U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
22-September-2014	Chicago Fed National Activity Index	AUG	N/A	N/A	0.39
22-September-2014	Existing Home Sales	AUG	5.20M	5.19M	5.15M
23-September-2014	FHFA House Price Index MoM	JUL	0.3%	0.5%	0.4%
23-September-2014	Richmond Fed Mfg Index	SEP	N/A	10	12
24-September-2014	New Home Sales	AUG	425K	430K	412K
25-September-2014	Initial Jobless Claims	09/20	N/A	295K	280K
25-September-2014	Durable Goods Orders	AUG	-16.5%	-17.1%	22.6%
25-September-2014	Durables Ex. Transportation	AUG	0.5%	0.5%	-0.7%
26-September-2014	GDP Annualized QoQ - third release	Q2	4.6%	4.5%	4.2%
26-September-2014	GDP Price Index – third release	Q2	2.1%	2.1%	2.1%
26-September-2014	Univ. of Michigan Confidence - Final	SEP	84.0	85.0	84.6

*Consensus from Bloomberg

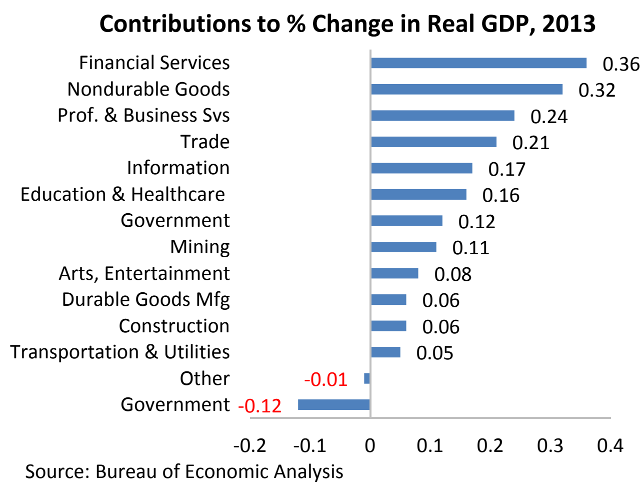
Financial Sector Catches the Wave of Growth

We already knew the U.S. economy grew last year, but we just got some interesting detail by industry and at the metro level on where growth is occurring. On Tuesday, the Bureau of Economic Analysis (BEA) published its first estimate of 2013 and revised 2001-2012 real GDP figures by metropolitan area that revealed broad-based economic growth in 77 percent or 292 of the 381 metro areas in the U.S.

Interestingly, as the solid housing and auto recovery continued across the country in 2013, **finance, insurance, real estate, rental and leasing industries** were the largest contributors to growth, contributing 0.36 percentage points to the U.S. metro area GDP growth, followed by nondurable-goods manufacturing (0.32) and professional and business services (0.24). The construction sector itself added only a very modest 0.06 percentage points to growth, which indicates the weak recovery in homebuilding compared to past economic recoveries.

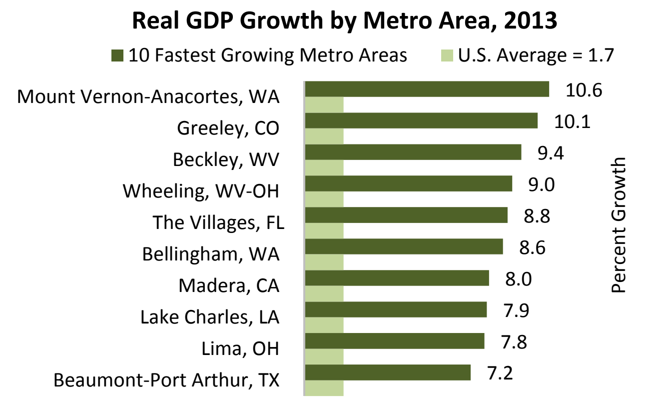
Taking a closer look at the financial services sector, the sector contributed to growth in 268 metropolitan areas and added over one percentage point to real GDP growth in 55 metro areas. The government (-0.12) and other services (-0.01) sectors were the only negative contributors to the metro area GDP growth last year. Fiscal austerity was holding back growth in many metropolitan areas last year.

Financial Services Contributed 21 Percent to GDP Growth



The primary economic driver in the fastest growing metro, Mount Vernon-Anacortes, Washington with 10.6 percent read GDP growth was petroleum and coal products manufacturing, contributing 8.09 percentage points to area growth, whereas economic expansion in Greeley, Colorado at 10.1 percent, the second fastest growing region, was due to expansion in construction, trade, and financial services sectors. Strong economic growth in Beckley and Wheeling, West Virginia metropolitan areas was essentially driven by coal mining and related supportive activities that positively impacted other sectors of the local economy ranging from apartment rentals to restaurants and retail stores.

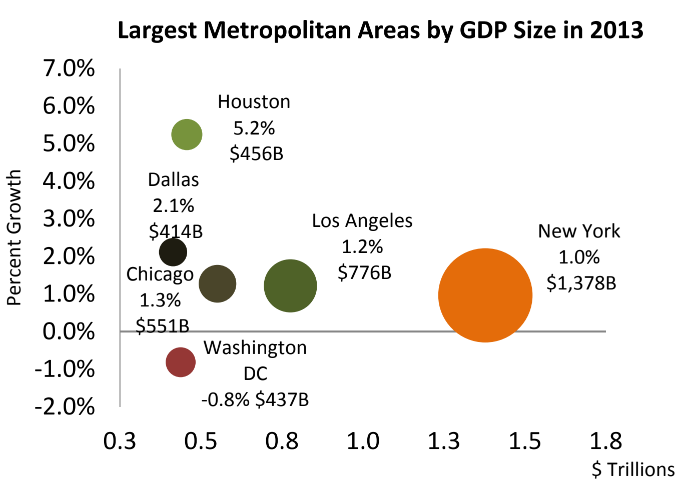
171 Metropolitan Areas Exceeding the Average U.S. Growth



Source: Bureau of Economic Analysis

Larger metropolitan areas aren't generally faring as well. Among the largest metropolitan areas, economy's larger than $400 billion in regional economic output, only Houston and Dallas outperformed the nation's average real GDP last year. New York, Los Angeles, and Chicago demonstrated only modest growth, falling behind the nation. Due to federal spending cuts in 2013, the Washington DC metro economy actually shrank by 0.8 percent.

Six Metro Areas with over $400B GDP Make 29% of GDP



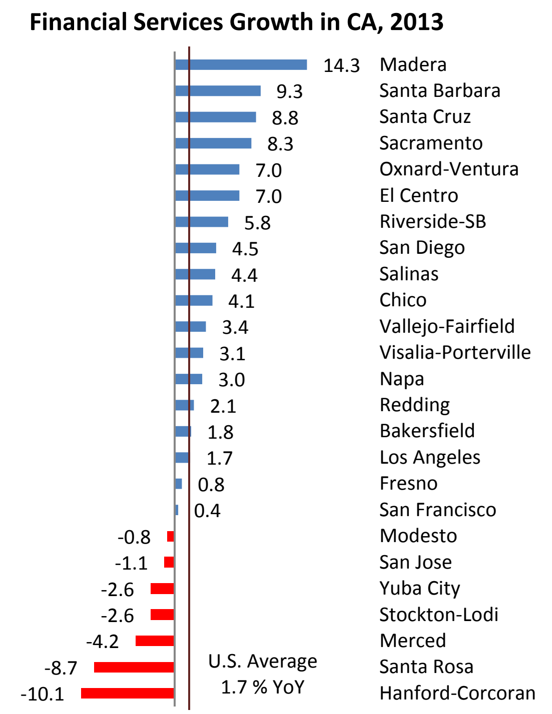
Source: Bureau of Economic Analysis

The information sector was the biggest contributor to the Los Angeles metro area economy (2nd largest in the nation after New York City), followed by increased activity in financial services, and non-durable goods manufacturing. San Francisco's economy with $356 billion in real output (2nd largest in California and 8th largest in the U.S.) grew 2 percent last year, faster than the national average, thanks to increased economic activity in information, transportation, international trade and construction sectors. Interestingly, the information sector is a much smaller driver of growth nationally, ranking only fifth behind more mundane drivers like trade, manufacturing, and financial services.

The San Jose metro, which includes Silicon Valley, third largest economy in California ($192 billion in 2013), grew at an impressive 4.4 percent in 2013, with more than half of that growth coming from the information technology sector. Once again, this data release validates our point that we made earlier in our California Regional Report that the Bay Area is the best performing region in California and one of the most robust economic hubs in the nation. The region is expected to continue this momentum in the second half of 2014 and 2015.

Financial Services, on average, grew 1.7 percent over-year, but such aggregate figures hide a wide dispersion across metros. Madera led the parade with 14.3 percent growth in financial services, followed by Santa Barbara, Santa Cruz, and Sacramento. Overall, growth in the real value of financial services across large Southern California metro areas outstripped the national average by a significant margin. This growth was mainly driven by increased real estate activity in the first half of 2013, availability of distressed properties, and low interest rates.

Financial Services Are Growing in Most California Metros



Source: Bureau of Economic Analysis

Lower interest rates, rising regulatory costs, and slowing housing activity in 2014 is expected to temper the expansion of financial services this year.

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	3.3	3.1	3.0	3.0	2.9	2.9	2.3	2.2	2.2	3.1
Personal Consumption Expenditures*	3.6	1.8	2.0	3.7	1.2	2.5	2.2	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	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	2.0	5.0	4.5	4.4	4.4	4.3	3.8	2.9	3.9	4.4
Nonfarm Payroll Employment (mil.)	135.5	136.1	136.6	137.2	137.8	138.5	139.1	139.7	140.4	141.4	141.7	142.3	134.1	136.4	138.8	141.4
Unemployment rate	7.7	7.5	7.2	7.0	6.7	6.2	6.1	6.0	5.9	5.8	5.7	5.6	8.1	7.4	6.3	5.8
Consumer Price Index* (percent)	1.2	0.4	2.2	1.1	1.9	3.0	0.5	1.5	1.8	1.8	1.9	1.9	2.1	1.5	1.7	1.7
"Core" CPI* (percent)	2.0	1.4	1.8	1.6	1.6	2.5	0.9	1.8	1.8	1.8	1.8	1.8	2.1	1.8	1.7	1.7
PPI (finished goods)* (percent)	0.8	-1.0	2.3	1.2	3.9	3.7	-0.3	1.8	1.5	1.4	1.3	1.4	2.0	1.2	2.2	1.4
Trade Weighted Dollar (Fed BOG, major)	74.8	76.6	76.8	76.0	77.1	76.6	77.1	78.0	79.0	79.5	80.2	80.8	73.6	76.1	77.2	79.9
Crude Oil Prices -WTI ($ per barrel)	94	94	106	98	99	103	98	95	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	0.02	0.03	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	0.62	1.00	1.06	1.29	1.59	0.28	0.31	0.47	1.24
Treasury-5 Year Notes (yield)	0.82	0.91	1.50	1.44	1.60	1.63	1.68	1.87	1.93	2.14	2.35	2.63	0.76	1.17	1.70	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	3.45	3.76	3.96	4.06	4.16	2.92	3.44	3.50	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	0.25	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	4.23	4.12	4.30	4.50	4.69	4.93	5.07	3.66	3.98	4.25	4.80
BAA Corporate (yield)	4.81	4.82	5.40	5.36	5.12	4.85	4.72	4.97	5.00	5.18	5.40	5.56	4.94	5.10	4.92	5.29

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