

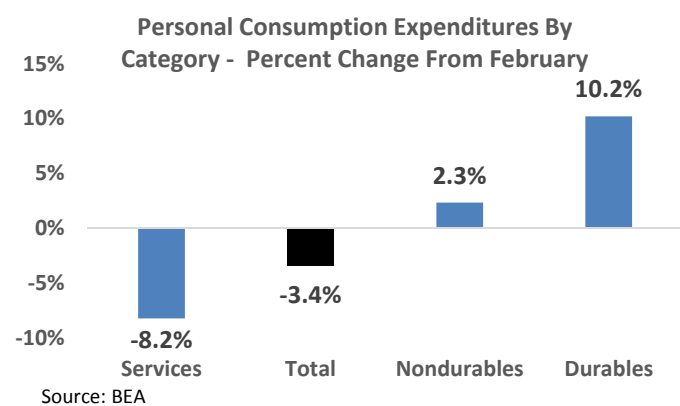
Date	Indicator	For	Estimate	Consensus*	Previous Period
13-Oct-2020	NFIB Small Business Optimism	Sep	101.3	100.9	100.2
13-Oct-2020	CPI MoM	Sep	0.2%	0.2%	0.4%
13-Oct-2020	CPI Ex Food and Energy MoM	Sep	0.2%	0.2%	0.4%
14-Oct-2020	PPI Final Demand MoM	Sep	0.2%	0.2%	0.3%
14-Oct-2020	PPI Ex Food and Energy MoM	Sep	0.2%	0.2%	0.4%
15-Oct-2020	Initial Jobless Claims	10-Oct	830k	820k	840k
15-Oct-2020	Empire Manufacturing	Oct	14.0	14.0	17.0
15-Oct-2020	Import Price Index MoM	Sep	0.3%	0.3%	0.9%
15-Oct-2020	Philadelphia Fed Business Outlook	Oct	16.0	14.5	15.0
16-Oct-2020	Retail Sales Advance MoM	Sep	0.6%	0.8%	0.6%
16-Oct-2020	Retail Sales Ex Auto MoM	Sep	0.3%	0.4%	0.7%
16-Oct-2020	Industrial Production MoM	Sep	0.5%	0.6%	0.4%
16-Oct-2020	Capacity Utilization	Sep	71.8%	71.9%	71.4%
16-Oct-2020	Business Inventories	Aug	0.4%	0.3%	0.1%
16-Oct-2020	U. of Mich. Sentiment	Oct P	81.0	80.4	80.4
16-Oct-2020	Net Long-term TIC Flows	Aug	NA	NA	\$10.8b

*Consensus from Bloomberg

Consumer Spending Rebound At A Crossroads

In many ways the consumer is the U.S. economy. Real consumer spending comprises about 70% of U.S. GDP, so if you can accurately forecast where the consumer is going, you have a pretty good idea the rest of the U.S. economy will follow. Personal consumption expenditures is broad measure of consumer spending, including spending categories not included in the monthly retail sales reports like spending on services like health care and education. This measure of consumption began to recover in May. But differences across spending categories have been stark as consumers have made significant shifts in their normal spending patterns. Think bare supermarket shelves of toilet paper and cleaning supplies. Spending on durables like vehicles and appliances have been unusually strong compared to a normal recession, increasing 10.2% since February, while spending on services have plunged 8.2%. Overall the recovery in consumer spending is still a work in progress as personal consumption expenditures remain 3.4% below February levels.

Services Spending Has Not Recovered From COVID Shock

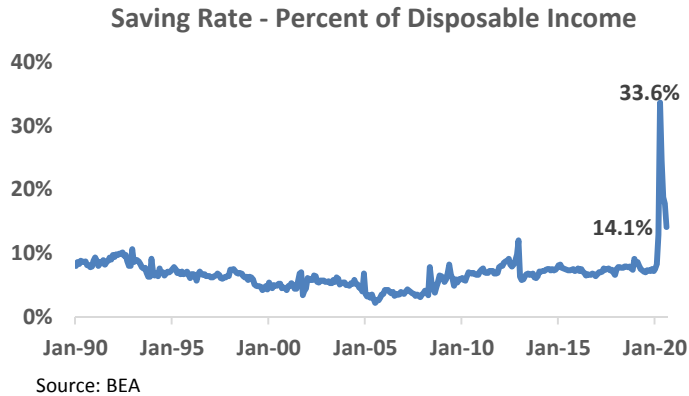


Will Consumer Tailwinds or Headwinds Prevail?

There are several headwinds and tailwinds with the potential to propel consumer spending above the previous level or derail the increasingly at-risk recovery. First let's look at the tailwinds. The personal saving rate surged to 33.6% in April – easily the highest on records that date back to 1959 – partly because consumers were not able to spend at businesses that were closed during the early stages of the pandemic, while incomes were boosted by unprecedented government support. While the saving rate has fallen each month since April, it remains elevated

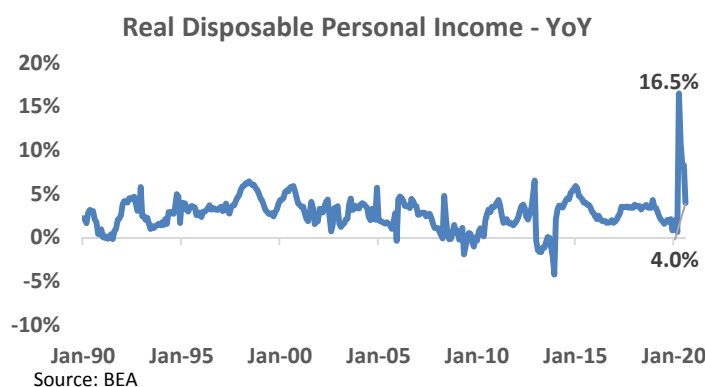
at 14.1% in August, giving consumer’s considerable firepower to continue to increase their spending should virus cases ebb and they feel confident enough about their employment outlook to boost their spending.

The Saving Rate Spiked in April and Remains Elevated



On the income side, real disposable personal income, or the money left over for spending and saving after taxes and inflation, peaked at a vigorous 16.5% from a year ago in April. This clearly shows the importance of government transfers as the federal government sought to limit the fallout as the U.S. unemployment surged to 14.6%. Disposable income growth slowed to 4.0% from a year ago in August as additional pandemic support from the Federal government has been delayed and some jobless benefits have expired. But until or unless disposable income growth turns negative, income growth remains sufficient to support continued consumer spending gains.

Real Disposable Income Growth Still Solid In August

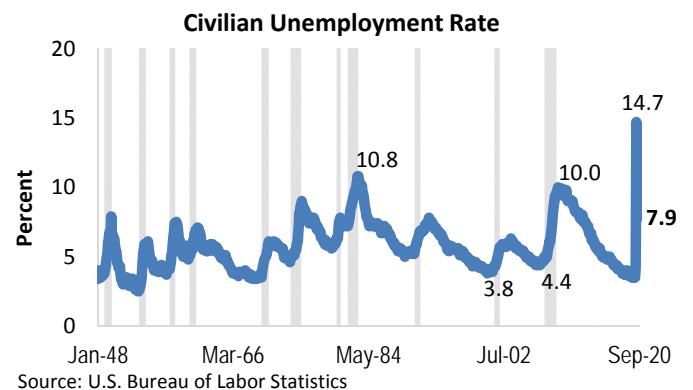


A third important tailwind is pent-up demand whereby consumers’ have either delayed or been unable to make certain purchases. A unique aspect of this deep downturn was the shuttering of nonessential businesses to prevent

the spread of the virus. This was especially harmful to the services industry with businesses such as restaurants and salons. As more businesses in the service sector are allowed to reopen, consumers will increase their spending at restaurants and salons, for example, to satisfy their pent-up demand. Indeed, the ISM Services Index improved to 57.8 in September, pointing to an acceleration in service sector growth. However, the service-sector recovery is expected to be gradual with some consumers’ uncomfortable being in crowds until a vaccine is widely available.

Household savings, income growth, and pent-up demand are still powerful tailwinds for consumption, but those tailwinds are clearly fading over time and the headwinds like decelerating job growth and elevated unemployment are becoming more powerful too. Monthly job gains peaked at nearly 4.8 million in June and have slowed each month since with just 661,000 jobs added in September. The unemployment rate remains elevated at 7.9% in September – more than double the pre-pandemic rate of 3.5%. A continued slowdown in job growth will further slow income growth and hold back consumer confidence gains undermining a robust consumer spending recovery.

Unemployment Rate Has Fallen But Remains High



Consumer spending is projected to rebound a sizzling 38% annualized rate in the third quarter after plunging 33.2% in the second quarter – the sharpest quarterly decline and increase of consumer spending on record. Consumer spending growth in the fourth quarter is forecast at a much more moderate 4.8% and could slow to just 2.0% in first quarter next year, especially if another Federal stimulus bill is delayed until after the election or early 2021.

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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	-31.4	30.6	3.1	2.0	2.8	3.4	3.5	3.0	2.2	-3.5	3.6
Personal Consumption Expenditures*	1.8	3.7	2.7	1.6	-6.9	-33.2	38.0	4.8	2.0	3.1	2.8	2.7	2.7	2.4	-3.5	4.5
Non-residential Fixed Investment*	4.2	0.0	1.9	-0.3	-6.7	-27.2	21.7	3.4	1.4	2.4	3.2	3.1	6.9	2.9	-4.5	2.7
Private Housing Starts (000s units)	1,204	1,257	1,288	1,433	1,484	1,064	1,435	1,385	1,365	1,360	1,350	1,365	1,208	1,296	1,342	1,360
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	140.8	142.2	143.4	144.6	145.8	147.1	146.6	150.9	142.2	145.2
Unemployment rate	3.9	3.6	3.6	3.5	3.8	13.0	8.8	7.7	7.5	7.1	6.7	6.3	4.4	3.7	8.3	6.9
Consumer Price Index* (percent)	0.9	3.0	1.8	2.4	1.2	-3.5	5.2	1.6	1.4	1.4	1.4	1.4	2.4	1.8	1.2	1.6
"Core" CPI* (percent)	2.2	2.2	2.8	2.0	2.0	-1.6	5.2	2.0	1.3	1.4	1.4	1.5	2.1	2.2	1.8	1.8
PPI (finished goods)* (percent)	-2.7	4.7	-1.2	3.0	-3.4	-10.9	4.8	2.2	0.1	0.9	1.6	1.7	3.0	0.8	-1.6	0.8
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	41	40	40	40	41	41	51	57	39	40

*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	3,320						2,449	2,911		
Dow Jones Industrial Average	25,147	26,096	26,676	27,537	26,554	24,571	27,299						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	0.11	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	0.68	0.72	0.75	0.78	0.85	0.90	2.33	2.15	0.86	0.82
Treasury-30 Year Notes (yield)	3.01	2.78	2.29	2.25	1.87	1.38	1.38	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	2.95	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	3.33	3.45	3.65	3.78	4.05	4.10	4.44	4.38	3.65	3.89

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