

U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
08-December -2014	Labor Market Conditions Index	NOV	N/A	N/A	4.0
09-December -2014	NFIB Small Business Optimism	NOV	96.5	96.3	96.1
09-December -2014	JOLTS Job Openings	OCT	N/A	N/A	4,735
09-December -2014	Wholesale Inventories MoM	OCT	0.2%	0.1%	0.3%
11-December -2014	Retail Sales Advance MoM	NOV	0.4%	0.3%	0.3%
11-December -2014	Retail Sales Ex Auto MoM	NOV	0.2%	0.1%	0.3%
11-December -2014	Import Price Index MoM	NOV	-2.0%	-1.8%	-1.3%
11-December -2014	Initial Jobless Claims	12/06	300K	N/A	297K
11-December -2014	Business Inventories	OCT	0.3%	0.2%	0.3%
11-December -2014	Household Change in Net Worth	Q3	N/A	N/A	1,390B
12-December -2014	Producer Price Index MoM	NOV	-0.1%	-0.1%	0.2%
12-December -2014	PPI Ex Food and Energy MoM	NOV	0.1%	0.1%	0.4%
12-December -2014	Univ. of Michigan Confidence Adv.	DEC	89.7	89.5	88.8

*Consensus from Bloomberg

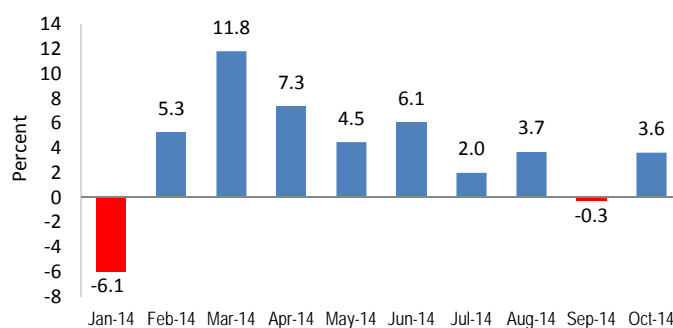
The U.S. Consumer is Doing Just Fine

There was much hand wringing earlier this week with the release of the National Retail Federation's (NRF) estimate of an 11.0 percent drop in Thanksgiving weekend sales and 5.2 percent drop in buyer traffic from a year ago. The Thanksgiving weekend that includes Black Friday is the traditional kickoff of the holiday shopping season.

The consumer seemed to be on a roll before this fact got stuck in everyone's throat. Retail sales growth accelerated in October, according to the U.S. Commerce Department with strength highly visible in vehicle sales, building materials, sporting goods, restaurants and bars, and healthcare. So when the dismal NRF sales readings on the Thanksgiving weekend hit the tape, headlines trumpeted the terrible news.

Retail Sales Growth Solid in October

Retail Sales & Food Servs Ex. Vehicles & Parts Dealers
Comp. Annual % Change



Source: U.S. Census Bureau

Before you get all worked up that the good news surrounding the consumer is ending, we want you to know – we don't buy it. There is a lot of other evidence the U.S. consumer is in a better place financially and emotionally than we have seen in a longtime. Pick your measure: consumer confidence, job growth, growth in real disposable personal income, household wealth, household debt ratios, interest rates, and personal savings rates. The U.S. consumer seems to have the wind at their back. In other words, holiday sales this year should be just fine. We expect the November retail sales

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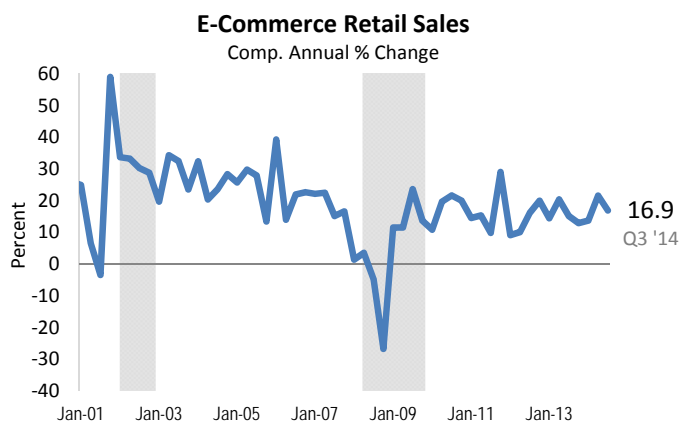
report, released next Thursday to be one of those data points that support our forecast for decent Q4 real consumer spending. While sales of gasoline are likely to be down hard again on declining gas prices, we maintain our 2.8% real consumer spending forecast for Q4.

Here are our reasons for deeply discounting the downbeat results from the National Retail Federation. First, the National Retail Federation data comes from a survey of consumers, 4,631 of them to be exact over a two day period, **not actual sale receipts**, which can be a fairly inaccurate depiction of reality. It's like trying to measure the wind speed and direction by putting your finger in the air. The NRF survey asks people how much did you spend this weekend on Christmas gifts, and how much of that was on-line verses in-store?

Second, the world of retail is constantly influx and no season is more volatile or harder to measure than the holiday season when retailers pull-out all the stops to take holiday dollars from their competitors. Many retailers rolled out deals earlier in the month before Thanksgiving. On top of that, more and more in-store sales are being syphoned into the on-line world.

Looking for a counterpoint to the NRF data? Comscore, Inc., a leader in measuring the on-line world, reported online retail sales on Cyber Monday were up 17.0 percent from a year ago to a record \$2 billion dollars. For the holiday season to-date, last 31 days, on-line retail sales totaled \$26.7B a 16 percent increase from a year ago. IBM's real-time tracking of on-line sales found similar double digit on-line sales gains from a year ago over the long Thanksgiving weekend. Both Walmart and Target reported record on-line sales over the Thanksgiving weekend. Visa reported e-commerce sales were up 18.0 percent on Black Friday. It appears news of the consumer's demise was a little premature.

E-Commerce Sales Tracking At Double-Digit Growth Rates

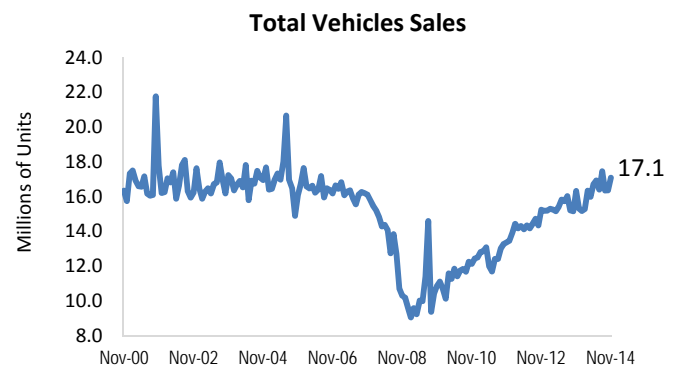


Source: U.S. Census Bureau

Finally, the sales trends over the Black Friday weekend have little correlation with the results over the entire holiday season. It seems that every year I find newspaper articles about Thanksgiving weekend sales and what it means for the consumer and holiday sales that year, and when the hard monthly retail sales numbers come in from the Commerce Department over the two-month period of November and December, they often tell a completely different story about the consumer than the "Black Friday" headlines. Buyer Beware!

As if on cue, more evidence of a healthy consumer came to life later in the week, when unit light-vehicle sales for November were released, showing an annualized sales pace of 17.1 million units almost an expansion high and some of the best figures we have seen since 2006. Economists had been looking for only 16.6 million units. November vehicle sales were up 4.5 percent on an annualized basis from October. So many U.S. consumers are spending, and they are spending big.

U.S. Vehicle Sales Rise More Than Expected in November



Source: Ward's Automotive Group; Bloomberg

So despite what may have been a lackluster sales start on "Black Friday", the change in trend for retail sales and the consumer is unlikely to amount to anything more than that. All indications are the U.S. consumer's financial condition, job prospects, and confidence in the future are at or near expansion highs. Full disclosure, I haven't done any Christmas shopping yet, but all this talk has put me in the mood. I think I'll shop on-line – no lines and lots of free shipping – of course. Happy Holidays!

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	3.9	2.4	3.0	3.0	2.9	2.9	2.3	2.2	2.3	3.1
Personal Consumption Expenditures*	3.6	1.8	2.0	3.7	1.2	2.5	2.2	2.8	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	9.7	7.1	3.5	4.9	4.9	4.9	4.9	7.2	3.0	6.0	5.3
Private Housing Starts (000s units)	947	865	882	1,025	925	985	1,033	1,040	1,096	1,100	1,121	1,143	784	930	996	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	139.2	139.9	140.6	141.2	141.9	142.5	134.1	136.4	138.9	141.5
Unemployment rate	7.7	7.5	7.2	7.0	6.7	6.2	6.1	5.8	5.7	5.6	5.5	5.4	8.1	7.4	6.2	5.6
Consumer Price Index* (percent)	1.2	0.4	2.2	1.1	1.9	3.0	1.1	0.9	0.5	1.7	1.9	1.9	2.1	1.5	1.7	1.3
"Core" CPI* (percent)	2.0	1.4	1.8	1.6	1.6	2.5	1.3	1.5	1.6	1.7	1.7	1.8	2.1	1.8	1.8	1.7
PPI (finished goods)* (percent)	0.8	-1.0	2.3	1.2	3.9	3.9	0.8	-2.5	0.0	0.3	1.0	1.1	2.0	1.2	2.1	0.1
Trade Weighted Dollar (Fed BOG, major)	74.7	76.5	76.7	75.7	76.9	76.4	77.5	82.0	83.3	83.7	84.4	85.0	73.6	76.1	78.2	84.1
Crude Oil Prices -WTI (\$ per barrel)	94	94	106	98	99	103	98	79	76	79	80	81	94	98	95	79

*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	0.02	0.03	0.11	0.34	0.66	0.09	0.06	0.03	0.29
Treasury-2 Year Notes (yield)	0.26	0.27	0.37	0.33	0.37	0.42	0.52	0.46	0.64	0.80	1.03	1.23	0.28	0.31	0.44	0.93
Treasury-5 Year Notes (yield)	0.82	0.91	1.50	1.44	1.60	1.66	1.70	1.58	1.65	1.86	2.02	2.30	0.76	1.17	1.64	1.96
Treasury-10 Year Notes (yield)	1.95	1.99	2.71	2.74	2.77	2.62	2.50	2.30	2.47	2.72	2.96	3.11	1.80	2.35	2.55	2.82
Treasury-30 Year Notes (yield)	3.13	3.14	3.71	3.79	3.68	3.44	3.27	3.03	3.25	3.50	3.70	3.80	2.92	3.44	3.36	3.56
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	0.23	0.24	0.27	0.48	0.74	0.42	0.28	0.25	0.43
Mortgage-30 Year (yield)	3.50	3.67	4.44	4.29	4.36	4.23	4.14	4.03	4.18	4.44	4.68	4.82	3.66	3.98	4.19	4.53
BAA Corporate (yield)	4.81	4.82	5.40	5.36	5.12	4.82	4.74	4.73	4.88	4.98	5.16	5.32	4.94	5.10	4.85	5.09

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