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U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
08-September-2014	Consumer Credit	JUL	$16.3B	$17.2B	$17.3B
09-September-2014	NFIB Small Business Optimism	AUG	96.5	95.9	95.7
09-September-2014	JOLTS Job Openings	JUL	N/A	N/A	4,671K
10-September-2014	Wholesale Inventories MoM	JUL	0.5%	0.5%	0.3%
11-September-2014	Initial Jobless Claims	09/06	304K	N/A	302K
11-September-2014	Monthly Budget Statement	AUG	N/A	-$132.5B	-$94.6B
12-September-2014	Retail Sales Advance MoM	AUG	0.6%	0.3%	0.0%
12-September-2014	Retail Sales Ex. Auto MoM	AUG	0.4%	0.2%	0.1%
12-September-2014	Import Price Index MoM	AUG	-1.1%	-0.9%	-0.2%
12-September-2014	Univ. of Michigan Confidence Index	SEP	84.0	83.0	82.5
12-September-2014	Business Inventories	JUL	0.5%	0.5%	0.4%

*Consensus from Bloomberg

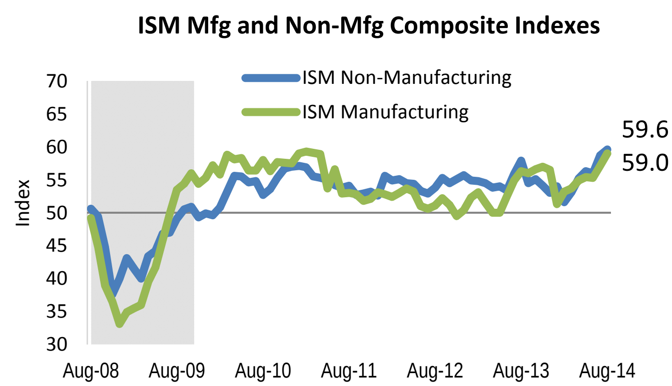
Good Vibes Here Policy Easing There

The first round of U.S. economic releases for August have largely beaten analyst expectations, suggesting that much of the economic momentum seen in the second quarter will be sustained in the third. We maintain our U.S. Real GDP forecast at 3.1 percent for the third quarter. The highlights have been many, including the ISM Manufacturing and Non-Manufacturing indexes and vehicle sales for August. As a bonus July construction spending and the U.S. trade balance came in better than expected, implying a little more growth occurred in the second quarter. Tracking estimates peg second quarter U.S. GDP growth closer to 4.3 percent.

ISM Manufacturing and Non-Manufacturing indexes jumped again in August to the best levels seen in years. The ISM Non-manufacturing index is particularly strong, rising to a level not seen since 2005. Services businesses reported that business activity strengthened in August, while new orders and hiring remained robust. This is good news for the labor market outlook, since most new jobs come from the services sector.

Prices paid softened a bit on lower energy prices, and both service and manufacturing businesses reported that new export orders were being held back by slowing global growth.

ISM Purchasing Manager Indexes Soar in August

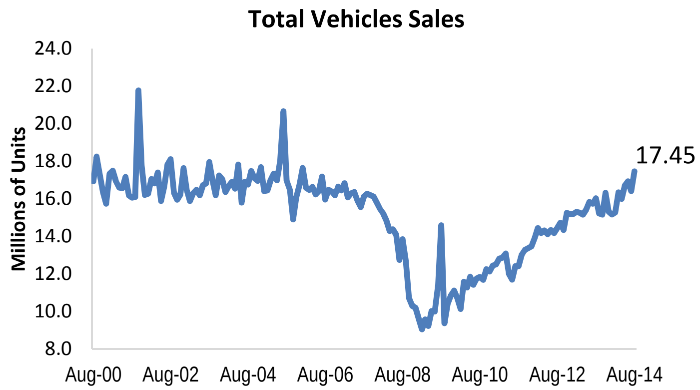


Source: Institute for Supply Management

While consumers were noticeably absent in July, if August vehicle sales are any indication, the U.S. consumer is set to come roaring back in August. August vehicle sales blew past analyst expectations to 17.5 million units on an annualized basis from 16.4 million units in July, a 6.4 percent monthly increase and 5.0 percent above analyst estimates for August. Domestic and total vehicle sales are both running about 5.0 percent above last year's pace year-to-date with obvious strength coming from light truck sales that are up 9.1 percent year-to-date.

Solid wealth gains, and rising consumer confidence, are giving consumers the backbone to go ahead with new vehicle purchases. It doesn't hurt that financing costs remain historically low and bank's willingness to lend in the space remains high.

Robust Vehicle Sale in August Signal Consumers Still Healthy

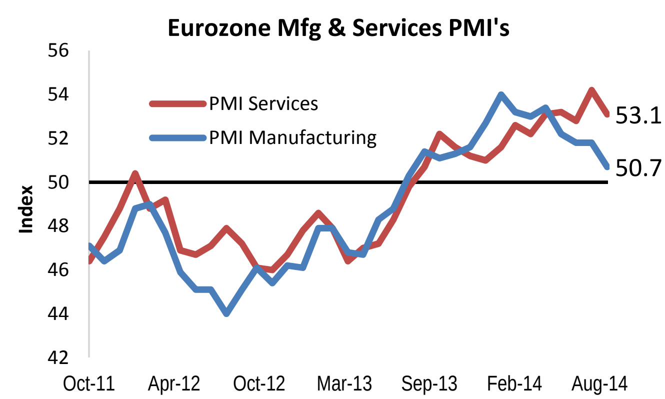


Source: BEA

Global Gloom

Globally, the economic picture is much gloomier. Brazil's Services PMI fell to 49.2 in August; contraction territory. The economic data out of the Eurozone remains troubling. Final Markit Service PMI's for August were weaker than expected with large drops in Germany, France, and Spain.

Eurozone Purchasing Managers Indexes Sink In August



Source: Bloomberg

To add insult to injury, Eurozone July retail sales slumped 0.4 percent. The ECB just cut its forecast for Eurozone growth this year and next to 0.9 and 1.6 percent from June's forecast of 1.0 and 1.7 percent. The ECB inflation forecast for the Eurozone was also sliced to 0.6 percent for 2014 from 0.7 forecast in June.

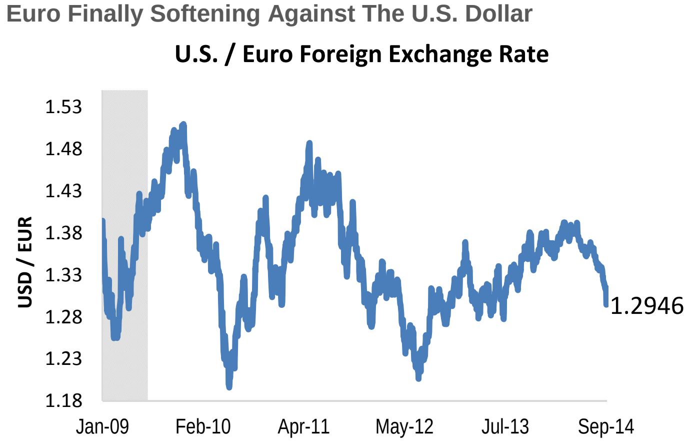
The ECB took more action this week to stem rising deflationary pressures and try to stimulate credit growth in Europe. Surprising consensus expectations for no additional policy action, the ECB cut their official policy rate, the main refinancing rate by 10 basis points to 0.05 percent. The deposit rate, which was already set at a negative 0.1 percent, was pushed even lower to a negative 0.2 percent. Two year sovereign bond yields in Germany, France, Switzerland, and Netherlands have turned negative. The ECB is effectively charging European banks 0.2 percent to hold deposits on reserve at the European Central Bank, punishing banks that are holding reserves and not lending them out.

The ECB also signaled it is moving ahead with its plans to purchase Asset Backed Securities (ABS) in October and announced a new covered bond purchase program.

Even so, the ECB's actions fall well short of a full-blown QE program that the Federal Reserve and Bank of Japan have pursued in recent years and so far do not include purchases of government bonds. The economic risks for Europe remain squarely on the downside in my opinion. A still timid ECB is probably behind the curve on deflation and recent action could once again fail to ignite stronger growth.

On the bright-side, the Euro has weakened 3.5 percent against the dollar in the past month and 5.7 percent over the past six months, which should help to stabilize prices of tradable goods and may help stimulate Eurozone exports down the road. The ECB is pivoting in the right direction, but the pace and the scope of the action may not be enough, especially if the conflict in Ukraine and sanctions on Russia continue to intensify.

Euro Finally Softening Against The U.S. Dollar



Source: Federal Reserve System

The good vibes continued for the U.S. economy in August. Strengthening PMIs for manufacturers and services, suggest economic activity remained vibrant last month. Signals coming from the global economy have not yet reciprocated, and Eurozone economic conditions remain moribund. The ECB is now fully aware of the risk, but its actions, while somewhat more aggressive than analysts expected at the September monetary policy meeting, may not yet be strong enough to materially alter the current economic environment.

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	4.2	3.1	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	2.1	2.9	2.9	2.8	2.7	2.7	1.8	2.4	2.3	2.7
Non-residential Fixed Investment*	1.5	1.6	5.5	10.4	1.6	8.4	7.4	5.5	4.9	4.9	4.9	4.9	7.2	3.0	6.0	5.6
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	17.0	17.1	17.2	17.3	17.4	17.4	14.4	15.5	16.6	17.3
Industrial Production*	4.2	1.9	2.5	4.9	3.9	5.5	5.5	5.0	4.5	4.4	4.4	4.3	3.8	2.9	4.4	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	98	96	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	1,769	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	1.65	1.77	1.93	2.14	2.35	2.63	0.76	1.17	1.66	2.26
Treasury-10 Year Notes (yield)	1.95	1.99	2.71	2.74	2.77	2.69	2.50	2.70	3.00	3.17	3.41	3.56	1.80	2.35	2.67	3.29
Treasury-30 Year Notes (yield)	3.13	3.14	3.71	3.79	3.68	3.55	3.30	3.50	3.76	3.96	4.06	4.16	2.92	3.44	3.51	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	4.70	4.82	5.00	5.18	5.40	5.56	4.94	5.10	4.87	5.29

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