

U.S. Outlook

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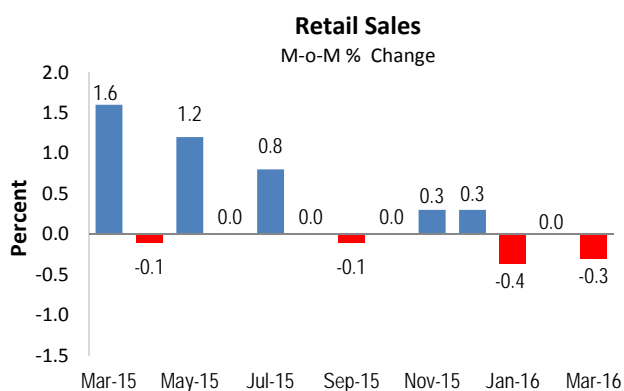
Date	Indicator	For	Estimate	Consensus*	Previous Period
18-Apr-2016	NAHB Housing Market Index	Apr	60	59	58
19-Apr-2016	Housing Starts	Mar	1163k	1170k	1178k
19-Apr-2016	Building Permits	Mar	1201k	1205k	1177k
20-Apr-2016	Existing Home Sales	Mar	5.30m	5.27m	5.08m
21-Apr-2016	Chicago Fed Nat Activity Index	Mar	NA	NA	-0.29
21-Apr-2016	Initial Jobless Claims	16-Apr	263K	NA	253K
21-Apr-2016	Philadelphia Fed Business Outlook	Apr	13.0	6.0	12.4
21-Apr-2016	FHFA House Price Index MoM	Feb	0.4%	0.4%	0.5%
21-Apr-2016	Leading Index	Mar	0.3%	0.4%	0.1%
22-Apr-2016	Markit US Manufacturing PMI	Apr P	51.8	NA	51.5

*Consensus from Bloomberg

Retail Sales Slip Again in March

March retail sales came in lower-than-expected, down 0.3 percent, ending a disappointing first quarter for consumer spending. The consensus expectation for the headline figure was for a slight increase of 0.1 percent, considering sustained improvement in other areas of the economy and vanishing effects of the winter slog. Possible reasons for the retail sales slowdown so far this year include financial market volatility earlier in the year, uninspiring political rhetoric coming from the presidential campaign trail, and inherent limitations related to seasonal adjustments in the data. All in all, the quarterly retail sales growth was a tough start for the U.S. consumer and one of the weakest three consecutive months for retail sales in this expansion.

Retail Sales Fade in Q1 2016

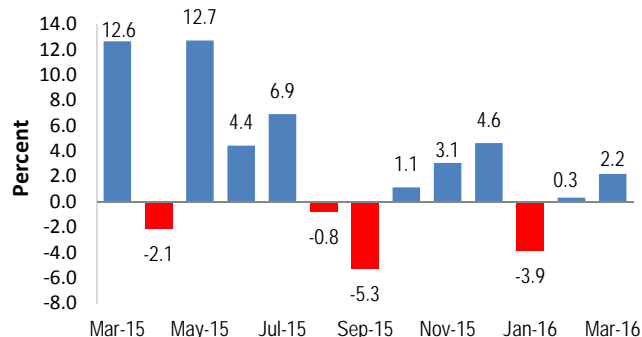


Source: U.S. Census Bureau

Despite the lackluster start, it is too soon to throw in the towel on the U.S. consumer for 2016. On an annualized basis, retail sales, excluding vehicles and parts, actually rose 2.2 percent in March, following a sharp decline in January and muted growth in February.

Too Soon To Give Up On the U.S. Consumer

Retail Sales & Food Services Ex. Vehicles & Parts
Comp. Annual % Change

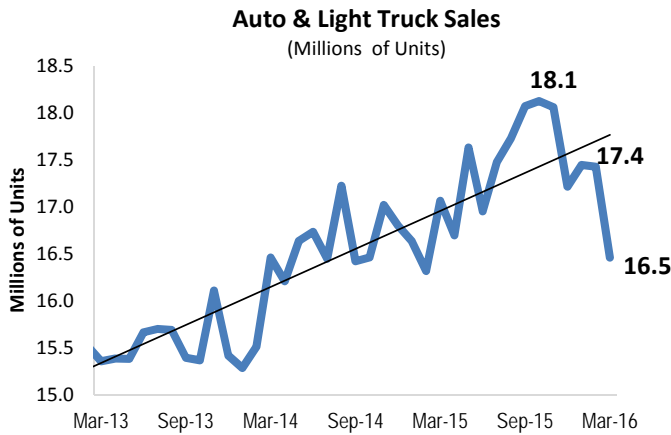


Source: U.S. Census Bureau

The bulk of the weakness in March retail sales data came from weak auto sales. Pent-up demand for autos and light trucks may be nearly exhausted after robust growth over the past few years. March auto sales dropped 5.5 percent from February, and 3.5 percent from a year ago. Reflecting the recent increase in gas prices, sales at gas stations were up 0.9 percent in March, after posting monthly declines since last July. Increased spending at gas stations likely reduced spending elsewhere.

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Auto Sales Sank Well Below the Three-year Growth Trend



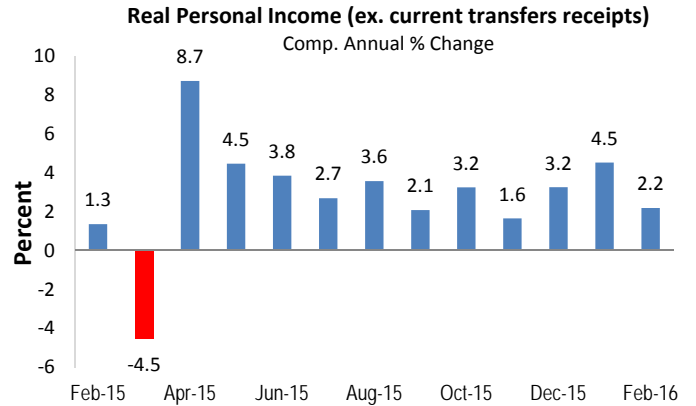
Source: Bureau of Economic Analysis

Retail sales by spending category were generally positive with 9 of 13 spending categories posting gains last month. However, those gains were not significant enough to offset the decline in motor vehicle and parts sales.

The greatest positive contributions to consumer spending in March came from building materials and garden equipment that rose 1.4 percent over the month, followed by health and personal care products (+1.0%), and general merchandise (+0.5%). On the other side of the spectrum, clothing stores, restaurants/ bars, and internet merchants recorded monthly declines.

We would be more concerned about this slowdown in the retail sales data if other economic indicators confirmed the weakening we have witnessed in Q1 2016. Other data, including low jobless claims, strong monthly nonfarm payrolls, rising wages, and increasing personal income, suggest, however, that the U.S. consumer still has plenty of financial ammunition to keep spending. Therefore, the subdued growth in spending in the first quarter is likely to reverse with greater consumer demand in the second quarter of this year. Consumers will be able to spend at a faster pace in the months ahead with sustained and healthy personal income growth and improved savings rates.

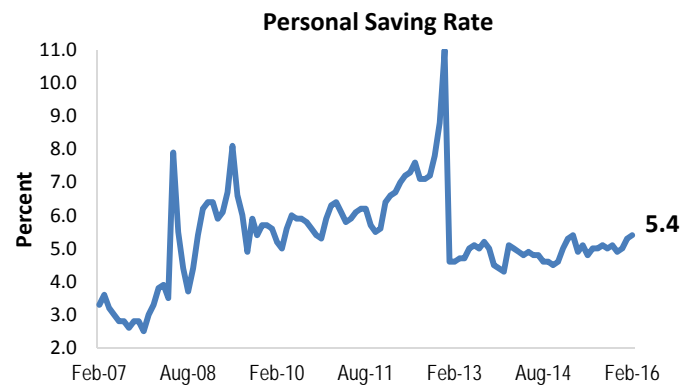
Real Income Growth Remains Positive



Source: U.S. of Economic Analysis

The personal savings rate increased to 5.4 percent in February. This is the highest savings rate since December 2012.

Consumers' Buying Power Remains Solid



Source: Bureau of Economic Analysis

Increasing savings rates sometimes can be associated with consumer fear of economic uncertainty as personal savings rise in the aftermath of the Great Recession. However, that does not appear to be driving the increase today as labor markets continue to improve and consumer confidence approaches pre-recession highs.

What are the implications for our forecasts for 2016? We have lowered our Q1 Real GDP forecast to an annualized 1.1 percent from previously anticipated 1.2 percent, and our Q1 real consumer spending forecast to 1.9 percent from 2.0 percent. GDP growth is projected at 1.9 percent for 2016. As we anticipate better consumer spending in the months ahead, we are keeping our annual growth forecasts for both Real GDP and consumer spending virtually unchanged. As long as nonfarm payrolls continue to rise and jobless claims remain low, there is a strong case for arguing that the recent subdued retail sales report is a one-off setback.

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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	1.1	2.1	2.4	2.2	2.2	2.3	2.2	1.9	2.4	2.4	1.9	2.2
Personal Consumption Expenditures*	1.7	3.6	3.0	2.4	1.9	3.0	2.9	2.8	2.5	2.5	2.4	2.3	2.7	3.1	2.6	2.6
Non-residential Fixed Investment*	1.6	4.1	2.6	-2.1	-2.5	2.3	2.7	3.0	3.2	3.4	3.4	3.4	6.2	2.8	0.5	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)	16.7	17.1	17.8	17.8	17.1	17.7	17.6	17.6	17.5	17.5	17.4	17.4	16.4	17.3	17.6	17.5
Industrial Production*	-1.9	-2.7	1.5	-3.2	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	144.2	144.7	145.3	145.9	146.5	147.1	147.7	138.9	141.8	144.4	146.8
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)	-2.9	2.4	1.4	0.8	-0.3	2.0	2.0	2.1	2.2	2.2	2.3	2.3	1.6	0.1	1.5	2.2
"Core" CPI* (percent)	1.7	2.3	1.8	2.2	2.7	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)	-11.0	3.4	-0.4	-4.8	-4.9	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	93.2	91.5	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	33	39	39	40	41	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	1,951								1,930	2,061		
Dow Jones Industrial Average	17,808	18,004	17,077	17,475	16,663								16,770	17,591		
Federal Funds Rate (effective)	0.11	0.13	0.13	0.16	0.36	0.44	0.61	0.69	0.94	1.11	1.36	1.69	0.09	0.13	0.53	1.28
Treasury-3 Month Bills (yield)	0.02	0.02	0.04	0.13	0.33	0.35	0.56	0.64	0.90	1.07	1.32	1.65	0.03	0.05	0.47	1.24
Treasury-2 Year Notes (yield)	0.60	0.61	0.69	0.84	0.83	0.86	1.02	1.25	1.48	1.65	1.90	2.23	0.46	0.69	0.99	1.82
Treasury-5 Year Notes (yield)	1.46	1.53	1.56	1.58	1.36	1.42	1.67	1.79	2.01	2.18	2.43	2.71	1.64	1.53	1.56	2.33
Treasury-10 Year Notes (yield)	1.97	2.16	2.22	2.19	1.91	2.00	2.20	2.37	2.55	2.70	2.85	3.10	2.54	2.14	2.12	2.80
Treasury-30 Year Notes (yield)	2.55	2.88	2.96	2.96	2.72	2.71	2.82	3.01	3.20	3.30	3.45	3.65	3.34	2.84	2.82	3.40
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	0.65	0.83	0.91	1.16	1.33	1.58	1.89	0.25	0.34	0.76	1.49
Mortgage-30 Year (yield)	3.72	3.82	3.95	3.90	3.74	3.83	4.00	4.17	4.35	4.45	4.60	4.80	4.17	3.85	3.94	4.55
BAA Corporate (yield)	4.50	4.83	5.24	5.42	5.30	4.96	5.13	5.36	5.63	5.79	5.93	6.18	4.85	5.00	5.19	5.88

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