U.S. Outlook

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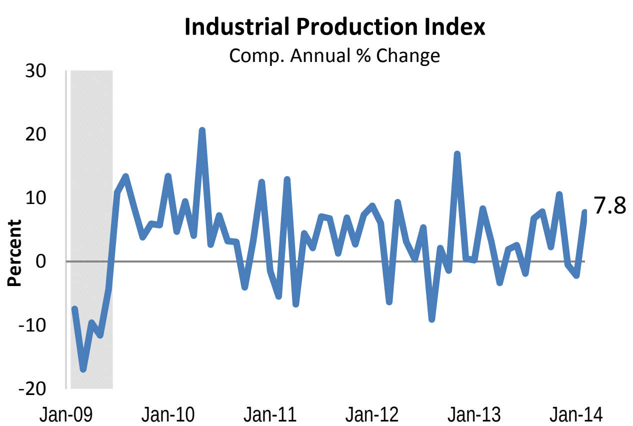
Date	Indicator	For	Estimate	Consensus*	Previous Period
07-Apr-2014	Consumer Credit	FEB	$14.5B	$14.15B	$13.70B
08-Apr-2014	NFIB Small Business Optimism	MAR	92.5	92.3	91.4
08-Apr-2014	JOLTs Job Openings	FEB	N/A	N/A	3,974K
09-Apr-2014	Wholesale Inventories MoM	FEB	0.5%	0.5%	0.7%
09-Apr-2014	Wholesale Trade Sales MoM	FEB	1.0%	1.0%	-1.8%
10-Apr-2014	Initial Jobless Claims	04/04	320K	N/A	326K
10-Apr-2014	Import Price Index MoM	FEB	0.2%	0.2%	0.9%
11-Apr-2014	Producer Price Index	MAR	0.1%	0.1%	-0.1%
11-Apr-2014	PPI Ex. Food and Energy MoM	MAR	0.2%	0.2%	-0.2%
11-Apr-2014	Univ. of Michigan Confidence Index- Prelim.	APR	81.5	81.3	80.0

*Consensus from Bloomberg

Manufacturing Rebound Still On Track

The economic data released over the past month implies further strengthening of the U.S. economy in 2014. The Conference Board's Leading Economic Index suggests solid growth on the horizon. Key components of the index, which usually precedes actual economic activity by one or two quarters; are sending positive signs, including initial jobless claims, the increasing U.S. Treasury yield curve, consumer confidence, manufacturing industrial production and manufacturers' new orders for consumer durable goods and construction materials. Putting all the pieces of the jigsaw puzzle together, one would expect modest growth in the first quarter to swiftly shift into more vibrant growth in the quarters ahead.

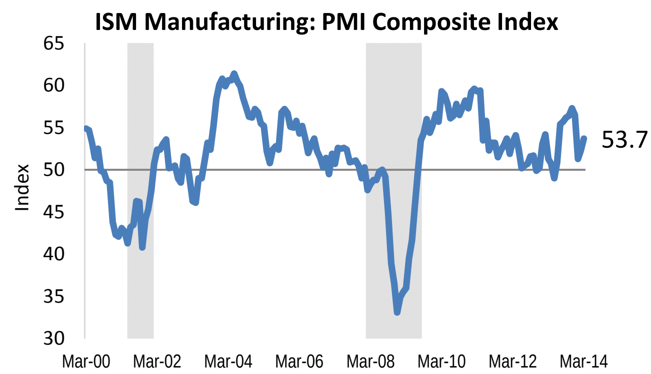
Industrial Production is On The Rebound



Source: Federal Reserve

Industrial production rebounded nicely at a 7.8 percent annualized rate in February, after a disappointing performance at the beginning of the year, largely due to unfavorable weather conditions in the Northeast and Midwest that forced some factories to close temporarily and kept consumers away from the stores.

Manufacturing Sentiment More Encouraging



Source: Institute for Supply Management

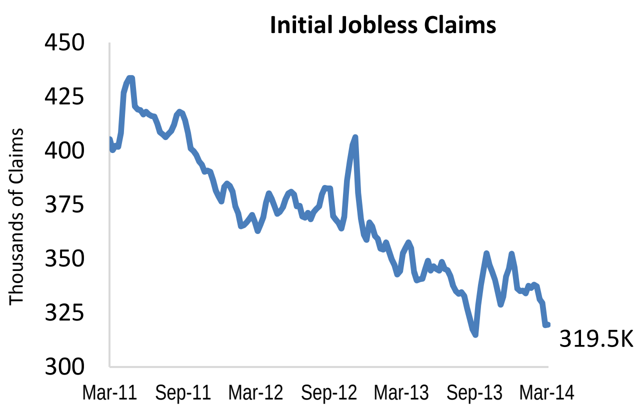
The ISM manufacturing index, released earlier this week, has risen for two consecutive months and reached 53.7 in March, the highest reading so far in 2014. This suggests that manufacturers are becoming more optimistic about the future and may be ready to shift into higher gear. Amplified demand for commercial and industrial loans in

February 2014 paired with upward revisions in Q4 2013 corporate profits support this argument.

Strong gains were also revealed in the ISM production and new orders subcomponents, implying that the overall improvement in recent manufacturing sentiment is here to stay for a while and will translate into increased manufacturing production. A comparable rebound was identified in Philadelphia Federal Reserve Bank Manufacturing PMI that rose to 9 in March after a negative 6.3 in the prior month. Factory orders for February were also up by 1.6 percent beating consensus expectations of more than 50 economists. A revival of manufacturing would be hard to imagine without interconnected improvements in the labor markets.

Fortunately, the drop in initial jobless claims over the past month seems to be pointing to steady improvement in the job market as well. The less volatile 4-week moving average for initial jobless claims held close to its lowest level since September 2013. And continued claims, which lag a week behind initial claims, are at a 2014 trough, signaling further labor market improvements.

Jobless Claims At 6-month Low



Source: U.S. Employment and Training Administration

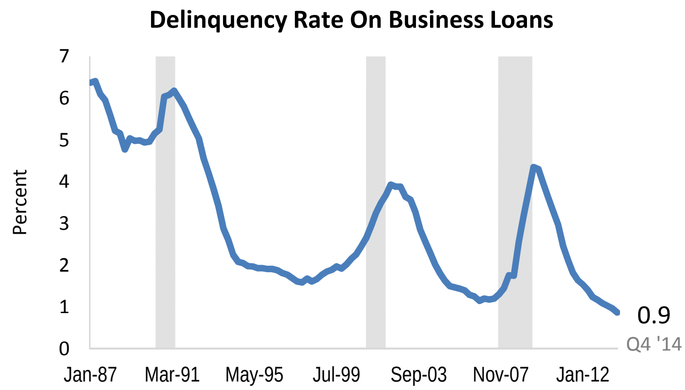
An increase of 19,000 workers in the manufacturing sector in February also beat the expectations of surveyed economists, and manufacturing employment increased for seven consecutive months through February. Moreover, U.S. manufacturing is becoming more globally competitive. Productivity in the manufacturing sector, defined as the real output per hour of all workers, has almost doubled over the last 20 years while it increased only one and a half times for the total nonfarm sector.

Given the positive and strong correlation between manufacturing activity and GDP growth, we are optimistic that revitalization of the manufacturing sector is more than a temporary phenomenon and will eventually spill over into other sectors to embrace the whole economy through inter-industry linkages. Increased specialization in high value and capital-intensive manufacturing is one of the cornerstones of U.S. competitiveness.

Business Delinquency Rates Plunge

In another sign of business strength, delinquency rates on business loans at all commercial banks are at their lowest level since tracking of this data began in January 1987.

Delinquency Rates At All-time Low



Source: Federal Reserve System

Only 0.9 percent of all business loans have been reported as delinquent as of fourth quarter 2014, whereas only four and half years ago the rate was at 4.4 percent. On the one hand, this is an indication of the more cautious approach taken by commercial banks; on the other hand, this is a clear sign of improving economic conditions for U.S. businesses. By looking at the delinquency data more closely, we see that improvement is broad-based and applies to both firms and individuals. The delinquency rates on credit cards and individual consumer loans are also at their lowest points, lower than pre-recession levels.

In contrast, delinquency rates for single-family residential mortgages have gone down only modestly to 8.2 percent in Q4 2013 from 11.3 percent in the first quarter of 2010, according to Federal Reserve data. Despite the positive downward trend for mortgage delinquencies, there is still room for improvement to reach their pre-crisis levels.

The decline and now low-level of overall loan delinquency rates is a positive development that will help bolster confidence and lending in the banking sector. The continued improvement in the U.S. economy that we are forecasting, will likely reduce loan delinquency rates even further in the quarters ahead.

Major Economic Indicators

	History				Forecast								Yr/Yr % chg or Annual Avg.			
Economic Data	**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	1.3	3.0	3.1	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	3.0	3.0	3.1	2.7	2.8	2.6	2.6	2.2	2.0	2.7	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	1,016	943	1,025	1,030	1,050	1,126	1,191	1,193	1,198	783	931	1,012	1,177
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*	4.1	1.2	2.5	5.5	3.0	4.0	4.1	4.3	4.0	4.1	4.1	4.0	3.6	2.6	3.7	4.2
Nonfarm Payroll Employment (mil.)	135.5	136.1	136.6	137.2	137.8	138.4	139.0	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	1.5	1.5	1.6	1.7	1.7	1.7	1.8	1.8	2.1	1.5	1.5	1.7
"Core" CPI* (percent)	2.0	1.4	1.8	1.6	1.6	1.6	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	0.8	4.7	1.7	1.7	1.8	1.5	1.3	1.2	1.3	2.0	1.2	2.2	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	100	99	99	97	97	97	96	94	98	99	97

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

	History				Forecast								Annual Average			
Financial Data	**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	2.78	3.01	3.16	3.20	3.25	3.43	3.66	3.81	1.80	2.35	3.04	3.54
Treasury-30 Year Notes (yield)	3.13	3.14	3.71	3.79	3.72	3.90	4.05	4.10	4.29	4.46	4.56	4.66	2.92	3.44	3.94	4.49
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	4.53	4.72	4.80	4.90	5.08	5.31	5.46	3.66	3.98	4.60	5.19
BAA Corporate (yield)	4.81	4.82	5.40	5.36	5.12	5.25	5.42	5.54	5.55	5.73	5.96	6.11	4.94	5.10	5.33	5.84

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