

U.S. Outlook

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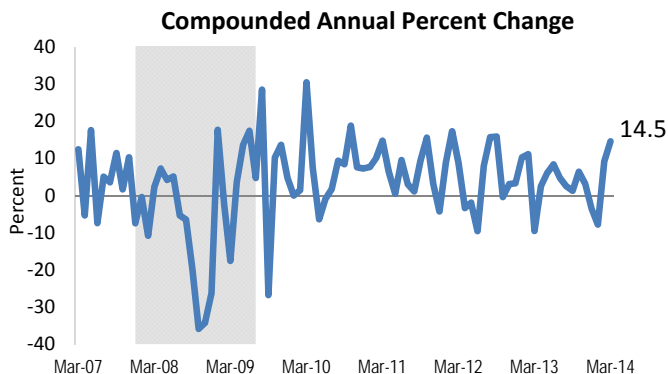
Date	Indicator	For	Estimate	Consensus*	Previous Period
21-Apr-2014	Chicago Fed National Activity Index	MAR	N/A	N/A	0.14
21-Apr-2014	Leading Index	MAR	0.7%	0.6%	0.5%
22-Apr-2014	FHFA House Price Index MoM	FEB	0.5%	0.5%	0.5%
22-Apr-2014	Existing Home Sales	MAR	4.56M	4.55M	4.60M
22-Apr-2014	Existing Home Sales MoM	MAR	-0.9%	-1.1%	-0.4%
23-Apr-2014	New Home Sales	MAR	452K	450K	440K
23-Apr-2014	New Home Sales MoM	MAR	2.7%	2.3%	-3.3%
24-Apr-2014	Durable Goods Orders	MAR	2.8%	2.0%	2.2%
24-Apr-2014	Durable Ex. Transportation	MAR	0.6%	0.5%	0.1%
24-Apr-2014	Initial Jobless Claims	04/19	308K	N/A	304K
25-Apr-2014	Univ. of Michigan Confidence Index- Final	APR	83.0	83.0	82.6

*Consensus from Bloomberg

More Encouraging Signs of Acceleration

The U.S. economy is showing more spring in its step as the winter slowdown gives way to acceleration in consumer spending, industrial production and job creation. The March retail sales report beat elevated expectations, rising 1.1 percent on the month. A rebound was anticipated as the winter weather subsided, but the breadth of the improvement was impressive. Vehicle sales rose 3.1 percent, and clothing, furniture, building materials, non-store retailers, and eating and drinking establishments all saw gains of over 1.0 percent on the month. The retail sales recovery should continue into April, if the bounce in the preliminary University of Michigan consumer sentiment index for April holds up.

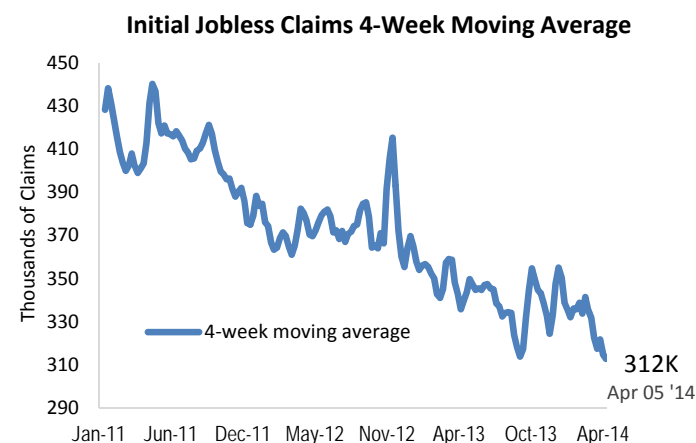
Retail Sales Jump in March – Better Q2 Ahead



Source: U.S. Census Bureau

The U.S. labor market is also looking healthier. Non-farm payroll growth is poised for stronger gains in the second quarter. The drop in initial jobless claims over the last two weeks to new lows for this expansion reveals employers are gaining confidence in the U.S. economy. We expect monthly non-farm payrolls gains to average over 200K jobs a month in the second quarter.

Jobless Claims Hitting Expansion Lows



Source: U.S. Employment and Training Administration

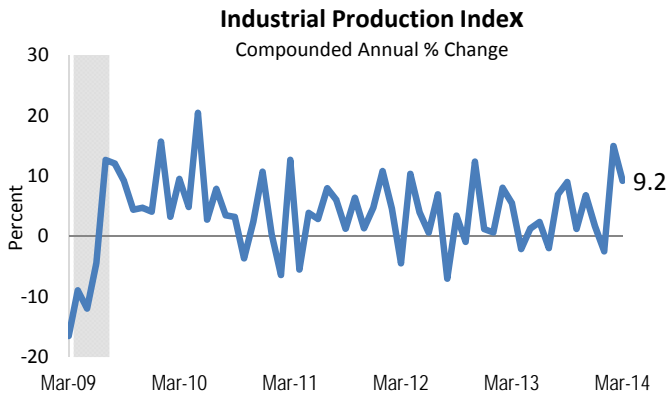
A combination of pent-up demand from the winter months, a strengthening labor market, stock and home-price gains, and less concern about debt are giving

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consumers the confidence they need to go ahead and spend a little more freely.

Industrial production increased strongly in March up 0.7 percent - the second consecutive month of robust gains. This month is looking solid as well, the Philadelphia Fed PMI for April was stronger than any analyst expected, reaching a seven month high. These are all encouraging signs for a sustained recovery in jobs and economic growth. We find a high correlation between industrial production and overall job creation.

Industrial Production Shifts Into Higher Gear



Source: Federal Reserve System

This sets the economy up for a solid bounce in the second quarter. We have bumped up our forecast for real GDP, consumer spending, and job growth in the second quarter as a result. We now expect second-quarter real GDP at a healthy 3.3 percent annualized, with real consumer spending rising at a solid 3.2 percent pace. The bad news is the drag from a slower pace of business inventory growth and a large quarterly drop in U.S. exports, foreshadowed in the latest trade report, will subtract about 1.7 percentage points from U.S. GDP growth in the first quarter. We have lowered our estimate of first quarter real GDP growth by three tenths to 1.0 percent annualized.

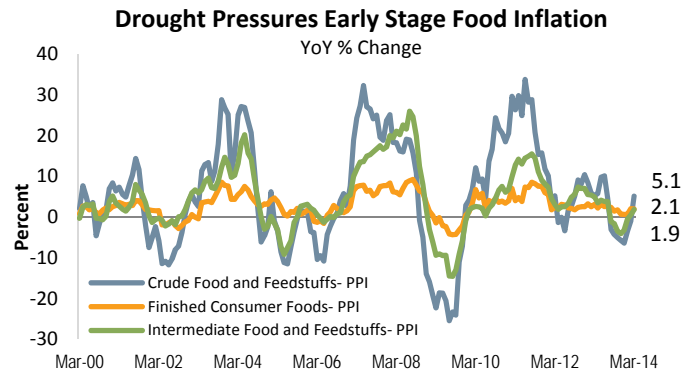
Does Stronger Growth Mean Higher Inflation?

Along with stronger economic growth will the U.S. economy experience rising inflation? Import prices, producer prices, and consumer prices all increased more than analysts expected last month, leaving a faster rate of inflation in the first quarter. Consumer prices increased at a 1.9 percent annualized pace in the first quarter up from 1.1 in the fourth quarter. Producer prices jumped 3.7 percent in the first quarter after a soft 1.0 percent annualized gain in the fourth. Crude oil prices have firmed over the last month. West Texas Intermediate oil prices jumped over \$104 dollars a barrel recently; up 10 percent in the last three months. Food prices are also on the rise. The combination of poor winter weather delaying the

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spring planting season and drought in California has pushed up agricultural futures prices. Corn, wheat, and soybean prices are up more than 15.0 percent over the last three months. And with a virus killing off piglet, lean hog prices are up 43 percent!

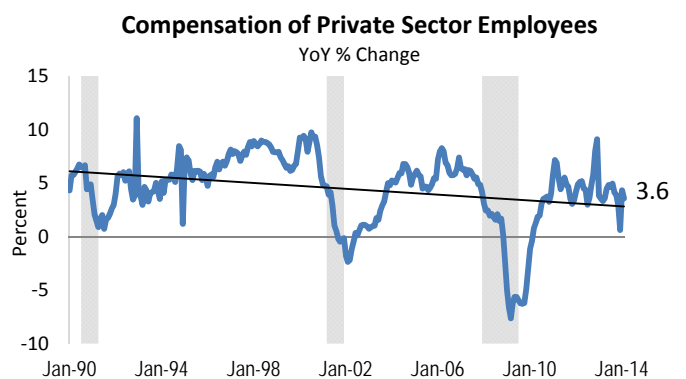
Food Inflation on The Rise



Source: U.S. Bureau of Labor Statistics

The Federal Reserve, which has been concerned about inflation being too low, would welcome a little more inflation. However, energy and food categories are notoriously volatile and prices could reverse as quickly as they have increased. What is a more interesting question is will higher prices and a tighter labor market start to prompt employers to increase nominal wages. So far there is little sign of it in the wage data, though the April Beige Book report did mention shortages of skilled labor in many areas of the country. The Dallas district cited several reports of upward wage pressures, and the San Francisco district noted increases for certain occupations and in certain areas.

Nominal Wage Growth Remains Subdued



Source: Bureau of Economic Analysis

Despite these emerging examples of spotty wage increases, we expect the recent spell of inflation will again prove temporary and our outlook remains one of only gradual increases in inflation over the forecast horizon.

Major Economic Indicators

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2013.1	2013.2	2013.3	2013.4	2014.1	2014.2	2014.3	2014.4	2015.1	2015.2	2015.3	2015.4	2012	2013	2014	2015
Real GDP*	1.1	2.5	4.1	2.6	1.0	3.3	3.2	3.3	3.0	3.1	2.8	2.6	2.8	1.9	2.7	3.1
Personal Consumption Expenditures*	2.3	1.8	2.0	3.3	2.4	3.2	3.0	3.1	2.7	2.8	2.6	2.6	2.2	2.0	2.8	2.9
Non-residential Fixed Investment*	-4.6	4.7	4.8	5.7	4.7	4.7	4.5	4.4	4.6	4.8	4.7	4.6	7.3	2.7	4.9	4.7
Private Housing Starts (000s units)	957	869	882	1,008	923	990	1,005	1,030	1,106	1,171	1,173	1,178	783	929	987	1,157
Vehicle Sales (mill. Units, annualized)	15.3	15.5	15.7	15.6	15.6	16.1	16.2	16.3	16.4	16.5	16.7	16.6	14.4	15.5	16.1	16.6
Industrial Production*	4.2	1.9	2.5	4.8	4.4	4.6	4.7	4.5	4.2	4.1	4.1	4.0	3.8	2.9	4.2	4.4
Nonfarm Payroll Employment (mil.)	135.5	136.1	136.6	137.2	137.8	138.4	139.1	139.7	140.4	141.2	141.9	142.6	134.1	136.4	138.7	141.5
Unemployment rate	7.7	7.5	7.2	7.0	6.7	6.6	6.5	6.4	6.3	6.2	6.0	5.9	8.1	7.4	6.6	6.1
Consumer Price Index* (percent)	1.2	0.4	2.2	1.1	1.9	1.6	2.0	1.7	1.7	1.7	1.8	1.8	2.1	1.5	1.6	1.8
"Core" CPI* (percent)	2.0	1.4	1.8	1.6	1.6	1.7	1.7	1.8	1.8	1.8	1.8	1.8	2.1	1.8	1.7	1.8
PPI (finished goods)* (percent)	0.8	-1.0	2.3	1.0	3.7	1.7	1.7	1.8	1.5	1.3	1.2	1.3	2.0	1.2	2.0	1.5
Trade Weighted Dollar (Fed BOG, major)	74.8	76.6	76.8	76.0	77.1	77.4	77.9	78.5	79.5	80.0	80.7	81.3	73.6	76.1	77.7	80.4
Crude Oil Prices -WTI (\$ per barrel)	94	94	106	98	98	102	101	101	99	99	99	98	94	98	101	99

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

Financial Data	History				Forecast								Annual Average			
	2013.1	2013.2	2013.3	2013.4	2014.1	2014.2	2014.3	2014.4	2015.1	2015.2	2015.3	2015.4	2012	2013	2014	2015
S & P 500	1,514	1,610	1,675	1,767									1,379	1,643		
Dow Jones Industrial Average	13,994	14,959	15,286	15,722									12,965	15,003		
Federal Funds Rate (effective)	0.15	0.12	0.09	0.09	0.09	0.09	0.09	0.09	0.15	0.25	0.38	0.87	0.14	0.11	0.09	0.41
Treasury-3 Month Bills (yield)	0.09	0.05	0.03	0.06	0.05	0.05	0.05	0.06	0.10	0.20	0.33	0.83	0.09	0.06	0.05	0.37
Treasury-2 Year Notes (yield)	0.26	0.27	0.37	0.33	0.37	0.41	0.54	0.67	1.05	1.12	1.34	1.64	0.28	0.31	0.50	1.29
Treasury-5 Year Notes (yield)	0.82	0.91	1.50	1.44	1.60	1.70	1.75	1.79	2.03	2.24	2.45	2.73	0.76	1.17	1.71	2.36
Treasury-10 Year Notes (yield)	1.95	1.99	2.71	2.74	2.75	2.92	3.06	3.10	3.20	3.38	3.61	3.76	1.80	2.35	2.96	3.49
Treasury-30 Year Notes (yield)	3.13	3.14	3.71	3.79	3.67	3.85	4.00	4.05	4.24	4.40	4.51	4.61	2.92	3.44	3.89	4.44
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.38	3.87	3.25	3.25	3.25	3.44
Libor 3-Mo. U.S. Dollar	0.29	0.28	0.28	0.28	0.24	0.25	0.25	0.26	0.27	0.36	0.60	0.97	0.42	0.28	0.25	0.55
Mortgage-30 Year (yield)	3.50	3.67	4.44	4.29	4.36	4.48	4.67	4.75	4.85	5.03	5.26	5.41	3.66	3.98	4.57	5.14
BAA Corporate (yield)	4.81	4.82	5.40	5.36	5.12	5.20	5.37	5.49	5.50	5.68	5.90	6.06	4.94	5.10	5.30	5.79

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