U.S. Outlook

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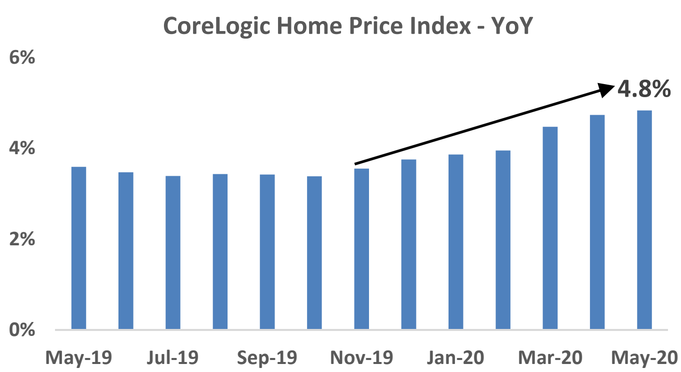
Date	Indicator	For	Estimate	Consensus*	Previous Period
14-Jul-2020	NFIB Small Business Optimism	Jun	98.0	97.0	94.4
14-Jul-2020	CPI MoM	Jun	0.5%	0.6%	-0.1%
14-Jul-2020	CPI Ex Food and Energy MoM	Jun	0.1%	0.1%	-0.1%
15-Jul-2020	Import Price Index MoM	Jun	0.7%	1.0%	1.0%
15-Jul-2020	Empire Manufacturing	Jul	5.0	6.0	-0.2
15-Jul-2020	Capacity Utilization	Jun	66.7%	68.1%	64.8%
15-Jul-2020	Industrial Production MoM	Jun	4.8%	4.4%	1.4%
15-Jul-2020	U.S. Federal Reserve Releases Beige Book				
16-Jul-2020	Retail Sales Advance MoM	Jun	4.5%	5.5%	17.7%
16-Jul-2020	Retail Sales Ex Auto MoM	Jun	4.5%	5.5%	12.4%
16-Jul-2020	Philadelphia Fed Business Outlook	Jul	22.5	20.0	27.5
16-Jul-2020	Initial Jobless Claims	11-Jul	1250k	NA	1314k
16-Jul-2020	Business Inventories	May	-2.3%	-2.3%	-1.3%
16-Jul-2020	NAHB Housing Market Index	Jul	59.0	60.0	58.0
16-Jul-2020	Net Long-term TIC Flows	May	NA	NA	-$128.4b
17-Jul-2020	Building Permits	Jun	1280k	1300k	1216k
17-Jul-2020	Housing Starts	Jun	1140k	1180k	974k
17-Jul-2020	U. of Mich. Sentiment	Jul P	76.1	80.0	78.1

*Consensus from Bloomberg

Home Price Growth Accelerates – But For How Long?

Despite unprecedented job losses in a wide swath of industries across the country since the COVID-19 pandemic arrived in the U.S., home price growth has unexpectedly accelerated. According to CoreLogic, national home prices increased 4.8% from a year ago in May an acceleration of more than one percentage point in home price growth since December 2019.

Home Prices Continue to Rise Despite Deep Recession



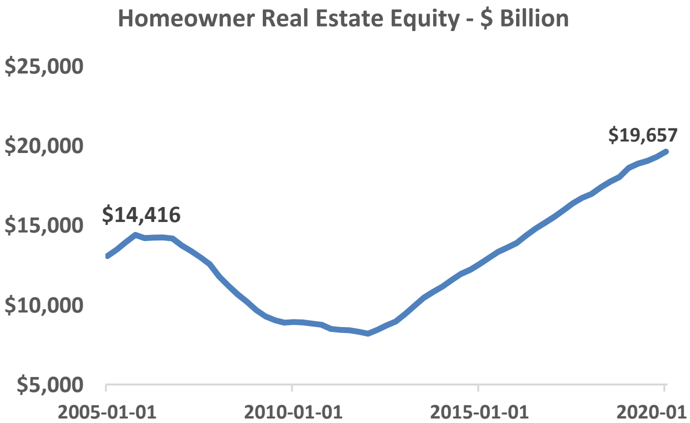
Source: CoreLogic

This is a Different Recession and Housing Market

The sudden collapse in U.S. economic activity – real GDP declined 5.0% annualized in the first quarter of this year and is projected to contract an unprecedented 35.1% in the second quarter – led some to speculate that the housing market would suffer a downturn on par with or more severe than the one experienced prior to and during the Great Recession when national home prices plunged nearly 32% from the peak in April 2006 to the trough in May 2009.

There are, however, significant differences between the housing market that helped trigger the 2008/09 economic downturn and today's housing market that could be a casualty of the current pandemic. The housing market today is not characterized by loose lending standards, low or no down payment mortgages, a preponderance of sub-prime loans and highly-leveraged homeowners like it was in 2008. This is evident by the record amount of tappable home equity that will enable more homeowners' to withstand modest price declines without flooding the market with more homes for sale, limiting expected home price declines.

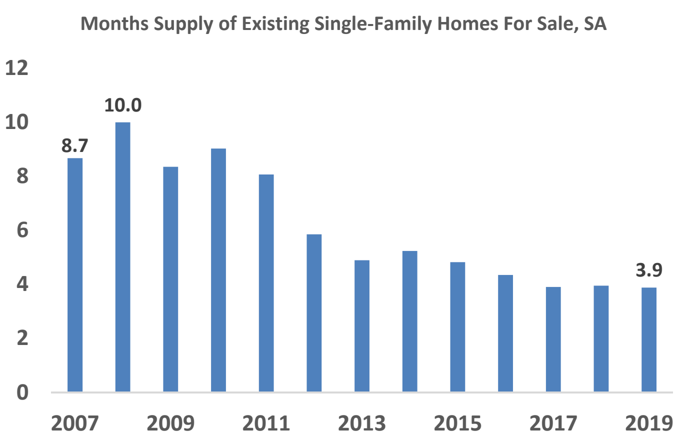
Record Home Equity Should Cushion Price Declines



Source: Feberal Reserve Board

Moreover, housing entered this recession undersupplied rather than oversupplied, a significant difference relative to the pre-Great Recession housing market. Indeed, the months' supply of existing homes for sale was an annual record-low 3.9 in 2019. While the months' supply rose to 4.8 in May 2020, it is still well below the long run average of 6.7 from 1983 to 2019 and significantly lower than the 8.7 in 2007 entering the Great Recession. A lack of existing inventory places upward pressure on home prices as buyers compete for listed homes near-term, despite widespread unemployment.

Months' Supply Fell to a Record Low in 2019



Source: National Association of Realtors

Finally, government supports are helping a lot. Federal government programs designed to support the housing market during the pandemic are helping to limit home inventory on the market. According to Black Knight, as of June 2 the number of government-backed mortgages, primarily Fannie Mae, Freddie Mac, FHA and VA loans, in COVID-19 mortgage forbearance plans was 4.73 million or 8.9% of all active mortgages accounting for a little over $1 trillion in unpaid principal. A forbearance is when a mortgage servicer or lender allows you to pause or reduce your mortgage payments for a limited period of time while you regain your financial footing.

Still, far fewer homeowners in forbearance remitted payments in May than did in April, suggesting a rise in the underlying mortgage delinquency rate in May. The speed of the labor market recovery will dictate how many of the mortgages in forbearance will eventually be foreclosed on when the moratorium on foreclosures expires on August 31, 2020. Will homeowners be able to resume their monthly mortgage payments when the forbearance period ends? A significant rise in foreclosures at the end of this year would increase the number of homes for sale and put downward pressure on home prices in 2021.

The Outlook for Home Prices

Our home price outlook is for the CoreLogic Case-Shiller National Home Price Index to begin showing slower home price growth in the second half of the year as still elevated levels of unemployment and income losses start to outweigh the solid fundamentals of the housing market going into this crisis. The home price weakness is expected to accelerate once the forbearance window closes later this year. By early next year, home prices should be on a widespread decline from a year ago, though our baseline forecast is we will not see the magnitude of home declines we saw in 2008 and 2009. We are forecasting, national home price declines of around 4.2% year-on-year by the second quarter of 2021. If government housing market support is bolstered, or mortgage forbearance extended by additional government action, the day of reckoning for home prices could be pushed further into the future. This time truly is different.

Key Economic and Interest Rate Forecasts

	History					Forecast							Yr/Yr % chg or Annual Avg.			
Economic Data	**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	-35.1	14.9	4.9	4.8	4.1	3.3	3.3	2.9	2.3	-5.1	3.0
Personal Consumption Expenditures*	1.1	4.6	3.2	1.8	-6.8	-36.0	20.0	8.5	3.4	3.1	2.6	2.5	3.0	2.6	-4.7	3.6
Non-residential Fixed Investment*	4.4	-1.0	-2.3	-2.4	-6.4	-31.9	-18.3	-6.1	1.5	2.5	3.2	3.0	6.4	2.1	-10.6	-4.2
Private Housing Starts (000s units)	1,204	1,257	1,288	1,433	1,487	963	980	970	985	1,025	1,075	1,150	1,208	1,296	1,100	1,059
Vehicle Sales (mill. Units, annualized)	16.9	17.0	17.0	16.8	15.5	11.3	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	-53.0	20.0	8.0	6.0	5.3	4.5	4.4	3.9	0.9	-9.1	3.6
Nonfarm Payroll Employment (mil.)	150.2	150.6	151.2	151.8	151.9	133.7	134.9	135.9	137.6	139.2	140.7	142.3	146.6	150.9	139.1	139.9
Unemployment rate	3.9	3.6	3.6	3.5	3.8	13.0	10.1	9.5	8.9	7.9	7.1	6.0	4.4	3.7	9.1	7.5
Consumer Price Index* (percent)	0.9	3.0	1.8	2.4	1.2	-3.3	1.0	1.0	1.0	1.0	1.3	1.4	2.4	1.8	0.7	0.8
"Core" CPI* (percent)	2.2	2.2	2.8	2.0	2.0	0.4	1.0	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	122.3	122.0	122.5	122.0	121.5	121.5	120.5	91.1	115.7	121.1	121.4
Crude Oil Prices -WTI ($ per barrel)	55	60	56	57	43	33	39	38	38	38	39	39	51	57	38	39

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

	History						Forecast						Annual Average			
Financial Data	**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	2,932							2,449	2,911		
Dow Jones Industrial Average	25,147	26,096	26,676	27,537	26,554	24,571							21,745	26,364		
Federal Funds Rate (effective)	2.40	2.40	2.20	1.65	1.23	0.06	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	1.10	0.14	0.14	0.14	0.14	0.14	0.14	0.15	0.95	2.11	0.38	0.14
Treasury-2 Year Notes (yield)	2.49	2.13	1.69	1.59	1.08	0.19	0.15	0.16	0.18	0.20	0.21	0.23	1.40	1.97	0.39	0.20
Treasury-5 Year Notes (yield)	2.46	2.12	1.63	1.61	1.14	0.36	0.31	0.33	0.36	0.39	0.42	0.43	1.91	1.96	0.53	0.40
Treasury-10 Year Notes (yield)	2.65	2.34	1.80	1.79	1.37	0.69	0.70	0.76	0.80	0.83	0.90	0.93	2.33	2.15	0.88	0.86
Treasury-30 Year Notes (yield)	3.01	2.78	2.29	2.25	1.87	1.38	1.45	1.51	1.57	1.61	1.69	1.73	2.90	2.58	1.55	1.65
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	0.60	0.28	0.30	0.30	0.30	0.29	0.29	1.26	2.33	0.67	0.29
Mortgage-30 Year (yield)	4.37	4.01	3.66	3.70	3.52	3.24	3.20	3.26	3.30	3.23	3.30	3.33	3.99	3.94	3.30	3.29
BAA Corporate (yield)	4.97	4.60	4.03	3.91	3.91	3.91	3.50	3.66	3.80	3.93	4.20	4.23	4.44	4.38	3.74	4.04

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