

U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
29-September-2014	Personal Income	AUG	0.3%	0.3%	0.2%
29-September-2014	Personal Spending	AUG	0.4%	0.4%	-0.1%
29-September-2014	PCE Deflator MoM	AUG	-0.1%	-0.1%	0.1%
29-September-2014	PCE Core MoM	AUG	0.0%	0.0%	0.1%
29-September-2014	Pending Home Sales MoM	AUG	-1.0%	-0.5%	3.3%
29-September-2014	Dallas Fed Mfg Activity Index	SEP	N/A	10.5	7.1
30-September-2014	S&P/Case-Shiller 20 City MoM	JUL	-0.10%	-0.10%	-0.20%
30-September-2014	Chicago Purchasing Manager Index	SEP	62.0	61.0	64.3
30-September-2014	Consumer Confidence Index	SEP	92.0	92.2	92.4
01-October -2014	ADP Employment Change	SEP	210K	205K	204K
01-October -2014	ISM Manufacturing	SEP	57.9	58.5	59.0
01-October -2014	Construction Spending MoM	AUG	0.1%	0.4%	1.8%
01-October -2014	Total Vehicle Sales	SEP	16.90M	16.90M	17.45M
02-October -2014	Initial Jobless Claims	09/27	296K	N/A	293K
02-October -2014	ISM New York	SEP	N/A	N/A	57.1
02-October -2014	Factory Orders	AUG	-9.3%	-9.5%	10.5%
03-October -2014	Trade Balance	AUG	-\$41.0B	-\$40.7B	-\$40.5B
03-October -2014	Nonfarm Payrolls	SEP	230K	215K	142K
03-October -2014	Manufacturing Payrolls	SEP	15K	12K	0K
03-October -2014	Unemployment Rate	SEP	6.0%	6.1%	6.1%
03-October -2014	Average Hourly Earnings MoM	SEP	0.2%	0.2%	0.2%
03-October -2014	Average Weekly Hours MoM	SEP	34.5	34.5	34.5
03-October -2014	ISM Non-Mfg Composite Index	SEP	58.3	58.5	59.6

*Consensus from Bloomberg

What's In Store for September Payrolls?

Firm readings on the economy bode well for September payrolls. Not only did we get a huge final upward revision to second-quarter GDP to 4.6 percent, the U.S. economy appears to be holding on to much of its momentum in the third quarter.

A stronger than expected retail sales report for August and an upward revision to July sales, along with strength in non-defense capital goods orders, excluding aircraft, has led us to push up our estimate this week for third-quarter real GDP growth up to 3.4 percent. Business spending looks particularly impressive this quarter.

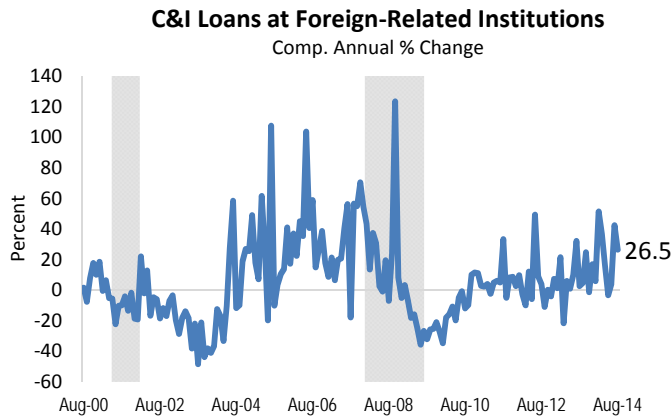
If realized, it shows the U.S. economy came roaring back over the summer. The summer of 2014 (Q2 and Q3 taken together) was a season of sizzle. Real GDP growth likely averaged around 4.0 percent annualized, comparable to the second half of 2013 and about twice the pace of growth the U.S. economy has managed over the last six years.

The evidence continues to pile up that businesses have stepped up their pace of investment. Commercial and industrial loan growth for all commercial bank's averaged 12.9 percent annualized in August. This follows a 16.7 percent annualized growth rate in C&I loans in July.

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Foreign banks appear to be particularly aggressive in lending in this space, perhaps because lending conditions abroad aren't looking so hot. C&I loan growth for foreign institutions was 42.4 percent annualized in July and 26.5 percent annualized in August.

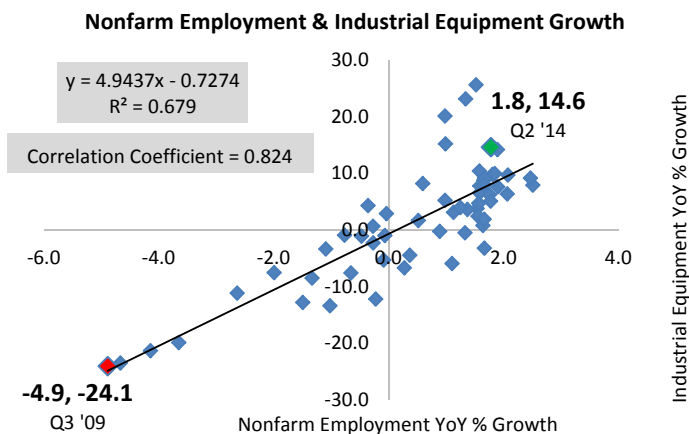
Bank's Step Up Their Lending in the C&I Loans



Source: Federal Reserve System

The three month moving average of non-defense capital goods orders excluding aircraft, a leading indicator of business equipment spending, is growing at its fastest pace since January 2013. Our analysis shows there is a strong correlation between business investment spending and hiring. The year-on-year growth rates have a 0.82 positive correlation

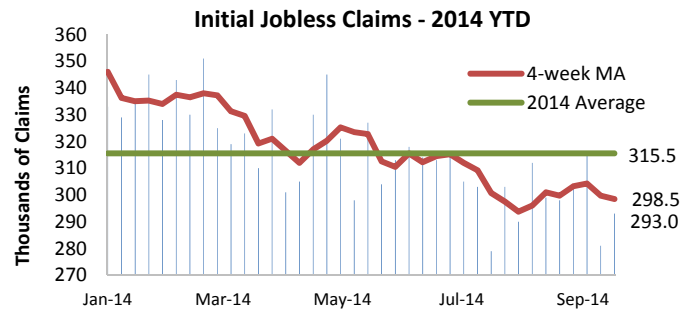
Business Investment and Hiring Go Hand-in-Hand



We are forecasting a net 230K non-farm jobs were created in September, enough to push the unemployment rate down to 6.0 percent from 6.1 percent- the best monthly job gain since June.

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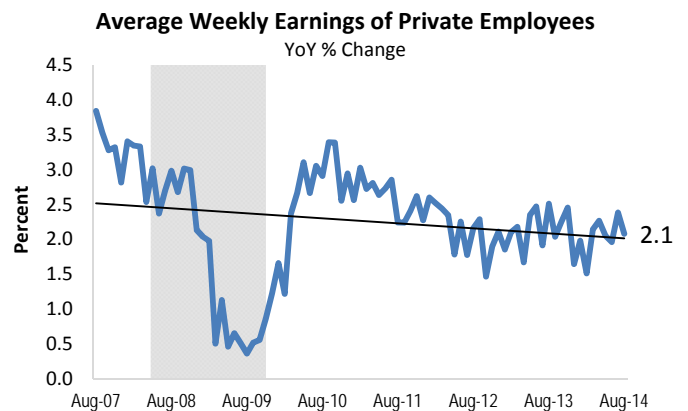
Jobless Claims Have Improved Again in September



Source: US Employment & Training Administration

What are we looking for in this next jobs report? We need to see more evidence of improvement in hourly and weekly earnings growth. This would be more welcome than a better monthly jobs number. Improvement here would help put real consumer spending on a faster growth path, and perhaps reassure Yellen and others that the economic progress we saw this summer is sustainable in the face of normalizing interest rates.

Better Earnings Growth Needed To Sustain Progress



Source: Bureau of Labor Statistics

We like what we are seeing from the U.S. economy. However, our list of downside risks remains quite long despite the healthy near-term performance. Housing market data is mixed and seems quite sensitive to higher interest rates. The Case-Shiller 20-city home price index has contracted the last two months and is projected to contract again in July, the first home price declines from this measure in nearly three years. The global economy, particularly Europe and China, appears to be weakening. At the same time the US dollar is appreciating rapidly, which could add to deflationary pressures and weigh on U.S. export growth. These are challenges that have the potential to lead to another round of economic disappointment in 2015.

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	4.6	3.4	3.1	3.0	3.0	2.9	2.9	2.3	2.2	2.3	3.2
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	9.7	8.1	5.5	4.9	4.9	4.9	4.9	7.2	3.0	6.3	5.8
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	94	97	97	97	96	94	98	99	97

*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	0.02	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