

Date	Indicator	For	Estimate	Consensus*	Previous Period
29-Jul-2019	Dallas Fed Manufacturing Activity	Jul	-7.0	-5.0	-12.1
30-Jul-2019	Personal Income	Jun	0.3%	0.3%	0.5%
30-Jul-2019	Personal Spending	Jun	0.4%	0.3%	0.4%
30-Jul-2019	PCE Deflator MoM	Jun	0.1%	0.1%	0.2%
30-Jul-2019	PCE Core Deflator MoM	Jun	0.2%	0.2%	0.2%
30-Jul-2019	S&P CoreLogic CS 20-City MoM SA	May	0.1%	0.3%	0.0%
30-Jul-2019	Pending Home Sales MoM	Jun	0.2%	0.8%	1.1%
30-Jul-2019	Conf. Board Consumer Confidence	Jul	125.0	124.7	121.5
31-Jul-2019	ADP Employment Change	Jul	155k	145k	102k
31-Jul-2019	Employment Cost Index	2Q	0.7%	0.7%	0.7%
31-Jul-2019	FOMC Rate Decision (Upper Bound)	31-Jul	2.25%	2.25%	2.50%
31-Jul-2019	FOMC Rate Decision (Lower Bound)	31-Jul	2.00%	2.00%	2.25%
1-Aug-2019	Initial Jobless Claims	27-Jul	215k	NA	206k
1-Aug-2019	Markit US Manufacturing PMI	Jul F	52.4	NA	NA
1-Aug-2019	ISM Manufacturing	Jul	51.8	52.0	51.7
1-Aug-2019	Construction Spending MoM	Jun	0.2%	0.5%	-0.8%
1-Aug-2019	Wards Total Vehicle Sales	Jul	16.90m	16.90m	17.30m
2-Aug-2019	Trade Balance	Jun	-\$54.5b	-\$54.0b	-\$55.5b
2-Aug-2019	Change in Nonfarm Payrolls	Jul	170k	160k	224k
2-Aug-2019	Change in Manufacturing Payrolls	Jul	0k	5k	17k
2-Aug-2019	Unemployment Rate	Jul	3.7%	3.7%	3.7%
2-Aug-2019	Average Hourly Earnings MoM	Jul	0.2%	0.2%	0.2%
2-Aug-2019	Average Weekly Hours All Employees	Jul	34.4	34.4	34.4
2-Aug-2019	Factory Orders	Jun	0.8%	0.4%	-0.7%
2-Aug-2019	U. of Mich. Sentiment	Jul F	98.5	98.5	98.4

*Consensus from Bloomberg

Q2 GDP Data Show Slowdown Developing

The devil is in the details of the second quarter GDP data released today.

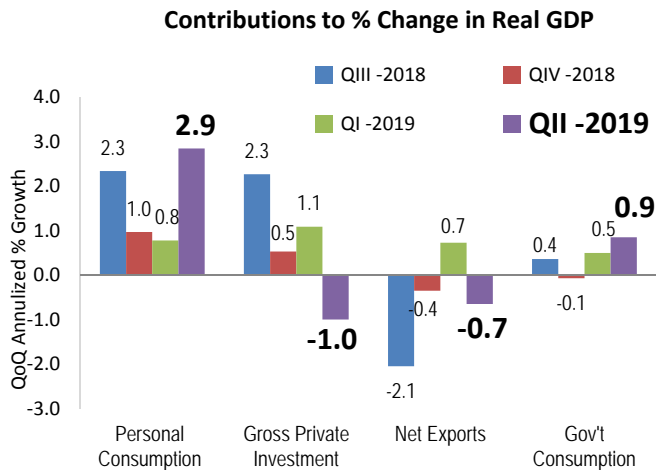
In a nutshell, the initial estimate of second quarter GDP provides no new insights on the U.S. economy and neither alters our near-term nor long-term U.S. economic and interest rate outlook.

The advance estimate of second quarter GDP growth is higher than the consensus forecast, coming in at 2.1% annualized compared with expectations of 1.8%. However, it is only a smidge higher than our 2.0% forecast

and the details of the report are very close to our prior expectations, showing robust growth in consumer and government spending last quarter at 4.3% and 5.0% respectively, but handicapped by large declines in the business investment of structures (-10.6%), exports (-5.2%), and residential investment (-1.5%).

Business inventory growth also slowed by a whopping \$44.3 billion last quarter, close to our estimates, slicing 0.86 percentage points off of last quarter's GDP growth alone.

A U.S. Economy Rorschach Test

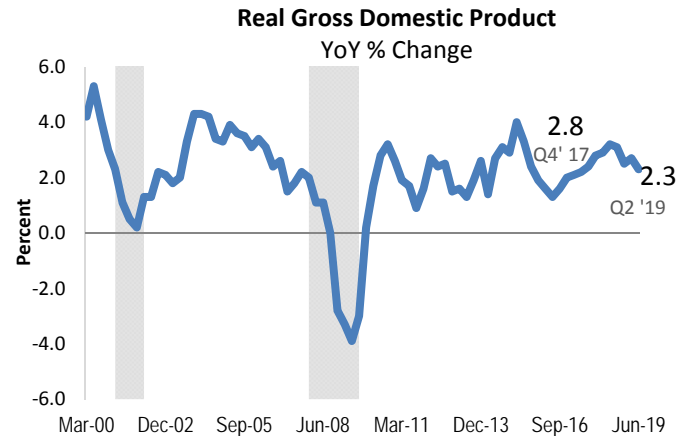


Source: Bureau of Economic Analysis

In short, the U.S. economy remains a bit of a Rorschach test. If one only looked at the business investment and international trade components of this second quarter GDP report, you would probably conclude the U.S. economy was *already* in recession or in deep danger of entering one. However, if one only looked at the consumer and government spending components, one would likely conclude the opposite: stable growth built on a solid foundation of generous consumer and government spending. So, what message should we take away from this report?

It helps to take a step back for a moment and place this report in a broader context. The most interesting data in this GDP report is the large downward revision in U.S. GDP growth for 2018. Every quarter in 2018 was revised downward, resulting in a less-impressive Q4/Q4 growth rate of 2.5% compared to 3.0% reported previously. In short, the 2017 Tax Cuts and Jobs Act was a complete dud in boosting our long-term economic growth rate.

Tax Cut Bump Barely Visible – Short Lived



Source: U.S. Bureau of Economic Analysis

Growth increased by a few tenths of a percentage point for a quarter or two on a year-on-year basis, but by the end of 2018, the drag from the global economy and U.S.-China Trade war was already taking a toll. In fact, with the GDP revisions made today, we see that Q4/Q4 growth was faster in 2017 than in 2018, a year after the tax bill was enacted. By the second quarter of 2019, GDP growth year-on-year has slipped to 2.3%, just above the 10-year expansion average of 2.1%. I've touched on this point before. I don't think we got the economic bang for the buck we were promised when the tax bill was signed and now we will be living with the consequences – trillion dollar plus budget deficits as far as the eye can see. For the record, I was skeptical from day one, but this report provides some pretty strong additional evidence in support of that premise.

So we are taking our cue for the economic and interest rate outlook from the darkening business environment. Today's GDP release also showed that corporate profits after tax, with inventory and capital adjustments, dropped 4.1% in the first quarter. In addition, second-quarter non-residential fixed investment declined for the first time since the first quarter of 2016. Before long stock markets and U.S. households will be forced to take note of the changing business landscape, and consumer spending growth will follow. Expect a quarter point rate cut from the FOMC next week in response.

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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*	2.5	3.5	2.9	1.1	3.1	2.1	1.7	1.3	1.0	0.6	0.5	0.5	2.4	2.9	2.2	1.0
Personal Consumption Expenditures*	1.7	4.0	3.5	1.4	1.1	4.3	2.1	1.8	1.5	1.0	1.0	1.0	2.6	3.0	2.4	1.6
Non-residential Fixed Investment*	8.8	7.9	2.1	4.8	4.4	-0.6	3.4	2.0	1.0	1.0	1.0	1.0	4.4	6.4	3.2	1.4
Private Housing Starts (000s units)	1,321	1,260	1,233	1,185	1,213	1,263	1,185	1,175	1,165	1,150	1,135	1,130	1,208	1,250	1,209	1,145
Vehicle Sales (mill. Units, annualized)	17.1	17.1	16.9	17.5	16.9	17.0	16.7	16.5	16.2	15.9	15.6	15.9	17.2	17.1	16.8	15.9
Industrial Production*	2.3	4.6	5.2	3.9	-1.9	-1.2	0.8	0.1	-0.5	-1.0	-1.0	-1.0	2.3	3.9	1.0	-0.5
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	92.2	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	60	54	52	51	50	50	49	51	65	55	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