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U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
9-March -2015	Labor Market Conditions Index	FEB	NA	NA	4.9
10-March -2015	NFIB Small Business Optimism Index	FEB	98.0	99.0	97.9
10-March -2015	Wholesale Inventories M-o-M	JAN	-0.1%	-0.1%	0.1%
10-March-2015	Wholesales Sales M-o-M	JAN	NA	NA	-0.4%
10-March -2015	JOLTS Job Openings	JAN	NA	NA	5.028M
12-March -2015	Retail Sales Advance Est. M-o-M	FEB	0.5%	0.4%	-0.8%
12-March -2015	Retail Sales Ex. Autos M-o-M	FEB	0.6%	0.6%	-0.9%
12-March -2015	Import Prices M-o-M	FEB	0.1%	0.1%	-2.8%
12-March -2015	Initial Jobless Claims	03/07	305K	NA	320K
12-March-2015	Business Inventories	JAN	0.1%	0.1%	0.1%
13-March -2015	PPI Final Demand M-o-M	FEB	0.2%	0.3%	-0.8%
13-March -2015	PPI Ex. Food & Energy	FEB	0.1%	0.1%	-0.1%
13-March -2015	University of Michigan Sentiment- Prelim.	MAR	95.0	95.5	95.4

*Consensus from Bloomberg

Insights from the Beige Book Report

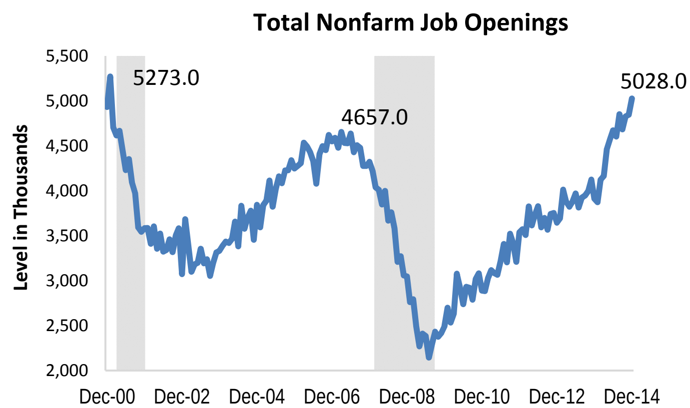
Usually the Beige Book report from the Federal Reserve is a pretty boring read, largely a descriptive analysis of various regions and sectors of our economy. Economists often end up just counting up the positive to negative words to gauge any new insights on the Fed's reading of current economic conditions.

This month's report was quite a bit more interesting, shedding some light on how the economy is faring under the onslaught of bad winter weather, drought in California, the West Coast port slowdown, and sluggish global growth. It also mentioned how companies are dealing with falling input costs, and the tightening labor market.

The overall message from the report was generally positive: Moderate economic growth continues across most regions of the nation despite the bad winter weather and West Coast port slowdown.

Importantly, descriptions of labor market performance and wage pressures appear more robust in this month's Beige Book report than others in the recent past. Noting "strong labor demand" and "challenges filling a variety of skilled positions". The Job Openings and Layoffs (JOLTS) data from the Bureau of Labor Statistics illustrates these pressures on employers quite well. As of December, there were over five million open positions in the United States, an increase of 29 percent from a year ago, and well above the levels seen during the last expansion.

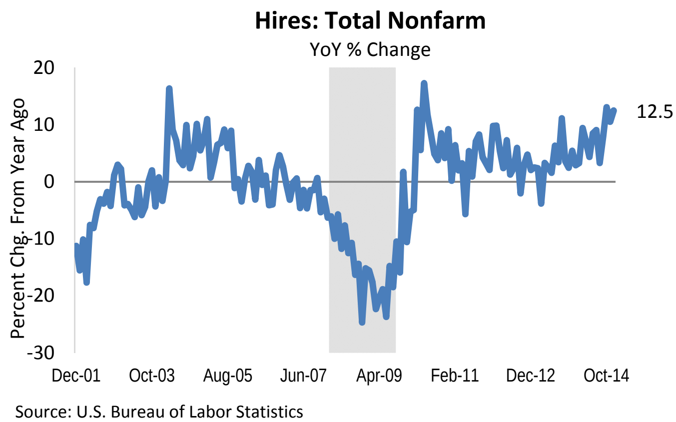
Labor Demand Strong in February



Source: U.S. Bureau of Labor Statistics

Job openings are often a leading indicator of new hires, so the strong gains in openings suggest the labor market momentum we have seen in recent months could be sustained for quite a while longer. The Philadelphia region reported in the latest beige book report that "most hires were due to economic growth and not to find replacements."

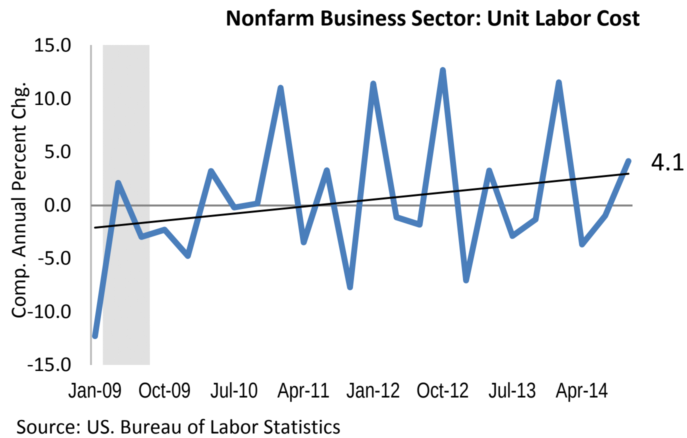
Hiring Is Picking Up And Has More Room to Go



It also illustrates the struggle employers are having filling positions and probably signals better job offers and faster wage growth ahead. The beige book provides some interesting color on this, pointing out that "contacts reported increased wages to attract skilled workers in hard-to-fill positions".

Moreover, services firms in the New York District reported widespread wage hikes. Other districts noted wage pressures in trucking, entry level positions and some unskilled workers to help reduce turnover. Combine these descriptions with the recent announcement that Walmart and other retailers are raising their wages, and it sounds like the U.S. is getting closer to full-employment to me. We get another round of JOLTs data for January on Tuesday.

Unit Labor Costs Increased Sharply Last Quarter



Also, the description of how businesses are handling the drop in energy and commodity prices, gives us some good insights into how long and widespread the drop in consumer inflation is likely to be. Lower input prices, due primarily to declines in energy and commodity prices are being put to work as increased margins, not necessarily being passed through to the consumer. Three districts reported increases in construction material prices, including the San Francisco District. The Kansas City district reported increases in retail prices. While the Chicago district reported higher shipping costs due to the West Coast port slowdown.

This suggests a very temporary rather than prolonged decline in consumer inflation due to the oil price decline. Businesses are not seeing any meaningful drop in demand due to the decline in prices and so do not feel the need to pass along their cost savings in order to maintain sales. I am not surprised by this revelation. I always expected the price deflation to be interpreted by consumers and businesses as a temporary price cut that could actually boost U.S. demand, though it is nice to see confirmation of this in the latest Beige Book report.

Lastly, negative impacts were cited in oil and gas industries and regions, construction, agriculture and to some extent manufacturing, due to bad winter weather, drought, and the plunge in energy, agricultural and other commodity prices. Bottom-line, the wild weather is once again playing havoc with the economic data in the first quarter, but underlying the statistical noise beats the heart of a healthy and growing economy.

Major Economic Indicators

	History				Forecast								Yr/Yr % chg or Annual Avg.			
Economic Data	**2014.1**	**2014.2**	**2014.3**	**2014.4**	**2015.1**	**2015.2**	**2015.3**	**2015.4**	**2016.1**	**2016.2**	**2016.3**	**2016.4**	**2013**	**2014**	**2015**	**2016**
Real GDP*	-2.1	4.6	5.0	2.2	2.4	2.8	2.9	2.9	2.7	2.8	2.7	2.8	2.2	2.4	3.0	2.8
Personal Consumption Expenditures*	1.2	2.5	3.2	4.2	3.3	3.4	3.5	3.4	3.1	3.1	2.9	2.8	2.4	2.5	3.5	3.2
Non-residential Fixed Investment*	1.6	9.7	8.9	4.8	3.5	5.0	5.0	5.0	4.7	4.6	4.6	4.2	3.0	6.3	5.4	4.8
Private Housing Starts (000s units)	925	985	1,030	1,075	1,090	1,100	1,121	1,143	1,165	1,180	1,240	1,260	930	1,004	1,114	1,211
Vehicle Sales (mill. Units, annualized)	15.6	16.5	16.7	16.8	16.6	17.1	17.2	17.2	17.2	17.2	17.3	17.3	15.5	16.4	17.0	17.2
Industrial Production*	3.9	5.7	4.1	4.3	3.5	3.3	3.3	3.2	3.4	3.4	3.4	3.4	2.9	4.2	3.8	3.4
Nonfarm Payroll Employment (mil.)	137.8	138.5	139.2	140.1	140.8	141.5	142.1	142.8	143.5	144.1	144.8	145.4	136.4	138.9	141.8	144.4
Unemployment rate	6.7	6.2	6.1	5.7	5.5	5.4	5.3	5.2	5.2	5.1	5.0	5.0	7.4	6.2	5.4	5.1
Consumer Price Index* (percent)	2.1	2.4	1.2	-0.9	-3.0	1.7	1.9	1.9	1.9	1.9	2.0	2.1	1.5	1.6	0.1	1.9
"Core" CPI* (percent)	1.8	2.2	1.4	1.5	1.9	1.8	1.8	1.9	1.9	1.9	2.0	2.0	1.8	1.7	1.8	1.9
PPI (finished goods)* (percent)	4.1	3.5	0.4	-5.1	-11.5	0.3	1.0	1.1	1.3	1.3	1.4	1.4	1.2	1.3	0.3	1.8
Trade Weighted Dollar (Fed BOG, major)	76.9	76.4	77.5	82.2	88.5	89.5	90.4	90.7	91.0	91.8	92.5	92.4	76.1	78.3	89.8	91.9
Crude Oil Prices -WTI ($ per barrel)	99	103	98	76	50	52	54	56	64	65	66	67	98	94	53	66

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

	History				Forecast								Annual Average			
Financial Data	**2014.1**	**2014.2**	**2014.3**	**2014.4**	**2015.1**	**2015.2**	**2015.3**	**2015.4**	**2016.1**	**2016.2**	**2016.3**	**2016.4**	**2013**	**2014**	**2015**	**2016**
S & P 500	1,835	1,900	1,976	2,009									1,644			
Dow Jones Industrial Average	16,177	16,604	16,954	17,345									15,010			
Federal Funds Rate (effective)	0.07	0.09	0.09	0.08	0.12	0.18	0.43	0.70	1.12	1.37	1.62	1.95	0.11	0.08	0.36	1.52
Treasury-3 Month Bills (yield)	0.05	0.03	0.03	0.02	0.02	0.10	0.33	0.60	1.08	1.32	1.57	1.90	0.06	0.03	0.26	1.47
Treasury-2 Year Notes (yield)	0.37	0.42	0.52	0.52	0.60	0.70	0.93	1.13	1.60	1.90	2.15	2.48	0.31	0.45	0.84	2.03
Treasury-5 Year Notes (yield)	1.60	1.66	1.70	1.57	1.47	1.62	1.82	2.10	2.54	2.74	2.99	3.12	1.17	1.63	1.75	2.85
Treasury-10 Year Notes (yield)	2.77	2.62	2.50	2.27	2.00	2.22	2.40	2.56	2.71	2.84	2.95	3.18	2.35	2.54	2.30	2.92
Treasury-30 Year Notes (yield)	3.68	3.44	3.27	2.97	2.60	2.80	2.95	3.10	3.21	3.32	3.45	3.58	3.44	3.34	2.86	3.39
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.43	3.70	4.12	4.37	4.62	4.95	3.25	3.25	3.41	4.52
Libor 3-Mo. U.S. Dollar	0.26	0.25	0.24	0.23	0.25	0.26	0.46	0.78	1.19	1.45	1.68	2.03	0.28	0.25	0.44	1.59
Mortgage-30 Year (yield)	4.36	4.23	4.14	4.03	3.71	3.97	4.21	4.35	4.52	4.65	4.76	4.99	3.98	4.19	4.06	4.73
BAA Corporate (yield)	5.12	4.82	4.74	4.74	4.52	4.62	4.70	4.87	5.05	5.20	5.32	5.55	5.10	4.86	4.68	5.28

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