of the West Economics

The unemployment rate remained at its recent low of 3.6% in May, but earnings growth missed expectations again. Average hourly earnings increased at a modest 0.2% in May, with the year-on-year increase slipping to 3.1% from 3.2% in April. Average weekly hours also failed to lift as analysts expected and held at 34.4 hours. This likely means slower overall personal income growth in the second quarter, which will start to limit consumers' willingness and ability to grow their spending in the months ahead, even if they remain a confident bunch (for now).

Based on this report, we are moving up our forecast for the first Fed interest rate cut to the September meeting. However, we don't rule out the possibility it could come in July, if additional economic data confirm the deterioration evident here and the on-going trade talks with Mexico and China falter. The Fed funds futures market is currently pricing in a high probability (77%) of a rate cut at the July FOMC meeting and a 67% probability of another quarter point cut in September. This market bet appears pretty aggressive given what we know today, but we are certainly sympathetic to the message to the Fed that they need to seriously consider dropping interest rates in the not too distant future if they want to save this expansion.

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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	2.29	2.13	2.04	1.88	1.79	1.63	1.00	1.83	2.31	1.84
Treasury-3 Month Bills (yield)	1.58	1.87	2.07	2.36	2.44	2.34	2.24	2.10	2.02	1.86	1.80	1.64	0.95	1.97	2.28	1.83
Treasury-2 Year Notes (yield)	2.16	2.48	2.67	2.80	2.49	2.23	1.90	1.88	1.94	1.91	1.92	1.85	1.40	2.53	2.12	1.91
Treasury-5 Year Notes (yield)	2.53	2.77	2.81	2.88	2.46	2.22	1.90	1.92	2.00	2.01	2.02	2.03	1.91	2.75	2.13	2.02
Treasury-10 Year Notes (yield)	2.76	2.92	2.92	3.04	2.65	2.42	2.12	2.15	2.20	2.22	2.24	2.25	2.33	2.91	2.34	2.23
Treasury-30 Year Notes (yield)	3.03	3.09	3.06	3.27	3.01	2.85	2.60	2.63	2.67	2.71	2.70	2.72	2.90	3.11	2.77	2.70
Prime Rate	4.53	4.80	5.01	5.28	5.50	5.50	5.40	5.25	5.14	4.98	4.87	4.69	4.10	4.90	5.41	4.92
Libor 3-Mo. U.S. Dollar	1.93	2.34	2.34	2.62	2.69	2.55	2.44	2.30	2.24	2.13	2.10	1.94	1.26	2.31	2.49	2.10
Mortgage-30 Year (yield)	4.28	4.54	4.57	4.78	4.37	4.10	3.90	3.95	4.05	4.10	4.10	4.10	3.99	4.54	4.08	4.09
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