

Date	Indicator	For	Estimate	Consensus*	Previous Period
15-Jun-2020	Empire Manufacturing	Jun	-37.5	-28.8	-48.5
15-Jun-2020	Net Long-term TIC Flows	Apr	NA	NA	-\$112.6b
16-Jun-2020	Retail Sales Advance MoM	May	6.8%	7.4%	-16.4%
16-Jun-2020	Retail Sales Ex Auto MoM	May	4.9%	5.5%	-17.2%
16-Jun-2020	Industrial Production MoM	May	2.5%	3.0%	-11.2%
16-Jun-2020	Capacity Utilization	May	66.6%	66.8%	64.9%
16-Jun-2020	Business Inventories	Apr	-1.0%	-0.7%	-0.2%
16-Jun-2020	NAHB Housing Market Index	Jun	40.0	43.0	37.0
17-Jun-2020	Building Permits	May	1225k	1260k	1066k
17-Jun-2020	Housing Starts	May	1090k	1100k	891k
18-Jun-2020	Philadelphia Fed Business Outlook	Jun	-32.0	-27.4	-43.1
18-Jun-2020	Initial Jobless Claims	13-Jun	1290k	NA	1542k
18-Jun-2020	Leading Index	May	2.4%	2.4%	-4.4%
19-Jun-2020	Current Account Balance	1Q	-\$104.9b	-\$104.6b	-\$109.8b

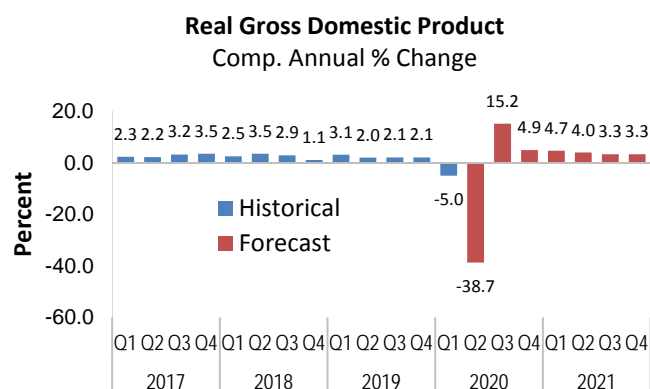
*Consensus from Bloomberg

A Reopening Rebound in Q3 - But Then What?

The widespread closure of nonessential businesses has already caused massive dislocation in the U.S. labor market and we are bracing for a sharp decline in real GDP in the second quarter. We are expecting an unprecedented annualized plunge of at least 38.7% in Q2 GDP. Driving that decline will be unparalleled drops in consumer spending and business investment, with the sole support coming from an increase in government spending as governments at all levels increase spending in an effort to help stabilize the U.S. economy.

Looking beyond the sharp second quarter contraction, the contours of economic recovery is starting to come into focus and should be clearly visible in the U.S. macroeconomic data by the third quarter. A rapid reopening of the U.S. economy in May and the sharp drop in retail sales in March and April nearly ensures a sizable bounce in economic activity. Demand in some areas of consumer spending from housing, recreation vehicles, and boats have been stronger than expected. Reopening stats tracking Americans' driving and walking movements, and restaurant reservations are bouncing back well. As a result, we boosted our annualized real GDP growth forecast to 15.2% in the third quarter.

Real GDP Expected to Rebound Sharply in Q3



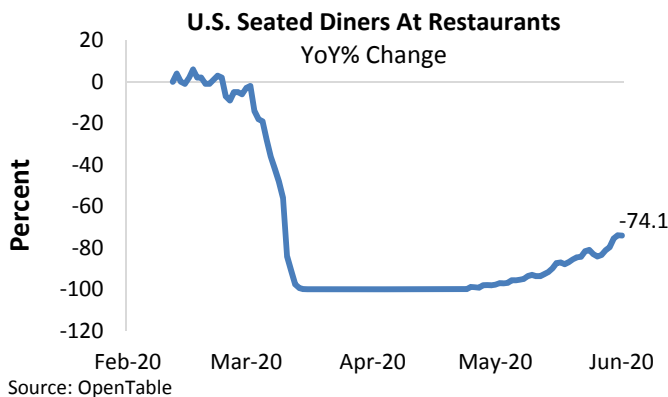
Source: Bureau of Economic Analysis; BOTW

Real consumer spending is forecast to grow at an annualized pace of 23.0% in third quarter after falling by an estimated 47.0% in the second quarter. The business reopenings across the country have been more widespread and have occurred at a faster pace than we expected a month ago. According to Moody's Analytics, as recently as mid-April 2,600 counties were locked down in an effort to fend off the worst of the pandemic, accounting for almost 30% of U.S. GDP. By early June, few counties were still shuttered and the expectations is that even fewer will be closed going forward. The opening of more businesses – especially retail stores and restaurants

– will prompt more consumers’ to open their wallets as they unleash a wave of pent-up demand that has been building in some parts of the country since mid-March.

That consumers are spending more at restaurants as more states allow outdoor – and in some cases indoor – dining is seen in real-time reservations data from Open Table. The year-on-year change in the number of seated diners at restaurants turned negative at the beginning of March and reached -100.0% at the end of March after restaurant closures across the country became widespread. While the number of diners is still down sharply from a year ago, the decline moderated to around 74.0% on June 6 as more consumers chose to dine out. Moreover, the number of consumers eating out is likely to increase in the next few months as restrictions on restaurants are eased further.

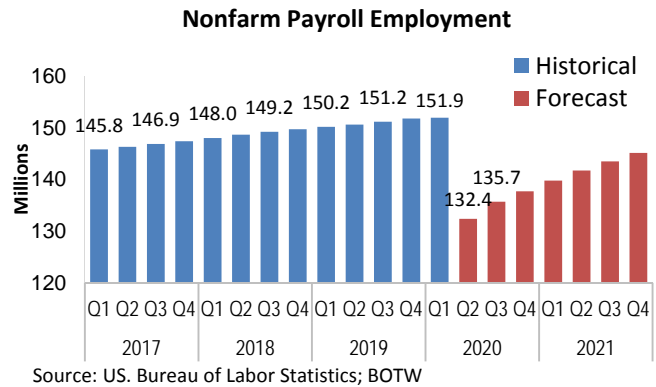
The Decline in Restaurant Reservations is Moderating



Drivers of a Rebound in Consumer Spending

There are two primary factors that underpin the expected improvement in consumer spending in the third quarter: the turn in the labor market as more furloughed workers return to work and the sharp rebound in equity and corporate bond markets over the past month. Total nonfarm payrolls plunged by a record 20.7 million in April, nearly erasing the total number of jobs created in the 10+ years long economic expansion. The expectation was for job losses to extend into May after initial jobless claims continued at an unprecedented pace in May. The median Bloomberg consensus forecast was for a decline of 7.5 million jobs, but total nonfarm payrolls exceeded all expectations, increasing by 2.5 million in May with the unemployment rate dropping from 14.5% to 13.3%. Further improvement in nonfarm payrolls and the U.S. unemployment rate is expected in the third quarter.

Job Growth Forecast to Resume in the Third Quarter



Rebounding equity markets also point to an acceleration in consumer spending growth via the wealth effect - the additional spending that occurs as household wealth increases. We estimate that for every \$1 increase in stock market wealth, consumer spending will rise by approximately 3 cents in less than a year. The S&P 500 hit a nadir on March 23 with a 34.0% decline from its February peak. Since bottoming the S&P 500 was up over 44.0% on June 8th. The swift rebound in equity prices, if sustained, could be an important support for consumer confidence and spending over the near-term.

Beyond the third quarter reopening rebound, the outlook for GDP and consumer spending remain murky. We expect consumer spending growth to moderate as soon as the fourth quarter as pent-up demand wanes and the unemployment rate remains elevated.

Moreover, risks to the outlook are firmly weighted to the downside with the primary risk emanating from a second wave of COVID-19 in the fall (or sooner) as states continue to reopen their economies. A second wave of the virus could cause renewed business shutdowns, another sharp selloff in equity markets, and rattle already-fragile consumer confidence. The wealth effect is not symmetric. For every \$1 decline in stock wealth, consumer spending is estimated to fall almost 5 cents in under a year. If these downside risks are realized, one can easily envision more pessimistic outlooks where consumer spending and the U.S. economy returns to recession before the end of the 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	-5.0	-38.7	15.2	4.9	4.7	4.0	3.3	3.3	2.9	2.3	-5.7	2.7	
Personal Consumption Expenditures*	1.1	4.6	3.2	1.8	-6.8	-47.0	23.0	9.6	3.6	3.4	2.6	2.5	3.0	2.6	-6.4	3.4	
Non-residential Fixed Investment*	4.4	-1.0	-2.3	-2.4	-7.9	-38.0	-18.1	-6.1	1.5	2.5	3.2	3.0	6.4	2.1	-12.1	-4.6	
Private Housing Starts (000s units)	1,204	1,257	1,288	1,433	1,487	870	900	970	985	1,025	1,075	1,150	1,208	1,296	1,057	1,059	
Vehicle Sales (mill. Units, annualized)	16.9	17.0	17.0	16.8	15.5	11.0	13.6	14.1	14.7	15.0	15.2	15.3	17.2	16.9	13.6	15.1	
Industrial Production*	-1.9	-2.3	1.1	0.3	-7.5	-65.0	-15.0	1.0	2.0	2.3	2.5	1.8	3.9	0.9	-15.3	-5.1	
Nonfarm Payroll Employment (mil.)	150.2	150.6	151.2	151.8	151.9	132.4	135.7	137.7	139.8	141.7	143.5	145.1	146.6	150.9	139.4	142.5	
Unemployment rate	3.9	3.6	3.6	3.5	3.8	13.2	10.5	9.7	8.9	7.9	7.1	6.0	4.4	3.7	9.3	7.5	
Consumer Price Index* (percent)	0.9	3.0	1.8	2.4	1.2	-3.3	0.1	0.5	1.0	1.0	1.3	1.4	2.4	1.8	0.6	0.6	
"Core" CPI* (percent)	2.2	2.2	2.8	2.0	2.0	0.4	0.8	1.2	1.3	1.4	1.4	1.5	2.1	2.2	1.6	1.2	
PPI (finished goods)* (percent)	-2.7	4.7	-1.2	3.0	-2.5	-10.0	-2.5	-1.0	0.1	0.9	1.6	1.7	3.0	0.8	-2.2	-0.6	
Trade Weighted Dollar (Fed BOG, major)	114.5	115.4	116.5	116.4	117.7	125.1	127.0	126.3	125.5	124.1	124.1	123.0	91.1	115.7	124.0	124.2	
Crude Oil Prices -WTI (\$ per barrel)	55	60	56	57	43	23	24	28	30	33	35	38	51	57	30	34	

*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	3,056								2,449	2,911			
Dow Jones Industrial Average	25,147	26,096	26,676	27,537	26,554								21,745	26,364			
Federal Funds Rate (effective)	2.40	2.40	2.20	1.65	1.23	0.13	0.13	0.13	0.13	0.13	0.13	0.13	1.00	2.16	0.40	0.13	
Treasury-3 Month Bills (yield)	2.44	2.35	2.03	1.61	1.10	0.13	0.15	0.15	0.15	0.15	0.15	0.15	0.95	2.11	0.38	0.15	
Treasury-2 Year Notes (yield)	2.49	2.13	1.69	1.59	1.08	0.19	0.20	0.21	0.22	0.23	0.24	0.26	1.40	1.97	0.42	0.23	
Treasury-5 Year Notes (yield)	2.46	2.12	1.63	1.61	1.14	0.36	0.43	0.43	0.43	0.44	0.47	0.48	1.91	1.96	0.59	0.45	
Treasury-10 Year Notes (yield)	2.65	2.34	1.80	1.79	1.37	0.66	0.80	0.80	0.82	0.83	0.90	0.93	2.33	2.15	0.90	0.87	
Treasury-30 Year Notes (yield)	3.01	2.78	2.29	2.25	1.87	1.27	1.60	1.60	1.62	1.63	1.70	1.73	2.90	2.58	1.58	1.67	
Prime Rate	5.50	5.50	5.31	4.83	4.43	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	1.53	0.70	0.32	0.32	0.32	0.32	0.31	0.31	1.26	2.33	0.71	0.31	
Mortgage-30 Year (yield)	4.37	4.01	3.66	3.70	3.52	3.56	3.55	3.65	3.57	3.43	3.50	3.43	3.99	3.94	3.57	3.48	
BAA Corporate (yield)	4.97	4.60	4.03	3.91	3.91	4.03	3.90	4.30	4.22	4.23	4.25	4.28	4.44	4.38	4.03	4.24	

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