

U.S. Outlook

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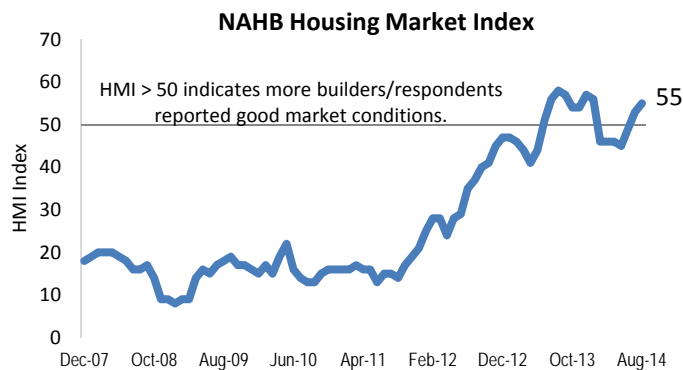
Date	Indicator	For	Estimate	Consensus*	Previous Period
25-August-2014	New Home Sales	JUL	430K	425K	406K
26-August-2014	Durable Goods Orders	JUL	18.0%	7.5%	1.7%
26-August-2014	Durables Ex. Transportation	JUL	0.6%	0.4%	1.9%
26-August-2014	FHFA House Price Index MoM	JUN	0.4%	0.3%	0.4%
26-August-2014	S&P/Case-Shiller 20 City MoM	JUN	0.10%	-0.10%	-0.31%
26-August-2014	Consumer Confidence Index	AUG	89.5	89.0	90.9
28-August-2014	GDP Annualized QoQ- 2 nd Release	Q2	3.9%	3.9%	4.0%
28-August-2014	GDP Price Index- 2 nd Release	Q2	2.0%	2.0%	2.0%
28-August-2014	Initial Jobless Claims	08/23	302K	N/A	298K
28-August-2014	Pending Home Sales MoM	JUL	0.7%	0.5%	-1.1%
29-August-2014	Personal Income	JUL	0.3%	0.3%	0.4%
29-August-2014	Personal Spending	JUL	0.2%	0.2%	0.4%
29-August-2014	PCE Deflator MoM	JUL	0.0%	0.1%	0.2%
29-August-2014	PCE Core MoM	JUL	0.1%	0.1%	0.1%
29-August-2014	Chicago Purchasing Managers Index	AUG	58.0	56.5	52.6
29-August-2014	Univ. of Michigan Confidence Index- Final	AUG	80.2	80.1	79.2

*Consensus from Bloomberg

Is Housing Getting Back On Its Feet?

A spate of housing indicators released this week revealed some positive developments for the U.S. housing market that has been noticeably absent for much of this summer. Homebuilder confidence is rebounding faster than expected. The National Association of Homebuilders' (NAHB) housing market index beat consensus expectations in August, increasing 2 points from July to 55, nearing levels seen late last year.

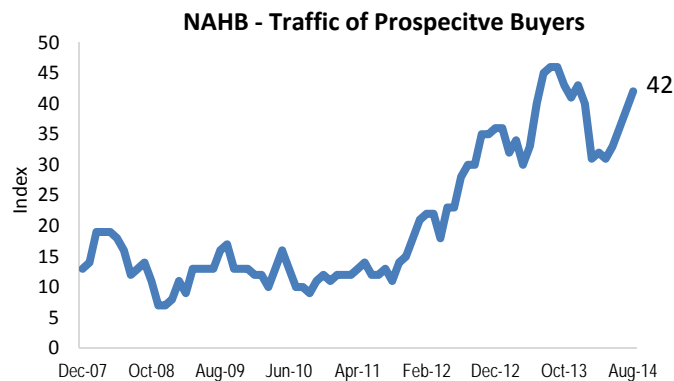
Homebuilder Confidence Reemerging from Grey Clouds



Source: National Association of Home Builders

The gains are broad-based. All components of the NAHB index improved over the last month, including future sales, present sales, and home buyers traffic. The buyer-traffic index jumped 3 points this month to 42, the highest reading so far in 2014 and well above the lows seen this spring. Improving labor market conditions and low mortgage rates are finally making home buying more attractive. We should see further interest from prospective buyers once real wage growth improves.

Home Builders More Optimistic About Buyers

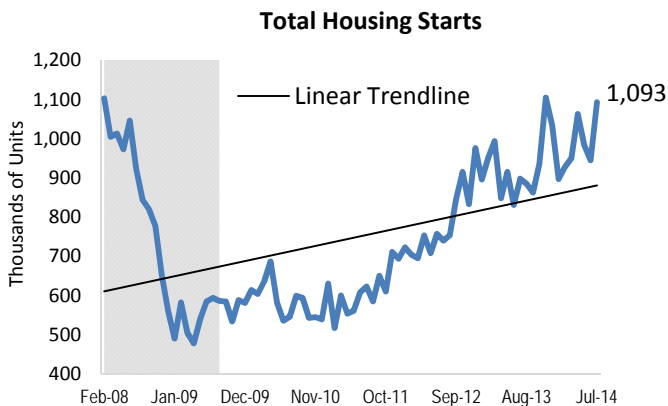


Source: National Association of Home Builders

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Another important piece of this week's housing jigsaw-puzzle includes July housing starts, which jumped to an annualized 1.093 million units up from an upwardly revised 0.945 million units a month ago. This was a remarkable 15.7 percent monthly increase, crushing analysts' expectations of 0.965 million units. This expansion was led by multifamily housing units that climbed 44.7 percent from a year ago compared to a more moderate 10.1 percent increase in single-family units. We bumped up our forecast for private housing starts this year to 1.015 million, a 9.1 percent increase from 2013, based on the current higher-than-expected reading and upwardly revised historical figures.

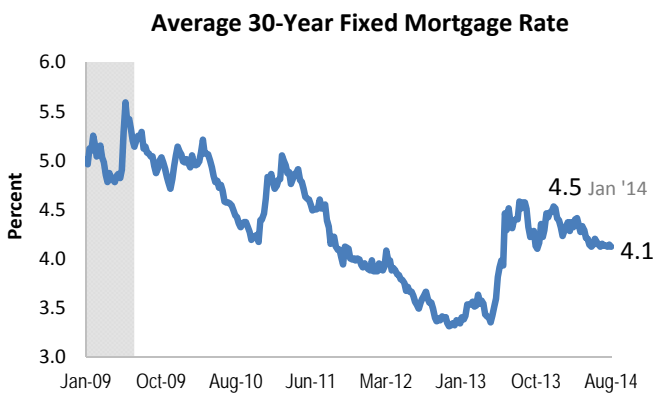
Housing Starts Are Second Highest Since February 2008



Source: U.S. Census Bureau

On the building permits side, we also saw renewed momentum in multifamily units that jumped 21.5 percent in July from a month ago versus single-family permits that only ticked up 0.9 percent. Clearly, homebuilders find multi-family housing projects more profitable and easier to execute in the current marketplace. Declining mortgage rates, however, have so far failed to launch a mortgage purchase or refinance applications recovery. Cash buyers still appear to be a key driver of demand.

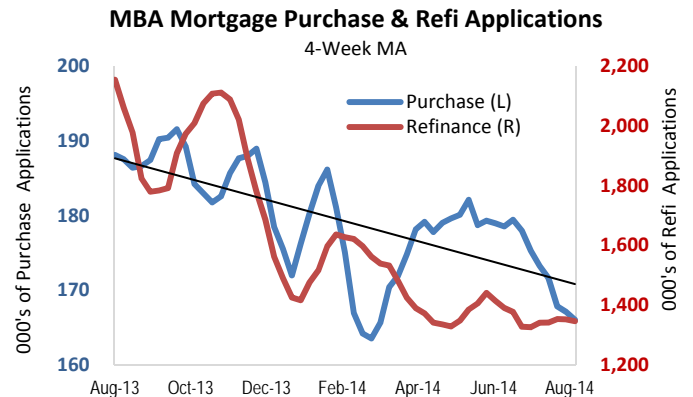
Mortgage Rates at 10-Month Low



Source: Freddie Mac

The four-week moving average of purchase applications has been deteriorating for the last three months and is still down 11.7 percent from a year ago. The refinancing component of applications is down 37.5 percent over the same period. However, we remain optimistic that lower interest rates, rising personal incomes and job growth, easing lending standards, and expectations of a possible rate increases in the second half of 2015 will boost the demand for purchase applications in the second half of 2014.

Purchase Applications Muted on Lower Interest Rates



Source: Mortgage Brokers Association

This week's positive housing narrative was rounded out by greater-than-expected July existing home sales that marched up to a 10-month high of 5.15 million units. This was up 2.4 percent from June's sales pace, but still 4.3 percent shy of last year's July sales.

Home Sales at 10-month High



Source: National Association of Realtors

Recovering homebuilder confidence, buyer-traffic, existing sales and starts point to a housing market expansion that is catching its second wind. The second half of 2014 should see a continuation of this trend as job and income prospects improve and interest rates remain historically low for prospective buyers.

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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*	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	2.6	2.9	2.9	2.8	2.7	2.7	1.8	2.4	2.3	2.8
Non-residential Fixed Investment*	1.5	1.6	5.5	10.4	1.6	5.5	5.6	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	997	1,040	1,096	1,100	1,121	1,143	1,155	784	930	1,015	1,130
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.

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	1,769	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