

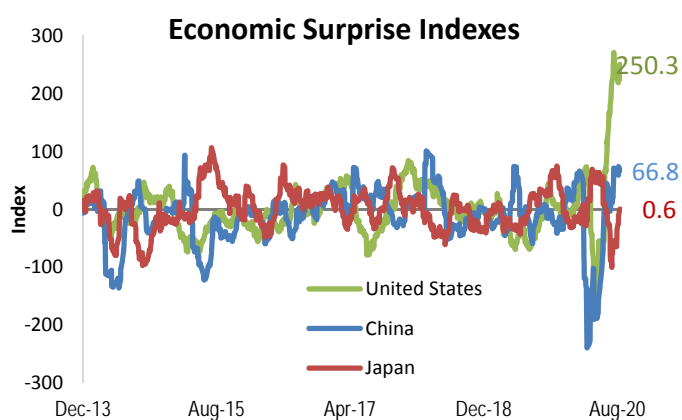
| Date        | Indicator                         | For    | Estimate | Consensus* | Previous Period |
|-------------|-----------------------------------|--------|----------|------------|-----------------|
| 17-Aug-2020 | Empire Manufacturing              | Aug    | 14.0     | 15.0       | 17.2            |
| 17-Aug-2020 | NAHB Housing Market Index         | Aug    | 72.0     | 74.0       | 72.0            |
| 17-Aug-2020 | Net Long-term TIC Flows           | Jun    | NA       | NA         | \$127.0b        |
| 18-Aug-2020 | Building Permits                  | Jul    | 1300k    | 1340k      | 1258k           |
| 18-Aug-2020 | Housing Starts                    | Jul    | 1220k    | 1234k      | 1186k           |
| 20-Aug-2020 | Philadelphia Fed Business Outlook | Aug    | 20.0     | 21.0       | 24.1            |
| 20-Aug-2020 | Initial Jobless Claims            | 15-Aug | 990k     | NA         | 963k            |
| 20-Aug-2020 | Leading Index                     | Jul    | 1.0%     | 1.0%       | 2.0%            |
| 21-Aug-2020 | Markit US Manufacturing PMI       | Aug P  | 51.0     | 52.0       | 50.9            |
| 21-Aug-2020 | Markit US Services PMI            | Aug P  | 50.5     | 50.8       | 50.0            |
| 21-Aug-2020 | Markit US Composite PMI           | Aug P  | NA       | NA         | 50.3            |
| 21-Aug-2020 | Existing Home Sales               | Jul    | 5.10m    | 5.33m      | 4.72m           |

\*Consensus from Bloomberg

## Consumers Spending Like There Is No Tomorrow

U.S. economic data continues to surprise on the upside through July.

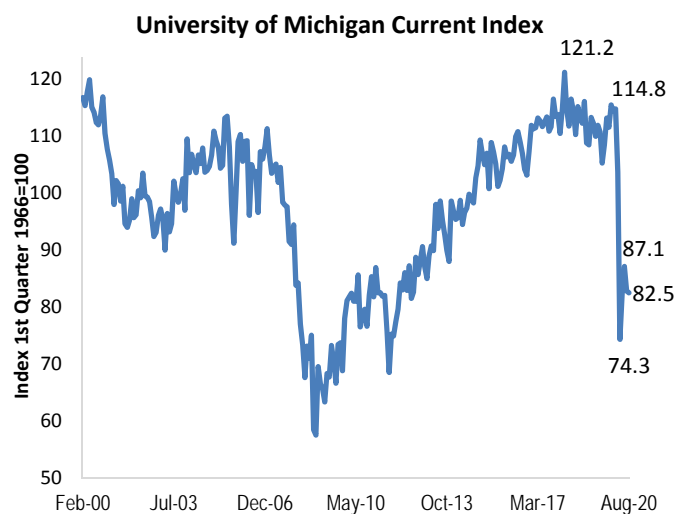
### Positive U.S. Economic Surprises Continue



Source: Bloomberg

The retail sales report for July reveals a remarkable rebound in retail sales has occurred over the last three months as the U.S. economy reopened for business and government transfer payments bolster consumer confidence enough for consumers to return to the stores with a vengeance.

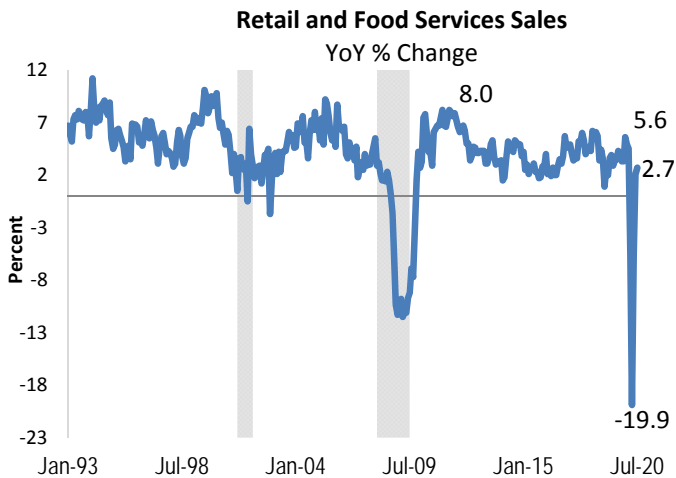
### Gov't Transfers Provided A Confidence Boost



Source: Thomson Reuters/Univ. Of Michigan

Nominal retail sales are now above the levels seen before the pandemic started and 2.7% above year ago levels, making a full recovery and then some. This sets up a robust rebound in annualized Q3 real consumer spending growth in the next GDP report.

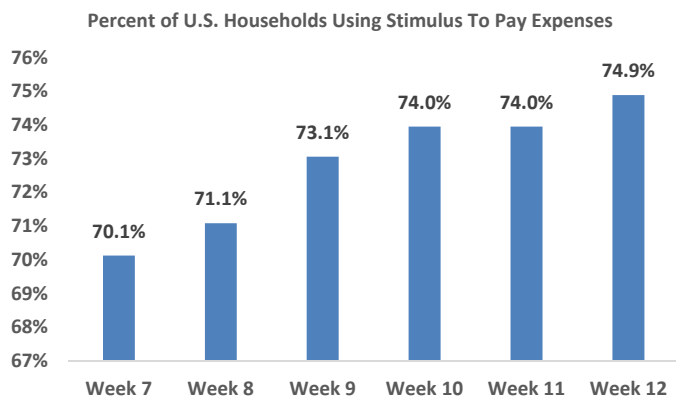
**Retail Sales Make a Full Recovery**



Source: Census Bureau

But it is difficult for me to get too enthused about this fortunate turn of events when the U.S. economy has only recreated about 40% of the jobs that disappeared in March and April. The U.S. unemployment rate still exceeds 10.0%. And surveys show more and more American’s are relying on government support to meet their daily expenses. This vulnerability could become an Achilles heel for consumer spending and the U.S. economic recovery in the fourth quarter, if government supports propping up the U.S. economy are further delayed or scaled-back in the quarters ahead.

**Reliance On Government Support On The Rise**



Source: Census Bureau Household Pulse Survey

Some of the retail spending we are seeing in recent months, especially in electronics, autos, and furniture, etc. is likely being turbo charged by rocketing stock market

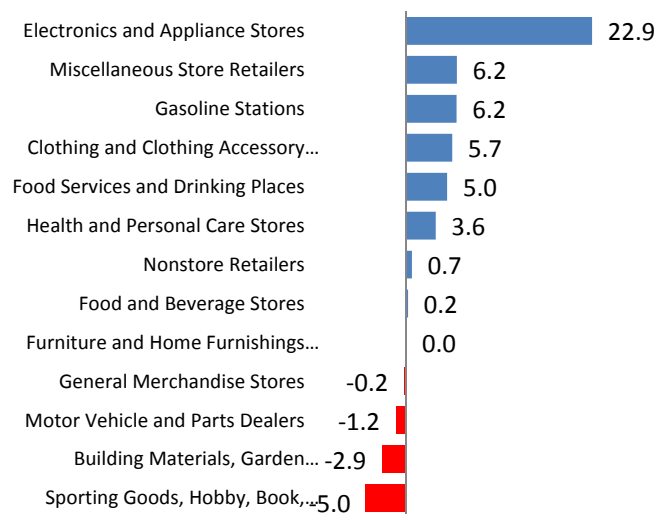
prices, declining interest rates, and pent-up consumer demand as cabin fever reaches unprecedented levels. People are desperate to get back to some semblance of normalcy as they feel they have very little control over this pandemic. They do have some control over how they spend and what they spend on. But pent-up demand may prove fleeting, especially if the reality of widespread unemployment takes hold in consumers’ psyche or the stock market recovery to new record highs turns out to be just a bear market bounce.

Electronic store sales were also bolstered in July by one time demand from students needing new computers and iPads for remote learning.

**Back To Remote Learning Bolsters Electronic Store Sales**

**Retail Sales Growth**

Jul 2020 - MoM % Change



Source: US. Bureau of the Census

Finally, political and policy risk are on the rise as the U.S. election approaches. The ultimate outcome is extremely difficult to predict and the uncertainty alone could begin to weigh on markets, consumer confidence, and spending as we enter the fourth quarter. Enjoy the dog days of summer, because I don’t see clear blue skies ahead.

I guess what I am saying is the U.S. expansion is off to a good start, but it’s too early to take it off government life support. Most of the pillars this retail sales rebound are built upon may be built on unstable ground.

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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*                               | 2.9     | 1.5    | 2.6    | 2.4    | -5.0   | -32.9  | 19.7     | 4.9    | 4.8    | 4.2    | 3.3    | 3.3    | 3.0                        | 2.2   | -5.0  | 3.4   |
| Personal Consumption Expenditures*      | 1.8     | 3.7    | 2.7    | 1.6    | -6.9   | -34.6  | 28.0     | 5.0    | 3.4    | 3.1    | 2.6    | 2.5    | 2.7                        | 2.4   | -5.0  | 3.6   |
| Non-residential Fixed Investment*       | 4.2     | 0.0    | 1.9    | -0.3   | -6.7   | -27.0  | -1.9     | -6.2   | 1.4    | 2.5    | 3.2    | 3.0    | 6.9                        | 2.9   | -7.7  | -2.0  |
| Private Housing Starts (000s units)     | 1,204   | 1,257  | 1,288  | 1,433  | 1,484  | 1,044  | 1,210    | 1,160  | 1,190  | 1,195  | 1,210  | 1,230  | 1,208                      | 1,296 | 1,225 | 1,206 |
| Vehicle Sales (mill. Units, annualized) | 16.9    | 17.0   | 17.0   | 16.8   | 15.0   | 11.4   | 14.3     | 14.5   | 14.7   | 15.0   | 15.2   | 15.3   | 17.2                       | 16.9  | 13.8  | 15.1  |
| Industrial Production*                  | -1.9    | -2.3   | 1.1    | 0.4    | -6.7   | -43.2  | 22.0     | 8.0    | 6.0    | 5.3    | 4.5    | 4.4    | 3.9                        | 0.9   | -8.6  | 3.9   |
| Nonfarm Payroll Employment (mil.)       | 150.2   | 150.6  | 151.2  | 151.8  | 151.9  | 133.7  | 140.1    | 141.1  | 142.9  | 144.5  | 146.2  | 147.8  | 146.6                      | 150.9 | 141.7 | 145.3 |
| Unemployment rate                       | 3.9     | 3.6    | 3.6    | 3.5    | 3.8    | 13.0   | 10.2     | 9.7    | 9.2    | 8.5    | 7.4    | 6.5    | 4.4                        | 3.7   | 9.2   | 7.9   |
| Consumer Price Index* (percent)         | 0.9     | 3.0    | 1.8    | 2.4    | 1.2    | -3.5   | 2.0      | 1.2    | 1.0    | 1.0    | 1.3    | 1.4    | 2.4                        | 1.8   | 0.8   | 0.9   |
| "Core" CPI* (percent)                   | 2.2     | 2.2    | 2.8    | 2.0    | 2.0    | -1.6   | 1.2      | 1.2    | 1.3    | 1.4    | 1.4    | 1.5    | 2.1                        | 2.2   | 1.3   | 1.1   |
| PPI (finished goods)* (percent)         | -2.7    | 4.7    | -1.2   | 3.0    | -3.4   | -10.7  | 5.0      | 2.0    | 0.1    | 0.9    | 1.6    | 1.7    | 3.0                        | 0.8   | -1.5  | 0.8   |
| Trade Weighted Dollar (Fed BOG, major)  | 114.5   | 115.4  | 116.5  | 116.4  | 117.9  | 122.2  | 118.5    | 118.0  | 117.5  | 117.3  | 117.0  | 116.5  | 91.1                       | 115.7 | 119.1 | 117.1 |
| Crude Oil Prices -WTI (\$ per barrel)   | 55      | 60     | 56     | 57     | 45     | 28     | 40       | 39     | 38     | 38     | 39     | 39     | 51                         | 57    | 38    | 39    |

\*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  | 2,932  |          |        |        |        |        |        | 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   | 0.10     | 0.11   | 0.12   | 0.13   | 0.13   | 0.14   | 0.95           | 2.11   | 0.36 | 0.13 |
| 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   | 0.29     | 0.31   | 0.34   | 0.37   | 0.40   | 0.42   | 1.91           | 1.96   | 0.52 | 0.38 |
| Treasury-10 Year Notes (yield) | 2.65    | 2.34   | 1.80   | 1.79   | 1.37   | 0.69   | 0.61     | 0.68   | 0.75   | 0.78   | 0.85   | 0.90   | 2.33           | 2.15   | 0.83 | 0.82 |
| Treasury-30 Year Notes (yield) | 3.01    | 2.78   | 2.29   | 2.25   | 1.87   | 1.38   | 1.30     | 1.41   | 1.52   | 1.56   | 1.64   | 1.70   | 2.90           | 2.58   | 1.49 | 1.60 |
| 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   | 0.27     | 0.28   | 0.29   | 0.29   | 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   | 3.15     | 3.20   | 3.25   | 3.25   | 3.25   | 3.30   | 3.99           | 3.94   | 3.28 | 3.26 |
| BAA Corporate (yield)          | 4.97    | 4.60   | 4.03   | 3.91   | 3.91   | 3.91   | 3.36     | 3.58   | 3.75   | 3.88   | 4.15   | 4.20   | 4.44           | 4.38   | 3.69 | 3.99 |

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