

Date	Indicator	For	Estimate	Consensus*	Previous Period
16-Mar-2020	Empire Manufacturing	Mar	2.0	5.0	12.9
16-Mar-2020	Net Long-term TIC Flows	Jan	NA	NA	\$85.6b
17-Mar-2020	Retail Sales Advance MoM	Feb	0.2%	0.2%	0.3%
17-Mar-2020	Retail Sales Ex Auto MoM	Feb	0.2%	0.2%	0.3%
17-Mar-2020	Industrial Production MoM	Feb	0.2%	0.4%	-0.3%
17-Mar-2020	Capacity Utilization	Feb	77.0%	77.1%	76.8%
17-Mar-2020	Business Inventories	Jan	-0.1%	-0.1%	0.1%
17-Mar-2020	JOLTS Job Openings	Jan	NA	NA	6423.0
17-Mar-2020	NAHB Housing Market Index	Mar	73.0	74.0	74.0
18-Mar-2020	Building Permits	Feb	1485k	1500k	1550k
18-Mar-2020	Housing Starts	Feb	1460k	1502k	1567k
18-Mar-2020	FOMC Rate Decision (Upper Bound)	18-Mar	0.25%	0.75%	1.25%
18-Mar-2020	FOMC Rate Decision (Lower Bound)	18-Mar	0.00%	0.50%	1.00%
19-Mar-2020	Current Account Balance	4Q	-\$110.0b	-\$108.8b	-\$124.1b
19-Mar-2020	Philadelphia Fed Business Outlook	Mar	5.0	10.0	36.7
19-Mar-2020	Initial Jobless Claims	14-Mar	218k	220k	211k
19-Mar-2020	Leading Index	Feb	0.0%	0.1%	0.8%
20-Mar-2020	Existing Home Sales	Feb	5.50m	5.55m	5.46m

*Consensus from Bloomberg

Financial Contagion Spreads - Outlook Deteriorates

The global spread of the Covid-19 pandemic is forcing global commerce to a standstill wherever it goes. Governments are starting to take more forceful actions to slow the spread of the virus both from a public health perspective and from an economic and financial one. Yet, the economic and financial damage the virus is reaping continues to mount, and we continue to factor all this into our economic and interest rate forecasts.

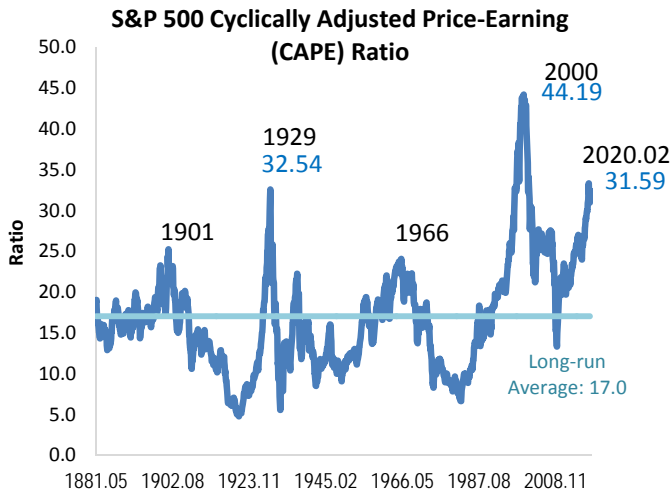
The U.S. economy is now being buffeted by a number of negative economic and financial shocks most of which have been touched-off by the Covid-19 pandemic. A global recession in 2020 is now looking very likely. Major economies from China, Japan, and Europe are either already in a contraction or about to go into contraction this year. The emerging market rebound the IMF was hoping for at the beginning of the year will never materialize, as global financial contagion spreads and an oil price war between Saudi Arabia and Russia hit the

Middle East and other oil producing countries around the world, including the United States. Global crude oil prices have dropped by around 45% since the beginning of the year. We are cutting our global growth forecast to 1.0% for 2020. This is down from a 2.0% global growth forecast we made about a month ago. Just to put that into perspective, the IMF was forecasting 3.3% 2020 global GDP growth at the beginning of the year. Global GDP growth below 2.0% is considered a global recession. This deterioration in global growth reduces our forecasts on U.S. export growth over the rest of the year and also means a bigger hit to U.S. consumer and business spending in the second half of the year as U.S. corporate profit estimates are slashed and U.S. stock prices find a new lower equilibrium.

The U.S. economy will also have to survive a potentially large credit and financial shock as investors, banks, and economic policymakers come to grips with a dimming economic and profit outlook. The problem is the U.S.

equity market and corporate bond market were priced for perfection and were considerably overvalued before the Covid-19 virus shock hit in earnest in February.

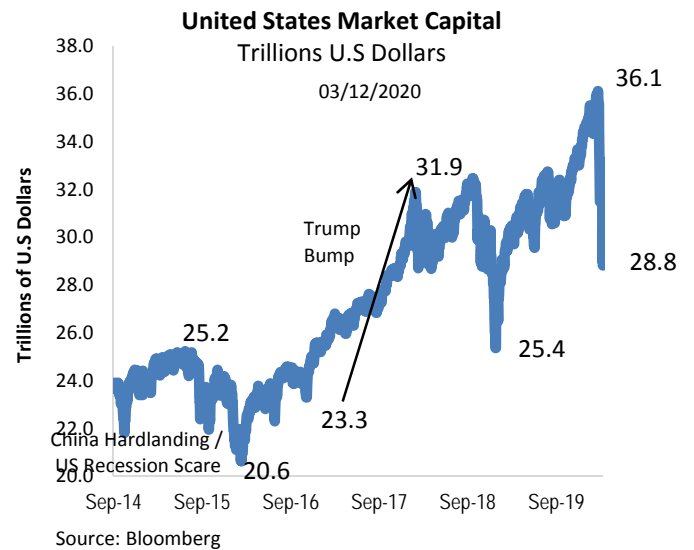
Equity Valuations Were Stretched Prior To Covid-19



Source: Robert Shiller's website

Indeed, it seems like a lifetime ago, but the S&P 500 hit a new record high less than a month ago on February 19th. By Thursday the S&P has plunged 26.8% in one of the fastest selloffs in U.S. history. U.S. equity market capitalization has declined by about \$7.3 trillion since February 19th. The decline over the last month in equity values almost erases the \$8.6 trillion gain in stock market value from November 2016 until January 2018, often referred to as the Trump Bump, when investors cheered the large corporate and personal tax cuts coming from the new administration. Global equity market capitalization has fallen by about \$16.6 trillion since peaking on January 18th.

Easy Come Easy Go



Source: Bloomberg

The Fed has been wasting no time jumping in with both feet to help relieve the growing financial stress on global money markets. The Fed announcement on March 12 that it was offering \$500 billion in 3-Mo. repos as the markets crashed and offered another \$1.0 trillion in 1-Mo. and 3-Mo. repos today and will do so again every week thereafter until April 13th. So far this flood of liquidity to the banking system has worked to calm liquidity fears in the repo and money market.

The Fed has also been working to cushion the blow to U.S. economic growth, cutting the Fed funds rate by 50 basis point in an emergency inter-meeting cut. More Fed help will likely be on its way next week, when the FOMC meets to set interest rates again. We expect another 100 basis points in cuts in the Fed funds target rate, bring the Fed's target band to the lower bound of 0 to 25 basis points. Despite the emergency monetary medicine, the U.S. economy is likely to get sicker before it recovers. We are now forecasting a sharper drop in U.S. GDP growth in the second quarter and continued weak economic activity for the rest of the year. In fact, growth is expected to become so weak that a mild recession in the U.S. is a distinct possibility by the third quarter. We raise our probably of recession for this year to around 75% from 50% last week given the financial dislocation we must now factor into our forecasts for consumers and businesses this year.

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Key Economic and Interest Rate Forecasts

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2019.1	2019.2	2019.3	2019.4	2020.1	2020.2	2020.3	2020.4	2021.1	2021.2	2021.3	2021.4	2018	2019	2020	2021
Real GDP*	3.1	2.0	2.1	2.1	1.7	0.6	0.2	0.3	1.3	1.2	1.3	1.3	2.9	2.3	1.4	0.9
Personal Consumption Expenditures*	1.1	4.6	3.2	1.7	1.8	0.7	0.5	0.7	1.5	1.5	1.7	1.7	3.0	2.6	1.7	1.2
Non-residential Fixed Investment*	4.4	-1.0	-2.3	-2.3	2.0	-1.2	-1.5	-0.5	2.1	2.1	2.1	2.2	6.4	2.1	-0.8	0.9
Private Housing Starts (000s units)	1,213	1,256	1,282	1,449	1,497	1,350	1,285	1,255	1,220	1,200	1,212	1,245	1,208	1,300	1,347	1,219
Vehicle Sales (mill. Units, annualized)	16.9	17.0	17.0	16.8	16.6	16.3	16.0	15.9	16.2	16.2	16.4	16.4	17.2	16.9	16.2	16.3
Industrial Production*	-1.9	-2.3	1.1	0.1	-1.2	-3.5	-3.2	-2.8	1.0	1.3	1.4	1.5	3.9	0.8	-1.5	-0.4
Nonfarm Payroll Employment (mil.)	150.2	150.6	151.2	151.8	152.5	152.7	152.7	152.8	153.0	153.3	153.6	153.9	146.6	150.9	152.7	153.5
Unemployment rate	3.9	3.6	3.6	3.5	3.6	3.7	3.8	3.9	4.0	4.1	4.2	4.3	4.4	3.7	3.8	4.2
Consumer Price Index* (percent)	0.9	3.0	1.8	2.4	1.8	0.5	0.9	0.7	1.1	1.3	1.5	1.6	2.4	1.8	1.6	1.1
"Core" CPI* (percent)	2.2	2.2	2.8	2.0	2.2	1.5	1.5	1.3	1.4	1.5	1.5	1.5	2.1	2.2	2.0	1.4
PPI (finished goods)* (percent)	-2.3	5.3	-2.1	3.2	1.9	-2.5	-0.5	-0.5	0.6	0.9	1.6	1.7	3.1	0.8	0.6	0.3
Trade Weighted Dollar (Fed BOG, major)	91.5	92.2	92.1	92.3	91.9	91.5	90.5	90.0	89.5	88.7	89.0	89.3	91.1	92.0	91.0	89.1
Crude Oil Prices -WTI (\$ per barrel)	55	60	56	57	53	32	35	41	43	48	50	52	51	57	40	48

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

Financial Data	History				Forecast								Annual Average			
	2019.1	2019.2	2019.3	2019.4	2020.1	2020.2	2020.3	2020.4	2021.1	2021.2	2021.3	2021.4	2018	2019	2020	2021
S & P 500	2,721	2,882	2,958	3,083									2,449	2,911		
Dow Jones Industrial Average	25,147	26,096	26,676	27,537									21,745	26,364		
Federal Funds Rate (effective)	2.40	2.40	2.20	1.65	1.17	0.13	0.13	0.13	0.13	0.13	0.13	0.13	1.00	2.16	0.39	0.13
Treasury-3 Month Bills (yield)	2.44	2.35	2.03	1.61	1.32	0.21	0.20	0.22	0.21	0.20	0.20	0.21	0.95	2.11	0.48	0.20
Treasury-2 Year Notes (yield)	2.49	2.13	1.69	1.59	1.31	0.41	0.43	0.44	0.44	0.44	0.44	0.46	1.40	1.97	0.64	0.44
Treasury-5 Year Notes (yield)	2.46	2.12	1.63	1.61	1.34	0.53	0.54	0.55	0.62	0.62	0.62	0.65	1.91	1.96	0.74	0.62
Treasury-10 Year Notes (yield)	2.65	2.34	1.80	1.79	1.52	0.73	0.74	0.75	0.82	0.82	0.82	0.85	2.33	2.15	0.93	0.82
Treasury-30 Year Notes (yield)	3.01	2.78	2.29	2.25	1.99	1.38	1.39	1.41	1.52	1.57	1.57	1.60	2.90	2.58	1.54	1.56
Prime Rate	5.50	5.50	5.31	4.83	4.41	3.25	3.25	3.25	3.25	3.25	3.25	3.25	4.10	5.29	3.54	3.25
Libor 3-Mo. U.S. Dollar	2.69	2.51	2.20	1.93	1.61	0.71	0.49	0.38	0.33	0.31	0.29	0.31	1.26	2.33	0.79	0.31
Mortgage-30 Year (yield)	4.37	4.01	3.66	3.70	3.62	3.13	3.24	3.25	3.22	3.22	3.14	3.15	3.99	3.94	3.31	3.18
BAA Corporate (yield)	4.97	4.60	4.03	3.91	3.65	4.08	4.24	4.45	4.52	4.67	4.67	4.67	4.44	4.38	4.10	4.63

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