

U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
03-November -2014	ISM Manufacturing	OCT	56.2	56.5	56.6
03-November -2014	Construction Spending MoM	SEP	0.6%	0.7%	-0.8%
03-November -2014	Total Vehicle Sales	OCT	16.70M	16.60M	16.34M
04-November -2014	Trade Balance	SEP	-\$39.5B	-\$40.0B	-\$40.1B
04-November -2014	ISM New York	OCT	N/A	N/A	63.7
04-November -2014	Factory Orders	SEP	-0.6%	-0.5%	-10.1%
05-November -2014	ADP Employment Change	OCT	228K	214K	213K
05-November -2014	ISM Non-Mfg Composite Index	OCT	58.0	58.0	58.6
06-November -2014	Initial Jobless Claims	11/01	283K	N/A	287K
06-November -2014	Nonfarm Productivity	Q3	1.6%	0.9%	2.3%
07-November -2014	Nonfarm Payrolls	OCT	240K	230K	248K
07-November -2014	Mfg Payrolls	OCT	12K	10K	4K
07-November -2014	Unemployment Rate	OCT	5.8%	5.9%	5.9%
07-November -2014	Average Hourly Earnings MoM	OCT	0.2%	0.2%	0.0%
07-November -2014	Average Weekly Hours MoM	OCT	34.6	34.6	34.6
07-November -2014	Consumer Credit	SEP	\$19.0B	\$16.0B	\$13.5B

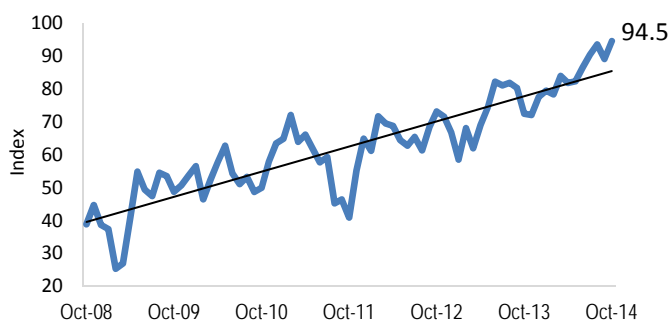
*Consensus from Bloomberg

The Glass Half-Full Economy

Coming on the heels of an October FOMC statement that emphasized the glass half-full view of the labor market recovery over the past year, the advance estimate of U.S. GDP for the third quarter provided a similar view of recent U.S. economic growth. Consumer confidence is soaring, despite financial volatility and a weak global economy.

Consumers Start Feeling Good About This Expansion

Conference Board's Consumer Confidence Index



Source: Conference Board

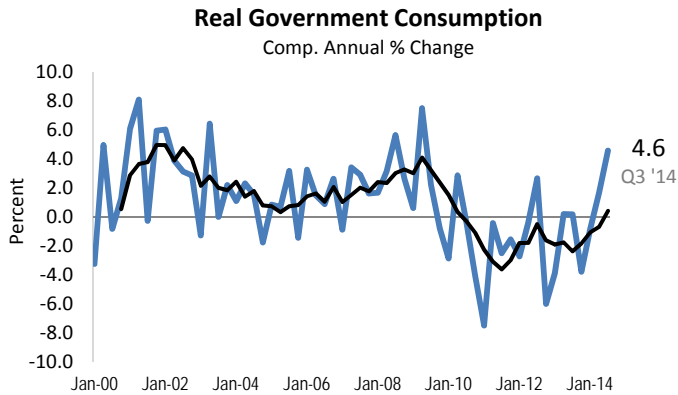
So is it time to finally get comfortable with a glass half-full view of the economy? In this week's US Outlook report, we slice and dice the latest GDP figures and discuss the implications for our growth and interest rate outlook in the months and quarters ahead.

U.S. GDP growth for the third quarter was right in the "sweet spot" at 3.5%, well above the consensus estimate looking for 3.0% and our own estimate of 3.1%. There were respectable contributions from nearly all major components of GDP, including consumer spending and business investment, though both slowed from the second quarter's torrid pace.

The big upside surprise was the strength in U.S. export growth in Q3 (+7.8% annualized) and the large jump in Federal government (+10% annualized) and national defense spending (+16.0% annualized). Government spending added 0.83% to U.S. GDP growth in Q3, and net U.S. exports contributed 1.32% to U.S. GDP last quarter. Together these two components added 2.15 percentage points of the 3.5% growth in U.S. GDP in the third quarter.

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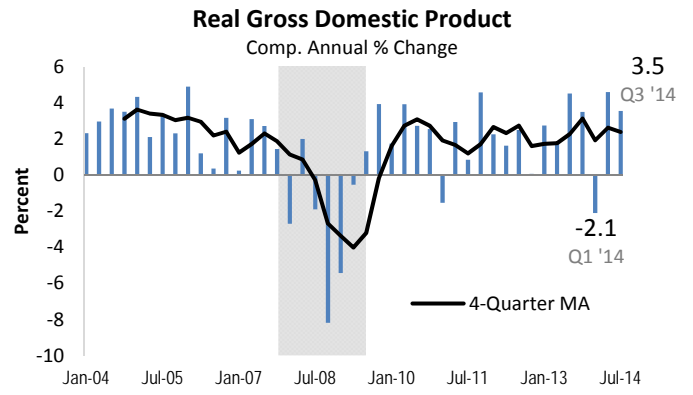
Real Government Spending Turns The Corner



Source: Bureau of Economic Analysis

The big gain in U.S. exports in the third quarter follows an even larger 11% increase in the second quarter, suggesting that the U.S. could be picking up global trade market share even as the rest of the world struggles to grow.

The U.S. Economy Has Stepped Up Its Game



Source: Bureau of Economic Analysis

In fact as you can see in the chart below, Real GDP in the U.S. finally appears to be closing the gap with potential GDP that opened up in the wake of the Great Recession and has remained stubbornly wide.

The U.S. Economy Picks Up Global Market Share



Source: Bureau of Economic Analysis

This is great news for U.S. growth prospects longer-term. A stronger trend growth rate for U.S. exports at the same time U.S. imports are falling on declining oil prices and a lower level of imports of crude oil is an unequivocal positive for the U.S. economy's growth potential. A stronger U.S. dollar could dent some of this momentum over time, but we would need to see far more appreciation in the U.S. dollar than we have so far for it to have a material impact on this positive trade balance trend.

This summer was the best two-quarter run for U.S. GDP growth since the second half of last year. If you take out the first quarter's 2.1% decline in GDP, which was largely due to the weather, the U.S. economy has certainly stepped up its growth game over the past year. In four of the past five quarters, U.S. GDP growth has averaged 4.0 percent at an annualized rate.

Mind The Gap



Source: Bureau of Economic Analysis/Congressional Budget Office

One component that disappointed last quarter was residential fixed investment. Real residential fixed investment only added 0.1 percentage points to U.S. GDP growth in the third quarter and has actually declined 1% from a year ago. This was another lackluster performance from the residential construction sector that is historically at the epicenter of U.S. economic growth.

Looking ahead, we see real GDP growth slowing to around 2.7% in the fourth quarter as the outsized increases in exports and government spending moderate a bit, but this will be partially offset by real consumer spending that is poised to bounce back in the fourth quarter. Retail sales over the holiday season could be among some of the best we have seen in years. Real GDP growth of 3.1% in 2015 looks likely. This should keep the Fed on track with the first Fed funds rate hikes coming by the third quarter of next year. Higher long-term interest rates are forecast for 2015, and that will be okay in this glass half-full economy.

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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	4.6	3.5	2.7	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	1.8	2.8	2.9	2.8	2.7	2.7	1.8	2.4	2.2	2.7
Non-residential Fixed Investment*	1.5	1.6	5.5	10.4	1.6	9.7	5.5	5.3	4.9	4.9	4.9	4.9	7.2	3.0	5.9	5.4
Private Housing Starts (000s units)	947	865	882	1,025	925	985	1,023	1,040	1,096	1,100	1,121	1,143	784	930	993	1,115
Vehicle Sales (mill. Units, annualized)	15.3	15.5	15.7	15.6	15.6	16.5	16.7	16.8	17.0	17.1	17.2	17.3	14.4	15.5	16.4	17.2
Industrial Production*	4.2	1.9	2.5	4.9	3.9	5.5	2.7	4.5	3.5	3.3	3.3	3.2	3.8	2.9	4.0	3.7
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	5.8	5.7	5.6	5.5	5.5	8.1	7.4	6.2	5.6
Consumer Price Index* (percent)	1.2	0.4	2.2	1.1	1.9	3.0	0.5	0.9	0.5	1.7	1.9	1.9	2.1	1.5	1.7	1.2
"Core" CPI* (percent)	2.0	1.4	1.8	1.6	1.6	2.5	0.9	1.1	1.6	1.7	1.7	1.8	2.1	1.8	1.7	1.5
PPI (finished goods)* (percent)	0.8	-1.0	2.3	1.2	3.9	3.7	-0.3	-0.1	0.0	0.3	1.0	1.1	2.0	1.2	2.0	0.4
Trade Weighted Dollar (Fed BOG, major)	74.8	76.6	76.8	76.0	77.1	76.6	77.0	80.5	82.0	82.5	83.2	83.8	73.6	76.1	77.8	82.9
Crude Oil Prices -WTI (\$ per barrel)	94	94	106	98	99	103	98	82	84	84	86	87	94	98	96	85

*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	1,976						1,379	1,644		
Dow Jones Industrial Average	13,994	14,959	15,286	15,736	16,177	16,604	16,954						12,965	15,010		
Federal Funds Rate (effective)	0.15	0.12	0.09	0.09	0.07	0.09	0.09	0.08	0.10	0.13	0.34	0.60	0.14	0.11	0.08	0.29
Treasury-3 Month Bills (yield)	0.09	0.05	0.03	0.06	0.05	0.03	0.03	0.03	0.03	0.11	0.34	0.66	0.09	0.06	0.04	0.29
Treasury-2 Year Notes (yield)	0.26	0.27	0.37	0.33	0.37	0.42	0.52	0.46	0.74	0.90	1.13	1.43	0.28	0.31	0.44	1.05
Treasury-5 Year Notes (yield)	0.82	0.91	1.50	1.44	1.60	1.66	1.70	1.64	1.70	1.91	2.12	2.40	0.76	1.17	1.65	2.03
Treasury-10 Year Notes (yield)	1.95	1.99	2.71	2.74	2.77	2.62	2.50	2.40	2.60	2.82	3.06	3.21	1.80	2.35	2.57	2.92
Treasury-30 Year Notes (yield)	3.13	3.14	3.71	3.79	3.68	3.44	3.27	3.12	3.43	3.63	3.73	3.83	2.92	3.44	3.38	3.66
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	0.25	0.24	0.24	0.25	0.28	0.49	0.75	0.42	0.28	0.25	0.44
Mortgage-30 Year (yield)	3.50	3.67	4.44	4.29	4.36	4.23	4.14	4.07	4.27	4.46	4.70	4.84	3.66	3.98	4.20	4.57
BAA Corporate (yield)	4.81	4.82	5.40	5.36	5.12	4.82	4.74	4.73	4.78	4.94	5.16	5.32	4.94	5.10	4.85	5.05

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