U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
12-August-2014	NFIB Small Business Optimism	JUL	N/A	N/A	95.0
12-August-2014	JOLTS Job Openings	JUN	N/A	N/A	4,635
12-August-2014	Monthly Budget Statement	JUL	N/A	-100.0B	70.5B
13-August-2014	Retail Sales Advance MoM	JUL	0.2%	0.3%	0.2%
13-August-2014	Retail Sales Ex. Auto MoM	JUL	0.3%	0.4%	0.4%
13-August-2014	Business Inventories	JUN	0.4%	0.4%	0.5%
14-August-2014	Initial Jobless Claims	08/09	295K	N/A	289K
14-August-2014	Import Price Index MoM	JUL	-0.5%	-0.4%	0.1%
15-August-2014	Empire State Manufacturing Index	AUG	22.0	20.0	25.6
15-August-2014	PPI Final Demand MoM	JUL	0.1%	0.1%	0.4%
15-August-2014	PPI Ex. Food & Energy MoM	JUL	0.2%	0.2%	0.2%
15-August-2014	Industrial Production MoM	JUL	0.4%	0.3%	0.2%
15-August-2014	Capacity Utilization MoM	JUL	79.2%	79.2%	79.1%
15-August-2014	Univ. of Michigan Confidence	AUG	83.0	82.8	81.8

*Consensus from Bloomberg

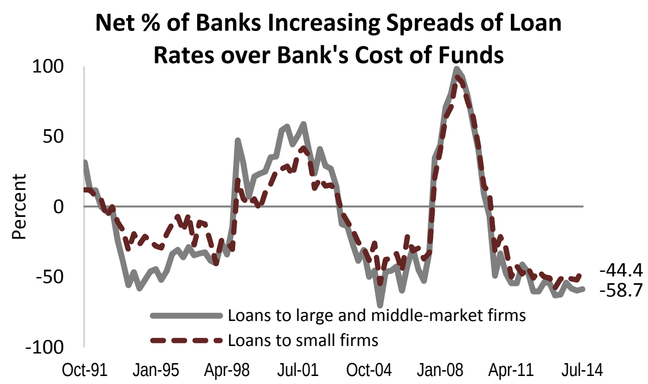
Unclogging the Credit Channel

Ever since the financial crisis hit in 2007, the U.S. bank credit channel has been clogged. Endemic weak demand for credit and tightened lending standards have been contributing to lackluster economic growth. The most recent results from the Fed's Senior Loan Officer Survey for Q3 suggest the era of clogged bank credit may be ending. The survey reveals a broad-based easing of lending standards by commercial banks on the one hand and rising demand for credit from both consumers and businesses on the other. The survey results are another positive sign of the health of the U.S. banking sector, strength of the U.S. consumer, and a growing willingness of firms of all sizes to invest once again in their businesses. The Fed describes the increased demand for credit products as a "broad-based pickup in loan demand", a bold statement that we haven't seen in this report for a long time.

According to the survey results, American consumers now have fewer obstacles to obtain a wide-range of credit products even with the same FICO score they had a year or two ago. And firms, both large and small, have more banks competing with each other to finance their business investment projects. Thus, banks have further eased some of their lending standards and terms on their loans to stay competitive in the marketplace.

For commercial and industrial (C&I) loans, a majority of banks reported a substantial drop of credit-line costs; a reduction of spreads over the bank's cost of funds; and decreased use of interest rate floors on balances.

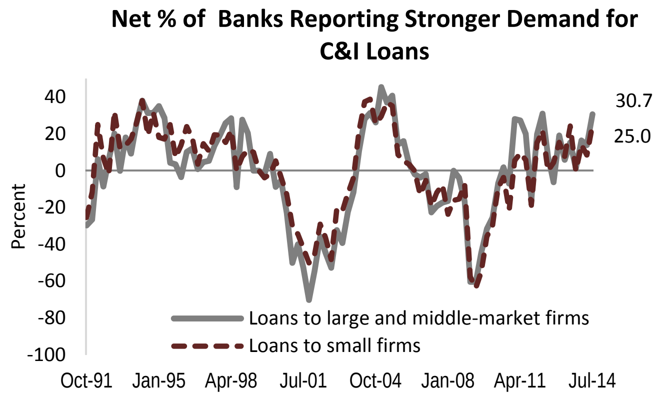
Banks Decreasing Rate Spreads for Firms of all Sizes



Source: Federal Reserve System

In addition, a considerable number of banks saw increasing demand for C&I loans to finance equipment purchases, plant investment, and mergers and acquisitions. Respondents reported that C&I loan demand is being fueled by diminishing uncertainty in the economy and growing business confidence.

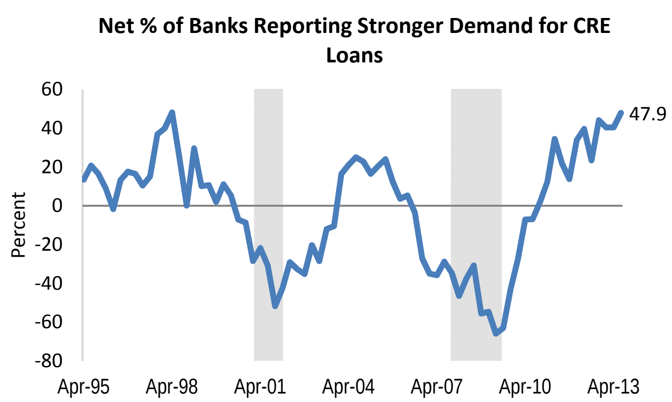
Much Greater Demand for C&I Loans in July



Source: Federal Reserve System

In contrast, bank lending standards remain tight for construction and land development loans. Yet that isn't holding back demand for Commercial Real Estate (CRE) loans. The survey results demonstrated continued improvement in loan demand for all types of CRE loans in the Q3 2014 report. At 47.9 percent, CRE loan demand, on net, is at its strongest since April 1998.

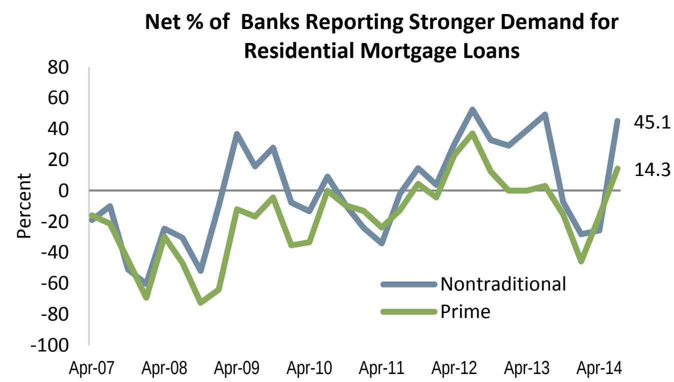
Strongest CRE Loan Demand in 16 Years



Source: Federal Reserve System

Trends in residential real estate lending are also encouraging. Banks reported a moderate easing of their lending standards on prime residential mortgages and banks reported stronger demand for both prime and nontraditional mortgage products for the first time since July 2013.

Nontraditional Loan Demand Outpaces Demand for Prime

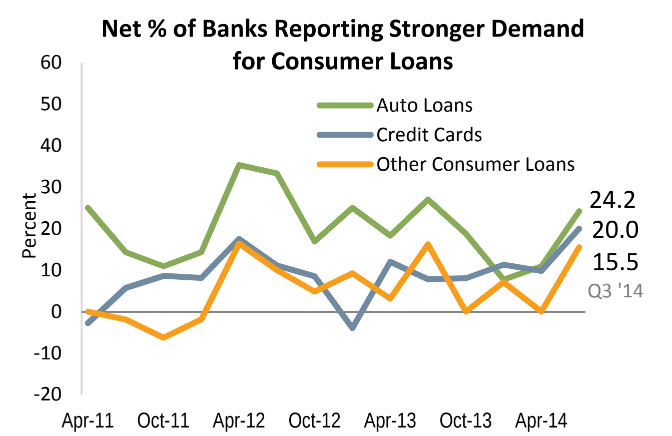


Source: Federal Reserve

The survey also asked participating banks about the impact of the new Ability-to-Repay and Qualified Mortgage Rule (ATR/QM) that went into effect at the beginning of the year. The rule implements a provision in the Dodd-Frank Act that requires mortgage originators to assess a consumers' ability to repay a mortgage and restrains a borrower's debt-to-income ratio to a 43 percent threshold. While the ATR/QM rule had only a slight effect on approval rates of prime conforming loans due to safe-harbor provisioning, a majority of the respondents noted that the rule did seriously reduce approval rates on prime-jumbo home-purchase mortgages. In short, the new ATR/QM rule likely contributed to the weaker than expected housing activity so far this year.

On the consumer side, the improvement in loan demand in the latest survey appeared to be more broad-based then we have seen in years. A rising percentage of banks indicated increased demand for auto loans, credit cards, and other consumer loans. A better functioning bank credit channel is good news for everyone, and will help reinforce and sustain this period of above trend U.S. growth.

All 3 Types of Consumer Loans Show Stronger Demand



Source: Federal Reserve

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*	2.7	1.8	4.5	3.5	-2.1	4.0	3.0	3.0	3.0	3.0	2.9	2.9	2.3	2.2	2.1	3.1
Personal Consumption Expenditures*	3.6	1.8	2.0	3.7	1.2	2.5	3.2	3.1	2.9	2.8	2.7	2.7	1.8	2.4	2.4	2.9
Non-residential Fixed Investment*	1.5	1.6	5.5	10.4	1.6	5.5	6.0	5.3	4.9	4.9	4.9	4.9	7.2	3.0	5.2	5.2
Private Housing Starts (000s units)	947	865	882	1,025	925	980	1,010	1,040	1,076	1,121	1,143	1,155	784	930	989	1,124
Vehicle Sales (mill. Units, annualized)	15.3	15.5	15.7	15.6	15.6	16.5	16.6	16.8	16.9	17.0	17.1	17.0	14.4	15.5	16.4	17.0
Industrial Production*	4.2	1.9	2.5	4.9	3.9	5.5	5.3	5.0	4.5	4.4	4.4	4.3	3.8	2.9	4.3	4.8
Nonfarm Payroll Employment (mil.)	135.5	136.1	136.6	137.2	137.8	138.5	139.2	140.0	140.7	141.4	142.2	142.9	134.1	136.4	138.9	141.8
Unemployment rate	7.7	7.5	7.2	7.0	6.7	6.2	6.0	5.9	5.8	5.7	5.6	5.5	8.1	7.4	6.2	5.7
Consumer Price Index* (percent)	1.2	0.4	2.2	1.1	1.9	3.7	2.2	2.0	1.8	1.8	1.9	1.9	2.1	1.5	2.1	2.0
"Core" CPI* (percent)	2.0	1.4	1.8	1.6	1.6	3.0	2.0	1.9	1.8	1.8	1.8	1.8	2.1	1.8	2.0	1.9
PPI (finished goods)* (percent)	0.8	-1.0	2.3	1.2	3.7	3.9	3.0	2.4	1.6	1.4	1.3	1.3	2.0	1.2	2.6	2.0
Trade Weighted Dollar (Fed BOG, major)	74.8	76.6	76.8	76.0	77.1	76.6	76.8	77.0	79.0	79.5	80.2	80.8	73.6	76.1	76.9	79.9
Crude Oil Prices -WTI ($ per barrel)	94	94	106	98	98	103	101	100	99	99	99	98	94	98	101	99

*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	1,769	1,835	1,900							1,379	1,644		
Dow Jones Industrial Average	13,994	14,959	15,286	15,736	16,177	16,604							12,965	15,010		
Federal Funds Rate (effective)	0.15	0.12	0.09	0.09	0.07	0.07	0.08	0.08	0.10	0.25	0.38	0.87	0.14	0.11	0.08	0.40
Treasury-3 Month Bills (yield)	0.09	0.05	0.03	0.06	0.05	0.04	0.02	0.04	0.05	0.20	0.33	0.83	0.09	0.06	0.04	0.35
Treasury-2 Year Notes (yield)	0.26	0.27	0.37	0.33	0.37	0.38	0.47	0.60	1.00	1.06	1.29	1.59	0.28	0.31	0.46	1.24
Treasury-5 Year Notes (yield)	0.82	0.91	1.50	1.44	1.60	1.63	1.65	1.80	1.93	2.14	2.35	2.63	0.76	1.17	1.67	2.26
Treasury-10 Year Notes (yield)	1.95	1.99	2.71	2.74	2.77	2.69	2.60	2.85	3.05	3.22	3.46	3.61	1.80	2.35	2.73	3.34
Treasury-30 Year Notes (yield)	3.13	3.14	3.71	3.79	3.68	3.55	3.42	3.62	3.81	4.01	4.11	4.21	2.92	3.44	3.57	4.04
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	0.26	0.24	0.24	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	4.28	4.20	4.40	4.55	4.74	4.98	5.12	3.66	3.98	4.31	4.85
BAA Corporate (yield)	4.81	4.82	5.40	5.36	5.12	4.85	4.82	4.94	5.10	5.28	5.50	5.66	4.94	5.10	4.93	5.39

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