

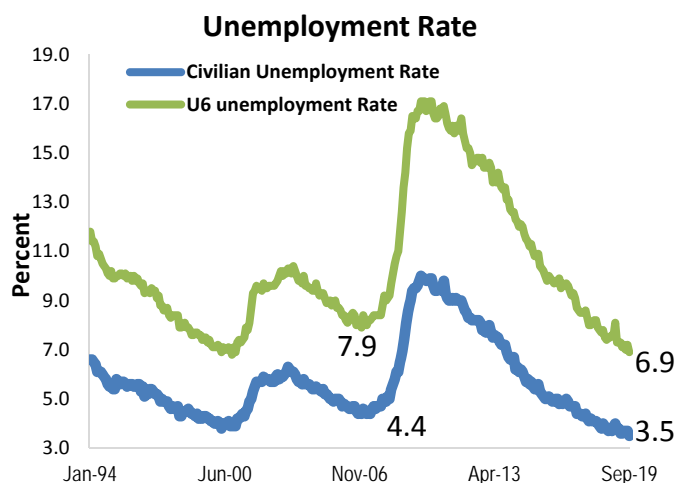
Date	Indicator	For	Estimate	Consensus*	Previous Period
15-Oct-2019	Empire Manufacturing	Oct	-2.0	0.0	2.0
16-Oct-2019	Retail Sales Advance MoM	Sep	0.2%	0.3%	0.4%
16-Oct-2019	Retail Sales Ex Auto MoM	Sep	0.1%	0.3%	0.0%
16-Oct-2019	NAHB Housing Market Index	Oct	68.0	68.0	68.0
16-Oct-2019	Business Inventories	Aug	0.2%	0.3%	0.4%
16-Oct-2019	U.S. Federal Reserve Releases Beige Book				
16-Oct-2019	Net Long-term TIC Flows	Aug	NA	NA	\$84.3b
17-Oct-2019	Building Permits	Sep	1320k	1340k	1425k
17-Oct-2019	Housing Starts	Sep	1297k	1320k	1364k
17-Oct-2019	Philadelphia Fed Business Outlook	Oct	6.0	7.1	12.0
17-Oct-2019	Initial Jobless Claims	12-Oct	217k	NA	210k
17-Oct-2019	Industrial Production MoM	Sep	-0.2%	-0.1%	0.6%
17-Oct-2019	Capacity Utilization	Sep	77.7%	77.7%	77.9%
18-Oct-2019	Leading Index	Sep	0.0%	0.1%	0.0%

*Consensus from Bloomberg

Are Consumers About to Feel a Squeeze?

We think it's about to get harder for consumers in the quarters ahead. For now, they actually still feel pretty good about their current job and financial situation. Consumer sentiment just hit a three month high in October, according to the University of Michigan Survey. Indeed, U.S. households still have a lot going for them. The U.S. unemployment rate just hit a 50-year low.

U.S. Job Growth Slowdown Continues in September



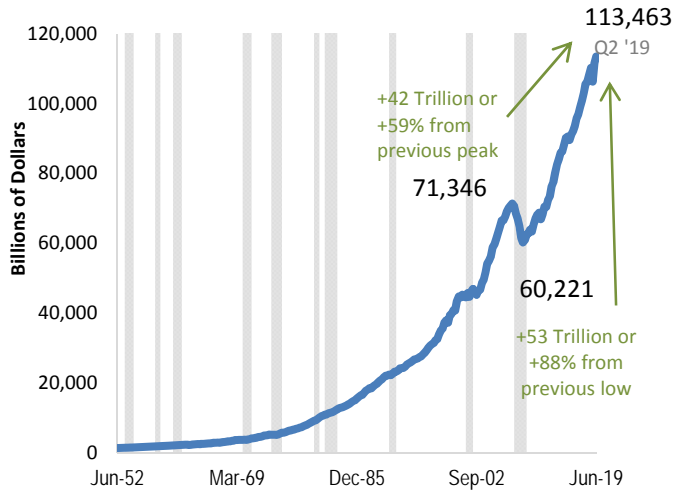
Source: U.S. Bureau of Labor Statistics

Household net worth continues to climb to new record highs. Aggregate U.S. household net worth has never been higher in either nominal or in inflation-adjusted terms. Household net worth through the second quarter has climbed \$53 trillion, or 88%, from the post-recession low. Even more impressive, household net worth is now \$42 trillion higher than the dot-com peak of \$71 trillion. While ultra-loose monetary policy over the past decade has had a debatable record on restoring full-employment and stable price inflation, its impact on restoring households' asset values and deflating their debt burdens is indisputable.

The combination of rising stock and home prices and historically low borrowing costs have helped households shed a tremendous amount of debt. In fact, household debt as a share of disposable personal income has dropped from about 134% in 2008 to just 97% in 2019. That is the lowest household debt level in nearly 20 years.

U.S. Households Have Never Been Richer

Total Net Worth - Balance Sheet of Households and Nonprofit Organizations



Source: Federal Reserve System

Moreover, low interest rates have ensured that the challenge of paying down debt is manageable. The Fed’s debt service payments ratio, which is the ratio of debt service payments to disposable personal income, is currently at a record low 9.7%.

Household Debt Service Payments Manageable

Household Debt Service Payments as % of Disposable Personal Income



Source: Federal Reserve System

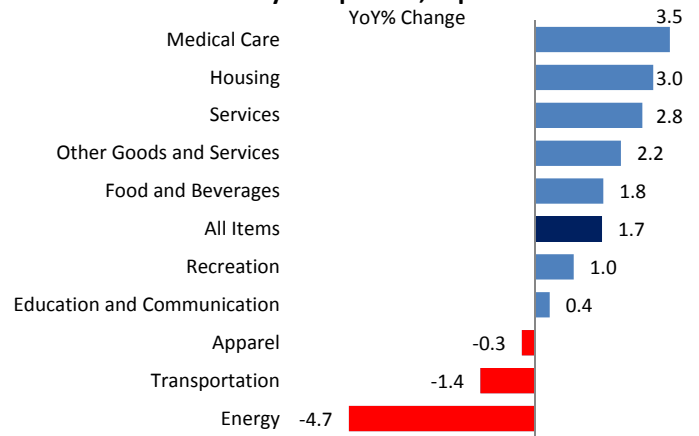
So what should you be watching in the quarters ahead? The good news on the U.S. labor market appears to be peaking. In fact, job opening growth peaked way back in November 2018 at 23.7% from a year ago. By August job opening growth had dropped to -4.0% from a year ago. New job openings are often a leading indicator of future

employment growth. Hires are also down 0.8% from a year ago. Thankfully layoffs have so far not accelerated. They are nearly flat from a year ago, consistent with the lean jobless claim data so far in October. But watch if layoffs begin to accelerate in the months ahead: it could mean the U.S. economic slowdown is entering into a new, more dangerous phase.

Also, low unemployment today does not appear to be translating into higher real wages for workers. Real average hourly earnings growth has slowed this year to a lackluster 1.2% through September after showing some promise late last year. At the same time, core CPI inflation continues to creep higher to 2.4% today with strong price increases for medical services and housing. Inflation in those areas is being fueled by supply shortages in the marketplace, limiting monetary policy’s ability to keep these price increases under control. Households in need of these services are definitely going to feel the squeeze in the quarters ahead as incomes fail to keep pace.

Housing and Medical Services Becoming Less Affordable

CPI by Component, September 2019



Source: Bureau of Labor Statistics

Additional tariffs on U.S. consumer imports from China in December could add to consumer inflation pressures, at least temporarily. They could be another important headwind on real consumer spending growth in 2020. So, while U.S. consumers are not leading the current economic slowdown, they could join it in 2020. Consumers are definitely going to start feeling a squeeze.

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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	2.0	1.6	1.3	1.3	1.0	0.4	0.4	2.4	2.9	2.2	1.2
Personal Consumption Expenditures*	1.7	4.0	3.5	1.4	1.1	4.6	2.7	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	-1.0	-1.7	-0.5	1.3	0.8	0.7	0.7	4.4	6.4	2.3	0.2
Private Housing Starts (000s units)	1,321	1,260	1,233	1,185	1,213	1,256	1,230	1,180	1,165	1,150	1,135	1,130	1,208	1,250	1,220	1,145
Vehicle Sales (mill. Units, annualized)	17.1	17.1	16.9	17.5	16.9	17.0	16.9	16.7	16.3	15.9	15.6	15.9	17.2	17.1	16.9	15.9
Industrial Production*	2.3	4.6	5.2	3.9	-1.9	-2.1	-0.8	-0.5	-1.0	-1.0	-1.0	-1.0	2.3	3.9	0.6	-1.0
Nonfarm Payroll Employment (mil.)	148.0	148.7	149.4	150.1	150.7	151.1	151.6	152.0	152.3	152.5	152.6	152.5	146.6	149.1	151.3	152.5
Unemployment rate	4.1	3.9	3.8	3.8	3.9	3.6	3.6	3.7	3.8	3.9	4.2	4.4	4.4	3.9	3.7	4.1
Consumer Price Index* (percent)	3.2	2.1	2.0	1.5	0.9	2.9	1.8	1.7	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	1.8	3.0	2.0	2.0	1.9	1.8	1.8	1.8	2.1	2.2	2.1
PPI (finished goods)* (percent)	3.8	2.7	2.0	0.4	-2.3	5.2	-1.9	1.2	1.2	1.3	1.3	1.3	3.2	3.1	0.7	1.1
Trade Weighted Dollar (Fed BOG, major)	86.2	88.2	90.2	91.4	91.5	92.2	92.2	92.7	92.2	91.8	91.5	90.0	91.1	89.0	92.2	91.4
Crude Oil Prices -WTI (\$ per barrel)	63	68	70	60	55	60	56	52	51	50	49	48	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	2,958						2,449	2,746		
Dow Jones Industrial Average	25,127	24,556	25,595	24,916	25,147	26,096	26,676						21,745	25,048		
Federal Funds Rate (effective)	1.45	1.74	1.92	2.22	2.40	2.40	2.20	1.79	1.54	1.29	1.13	1.13	1.00	1.83	2.20	1.27
Treasury-3 Month Bills (yield)	1.58	1.87	2.07	2.36	2.44	2.35	2.03	1.70	1.49	1.30	1.14	1.11	0.95	1.97	2.13	1.26
Treasury-2 Year Notes (yield)	2.16	2.48	2.67	2.80	2.49	2.13	1.69	1.46	1.36	1.19	1.21	1.25	1.40	2.53	1.94	1.25
Treasury-5 Year Notes (yield)	2.53	2.77	2.81	2.88	2.46	2.12	1.63	1.39	1.34	1.20	1.28	1.39	1.91	2.75	1.90	1.30
Treasury-10 Year Notes (yield)	2.76	2.92	2.92	3.04	2.65	2.34	1.80	1.57	1.43	1.39	1.42	1.53	2.33	2.91	2.09	1.44
Treasury-30 Year Notes (yield)	3.03	3.09	3.06	3.27	3.01	2.78	2.29	2.07	1.93	1.92	1.95	2.08	2.90	3.11	2.54	1.97
Prime Rate	4.53	4.80	5.01	5.28	5.50	5.50	5.31	4.91	4.64	4.39	4.26	4.26	4.10	4.90	5.30	4.38
Libor 3-Mo. U.S. Dollar	1.93	2.34	2.34	2.62	2.69	2.51	2.20	2.04	1.84	1.57	1.42	1.32	1.26	2.31	2.36	1.54
Mortgage-30 Year (yield)	4.28	4.54	4.57	4.78	4.37	4.01	3.66	3.67	3.53	3.47	3.50	3.56	3.99	4.54	3.93	3.52
BAA Corporate (yield)	4.47	4.78	4.81	5.14	4.97	4.60	4.03	3.87	4.03	4.27	4.50	4.81	4.44	4.80	4.37	4.40

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