

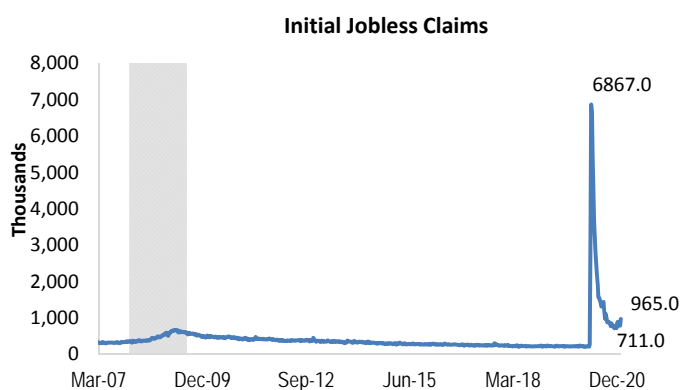
Date	Indicator	For	Estimate	Consensus*	Previous Period
19-Jan-2021	Net Long-term TIC Flows	Nov	NA	NA	\$51.9b
20-Jan-2021	NAHB Housing Market Index	Jan	85.0	86.0	86.0
21-Jan-2021	Building Permits	Dec	1595k	1600k	1635k
21-Jan-2021	Housing Starts	Dec	1550k	1562k	1547k
21-Jan-2021	Initial Jobless Claims	16-Jan	945k	NA	965k
21-Jan-2021	Philadelphia Fed Business Outlook	Jan	12.0	12.0	9.1
22-Jan-2021	Markit US Manufacturing PMI	Jan P	56.5	56.5	57.1
22-Jan-2021	Markit US Composite PMI	Jan P	NA	NA	55.3
22-Jan-2021	Markit US Services PMI	Jan P	54.0	NA	54.8
22-Jan-2021	Existing Home Sales	Dec	6.50m	6.55m	6.69m

*Consensus from Bloomberg

Pandemic Woes Lead To Fiscal Spending Hopes

This week's U.S. economic data reminds us that the pandemic still has a tight grip on our economy. Initial jobless claims increased to just under one million last week for the largest weekly increase since March as tighter business restrictions and stay at home orders finally found their way into the labor market data. Just as during last spring, leisure and hospitality and other service businesses appear to be bearing the brunt of the layoffs. We expect initial claims to stay at the highest levels since August at around 945k when next week's data is released on Thursday. December nonfarm payrolls declined by 140k jobs, and we expect January payrolls to decline and unemployment rate to rise as vaccine injections and mask wearing have yet to slow the pandemic's spread.

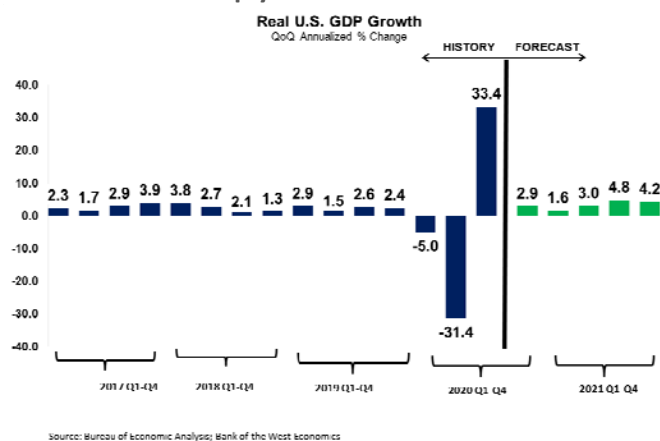
Labor Market Progress Going In Reverse



Source: U.S. Employment and Training Administration

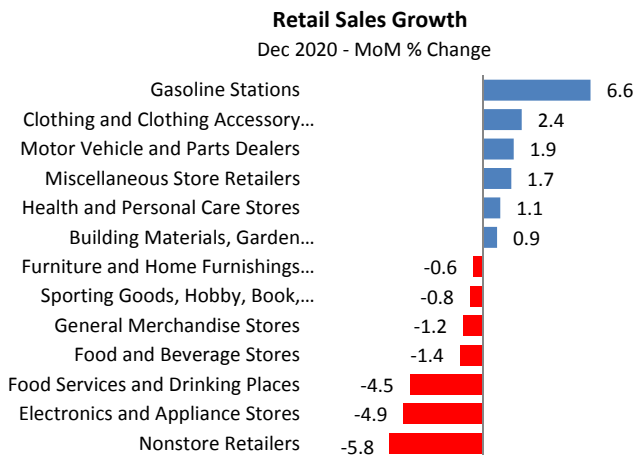
The December retail sales report confirmed the pull-back in the consumer driven recovery. Retail sales dropped 0.7% to close out the last month of year and November's decline was revised to a larger 1.4% decline. Economists had been looking for a flat reading for December. As a result we lowered our estimate for fourth quarter real consumer spending growth to 2.1% annualized, bringing our fourth quarter GDP growth estimate down to an even softer 2.9% annualized pace from a prior 4.0% growth forecast.

Growth Slows Sharply But Fiscal Stimulus Is On The Way



We saw large monthly declines in retail sales for non-store retailers (-5.8%), electronics stores (-4.9%), eating and drinking establishments (-4.5%), and department stores (-3.8%). Sales declined 1.4% for grocery stores as well.

Consumers Pull-Back Spending in December



Source: US. Bureau of the Census

It is clear that the \$900B coronavirus relief package that was passed at the end of December will be a critical support for continued U.S. economic growth in the first quarter. We are forecasting another first quarter surge in real personal income and personal savings rates that will help keep modest 0.5% annualized consumer spending growth going this quarter and allow a faster pandemic recovery to begin as early as the second quarter. The extension of supplemental unemployment benefits and mortgage forbearance and eviction moratoriums will keep more folks housed and off the streets as the pandemic continues to rage. Real U.S. GDP growth in the first quarter is now forecast at very sluggish 1.6%

However, near-term gloom is giving away to medium-term optimism about the U.S. economy's growth prospects helped along with a healthy dose of Federal government spending. President Elect Biden's proposed \$1.9 trillion additional spending package called the American Rescue Plan, equivalent to 8.6% of U.S. GDP, tilts the economic forecast to the upside starting as early as the second quarter of this year. The package includes about \$370B for state fiscal aid, \$450B for additional \$1,400 individual checks and child tax credits, another \$200B for increasing and extended supplemental unemployment benefits, \$170B for K-12 schools and colleges and universities, \$160B for public health, including \$70B for vaccinations and COVID testing.

While we don't expect the final bill to be quite that large, another spending package over \$1.0 trillion seems highly likely to pass in the February to March timeframe. We are raising our second half U.S. GDP growth estimates in response to an average of 4.5% with growth in the third quarter just shy of 5.0%. These upwardly revised baseline estimates may also end up being too conservative, given the astronomical size of Biden's new fiscal spending proposal and with better news on the vaccination and virus containment front.

Moreover, the Biden Administration is not done, they are expected to release another large tax and spending package in a few months that could be passed by this summer. These will include more of Biden's Build Back Better proposals on infrastructure spending, education, health care, taxes, and climate change initiatives. Bottom-line, the risks on the U.S. growth outlook are rapidly shifting to the upside for late 2021 and 2022.

Our higher GDP forecasts for the second half of 2021 and into 2022 mean more job creation and a faster drop in the U.S. unemployment rate than we forecast before. We expect the U.S. unemployment rate to average 5.4% in the fourth quarter of this year and 4.6% by the fourth quarter of 2022. Faster growth will also lead to somewhat higher long-term interest rates over the forecast horizon than we projected prior to Biden's announcement. The 10-Year Treasury yield is expect to average 1.25% in the fourth quarter of this year. We also expect the Fed to begin lifting interest rates by the second quarter of 2024, a full year earlier than we have been projecting as we now expect a swifter return to full-employment and 2.0% inflation.

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	33.4	2.9	1.6	3.0	4.8	4.2	3.0	2.2	-3.6	3.6
Personal Consumption Expenditures*	1.8	3.7	2.7	1.6	-6.9	-33.2	41.0	2.1	0.5	4.3	5.8	5.7	2.7	2.4	-3.9	4.2
Non-residential Fixed Investment*	4.2	0.0	1.9	-0.3	-6.7	-27.2	22.9	10.2	6.4	3.9	5.5	5.6	6.9	2.9	-4.2	6.0
Private Housing Starts (000s units)	1,204	1,257	1,288	1,433	1,484	1,079	1,432	1,500	1,465	1,460	1,450	1,455	1,208	1,296	1,374	1,458
Vehicle Sales (mill. Units, annualized)	16.9	17.0	17.0	16.8	15.0	11.4	15.4	16.0	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	-42.6	42.5	6.5	4.8	3.3	4.5	4.4	3.9	0.9	-6.9	4.8
Nonfarm Payroll Employment (mil.)	150.2	150.6	151.2	151.8	151.9	133.7	140.8	142.6	143.1	144.2	145.5	146.7	146.6	150.9	142.3	144.9
Unemployment rate	3.9	3.6	3.6	3.5	3.8	13.0	8.8	6.7	6.8	6.3	5.8	5.4	4.4	3.7	8.1	6.1
Consumer Price Index* (percent)	0.9	3.0	1.8	2.4	1.2	-3.5	5.2	1.8	1.5	1.7	1.8	1.8	2.4	1.8	1.2	1.8
"Core" CPI* (percent)	2.2	2.2	2.8	2.0	2.0	-1.6	4.4	1.6	1.7	1.7	1.7	1.7	2.1	2.2	1.7	1.8
PPI (finished goods)* (percent)	-2.7	4.7	-1.2	3.0	-3.4	-11.4	6.9	5.0	0.1	0.9	1.6	1.7	3.0	0.8	-1.3	1.5
Trade Weighted Dollar (Fed BOG, major)	114.5	115.4	116.5	116.4	117.9	122.2	117.7	114.4	112.0	111.8	111.7	111.5	91.1	115.7	118.0	111.8
Crude Oil Prices -WTI (\$ per barrel)	55	60	56	57	45	28	42	44	48	49	50	50	51	57	40	49

*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	3,555					2,449	2,911	3,215	
Dow Jones Industrial Average	25,147	26,096	26,676	27,537	26,554	24,571	27,299	29,092					21,745	26,364	26,879	
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	0.09	0.10	0.10	0.11	0.95	2.11	0.36	0.10
Treasury-2 Year Notes (yield)	2.49	2.13	1.69	1.59	1.08	0.19	0.14	0.15	0.14	0.17	0.20	0.22	1.40	1.97	0.39	0.18
Treasury-5 Year Notes (yield)	2.46	2.12	1.63	1.61	1.14	0.36	0.27	0.37	0.46	0.49	0.52	0.55	1.91	1.96	0.53	0.50
Treasury-10 Year Notes (yield)	2.65	2.34	1.80	1.79	1.37	0.69	0.65	0.85	1.05	1.10	1.17	1.25	2.33	2.15	0.89	1.14
Treasury-30 Year Notes (yield)	3.01	2.78	2.29	2.25	1.87	1.38	1.36	1.62	1.86	1.92	2.04	2.12	2.90	2.58	1.56	1.98
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	2.77	2.84	2.95	3.05	3.13	3.99	3.94	3.12	2.99
BAA Corporate (yield)	4.97	4.60	4.03	3.91	3.91	3.91	3.32	3.31	3.35	3.45	3.52	3.60	4.44	4.38	3.61	3.48

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