

Date	Indicator	For	Estimate	Consensus*	Previous Period
1-Jul-2019	Markit US Manufacturing PMI	Jun F	50.1	NA	50.1
1-Jul-2019	ISM Manufacturing	Jun	51.0	51.2	52.1
1-Jul-2019	Construction Spending MoM	May	-0.1%	0.0%	0.0%
2-Jul-2019	Wards Total Vehicle Sales	Jun	16.9m	NA	17.30m
3-Jul-2019	ADP Employment Change	Jun	130k	140k	27k
3-Jul-2019	Trade Balance	May	-\$50.8b	-\$52.0b	-\$50.8b
3-Jul-2019	Initial Jobless Claims	29-Jun	230k	NA	227k
3-Jul-2019	Markit US Services PMI	Jun F	50.7	NA	50.7
3-Jul-2019	Markit US Composite PMI	Jun F	NA	NA	50.6
3-Jul-2019	Factory Orders	May	-0.3%	-0.1%	-0.8%
3-Jul-2019	ISM Non-Manufacturing Index	Jun	55.2	56.0	56.9
5-Jul-2019	Change in Nonfarm Payrolls	Jun	150k	158k	75k
5-Jul-2019	Change in Manufacturing Payrolls	Jun	-1k	1k	3k
5-Jul-2019	Unemployment Rate	Jun	3.6%	3.6%	3.6%
5-Jul-2019	Average Hourly Earnings MoM	Jun	0.2%	0.3%	0.2%
5-Jul-2019	Average Weekly Hours All Employees	Jun	34.4	34.4	34.4

\*Consensus from Bloomberg

## Will Consumers Save The Day?

I'm skeptical that U.S. consumers can keep the slowdown, which is centered in manufacturing and business investment, from seeping into other corners of the economy. The May personal income and spending data, released today, exceeded most economists' expectations, increasing 0.5% and 0.4%, respectively. In addition, personal spending for April was revised up to a 0.6% growth rate from an originally reported 0.3% gain. As a result, I raised our estimate for second quarter real consumer spending growth to 3.7% from 3.2% forecast previously. This is obviously a huge step up for U.S. consumers from the first quarter's lackluster 0.9% growth rate.

However, to get a sense of the real trend in consumer spending growth today, I think you need to calculate the average of first and second quarter growth performance, giving you 2.3% over the first six months of the year. Moreover, the pillars on which robust consumer spending has stood over the past year and a half will be gradually

chipped away by the headwinds which are rapidly approaching.

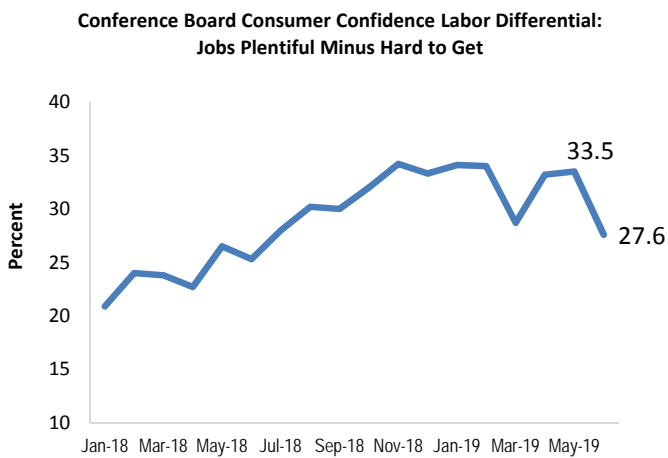
Let's review the pillars underpinning the strength of consumer spending. The first is a strong labor market. The U.S. unemployment rate remains near a 50-year low of 3.6% and job openings are near record high levels of around 7.5 million.

However, job growth is already slowing. Average monthly job growth through the first five months of 2019 was 164,000, down from a monthly average of 223,000 in 2018. Job growth last month was a paltry 75,000 and we are forecasting that only 150,000 net new jobs were created in June. Our outlook is that monthly job growth will continue to slow in the quarters ahead.

Consumer confidence dropped by almost 10 points in June and is now at the lowest level since September 2017, according to the Conference Board. A troubling aspect of the June consumer confidence report was the deterioration in consumers' assessment of the labor

market. Those saying jobs are “plentiful” fell to 44% from 45.3%, while those saying jobs are “hard to get” rose to 16.4% from 11.8%. This leaves the difference of jobs plentiful over hard to get at 27.6%, a nearly six point decline from May and the smallest differential since July 2018.

**Consumers’ Assessment of the Labor Market Worsens**



Source: Conference Board

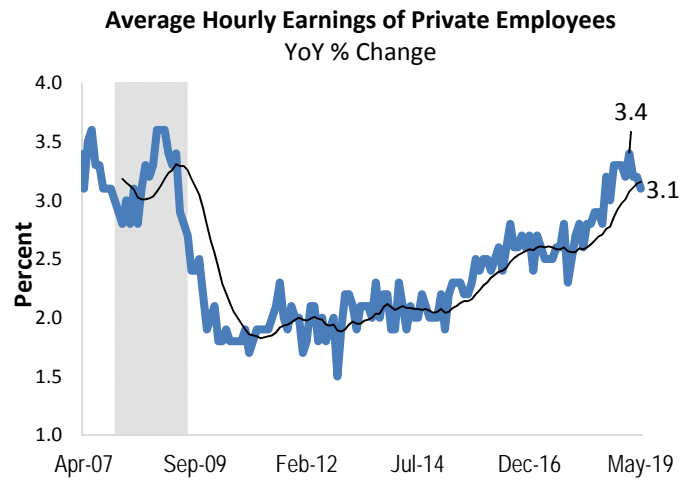
So while the labor market is still relatively supportive of the consumer, more recent data is showing this could be changing.

Another pillar of consumer spending is household balance sheets, which remain in pristine shape. Real household net worth increased to an all-time high of \$99.3 trillion in the first quarter of 2019. Moreover, real net worth has risen an astounding 61.2% since the Great Recession ended in June 2009. This sharp improvement in household net worth will support consumer spending over the near term via the wealth effect. However, home price growth is now slowing, and the stock market could be in for a significant correction if earnings don’t meet high expectations.

A third pillar of consumer spending has been improving wage growth. Average hourly earnings growth for private employees had gradually risen to levels similar to past expansions. But earnings have started to stumble again

since February. In inflation-adjusted terms, real average hourly earnings growth has remained well below recent real consumer spending growth rates, a condition that is not sustainable longer-term.

**Wage Growth Becomes Less Supportive of Consumption**



Source: U.S. Bureau of Labor Statistics

The escalating U.S. trade war with China has been primarily dampening business spending and manufacturing activity, but will soon weigh more heavily on corporate profitability, the services sector, and ultimately consumer spending. Corporate profits from current production already dropped by \$59.3 billion in the first quarter, according to the Bureau of Economic Analysis, a significant deterioration from the fourth quarter’s \$9.7 billion dollar decline. In addition, the June consumer confidence report revealed a pull-back in consumers’ plans to buy motor vehicles and appliances over the next six months.

In short, we can’t count on the U.S. consumer to keep spending at a growth rate of more than 3% in the quarters ahead. We forecast real consumer spending at just below 2% in the second half of 2019 and slipping well below 2% next year, as the risks from the global slowdown, trade wars, tighter financial conditions, and fading fiscal stimulus continue to mount.

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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	2.0	1.5	1.3	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	0.9	3.7	2.1	1.8	1.5	1.0	1.0	1.0	2.5	2.6	2.4	1.6	
Non-residential Fixed Investment*	11.5	8.7	2.5	5.4	4.4	-0.1	2.0	2.0	1.0	1.0	1.0	1.0	5.3	6.9	3.3	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	-2.2	0.3	0.8	0.1	-0.5	-1.0	-1.0	-1.0	1.6	3.9	1.2	-0.4	
Nonfarm Payroll Employment (mil.)	148.0	148.7	149.4	150.1	150.7	151.1	151.6	151.9	152.3	152.3	152.0	151.8	146.6	149.1	151.3	152.1	
Unemployment rate	4.1	3.9	3.8	3.8	3.9	3.6	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	3.0	1.9	1.9	1.7	1.7	1.7	1.6	2.1	2.4	1.8	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	54	52	51	50	50	49	51	65	56	50	

\*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	2.29	2.14	2.10	2.02	1.86	1.80	1.64	0.95	1.97	2.24	1.83	
Treasury-2 Year Notes (yield)	2.16	2.48	2.67	2.80	2.49	2.17	1.80	1.78	1.89	1.86	1.87	1.85	1.40	2.53	2.06	1.87	
Treasury-5 Year Notes (yield)	2.53	2.77	2.81	2.88	2.46	2.15	1.82	1.82	1.95	1.96	1.98	2.01	1.91	2.75	2.06	1.98	
Treasury-10 Year Notes (yield)	2.76	2.92	2.92	3.04	2.65	2.36	2.07	2.10	2.15	2.17	2.24	2.25	2.33	2.91	2.30	2.20	
Treasury-30 Year Notes (yield)	3.03	3.09	3.06	3.27	3.01	2.80	2.58	2.63	2.67	2.71	2.70	2.72	2.90	3.11	2.76	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	2.52	2.39	2.30	2.24	2.13	2.10	1.94	1.26	2.31	2.47	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	4.62	4.50	4.90	5.60	5.80	5.90	5.93	4.44	4.80	4.75	5.81	

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