

# U.S. Outlook

SCOTT ANDERSON, Ph.D | Chief Economist | 415.765.8020  
www.bankofthewest.com



Date	Indicator	For	Estimate	Consensus*	Previous Period
15-December -2014	Empire State Manufacturing	DEC	14.0	12.0	10.16
15-December -2014	Industrial Production MOM	NOV	0.9%	0.7%	0.1%
15-December -2014	Capacity Utilization	NOV	79.4%	79.3%	78.9%
15-December -2014	NAHB Housing Market Index	DEC	60	59	58
16-December -2014	Housing Starts	NOV	1040K	1,035K	1,009K
16-December -2014	Building Permits	NOV	1070K	1,060K	1,092K
17-December -2014	Consumer Price Index	NOV	-0.2%	-0.1%	0.0%
17-December -2014	CPI Ex. Food and Energy	NOV	0.1%	0.1%	0.2%
17-December -2014	Current Account Balance	Q3	-97.5B	-97.5B	-98.5B
17-December -2014	FOMC Rate Decision – Upper Bound	DEC	0.25%	0.25%	0.25%
17-December -2014	FOMC Rate Decision – Lower Bound	DEC	0.0%	0.0%	0.0%
18-December -2014	Initial Jobless Claims	12/13	297K	N/A	294K
18-December -2014	Philly Fed Business Outlook Index	DEC	32.0	26.0	40.8
18-December -2014	Leading Index	NOV	0.6%	0.5%	0.9%
19-December -2014	Kansas City Fed Mfg Index	DEC	N/A	7	7

\*Consensus from Bloomberg

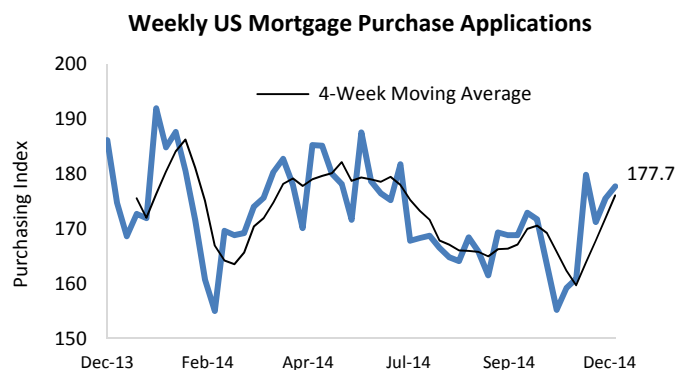
## Reasons to Remain Optimistic

In times of market turmoil like we have seen in recent days, with aggressive moves in currencies (stronger dollar), interest rates (declining interest rates), oil prices (plunging oil prices), and stocks (taking a tumble), it is easy to become bearish on the economic outlook as well. But in reality, these market trends often work at cross purposes on the economy.

A stronger dollar can act as a drag on U.S. exports, but also tends to cut the cost of our foreign imports, giving the U.S. consumer an effective tax break. Declining global interest rates may be a harbinger of global deflationary pressures and looser global monetary policy, but it also can be a signal to potential homebuyers to take the plunge toward homeownership now, since these low rates may not last forever.

Some good news buried in the weekly mortgage applications report appears to support this argument. Mortgage purchase applications have jumped 14.5 percent since the end of October, and are now only 4.5 percent lower than a year ago, after spending much of the year with double-digit declines.

## Mortgage Purchase Applications Turn The Corner



Source: Mortgage Bankers Association

Fannie Mae and Freddie Mac's new 3 percent down payment option for some first-time homebuyers could help grease the wheels and get the housing recovery back on its feet. We continue to expect housing market sales and home construction will re-accelerate this coming year.

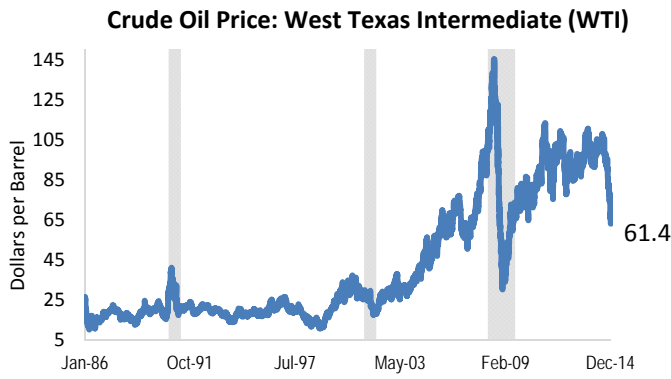
The discussions and information contained in this document are the opinions of BOTW chief economist Dr. Scott Anderson and economist Myasnik "Nik" Poghosyan and should not be construed or used as a specific recommendation for the investment of assets, and is not intended as an offer, or a solicitation of an offer, to purchase or sell any security or financial instrument. Nor does the information constitute advice or an expression of the Bank's view as to whether a particular security or financial instrument is appropriate for you or meets your financial objectives. Economic and market observations and forecasts, such as those offered by Dr. Anderson and Poghosyan, reflect subjective judgments and assumptions, and unexpected events may occur. There can be no assurance that developments will transpire as forecasted. Nothing in this document should be interpreted to state or imply that past results are an indication of future performance.

Other interest-rate sensitive sectors like auto sales are also looking very strong right now.

The 40 percent plunge we have seen in global oil prices is probably a function of weak global demand, but the increase in oil supply may be the most important catalyst. The return of the United States as the largest global oil producer at a time when OPEC has been unable to lower its own oil supply targets could be construed as a positive oil shock, that unlike the negative variety could bolster growth next year in oil importing countries, like those found in much of the developed world, from Japan to Europe to the United States.

Our models estimate that the \$40 dollar plunge we have seen in oil since June could boost consumer spending by 0.5 percentage points and U.S. GDP growth by as much as 0.4 percentage points, if sustained at current levels. Oil well drilling in many oil fracking states will likely stall, hurting growth in some fracking states that are heavily dependent on the industry (like North Dakota), but the oil being produced from current wells will likely continue to flow despite the low oil prices. Declining oil and energy prices in the U.S. is still a net positive story.

**Oil Price Plunge A Positive Oil Price Shock For the U.S.**



The good news for the U.S. consumer is also great news for U.S. small businesses that have struggled with lackluster domestic demand and tight credit- mostly due to consumer deleveraging and lingering poor credit quality. The NFIB small business confidence index for November may be one of the first signals that the consumer is about to step it up in the months ahead. The index hit its highest level since February 2007.

**Small Business Confidence Best Level Since February 2007**



Small business sales expectations seem to be leading the way. A net fourteen percent of small businesses expect higher sales in November up from just 5 percent in September, near the best levels of the year and far higher than we saw in 2013.

**Small Business Sales Expectations Jumping On Drop in Oil**



It's more difficult to put a positive spin on recent stock price declines as they tend to have a clear negative wealth effect on the consumer. But household net worth is still up \$5.1 trillion from a year ago through the third quarter, according to the Federal Reserve's latest flow of funds data. The modest pullback we have seen in the stock market hardly alters this positive trend. In a bull market stock price declines often lay the groundwork for the stock market's next leg higher.

In short, the dramatic market moves we have seen in interest rates, oil, and other markets do not spell doom and gloom for the U.S. economy. Indeed a compelling case can be made that this is just what the U.S. economy needed to bolster domestic demand.

The discussions and information contained in this document are the opinions of BOTW chief economist Dr. Scott Anderson and economist Myasnik "Nik" Poghosyan and should not be construed or used as a specific recommendation for the investment of assets, and is not intended as an offer, or a solicitation of an offer, to purchase or sell any security or financial instrument. Nor does the information constitute advice or an expression of the Bank's view as to whether a particular security or financial instrument is appropriate for you or meets your financial objectives. Economic and market observations and forecasts, such as those offered by Dr. Anderson and Poghosyan, reflect subjective judgments and assumptions, and unexpected events may occur. There can be no assurance that developments will transpire as forecasted. Nothing in this document should be interpreted to state or imply that past results are an indication of future performance.

## 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	140.0	140.7	141.4	142.1	142.8	134.1	136.4	138.9	141.8
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	76	66	70	74	75	94	98	94	71

\*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	0.49	0.64	0.80	1.03	1.23	0.28	0.31	0.45	0.93
Treasury-5 Year Notes (yield)	0.82	0.91	1.50	1.44	1.60	1.66	1.70	1.57	1.65	1.86	2.02	2.30	0.76	1.17	1.63	1.96
Treasury-10 Year Notes (yield)	1.95	1.99	2.71	2.74	2.77	2.62	2.50	2.28	2.47	2.72	2.96	3.11	1.80	2.35	2.54	2.82
Treasury-30 Year Notes (yield)	3.13	3.14	3.71	3.79	3.68	3.44	3.27	3.01	3.25	3.50	3.70	3.80	2.92	3.44	3.35	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	3.75	3.25	3.25	3.25	3.41
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