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U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
22-December -2014	Chicago Fed National Activity Index	NOV	N/A	N/A	0.14
22-December -2014	Existing Home Sales	NOV	5.22M	5.23M	5.26M
23-December -2014	Durable Goods Orders	NOV	4.7%	2.1%	0.3%
23-December -2014	Durables Ex. Transportation	NOV	1.0%	0.9%	-1.1%
23-December -2014	GDP Annualized QoQ 3rd Release	Q3	4.7%	4.4%	3.9%
23-December -2014	FHFA House Price Index MoM	OCT	0.2%	0.3%	0.0%
23-December -2014	Univ. of Michigan Confidence Index - Final	DEC	93.6	93.3	93.8
23-December -2014	New Home Sales	NOV	462K	460K	458K
23-December -2014	Personal Income	NOV	0.4%	0.5%	0.2%
23-December -2014	Personal Spending	NOV	0.4%	0.5%	0.2%
23-December -2014	PCE Deflator MoM	NOV	-0.2%	-0.1%	0.1%
23-December -2014	PCE Core MoM	NOV	0.1%	0.1%	0.2%
24-December-2014	Initial Jobless Claims	12/20	292K	N/A	289K
30-December-2014	S&P/Case-Shiller 20-City Index MoM	OCT	0.2%	0.3%	0.34%
30-December-2014	Consumer Confidence Index	DEC	92.0	92.5	88.7
31-December-2014	Initial Jobless Claims	12/27	290K	N/A	N/A
31-December-2014	Chicago Purchasing Manager Index	DEC	58.0	59.0	60.8
31-December-2014	Pending Home Sales MoM	NOV	0.5%	N/A	-1.1%
02-January-2015	Construction Spending MoM	NOV	0.3%	0.4%	1.1%
02-January-2015	ISM Manufacturing Index	DEC	57.7	57.5	58.7

*Consensus from Bloomberg

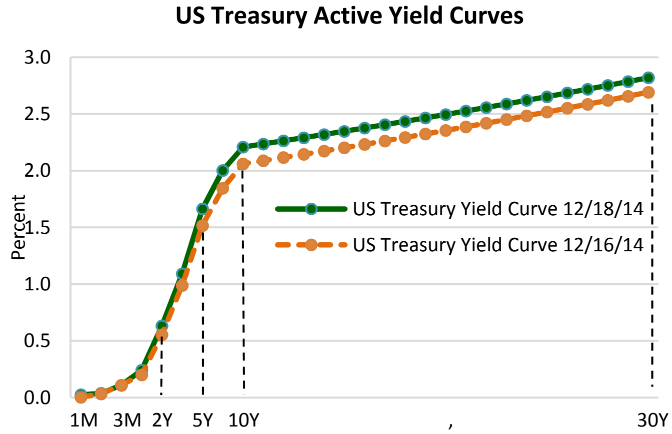
Three Trends to Watch for in 2015

Number One: Rising Interest Rates. For the first time since 2006, the Federal Reserve is signaling that they will raise the Fed funds target rate, their key monetary policy interest rate, sometime next year. As of today, it appears the FOMC is penciling in a second-quarter 2015 liftoff date. The June FOMC meeting is still the most likely month for the first rate hike from the Fed, but a rate hike is a possibility as soon as April-- if the job and GDP data come in better than expected and we get a bottoming out in oil prices and inflation. We expect the U.S. money and bond markets to immediately start pricing in a higher probability of higher rates in 2015 and 2016.

Since September the bond and money markets have pretty much been discounting most of the guidance the Fed has given on interest rates for next year.

Over the last two days alone that has begun to change. The 10-year Treasury yield has risen 19 basis points, back up to 2.204 percent from a low of 2.014, and the entire Treasury yield curve has shifted noticeably higher.

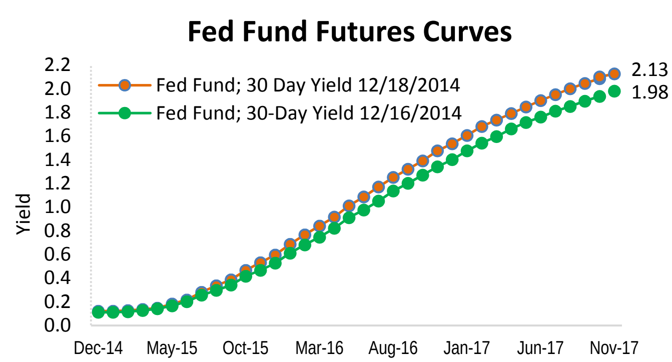
Bond Market Receives Fed Message On Higher Rates



Source: Bloomberg

And the interest rate moves so far are likely just the beginning. There is plenty of room for rates to move higher. The futures market expectations for the Fed funds target rate at the end of 2015 and end of 2016, while moving about 5 to 15 basis points higher since the Fed meeting, is still well below the FOMC's own median guidance on where they expect the Fed funds rate to be. For example, the median FOMC expectation on the Fed funds rate at the end of 2015 is currently 1.125 percent. The futures market expectation is only 0.59 percent.

Fed Funds Futures Still Need To Price In More Rate Hikes



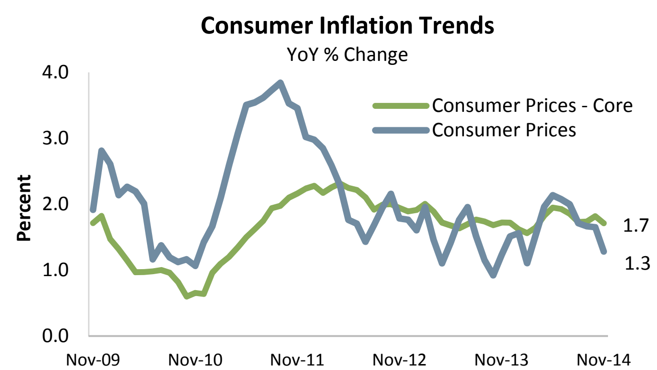
Source: Chicago Board of Trade

Number Two: Lower Inflation. The 40-percent-plus plunge in oil prices and similar steep declines in other commodity prices, along with a sharp rise in the U.S. dollar, will put more downward pressure on consumer prices over the near term. November's steeper–than-expected drop in the Consumer Price Index, down 0.3 percent on the month, is a harbinger of things to come. We have lowered our forecast for consumer price inflation to an average of 0.9 percent for 2015, down from 1.6 percent in 2014. But outside of volatile food and energy, core-consumer price inflation is expected to remain relatively stable. We are forecasting core-CPI inflation of 1.7 percent for 2015, down just a tenth of a percent from a 1.8 percent core-inflation rate in 2014.

The lower inflation rate in 2015 is expected to be driven primarily by a positive supply shock in the oil market, rather than a negative demand shock. Basically, it is OPEC's refusal to cut oil supply as other non-OPEC suppliers and the United States keep production high. This will be a net positive for the U.S. outlook. In macroeconomist speak the U.S. aggregate supply curve should shift out, increasing real GDP growth and reducing inflation from today.

Since the macroeconomic outcome is generally a positive one for the U.S. economy, the Fed will not fret too much about lower inflation if core-inflation and inflation expectations remain well-anchored. One new nugget of information I got from Yellen's post FOMC press conference was that even if core-inflation did not improve from current levels that would not deter the FOMC from starting to normalization interest rates.

Lower Inflation- But A Stable Core



Source: U.S. Bureau of Labor Statistics

Number Three: Stronger Consumer. Everything is coming up roses for the U.S. consumer for 2015. The tightening labor market should finally help to firm up nominal wage gains for the average worker, while the decline in inflation will turbocharge their real income growth even more. Household wealth gains have continued uninterrupted and even accelerated in recent months, while debt-to-income ratios have returned to pre-crisis levels, freeing up the consumers' capacity to borrow and spend. As consumer confidence, jobs, and income rise, consumer credit will become easier to acquire in 2015.

It has been a six-year slog for the U.S. economy to get to this point, but now that we are almost there, it makes our arrival all the sweeter. Happy holidays, everyone; our next U.S. Outlook publication will be on January 2, 2015.

Major Economic Indicators

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
	History							Forecast					Yr/Yr % chg or Annual Avg.			
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	5.7	4.0	5.0	3.5	3.3	3.3	3.2	3.8	2.9	4.2	3.9
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	-1.3	0.5	1.7	1.9	1.9	2.1	1.5	1.6	0.9
"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	82.2	83.5	83.9	84.6	85.2	73.6	76.1	78.3	84.3
Crude Oil Prices -WTI ($ per barrel)	94	94	106	98	99	103	98	76	63	68	71	73	94	98	94	69

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or 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
	History							Forecast					Annual Average			
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	0.18	0.43	0.70	0.14	0.11	0.08	0.35
Treasury-3 Month Bills (yield)	0.09	0.05	0.03	0.06	0.05	0.03	0.03	0.02	0.03	0.16	0.43	0.76	0.09	0.06	0.03	0.35
Treasury-2 Year Notes (yield)	0.26	0.27	0.37	0.33	0.37	0.42	0.52	0.49	0.70	0.85	1.13	1.33	0.28	0.31	0.45	1.00
Treasury-5 Year Notes (yield)	0.82	0.91	1.50	1.44	1.60	1.66	1.70	1.57	1.70	1.91	2.12	2.40	0.76	1.17	1.63	2.03
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	3.00	3.15	3.40	3.60	3.70	2.92	3.44	3.35	3.46
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