

U.S. Outlook

Bank Of The West Economics | 415.432.3491
www.bankofthewest.com



Date	Indicator	For	Estimate	Consensus*	Previous Period
28-Mar-2016	Advance Trade Balance	Feb	-\$62.5B	-\$62.3B	-\$62.2B
28-Mar-2016	Personal Income	Feb	0.2%	0.1%	0.5%
28-Mar-2016	Personal Spending	Feb	0.1%	0.1%	0.5%
28-Mar-2016	PCE Deflator MoM	Feb	-0.1%	-0.1%	0.1%
28-Mar-2016	PCE Core MoM	Feb	0.2%	0.2%	0.3%
28-Mar-2016	Pending Home Sales MoM	Feb	1.2%	1.1%	-2.5%
28-Mar-2016	Dallas Fed Mfg Activity Index	Mar	-26.0	-27.0	-31.8
29-Mar-2016	S&P/Case-Shiller 20City MoM SA	Jan	0.7%	0.7%	0.8%
29-Mar-2016	Consumer Confidence Index	Mar	93.8	93.9	92.2
30-Mar-2016	ADP Employment Change	Mar	198K	193K	214K
31-Mar-2016	Initial Jobless Claims	26-Mar	267K	NA	265K
31-Mar-2016	Chicago Purchasing Manager Index	Mar	50.0	50.5	47.6
01-Apr-2016	Change in Nonfarm Payrolls	Mar	220K	207K	242K
01-Apr-2016	Change in Mfg. Payrolls	Mar	5K	-2K	-16K
01-Apr-2016	Unemployment Rate	Mar	4.9%	4.9%	4.9%
01-Apr-2016	Average Hourly Earnings MoM	Mar	0.3%	0.3%	-0.1%
01-Apr-2016	Average Weekly Hours All Employees	Mar	34.5	34.5	34.4
01-Apr-2016	Markit US Manufacturing PMI	Mar F	NA	51.8	51.4
01-Apr-2016	ISM Manufacturing	Mar	50.8	50.7	49.5
01-Apr-2016	Construction Spending MoM	Feb	0.3%	0.1%	1.5%
01-Apr-2016	Univ. of Michigan Sentiment Index	Mar F	90.7	90.5	90.0
01-Apr-2016	Wards Total Vehicle Sales	Mar	17.59M	17.50M	17.43M

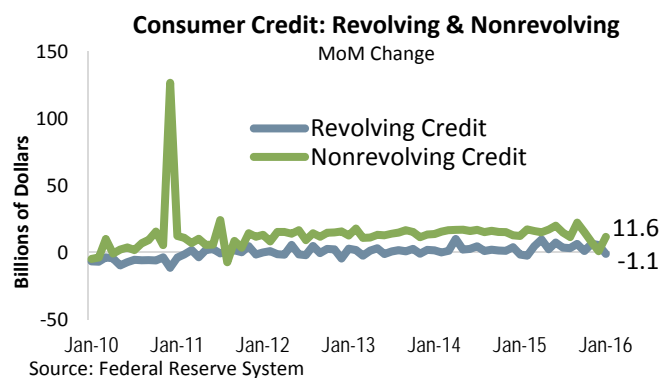
*Consensus from Bloomberg

Consumer Credit Spigot Remains Open

There is growing concern as to whether or not the American consumer can continue to prop up the U.S. economy. One place I like to look for answers is in data on consumer credit, which can be an important indicator of consumer spending on services and durable goods.

Solid gains in consumer credit growth are an integral part of our sanguine outlook for near-term consumer spending. The latest consumer credit report, released by Federal Reserve, shows that total outstanding consumer credit reached an all-time peak of \$3.54 trillion in January, increasing 6.5 percent from a year ago. Borrowing from credit cards remained constrained declining \$1.1 billion from the month before and the first monthly decline since February 2015 – but I'm not too concerned about that drop.

Non-Revolving Credit Still Driving Consumer Credit Gains

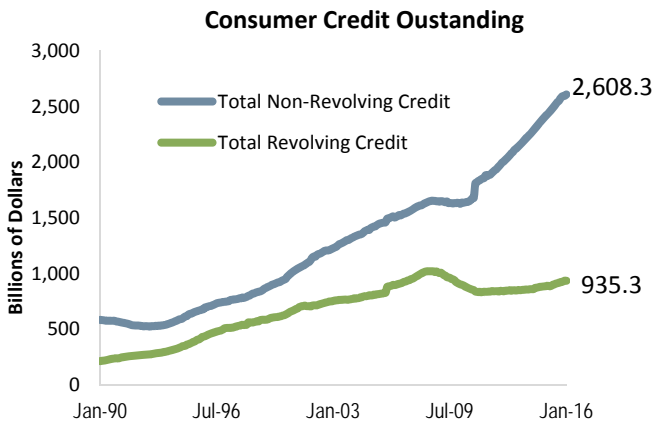


The severe winter weather conditions in January likely prevented consumers from doing as much post-holiday

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shopping as they normally do. At the same time growth in real wages and personal income partially substituted credit card use. Real personal income increased at a healthy 5.3% annual rate in January. Growth in non-revolving credit, mostly auto and student loans, remains robust. Non-revolving credit is now \$1.67 trillion higher than revolving credit outstanding versus only \$613 billion a decade ago and \$253 billion a decade prior to that.

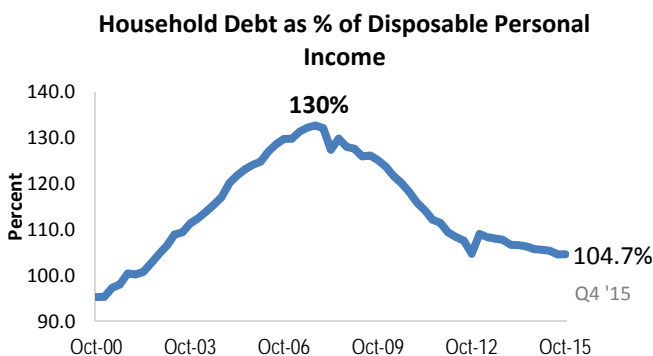
Non-Revolving and Revolving Debt Gap Is Widening



Source: Federal Reserve System

Pent-up demand for new vehicles and the need to increase educational credentials in the wake of the “Great Recession” is a big driver of this new phenomenon in consumer credit. But consumers are also more comfortable taking on lower interest non-revolving debt, tending to avoid higher interest credit card debt as many felt the sting of high interest expenses when the last recession struck. Despite increases in consumer credit outstanding in recent years, household debt has been brought under control in the aggregate, giving the green light to additional consumer borrowing in the future. The latest “flow of funds” data, released by the Fed shows household debt as a share of disposable income has been holding near 105% in 2015, more than a 25 percentage point reduction from its 2006 peak.

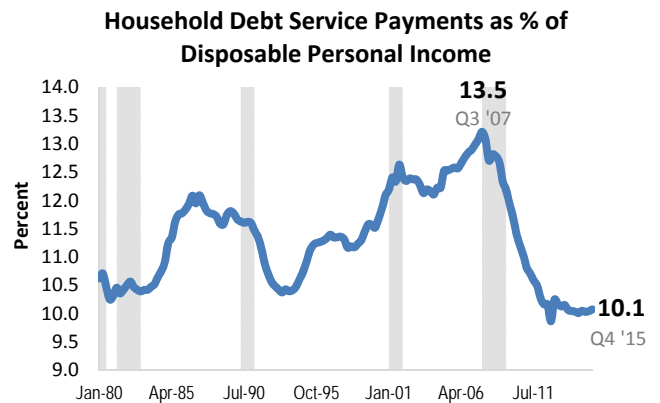
Debt-to-Disposable Income Ratio Much Improved



Source: Federal Reserve; Bureau of Economic Analysis

More evidence of the consumer’s ability to spend and borrow comes from the household debt-service ratio, which shows how much money U.S. households need to set aside to service their debt. The ratio was at 10.1 percent in the last quarter and has been holding near historical lows for about 3 years now. Rising personal income and the low interest rate environment have been instrumental in alleviating the financial burden of U.S. households during this expansion.

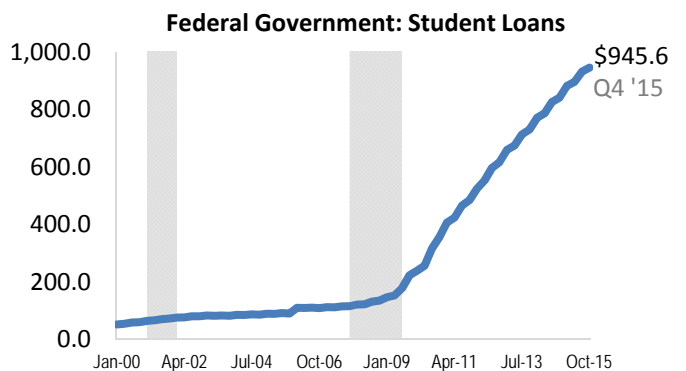
Debt-Service Payments At Historical Lows



Source: Federal Reserve System

The only area of concern that remains is the large buildup in student loan debt that grew tenfold in the last decade. Including government guaranteed private loans; total student loans outstanding have climbed to \$1.32 trillion. Rising debt payments or default rates on student loans could leave less capacity for consumer borrowing and spending in the future.

Student Loans Growing Faster Than Other Type of Debt



Source: Federal Reserve System

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Major Economic Indicators

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2015.1	2015.2	2015.3	2015.4	2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4	2014	2015	2016	2017
Real GDP*	0.6	3.9	2.0	1.4	1.7	2.1	2.4	2.2	2.2	2.3	2.2	1.9	2.4	2.4	2.0	2.2
Personal Consumption Expenditures*	1.8	3.6	3.0	2.4	2.8	3.0	2.9	2.8	2.5	2.5	2.4	2.3	2.7	3.1	2.9	2.6
Non-residential Fixed Investment*	1.6	4.1	2.6	-2.1	-2.3	2.3	2.7	3.0	3.2	3.4	3.4	3.4	6.2	2.8	0.6	3.2
Private Housing Starts (000s units)	978	1,158	1,158	1,135	1,163	1,225	1,230	1,250	1,270	1,280	1,310	1,330	1,001	1,107	1,217	1,298
Vehicle Sales (mill. Units, annualized)	16.6	17.1	17.8	17.8	17.5	17.7	17.6	17.6	17.5	17.5	17.4	17.4	16.4	17.3	17.6	17.5
Industrial Production*	-0.3	-2.3	2.8	-3.4	0.4	1.4	1.9	1.8	1.7	1.8	1.7	1.7	3.7	1.3	0.3	1.8
Nonfarm Payroll Employment (mil.)	140.8	141.5	142.2	142.9	143.5	144.1	144.6	145.2	145.8	146.4	147.0	147.6	138.9	141.8	144.4	146.7
Unemployment rate	5.6	5.4	5.2	5.0	4.9	4.8	4.8	4.7	4.6	4.6	4.6	4.5	6.2	5.3	4.8	4.6
Consumer Price Index* (percent)	-3.1	3.0	1.6	0.2	0.9	2.0	2.0	2.1	2.2	2.2	2.3	2.3	1.6	0.1	1.4	2.2
"Core" CPI* (percent)	1.7	2.5	1.7	2.1	1.8	1.8	1.9	2.0	2.0	2.0	2.1	2.1	1.7	1.8	1.9	2.0
PPI (finished goods)* (percent)	-11.2	3.6	0.4	-5.8	-1.0	1.6	2.1	2.5	2.4	2.2	2.0	2.0	1.9	-3.3	-0.4	2.2
Trade Weighted Dollar (Fed BOG, major)	89.3	90.1	91.7	93.1	93.5	91.3	93.4	94.6	94.9	94.3	93.8	93.4	78.4	91.0	93.2	94.1
Crude Oil Prices -WTI (\$ per barrel)	48	58	46	42	36	37	38	39	40	42	44	45	93	49	38	43

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

Financial Data	History				Forecast								Annual Average			
	2015.1	2015.2	2015.3	2015.4	2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4	2014	2015	2016	2017
S & P 500	2,064	2,102	2,027	2,052									1,930	2,061		
Dow Jones Industrial Average	17,808	18,004	17,077	17,475									16,770	17,591		
Federal Funds Rate (effective)	0.11	0.12	0.13	0.16	0.37	0.46	0.63	0.71	0.96	1.13	1.38	1.71	0.09	0.13	0.54	1.30
Treasury-3 Month Bills (yield)	0.02	0.02	0.04	0.13	0.28	0.37	0.58	0.66	0.92	1.09	1.34	1.67	0.03	0.05	0.47	1.26
Treasury-2 Year Notes (yield)	0.60	0.61	0.69	0.84	0.83	0.96	1.12	1.35	1.58	1.75	2.00	2.33	0.46	0.69	1.07	1.92
Treasury-5 Year Notes (yield)	1.46	1.53	1.56	1.58	1.37	1.62	1.77	1.94	2.16	2.33	2.58	2.91	1.64	1.53	1.68	2.50
Treasury-10 Year Notes (yield)	1.97	2.16	2.22	2.19	1.92	2.10	2.30	2.47	2.65	2.80	2.95	3.20	2.54	2.14	2.20	2.90
Treasury-30 Year Notes (yield)	2.55	2.88	2.96	2.96	2.72	2.81	2.92	3.11	3.30	3.40	3.55	3.75	3.34	2.84	2.89	3.50
Prime Rate	3.25	3.25	3.25	3.29	3.50	3.58	3.75	3.83	4.08	4.25	4.50	4.83	3.25	3.26	3.67	4.42
Libor 3-Mo. U.S. Dollar	0.30	0.30	0.33	0.43	0.63	0.67	0.85	0.93	1.18	1.35	1.60	1.91	0.25	0.34	0.77	1.51
Mortgage-30 Year (yield)	3.72	3.82	3.95	3.90	3.76	3.92	4.10	4.27	4.45	4.55	4.70	4.90	4.17	3.85	4.01	4.65
BAA Corporate (yield)	4.50	4.83	5.24	5.42	5.32	5.46	5.63	5.86	6.13	6.29	6.43	6.68	4.85	5.00	5.57	6.38

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