

Date	Indicator	For	Estimate	Consensus*	Previous Period
22-Jul-2019	Chicago Fed Nat Activity Index	Jun	NA	NA	-0.5
23-Jul-2019	FHFA House Price Index MoM	May	0.3%	NA	0.4%
23-Jul-2019	Richmond Fed Manufacturing Index	Jul	9.0	5.0	3.0
23-Jul-2019	Existing Home Sales	Jun	5.35m	5.36m	5.34m
24-Jul-2019	Markit US Manufacturing PMI	Jul P	51.5	NA	50.6
24-Jul-2019	Markit US Services PMI	Jul P	52.0	NA	51.5
24-Jul-2019	Markit US Composite PMI	Jul P	NA	NA	51.5
24-Jul-2019	New Home Sales	Jun	658k	670k	626k
25-Jul-2019	Wholesale Inventories MoM	Jun P	0.3%	NA	0.4%
25-Jul-2019	Durable Goods Orders	Jun P	0.7%	0.9%	-1.3%
25-Jul-2019	Durables Ex Transportation	Jun P	0.2%	0.3%	0.4%
25-Jul-2019	Advance Goods Trade Balance	Jun	-\$73.0b	-\$72.3b	-\$74.5b
25-Jul-2019	Initial Jobless Claims	20-Jul	220k	NA	216k
25-Jul-2019	Kansas City Fed Manufacturing Activity	Jul	3.0	NA	0.0
26-Jul-2019	GDP Annualized QoQ	2Q A	2.0%	1.7%	3.1%

*Consensus from Bloomberg

A Fed Rate Cut Is Still Needed

We had some good U.S. economic data this week. June retail sales and manufacturing production both exceeded economists' forecasts, supporting our above-consensus forecast for second quarter U.S. GDP growth of 2.0%. We receive our first look at Q2 GDP on July 26th when the Bureau of Economic Analysis releases its advance report.

Consumer Spending Has Come Roaring Back in Q2



Source: US. Bureau of the Census

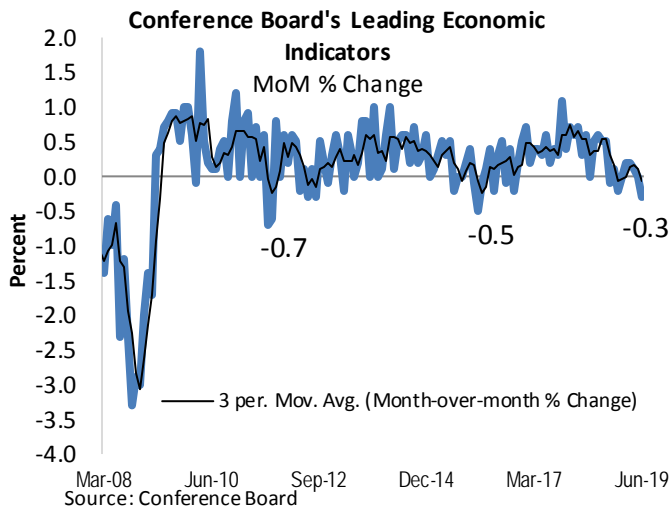
And the good news doesn't stop there: preliminary readings from regional manufacturing surveys from the Empire State and Philly Fed indexes this week also point to an acceleration in manufacturing activity in July.

Lastly, the June jobs report and initial jobless claims through July 13th suggest the U.S. labor market remains on a solid footing. So should the Fed hold off on cutting rates at the end of month? Some have begun to speculate, and hawks on the FOMC will definitely have a few more bullet points to support their argument for staying pat. However, here is why we think the Fed will go ahead with a quarter-point rate cut at their July 31st FOMC meeting anyway.

Despite positive readings on some major economic indicators in June and July, red flags surrounding future U.S. economic growth continue to appear. This week the Conference Board's Leading Economic Index clearly pointed to softer U.S. economic activity ahead. In June, this index dropped the most in one month since January 2016, which was the last time the U.S. economy was

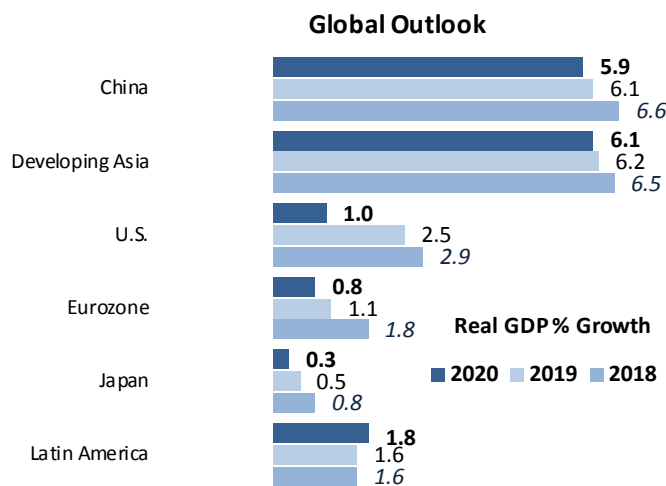
struggling to grow and business investment was in a technical recession.

Leading Index Hasn't Been This Soft Since 2016



Moreover, the global manufacturing and economic outlook continues to darken. China's GDP growth dropped to a 27-year low of 6.2% in the second quarter, and is forecast to continue to slow into 2020. We are expecting even slower growth for most regions of the world in 2020 as well.

Global Outlook Continues to Darken



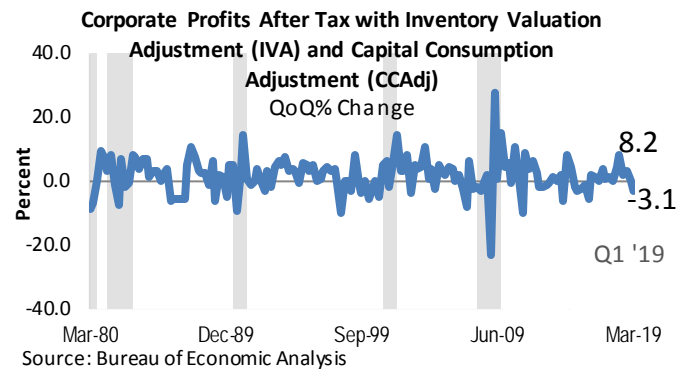
Source: Bank of the West Economics, IMF, Bloomberg

Singapore, a small open economy with high exposure to international trade and the global economy, saw its June non-oil exports plunge 17.3% from a year ago, with electronics exports falling 31.9%. The country is a canary in the coal mine for the health of the global economy today.

The economic drag from trade wars look set to only get worse from here. The trade war stalemate between the U.S. and China continues and now Japan and South Korea are starting a trade war of their own. Already about two-thirds of Markit Manufacturing PMIs from 25 major global economies are in contraction territory. For now the U.S. manufacturing expansion continues, bolstered by robust consumer spending, but U.S. manufacturers will not be immune to these global forces.

We also believe what starts in the manufacturing sector won't stay in manufacturing sector; it will eventually spill over into the service and technology sectors as well. The combination of slowing global growth and disrupted supply chains from the trade wars will surely dent corporate profitability. There is already ample evidence U.S. corporate profits are being squeezed.

A Corporate Profits Recession Already Underway?



Since monetary policy works with a lag of about six months to a year in the best of times, the Fed needs to look beyond the next month or two and try to divine where the economy could be six months to a year from now without any additional monetary support. We think the choice is clear, now is the time for the FOMC to cut rates, if there is any chance to stave off a sharp slowdown or outright recession next year.

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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	1.7	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	4.1	2.1	1.8	1.5	1.0	1.0	1.0	2.5	2.6	2.5	1.6	
Non-residential Fixed Investment*	11.5	8.7	2.5	5.4	4.4	1.0	2.0	2.0	1.0	1.0	1.0	1.0	5.3	6.9	3.5	1.3	
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	2.9	1.9	1.9	1.7	1.7	1.7	1.6	2.1	2.4	2.5	1.8	
"Core" CPI* (percent)	2.7	1.9	2.0	2.2	2.3	1.8	2.0	2.0	2.0	1.9	1.8	1.8	1.8	2.1	2.1	1.9	
PPI (finished goods)* (percent)	3.8	2.7	2.0	0.4	-2.3	4.5	1.6	1.6	1.2	1.3	1.3	1.3	3.2	3.1	1.1	1.6	
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	2,882							2,449	2,746			
Dow Jones Industrial Average	25,127	24,556	25,595	24,916	25,147	26,096							21,745	25,048			
Federal Funds Rate (effective)	1.45	1.74	1.92	2.22	2.40	2.38	2.13	2.04	1.79	1.54	1.38	1.38	1.00	1.83	2.24	1.52	
Treasury-3 Month Bills (yield)	1.58	1.87	2.07	2.36	2.44	2.26	2.05	1.99	1.74	1.49	1.32	1.33	0.95	1.97	2.18	1.47	
Treasury-2 Year Notes (yield)	2.16	2.48	2.67	2.80	2.49	2.13	1.80	1.78	1.69	1.44	1.45	1.49	1.40	2.53	2.05	1.52	
Treasury-5 Year Notes (yield)	2.53	2.77	2.81	2.88	2.46	2.15	1.80	1.79	1.75	1.60	1.65	1.70	1.91	2.75	2.05	1.68	
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	5.47	5.22	5.14	4.89	4.64	4.50	4.50	4.10	4.90	5.33	4.63	
Libor 3-Mo. U.S. Dollar	1.93	2.34	2.34	2.62	2.69	2.51	2.29	2.22	1.99	1.72	1.57	1.56	1.26	2.31	2.43	1.71	
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