

Date	Indicator	For	Estimate	Consensus*	Previous Period
26-Aug-2019	Chicago Fed Nat Activity Index	Jul	NA	NA	-0.02
26-Aug-2019	Durable Goods Orders	Jul P	1.1%	1.3%	1.9%
26-Aug-2019	Durables Ex Transportation	Jul P	0.1%	0.1%	1.0%
26-Aug-2019	Dallas Fed Manufacturing Activity	Aug	-9.0	-1.0	-6.3
27-Aug-2019	FHFA House Price Index MoM	Jun	0.2%	NA	0.1%
27-Aug-2019	S&P CoreLogic CS 20-City MoM SA	Jun	0.10%	0.20%	0.14%
27-Aug-2019	Richmond Fed Manufacturing Index	Aug	-5	2	-12
27-Aug-2019	Conf. Board Consumer Confidence	Aug	128.0	130.0	135.7
29-Aug-2019	GDP Annualized QoQ	2Q S	2.0%	2.0%	2.1%
29-Aug-2019	GDP Price Index	2Q S	2.4%	2.4%	2.4%
29-Aug-2019	Advance Goods Trade Balance	Jul	-\$74.9b	-\$74.0b	-\$74.2b
29-Aug-2019	Wholesale Inventories MoM	Jul P	0.2%	NA	0.0%
29-Aug-2019	Initial Jobless Claims	24-Aug	218k	NA	209k
29-Aug-2019	Pending Home Sales MoM	Jul	0.6%	0.0%	2.8%
30-Aug-2019	Personal Income	Jul	0.3%	0.3%	0.4%
30-Aug-2019	Personal Spending	Jul	0.5%	0.5%	0.3%
30-Aug-2019	PCE Deflator MoM	Jul	0.2%	0.2%	0.1%
30-Aug-2019	PCE Core Deflator MoM	Jul	0.2%	0.2%	0.2%
30-Aug-2019	U. of Mich. Sentiment	Aug F	92.3	92.5	92.1

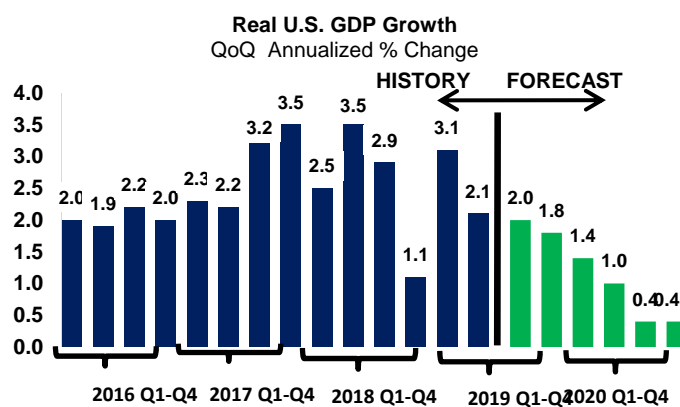
\*Consensus from Bloomberg

## I Hope You Like Whitewater Rafting

If you closely follow the economy and the markets, you're going to feel like you're on a late summer whitewater rafting ride in the weeks and months ahead. In other words, brace yourself for choppy water and maybe a number of rapids to maneuver around. At this point, I can't see any waterfall plunge ahead, but with many twists and turns on our route, no one can see very clearly what's around the next bend in the river.

For the third quarter, U.S. economic growth remains respectable. We are forecasting 2.0% annualized real GDP growth, which is close to economists' estimates of the U.S. economy's current potential growth rate. However, beneath the surface, there are sharp rocks lurking. The bulk of our GDP growth is coming from a U.S. consumer that continues to spend like we are on a lazy river instead of a pulse-pounding whitewater rafting ride where we may not come out okay on the other end.

## Respectable Q3 U.S. Growth Not Expected to Last



Source: BEA; Bank of the West Economics

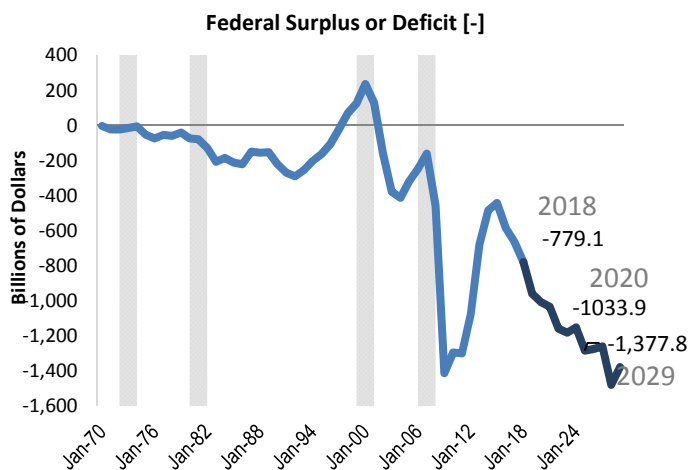
We have also received some comforting data on initial jobless claims and the Conference Board's leading economic indicators that supported the stock market rise

and reduced economic volatility temporarily earlier this week.

U.S. economic growth over the near-term will also be supported by a significant injection of additional federal government spending over the next two years. While you were doing your backyard barbeques, Congress was busy passing the Bipartisan Budget Act of 2019 that lifts federal spending caps and suspends the federal government debt ceiling. The bill adds another \$320 billion in federal spending over the next two years.

More federal spending will bolster the GDP growth numbers, all else being equal, but it comes with significant downsides. The Congressional Budget Office (CBO) recently updated their 10-year projections of U.S. deficits and debt as a result of the bill. The bad news: the CBO expects the federal deficit next year will reach \$1.0 trillion, a full two years earlier than the CBO forecast made in May. The Bipartisan Budget Act of 2019 alone is expected to add \$1.7 trillion to the federal debt over the next 10 years, if not reversed.

### Average \$1.2 Trillion Annual Deficits Over Next 10 Years



This action from Congress, along with the Tax Cuts and Jobs Act of 2017, puts U.S. fiscal policy in a bind that is very similar to the one faced by the Federal Reserve. Should the U.S. economy in the quarters ahead enter a recession, a large scale war, or a sharp jump in interest rates, the

arithmetic quickly becomes untenable. We risk a future credit downgrade of U.S. government debt, a collapse in the U.S. dollar as a global reserve currency, and an economic and financial calamity. Over the long-term, this is economic and financial mismanagement at the highest level. President Donald Trump has mused recently about additional payroll tax cuts and hounded the Fed to cut rates to support growth. But if the negative growth shock from a global recession or financial crisis is big enough, such piecemeal economic policies could easily come up short of what would be needed.

As a side note, the CBO's depressing deficit and debt projections become far worse should a U.S. recession occur in 2020 or 2021. Annual deficits of \$2.0 trillion over several years are a very real possibility.

On Friday, the U.S.-China trade war continues to escalate. China announced it will impose additional tariffs on \$75 billion of U.S. goods. China is imposing another 5% tariff on U.S. soybeans and crude oil starting in September and a 25% duty on cars on Dec. 15<sup>th</sup>. Trump has pledged a response to China's latest tariffs and ordered U.S. companies to start looking for alternatives to making products in China. The global trade system that the U.S. set up following World War II appears to be splitting in two today. Macroeconomic policy makers in Washington and around the world have few good fiscal policy or monetary policy tools to offset the ensuing economic and financial damage.

Fed Chair Jerome Powell speaking at a Fed conference in Jackson Hole, Wyoming, pledged to focus monetary policy on sustaining the economic expansion. However, he also said that there are limits as to how much monetary policy can offset the headwinds coming from the trade war. We still expect two quarter-point rate cuts from the FOMC over the next two meetings in September and October and two more rate cuts in the first half of 2020. Even so, all this extra monetary stimulus may not be enough to reverse a sharp economic slowdown that appears just ahead of us.

**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	2.0	1.8	1.4	1.0	0.4	0.4	2.4	2.9	2.3	1.3
Personal Consumption Expenditures*	1.7	4.0	3.5	1.4	1.1	4.3	3.4	2.3	1.7	1.3	1.2	1.2	2.6	3.0	2.6	2.0
Non-residential Fixed Investment*	8.8	7.9	2.1	4.8	4.4	-0.6	1.7	2.0	1.3	0.8	0.6	0.6	4.4	6.4	3.0	1.1
Private Housing Starts (000s units)	1,321	1,260	1,233	1,185	1,213	1,263	1,230	1,180	1,165	1,150	1,135	1,130	1,208	1,250	1,222	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	-0.5	-1.0	-1.0	-1.0	-1.0	2.3	3.9	0.8	-0.9
Nonfarm Payroll Employment (mil.)	148.0	148.7	149.4	150.1	150.7	151.1	151.5	151.9	152.3	152.4	152.5	152.5	146.6	149.1	151.3	152.4
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	1.3	1.7	1.7	1.7	1.7	1.6	2.1	2.4	1.7	1.7
"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	4.6	-3.0	1.2	1.2	1.3	1.3	1.3	3.2	3.1	0.4	0.9
Trade Weighted Dollar (Fed BOG, major)	86.2	88.2	90.2	91.4	91.5	92.2	91.9	92.5	92.0	91.8	91.5	90.0	91.1	89.0	92.0	91.3
Crude Oil Prices -WTI (\$ per barrel)	63	68	70	60	55	60	56	53	52	51	50	50	51	65	56	51

\*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	2.40	2.04	1.63	1.54	1.29	1.13	1.13	1.00	1.83	2.12	1.27
Treasury-3 Month Bills (yield)	1.58	1.87	2.07	2.36	2.44	2.35	1.97	1.58	1.49	1.24	1.08	1.09	0.95	1.97	2.09	1.22
Treasury-2 Year Notes (yield)	2.16	2.48	2.67	2.80	2.49	2.13	1.78	1.46	1.35	1.19	1.21	1.25	1.40	2.53	1.96	1.25
Treasury-5 Year Notes (yield)	2.53	2.77	2.81	2.88	2.46	2.12	1.75	1.40	1.37	1.35	1.41	1.46	1.91	2.75	1.93	1.39
Treasury-10 Year Notes (yield)	2.76	2.92	2.92	3.04	2.65	2.34	1.99	1.60	1.58	1.57	1.68	1.78	2.33	2.91	2.15	1.65
Treasury-30 Year Notes (yield)	3.03	3.09	3.06	3.27	3.01	2.78	2.48	2.15	2.13	2.15	2.26	2.38	2.90	3.11	2.61	2.23
Prime Rate	4.53	4.80	5.01	5.28	5.50	5.50	5.40	4.75	4.64	4.39	4.26	4.26	4.10	4.90	5.29	4.38
Libor 3-Mo. U.S. Dollar	1.93	2.34	2.34	2.62	2.69	2.51	2.25	1.84	1.76	1.47	1.33	1.32	1.26	2.31	2.32	1.47
Mortgage-30 Year (yield)	4.28	4.54	4.57	4.78	4.37	4.01	3.81	3.57	3.57	3.60	3.71	3.86	3.99	4.54	3.94	3.68
BAA Corporate (yield)	4.47	4.78	4.81	5.14	4.97	4.60	4.22	3.98	4.48	4.65	4.96	5.26	4.44	4.80	4.44	4.83

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