

Date	Indicator	For	Estimate	Consensus*	Previous Period
8-Sep-2020	NFIB Small Business Optimism	Aug	99.0	99.0	98.8
8-Sep-2020	Consumer Credit	Jul	\$11.000b	\$12.900b	\$8.948b
9-Sep-2020	JOLTS Job Openings	Jul	NA	6000	5889
10-Sep-2020	PPI Final Demand MoM	Aug	0.2%	0.2%	0.6%
10-Sep-2020	PPI Ex Food and Energy MoM	Aug	0.2%	0.2%	0.5%
10-Sep-2020	Initial Jobless Claims	05-Sep	845k	830k	881k
10-Sep-2020	Wholesale Inventories MoM	Jul F	-0.1%	-0.1%	-0.1%
11-Sep-2020	CPI MoM	Aug	0.3%	0.3%	0.6%
11-Sep-2020	CPI Ex Food and Energy MoM	Aug	0.3%	0.2%	0.6%

*Consensus from Bloomberg

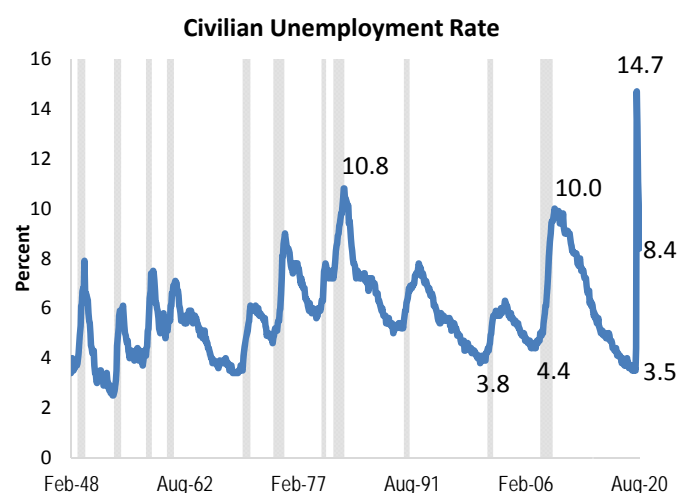
Large Drop in Unemployment Bolsters Confidence

Another large drop in the U.S. unemployment rate in August was the biggest surprise coming out of today's Employment Report. The big decline in the unemployment rate, another sizable 1.37 million net job gain last month, and better than expected average hourly earnings growth, bolsters confidence in the sustainability of this expansion despite growing signs that the easiest recovery gains may already be behind us. More than a month delay in another major fiscal stimulus package coming from Congress, the expiration of the \$600 a week in supplemental pandemic unemployment insurance payments at the end of July, and another resurgence of virus cases and deaths, was not able to derail the U.S. labor market from its firm recovery path.

The U.S. unemployment rate fell to 8.4% in August from 10.2% in July. That is another 1.8 percentage point decline in the headline unemployment rate in one month, when in the typical recovery from a recession the unemployment rate only drops about 0.05 percentage points a month on average. Obviously this pandemic driven recession was no ordinary recession, and at least so far the economic recovery from the depths reached at the end of April has been no ordinary recovery.

Just as the speed and scale of the pandemic driven recession took many analysts by surprise, the pace of the labor market rebound over the past four months has been equally impressive.

A Warp Speed Recession And Recovery So Far



Source: U.S. Bureau of Labor Statistics

Pardon the Star Trek analogies, but the U.S. economy experienced a warp speed labor market crash unparalleled since the Great Depression and never seen before in its speed. However, the economic reopening combined with a large assist from unprecedented monetary and fiscal support from the Federal Reserve and Federal Government has turned another Great Depression into something closer to the Great Recession today.

The Number Unemployed Below Great Recession Peak



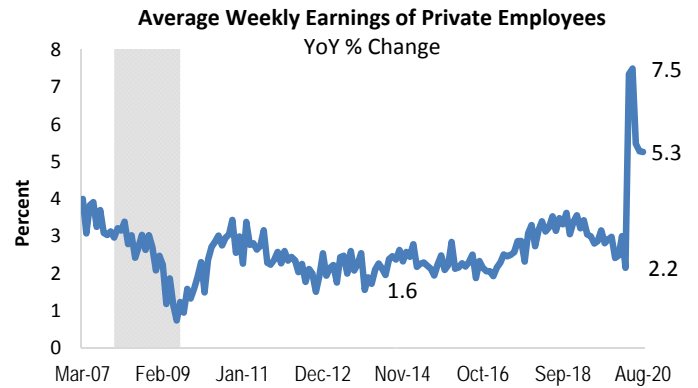
Source: Bureau of Labor Statistics

To help put the labor market recovery so far into perspective, the number of unemployed surged from around 5.8 million in February to a peak of over 23.0 million in April an increase of over 17 million unemployed. But over the last four months the number of unemployed has dropped by around 9.5 million to 13.6 million. The number of unemployed in the U.S. is already well below the number that were unemployed at the peak of the Great Recession. By no means are things back to normal in the labor market today, but the number unemployed is much more in-line with past recessions.

Credit for this faster than light labor market rebound has to go to the rapid and sizable response of Congress, the Federal Reserve, and the U.S. banking system in achieving this labor market milestone. The Federal Reserve was able to quickly loosen credit conditions for consumers and businesses giving many the confidence to go out and buy vehicles and houses despite the labor market uncertainty. And a big difference between the current pandemic recession and the Great Recession is that commercial banks have been instrumental in providing the loans, the deferrals, and the financial guidance needed to keep my small businesses and consumers afloat during these unprecedented times. This speeds up the recovery process and puts more businesses in the position to bring back furloughed employees.

This is also a very unusual recession/recovery since it has been characterized by a sharp acceleration in average earnings growth (thanks in part to generous government transfer payments). Average weekly earnings of private employees jumped from 2.2% year-on-year in February of this year to a peak of 7.5% in May and has since moderated to a still robust 5.3% growth rate as of August.

An Earnings Windfall During The Pandemic Recession



Source: Bureau of Labor Statistics

In a normal recession, average weekly earnings growth drops sharply, holding back consumer spending and delaying the overall economic recovery. During the Great Recession, average weekly private employee earnings growth slipped from over 3.0% year-on-year at the start of the recession to just 0.74% year-on-year by June 2009. This is why throughout the pandemic we have seen strange consumer behavior, including a surge of vehicle and RV sales as well as an acceleration of the housing market expansion.

Clearly some industries remain flat on their back, and a full labor market recovery for the U.S. economy is not yet in sight. Total nonfarm payrolls are still 11.5 million below their February levels with 4.1 million of those jobs (36% of the total) lost in the leisure and hospitality sector alone. In contrast, job losses in financial and information services have been much smaller, just 200k (1.7% of the total) and 300k (2.6% of the total) respectively. This pandemic recession has also been odd not only for its depth and speed, but for how unequal the job loss and economic impact has been throughout.

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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	-31.7	28.8	3.1	2.0	4.0	3.3	3.3	3.0	2.2	-3.8	3.5
Personal Consumption Expenditures*	1.8	3.7	2.7	1.6	-6.9	-34.1	38.0	4.8	2.0	3.1	2.6	2.5	2.7	2.4	-3.7	4.4
Non-residential Fixed Investment*	4.2	0.0	1.9	-0.3	-6.7	-26.0	9.7	3.2	1.4	2.5	3.2	3.1	6.9	2.9	-5.6	1.3
Private Housing Starts (000s units)	1,204	1,257	1,288	1,433	1,484	1,064	1,210	1,160	1,190	1,195	1,210	1,230	1,208	1,296	1,230	1,206
Vehicle Sales (mill. Units, annualized)	16.9	17.0	17.0	16.8	15.0	11.4	14.9	14.7	14.8	15.0	15.2	15.3	17.2	16.9	14.0	15.1
Industrial Production*	-1.9	-2.3	1.1	0.4	-6.7	-43.2	27.0	8.0	6.0	5.3	4.5	4.4	3.9	0.9	-8.0	4.5
Nonfarm Payroll Employment (mil.)	150.2	150.6	151.2	151.8	151.9	133.7	137.8	139.5	140.7	142.0	143.2	144.4	146.6	150.9	140.7	142.6
Unemployment rate	3.9	3.6	3.6	3.5	3.8	13.0	8.9	7.8	7.5	7.1	6.7	6.3	4.4	3.7	8.4	6.9
Consumer Price Index* (percent)	0.9	3.0	1.8	2.4	1.2	-3.5	3.4	1.6	1.4	1.4	1.4	1.4	2.4	1.8	1.0	1.4
"Core" CPI* (percent)	2.2	2.2	2.8	2.0	2.0	-1.6	2.0	2.0	1.3	1.4	1.4	1.5	2.1	2.2	1.4	1.4
PPI (finished goods)* (percent)	-2.7	4.7	-1.2	3.0	-3.4	-10.7	6.4	2.2	0.1	0.9	1.6	1.7	3.0	0.8	-1.3	1.0
Trade Weighted Dollar (Fed BOG, major)	114.5	115.4	116.5	116.4	117.9	122.2	118.1	116.5	116.0	115.8	115.7	115.5	91.1	115.7	118.7	115.8
Crude Oil Prices -WTI (\$ per barrel)	55	60	56	57	45	28	42	42	41	40	40	41	51	57	39	41

*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	0.32	0.34	0.37	0.40	0.42	1.91	1.96	0.53	0.38
Treasury-10 Year Notes (yield)	2.65	2.34	1.80	1.79	1.37	0.69	0.65	0.72	0.75	0.78	0.85	0.90	2.33	2.15	0.85	0.82
Treasury-30 Year Notes (yield)	3.01	2.78	2.29	2.25	1.87	1.38	1.35	1.47	1.52	1.56	1.64	1.70	2.90	2.58	1.52	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	0.26	0.26	0.27	0.27	0.27	0.27	1.26	2.33	0.66	0.27
Mortgage-30 Year (yield)	4.37	4.01	3.66	3.70	3.52	3.24	2.96	2.97	3.05	3.05	3.05	3.10	3.99	3.94	3.17	3.06
BAA Corporate (yield)	4.97	4.60	4.03	3.91	3.91	3.91	3.30	3.45	3.65	3.78	4.05	4.10	4.44	4.38	3.64	3.89

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