

Date	Indicator	For	Estimate	Consensus*	Previous Period
21-Sep-2020	Chicago Fed Nat Activity Index	Aug	NA	1.18	1.18
21-Sep-2020	Household Change in Net Worth	2Q	NA	NA	-\$6548b
22-Sep-2020	Existing Home Sales	Aug	6.00m	5.95m	5.86m
22-Sep-2020	Richmond Fed Manufacturing Index	Sep	14.0	12.0	18.0
23-Sep-2020	FHFA House Price Index MoM	Jul	0.5%	0.4%	0.9%
23-Sep-2020	Markit US Manufacturing PMI	Sep P	52.5	NA	53.1
23-Sep-2020	Markit US Services PMI	Sep P	54.5	NA	55.0
23-Sep-2020	Markit US Composite PMI	Sep P	NA	NA	54.6
24-Sep-2020	Initial Jobless Claims	19-Sep	850k	NA	860k
24-Sep-2020	New Home Sales	Aug	885k	875k	901k
24-Sep-2020	Kansas City Fed Manufacturing Activity	Sep	10.0	NA	14.0
25-Sep-2020	Durable Goods Orders	Aug P	1.8%	1.0%	11.4%
25-Sep-2020	Durables Ex Transportation	Aug P	1.4%	1.1%	2.6%

*Consensus from Bloomberg

Another Downside Risk Emerges

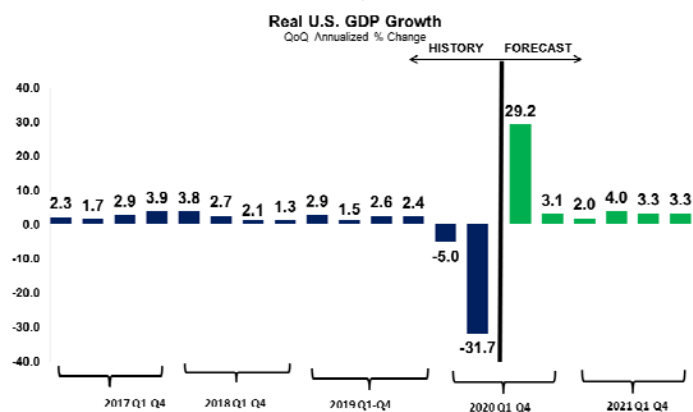
Congress has just five days to pass another rescue aid package before they are off to campaign for the November election, leaving very little time to overcome an impasse that has unexpectedly stalled the measure in Congress. Political pundits and economic analysts were nearly assured Congress would act in August (me included), but then August turned into September and now another fiscal stimulus package appears to be a definite long-shot at this point - a half-court shot at the buzzer long-shot to be more precise.

Both sides appear far apart on the size of the fiscal stimulus needed, estimates range for \$1.0 trillion to \$2.5 trillion, as well as the details on what should be included. Main sticking points still appear to be state and local government aid and the amount of weekly supplementary unemployment benefits that had been set at \$600/wk before they expired at the end of July.

The U.S. economy continues to show encouraging signs of recovery, especially coming from the robust housing market rebound, but on the margin, economic conditions may be about to take a turn for the worse, and financial conditions could soon follow. We mark up our Q3 GDP growth estimate to 29.2% annualized today on stronger growth in equipment and residential investment

spending, but recently marked down our Q4 2020 and Q1 2021 GDP growth forecasts to 3.1% and 2.0% respectively as consumer spending growth fades. Further forecast downgrades are likely if another fiscal stimulus package doesn't get done this year.

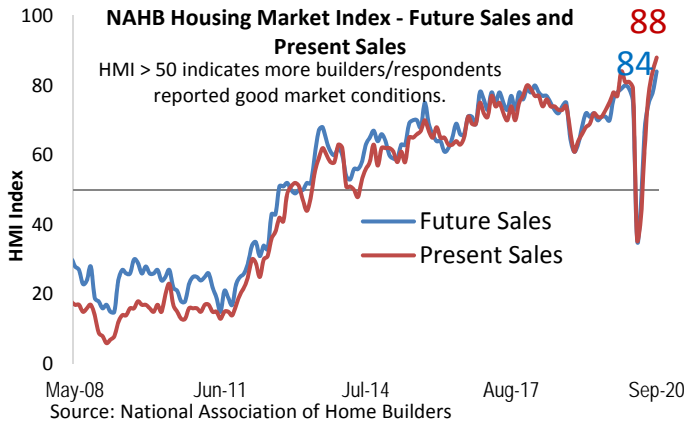
Third Quarter Growth Robust, Q4 Won't Be The Same



Source: Bureau of Economic Analysis; Bank of the West Economics

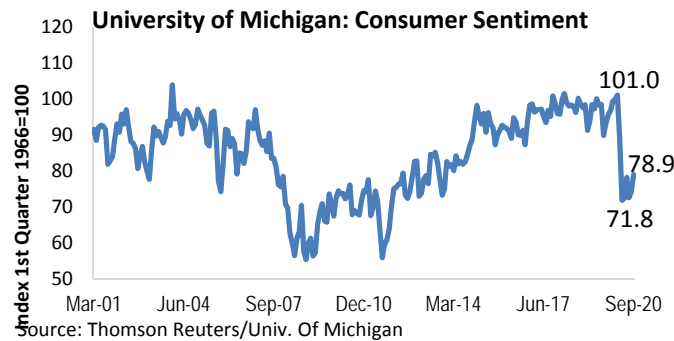
On a positive note, the NAHB Housing Market Index hit a record high in August, climbing to new heights on record low mortgage rates, increasing buyer traffic and rebounding expectations.

Housing Market On A Planet Of Its Own



Consumer sentiment increased to a six month high in September, according to the University of Michigan as consumers grow more confident about current economic conditions and prospects for the future.

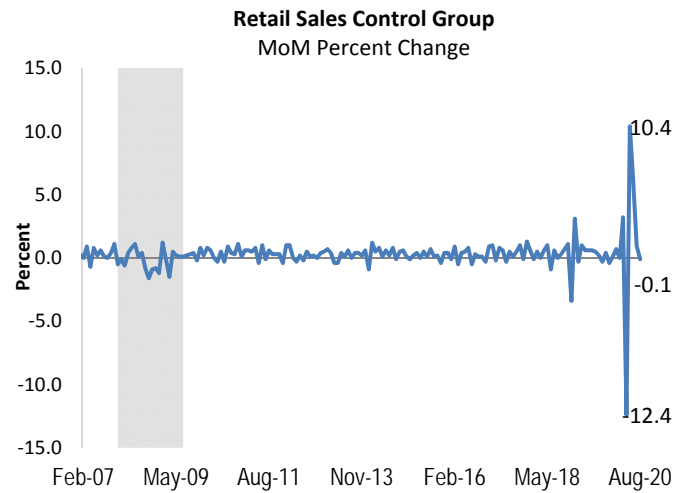
Consumer Sentiment Lifts To a Six Month High



But a word of caution here. Consumer sentiment is notoriously fickle and can change rapidly should stock market prices make a turn for the worse or more signs of economic damage surface from the pull-back in financial support from the Federal Government. State and local government budgets have been stressed and significant revenue shortfalls are still occurring in hard hit states like California and New York.

The latest retail sales report for August doesn't instill any confidence either. Control retail sales, an input in forecasting overall consumer spending, already declined by 0.1% in August and the cut off of Federal government aid is just beginning to impact unemployed workers and small businesses.

Is Retail Sales Splurge Already Stalling?



There is also something odd going on with the continuing jobless claims data. Despite employment reports showing the U.S. economy making good progress on bringing down the U.S. unemployment rate, the total continuing claims data, including the Pandemic Unemployment Assistance program, reveals a labor market recovery that is stalling at best and may be even going into reverse. Total continuing claims from all programs increased to 29.8 million in the last week of August, the latest available data, up a startling 2.8 million from the first week in August. Looking into the details shows a 3.5 million increase in people collecting Pandemic Unemployment Assistance over that period, overwhelming the improvement we are seeing in regular state continuing claims. There hasn't been any improvement in these total continuing claim numbers since May. Some of the increase in PUA claims may be the result of fraud, but it's hard to get a precise estimate of how widespread that is.

So far markets have looked past the dismal unemployment data and the lack of progress on a stimulus bill in Washington D.C., focusing on the V-shaped recovery narrative. But that narrative is increasingly in doubt as we move into the fourth quarter. The absence of a new stimulus bill and the potential for election uncertainty could give financial markets indigestion and only add to the downside risks already incorporated into our near-term economic outlook.

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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	29.2	3.1	2.0	4.0	3.3	3.3	3.0	2.2	-3.7	3.6
Personal Consumption Expenditures*	1.8	3.7	2.7	1.6	-6.9	-34.1	37.8	4.8	2.0	3.1	2.6	2.5	2.7	2.4	-3.8	4.4
Non-residential Fixed Investment*	4.2	0.0	1.9	-0.3	-6.7	-26.0	12.0	3.3	1.4	2.5	3.2	3.1	6.9	2.9	-5.3	1.6
Private Housing Starts (000s units)	1,204	1,257	1,288	1,433	1,484	1,079	1,450	1,350	1,290	1,295	1,260	1,280	1,208	1,296	1,341	1,281
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	-6.8	-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	-10.9	6.4	2.2	0.1	0.9	1.6	1.7	3.0	0.8	-1.4	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