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U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
18-August-2014	NAHB Housing Market Index	AUG	54	53	53
19-August-2014	Consumer Price Index	JUL	0.1%	0.1%	0.3%
19-August-2014	CPI Ex. Food and Energy	JUL	0.2%	0.2%	0.1%
19-August-2014	Housing Starts	JUL	970K	970K	893K
19-August-2014	Building Permits	JUL	1,000K	1,000K	973K
21-August-2014	Initial Jobless Claims	08/16	300K	N/A	311K
21-August-2014	Philadelphia Fed Business Outlook	AUG	20.5	18.5	23.9
21-August-2014	Existing Home Sales	JUL	4.98M	5.00M	5.04M
21-August-2014	Leading Index	JUL	0.6%	0.6%	0.3%

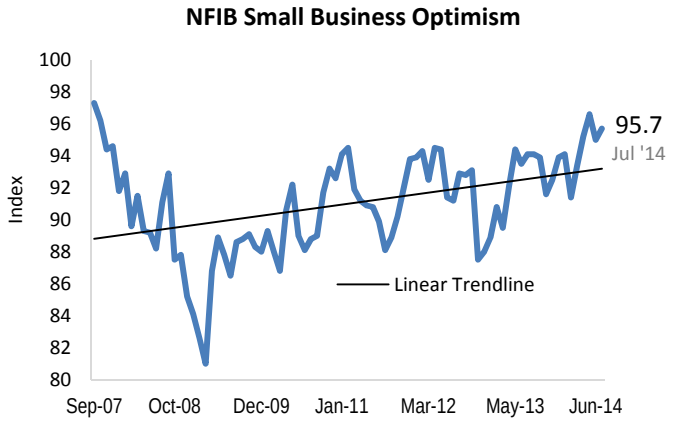
*Consensus from Bloomberg

Fragile or Not Fragile? That is the Question

The greatest question we should be asking ourselves is whether or not the economic recovery is still fragile, and whether consumers and businesses are feeling confident entering into the second half of 2014.

This week's data were a mosaic of strong and sluggish economic indicators, still signaling some lingering weaknesses in the economy. On one hand, we have improving optimism coming from small business, robust industrial production growth, and greater-than-expected job openings and labor turnover (JOLTs) reported by the Bureau of Labor Statistics (BLS); on the other hand, we saw muted retail sales for July that are vital for sustained economic growth in the future.

Small Business Optimism Still Trending Up



Source: National Federation of Independent Business

The Small Business Optimism Index rose moderately to 95.7 in July from 95.0 a month ago. The July reading was the second highest since October 2007, continuing the recent positive trend. The labor market component of the small business optimism report reveals that a net 13 percent of small business owners plan to hire more rather than fewer workers, the highest reading on this measure since September 2007. This is a clear indication that small businesses are more optimistic about the near future, especially with a net 23 percent of owners planning to increase capital spending in the next three to six months, and a net 10 percent of owners describing now as a good time to expand facilities.

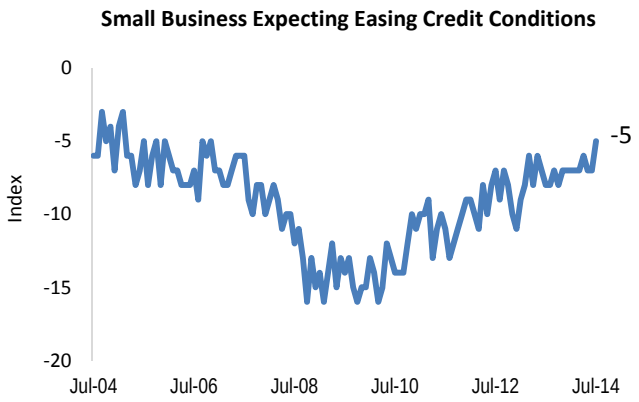
Future of the U.S. Labor Market Appears Promising

Source: National Federation of Independent Business

On the credit side, 30 percent of small business owners indicated that all their credit needs are being met, with only 6 percent of the respondents reporting that their

credit needs were not fully met, and only 2 percent pointed out that financing was their greatest challenge. The net percent of small business owners anticipating easing of credit conditions during next three months was negative 5 percent, a 2 percentage point improvement from a month ago and the most promising reading since 2006.

Credit Conditions are Improving for Small Businesses

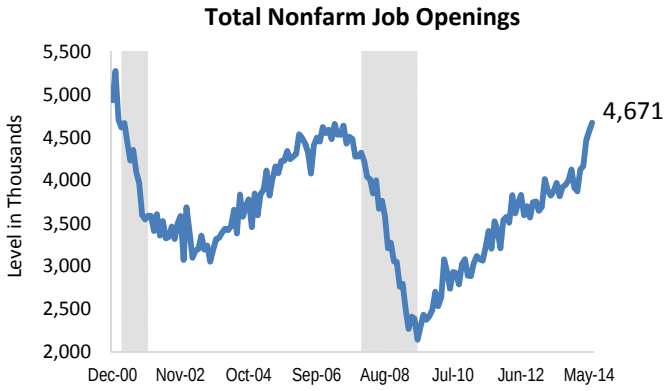


Source: National Federation of Independent Business

It's a good sign for the economy that banks are easing credit standards and terms to small businesses, which employ 55 percent of the nation's private workforce, according to U.S. Small Business Administration.

Beating economists' consensus expectations of 4.6 million, job openings rose to a 13-year high of 4.67 million from a downwardly revised 4.58 million a month ago. On a year-over-year basis, job openings climbed an impressive 17.6 percent. Job openings are a top labor market indicator on the Fed's watch list to measure the health of labor markets and navigate monetary policy. The JOLTs survey monitors dynamics of monthly nonfarm payrolls, including hires, separations, quits and layoffs. In June, new hires increased to 4.83 million, accelerating the pace of hiring to 9.3 percent from a year ago compared to 4.3 percent last month.

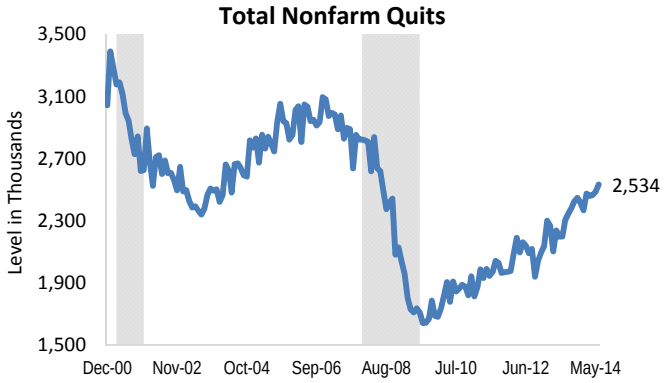
Highest Job Openings Level Since February 2001



Source: U.S. Bureau of Labor Statistics

The number of quits also increased to 2.53 million, demonstrating people's willingness to leave their current jobs for better opportunities. The quits rate is a positive and forward-looking labor market indicator, showing workers' confidence in finding a new job. Another piece of positive information from June's JOLTs report is that the level of layoffs and discharges of employees in June was down by 34,000 workers to 1.62 million.

Quits Are Trending Up To a 6-Year High in June



Source: U.S. Bureau of Labor Statistics

Unfortunately, hiring gains in June didn't reinforce consumer spending in July, which stayed disappointingly unchanged, according to the latest retail sales report. Consumer spending comprises over two-thirds of the national GDP and is vital for the further recovery and growth of our economy. It appears consumers didn't demonstrate much enthusiasm to buy something last month. The weakest spending occurred at department stores, contracting 0.7 percent. In contrast, health and personal care products, clothing, and miscellaneous retailers like florists, used merchandise, and pet stores showed the biggest gains last month. With two months left in the quarter, we remain optimistic about the consumer's ability to power this recovery forward.

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	1,000	1,040	1,076	1,121	1,143	1,155	784	930	986	1,124
Vehicle Sales (mill. Units, annualized)	15.3	15.5	15.7	15.6	15.6	16.5	16.7	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	100	99	99	99	99	98	94	98	100	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	0.03	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	0.50	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	1.68	1.80	1.93	2.14	2.35	2.63	0.76	1.17	1.68	2.26
Treasury-10 Year Notes (yield)	1.95	1.99	2.71	2.74	2.77	2.69	2.60	2.80	3.00	3.17	3.41	3.56	1.80	2.35	2.72	3.29
Treasury-30 Year Notes (yield)	3.13	3.14	3.71	3.79	3.68	3.55	3.37	3.57	3.76	3.96	4.06	4.16	2.92	3.44	3.54	3.99
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