

Date	Indicator	For	Estimate	Consensus*	Previous Period
28-Sep-2020	Dallas Fed Manufacturing Activity	Sep	9.0	10.0	8.0
29-Sep-2020	Advance Goods Trade Balance	Aug	-\$82.8b	-\$81.8b	-\$79.3b
29-Sep-2020	Wholesale Inventories MoM	Aug P	0.0%	NA	-0.3%
29-Sep-2020	S&P CoreLogic CS 20-City MoM SA	Jul	0.20%	0.15%	0.00%
29-Sep-2020	Conf. Board Consumer Confidence	Sep	87.0	90.0	84.8
30-Sep-2020	ADP Employment Change	Sep	400k	625k	428k
30-Sep-2020	GDP Annualized QoQ	2Q T	-31.5%	-31.7%	-31.7%
30-Sep-2020	GDP Price Index	2Q T	-2.0%	-2.0%	-2.0%
30-Sep-2020	Pending Home Sales MoM	Aug	3.2%	3.0%	5.9%
1-Oct-2020	Initial Jobless Claims	26-Sep	850k	850k	870k
1-Oct-2020	Personal Income	Aug	-3.2%	-2.1%	0.4%
1-Oct-2020	Personal Spending	Aug	1.0%	0.7%	1.9%
1-Oct-2020	PCE Deflator MoM	Aug	0.3%	0.3%	0.3%
1-Oct-2020	PCE Core Deflator MoM	Aug	0.3%	0.3%	0.3%
1-Oct-2020	Markit US Manufacturing PMI	Sep F	53.5	53.5	53.5
1-Oct-2020	Construction Spending MoM	Aug	0.6%	0.8%	0.1%
1-Oct-2020	ISM Manufacturing	Sep	55.7	56.0	56.0
1-Oct-2020	Wards Total Vehicle Sales	Sep	15.00m	15.60m	15.19m
2-Oct-2020	Change in Nonfarm Payrolls	Sep	840k	900k	1371k
2-Oct-2020	Change in Manufacturing Payrolls	Sep	36k	40k	29k
2-Oct-2020	Unemployment Rate	Sep	8.1%	8.2%	8.4%
2-Oct-2020	Average Hourly Earnings MoM	Sep	0.2%	0.2%	0.4%
2-Oct-2020	Average Weekly Hours All Employees	Sep	34.6	34.6	34.6
2-Oct-2020	U. of Mich. Sentiment	Sep F	78.9	78.9	78.9
2-Oct-2020	Factory Orders	Aug	0.8%	1.4%	6.4%

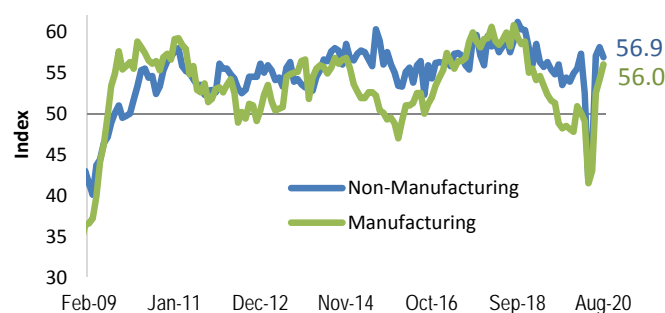
\*Consensus from Bloomberg

## A Fragile Manufacturing Recovery

With the onset of the pandemic, the manufacturing and service sectors were both hit incredibly hard. According to the Federal Reserve, U.S. manufacturing production declined at a 47% annualized rate in the second quarter, while the latest GDP report revealed an unprecedented 43.1% annualized decline in real consumer spending on consumer services in the second quarter. But a look at the ISM Manufacturing and Non-manufacturing indexes quickly reveals that the manufacturing sector expansion was already struggling last year with the index falling into contraction in August and staying there through December as the U.S.-China trade dispute raged.

## The Manufacturing Expansion Was Struggling in 2019

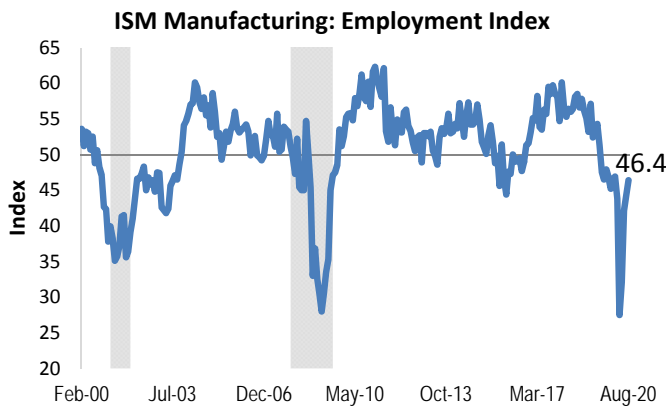
### ISM Mfg. and Non-Mfg. Composite Indexes



Source: Institute for Supply Management

While the headline ISM Manufacturing index has moved firmly back into expansion territory this summer, the ISM Manufacturing Employment index remains firmly in contraction territory, indicating a lack of confidence in the sustainability of the reopening rebound in demand, and continuing supply chain and production cost issues from virus outbreaks around the globe. The fate of the U.S. manufacturing sector recovery is just as dependent on the course of the virus as it is for the many services businesses that rely on the U.S. consumer for their sales.

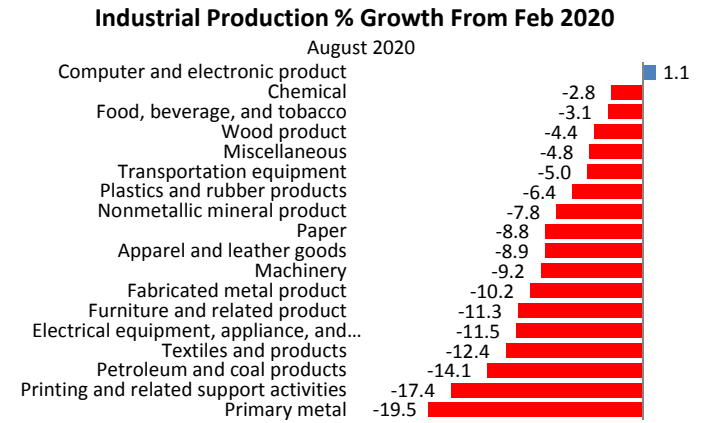
**Manufacturing Employment Has Yet To Recover**



Source: Institute for Supply Management

But of course not all manufacturers are created equal. Industry leaders can do well compared to their peers even in the most adverse economic conditions. Just as not all consumer driven businesses have suffered from the pandemic there have been pockets of production resilience and vulnerability across manufacturing sectors as well. The largest declines in production since February have occurred in the primary metals (-19.5%), printing (-17.4%), petroleum and coal products (-14.1%) and textiles (-12.4%) sectors, while the smallest production declines have been in chemicals (-2.8%), food and beverage (-3.1%) and wood products (-4.4%) industries. The one industry that has managed to increase its manufacturing production above its February level is computers and electronic products (+1.1%). Working from home and widespread distance learning has created at least a temporary bump in demand for computers and electronics as households and office utilizing businesses need to purchase new equipment or upgrade existing equipment for the home and for their students this fall.

**Production Negative in Most Manufacturing Industries**



Source: Board of Governors of the Federal Reserve

**The Industrial Production Outlook**

There is little doubt we will see a strong rebound in U.S. manufacturing and industrial production growth in the third quarter. Our current forecast is that industrial production will increase at 34.0% annualized in the third quarter. But we also expect a sharp moderation of industrial production growth starting in the fourth quarter to just 2.5% annualized.

Durable goods orders jumped 15.0% in May as manufacturing restarted, but by August, durable goods orders growth had already slipped to 0.4%. This is unfortunate, since even with the manufacturing restart this summer, durable goods orders remain 4.6% below year ago levels. A pause in the growth cycle now, could kill the expansion entirely. The lack of a new fiscal rescue package from Congress before the election, or possibly this year, is a real threat to the manufacturing recovery too. Capacity utilization in most manufacturing sectors remains very depressed by historical averages, threatening future manufacturing profits and increasing the vulnerability for more downsizing and cost cutting ahead. In other words, a lot more economic healing still needs to happen to get U.S. production back on a firmer and sustainable expansion path.

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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	1,064	1,450	1,350	1,290	1,295	1,260	1,280	1,208	1,296	1,337	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	34.0	2.5	4.8	5.3	4.5	4.4	3.9	0.9	-7.6	4.0
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