U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
15-Dec-2020	Empire Manufacturing	Dec	7.0	7.0	6.3
15-Dec-2020	Import Price Index MoM	Nov	0.3%	0.3%	-0.1%
15-Dec-2020	Industrial Production MoM	Nov	-0.1%	0.3%	1.1%
15-Dec-2020	Capacity Utilization	Nov	72.9%	73.0%	72.8%
15-Dec-2020	Net Long-term TIC Flows	Oct	NA	NA	$108.9b
16-Dec-2020	Retail Sales Advance MoM	Nov	-0.3%	-0.2%	0.3%
16-Dec-2020	Retail Sales Ex Auto MoM	Nov	0.0%	0.1%	0.2%
16-Dec-2020	Markit US Manufacturing PMI	Dec P	55.0	56.0	56.7
16-Dec-2020	Markit US Services PMI	Dec P	56.0	56.5	58.4
16-Dec-2020	Markit US Composite PMI	Dec P	NA	NA	58.6
16-Dec-2020	Business Inventories	Oct	0.6%	0.6%	0.7%
16-Dec-2020	NAHB Housing Market Index	Dec	88.0	88.0	90.0
16-Dec-2020	FOMC Rate Decision (Upper Bound)	16-Dec	0.25%	0.25%	0.25%
16-Dec-2020	FOMC Rate Decision (Lower Bound)	16-Dec	0.00%	0.00%	0.00%
17-Dec-2020	Housing Starts	Nov	1510k	1525k	1530k
17-Dec-2020	Building Permits	Nov	1530k	1555k	1544k
17-Dec-2020	Philadelphia Fed Business Outlook	Dec	18.0	20.0	26.3
17-Dec-2020	Initial Jobless Claims	12-Dec	885k	NA	853k
17-Dec-2020	Kansas City Fed Manufacturing Activity	Dec	8.0	NA	11.0
18-Dec-2020	Current Account Balance	3Q	-$187.5b	-$188.6b	-$170.5b
18-Dec-2020	Leading Index	Nov	0.5%	0.4%	0.7%

*Consensus from Bloomberg

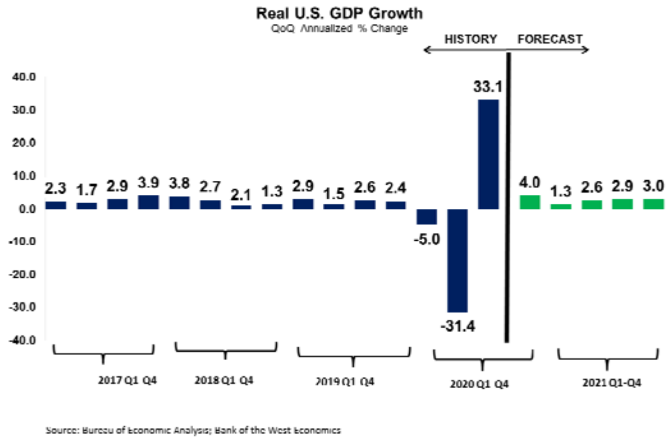
Powerful Cross Currents Creating Some Chop

Economic forecasting, never an activity for the faint of heart, is particularly tricky these days given the collision of renewed business lockdowns against unprecedented, but waning, fiscal and monetary stimulus designed to keep asset prices supported and consumers and businesses solvent long enough to outlast this coronavirus pandemic. With Congress still bickering over the elements and size of another coronavirus relief bill and millions of Americans at imminent risk of losing pandemic unemployment benefits, and facing an end to eviction moratoriums and mortgage forbearance assistance, the stakes for the U.S. economic outlook couldn't be higher. Throw in a year-end Federal Open Market Committee (FOMC) meeting next week, and there is plenty of room for policy missteps that could send asset prices and the economy reeling as we enter January 2021.

Now is probably a good time to review how our baseline U.S. economic forecast is evolving, given the latest economic indicators, the timing of recent regional business shutdowns (including California), and the much anticipated fiscal relief.

First, we expect far slower economic growth to take hold in the first quarter of 2021 and linger into the second quarter. We took down our U.S. GDP growth forecast for the first and second quarter of 2021 to 1.3% and 2.6% annualized from a previous forecast of 1.9% and 2.8%. This brings our 2021 year/year GDP growth forecast down to 3.3% from 3.5% previously. This follows an anticipated 3.5% annual contraction in GDP in 2020 as Q4 GDP growth slows to around 4.0% from a 33.1% annualized growth rate in Q3.

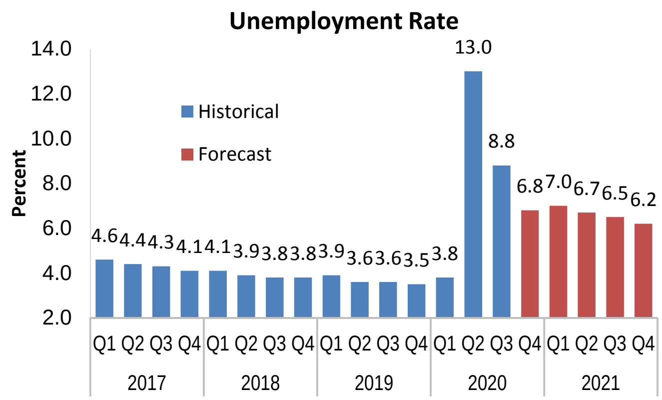
Taking Down Our 1H 2021 Growth Forecasts



Optimists will point out we are still forecasting growth in the first half of 2021 and not a double-dip recession from the recent business lockdowns - a better outcome than we saw in March and April of this year. But imbedded in these lower growth estimates are some fairly robust assumptions that another coronavirus relief bill will be passed by Congress and signed by the President before the end of the year and that it will include extensions on pandemic unemployment benefits as well as additional help for small businesses. Without a sizable relief package of around a trillion dollars or more, we will likely have to make additional haircuts to these already lowered growth forecasts. We are also somewhat less sanguine about a V-shaped recovery in the second half of the year as vaccination production, distribution, and injection of a significant percentage of the U.S. population may not get completed by the end of the second quarter. By then there could be more permanent scarring in the labor market that won't just magically disappear with the vaccine.

The damage to the U.S. labor market remains substantial. The U.S. economy is still down 9.8 million jobs - more net jobs than were lost during the Great Recession. And there is growing evidence that the progress that has been made over the past seven months is beginning to reverse. Initial jobless claims jumped to 853k last week, their highest level since September and a 137k increase from the week before. We are forecasting another increase in initial claims next week to around 885k as more layoffs start to show up in the claims data from states like California that have lockdown hard once again. I would not be surprised to see non-farm payrolls decline in December and the U.S. unemployment rate begin to rise. We are forecasting the U.S. unemployment will average 7.0% in Q1 2021, three tenths higher than in November.

Labor Market Recovery In Danger Of Reversing



Source: US. Bureau of Labor Statistics; BOTW

The Fed is starting to discuss whether it needs to do more to support economic growth. The FOMC minutes from their last meeting suggested many participants thought they would need to enhance their guidance for asset purchases "fairly soon", including extending and expanding their monthly asset purchases, and targeting the longer-end of the Treasury curve. In Fed speak this means over the next couple of scheduled meetings, and perhaps at the end of next week's meeting.

While, it's a close call, I think the FOMC may actually hold off for another month to announce any changes until they see the extent of any additional fiscal stimulus. Risk taking on Wall Street has been rampant, and equity prices are near record highs. Too big of an additional dose of fiscal and monetary medicine could only feed into what may be the early formation of an asset price bubble that is increasingly divorced from economic fundamentals. Moreover, targeted fiscal policy support could provide more immediate relief for the economy without the nasty side effects additional monetary policy action could bring.

Key Economic and Interest Rate Forecasts

	History							Forecast					Yr/Yr % chg or Annual Avg.			
Economic Data	**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	33.1	4.0	1.3	2.6	2.9	3.0	3.0	2.2	-3.5	3.3
Personal Consumption Expenditures*	1.8	3.7	2.7	1.6	-6.9	-33.2	40.6	4.0	2.0	3.1	2.8	2.7	2.7	2.4	-3.8	4.1
Non-residential Fixed Investment*	4.2	0.0	1.9	-0.3	-6.7	-27.2	21.8	7.8	1.4	2.4	3.2	3.1	6.9	2.9	-4.4	3.3
Private Housing Starts (000s units)	1,204	1,257	1,288	1,433	1,484	1,079	1,440	1,500	1,465	1,460	1,450	1,455	1,208	1,296	1,376	1,458
Vehicle Sales (mill. Units, annualized)	16.9	17.0	17.0	16.8	15.0	11.4	15.4	16.3	15.0	15.2	15.3	15.5	17.2	16.9	14.5	15.3
Industrial Production*	-1.9	-2.3	1.1	0.4	-6.8	-42.9	39.8	2.5	4.8	5.3	4.5	4.4	3.9	0.9	-7.4	4.1
Nonfarm Payroll Employment (mil.)	150.2	150.6	151.2	151.8	151.9	133.7	140.8	141.5	142.4	143.5	144.7	145.9	146.6	150.9	142.0	144.1
Unemployment rate	3.9	3.6	3.6	3.5	3.8	13.0	8.8	6.8	7.0	6.7	6.5	6.2	4.4	3.7	8.1	6.6
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	4.4	2.0	1.3	1.4	1.4	1.5	2.1	2.2	1.7	1.7
PPI (finished goods)* (percent)	-2.7	4.7	-1.2	3.0	-3.4	-11.4	7.1	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	117.7	115.4	114.0	113.8	113.7	113.5	91.1	115.7	118.3	113.8
Crude Oil Prices -WTI ($ per barrel)	55	60	56	57	45	28	42	41	42	42	43	43	51	57	39	42

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

	History							Forecast					Annual Average			
Financial Data	**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	0.09	0.13	0.13	0.13	0.13	0.13	1.00	2.16	0.38	0.13
Treasury-3 Month Bills (yield)	2.44	2.35	2.03	1.61	1.10	0.14	0.11	0.09	0.10	0.11	0.11	0.12	0.95	2.11	0.36	0.11
Treasury-2 Year Notes (yield)	2.49	2.13	1.69	1.59	1.08	0.19	0.14	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	0.27	0.35	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	0.85	0.78	0.80	0.87	0.93	2.33	2.15	0.89	0.84
Treasury-30 Year Notes (yield)	3.01	2.78	2.29	2.25	1.87	1.38	1.36	1.63	1.56	1.58	1.66	1.73	2.90	2.58	1.56	1.63
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	0.25	0.22	0.22	0.22	0.22	0.22	1.26	2.33	0.65	0.22
Mortgage-30 Year (yield)	4.37	4.01	3.66	3.70	3.52	3.24	2.95	2.79	2.76	2.85	2.82	2.88	3.99	3.94	3.12	2.82
BAA Corporate (yield)	4.97	4.60	4.03	3.91	3.91	3.91	3.32	3.34	3.43	3.40	3.42	3.48	4.44	4.38	3.62	3.43

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