

U.S. Outlook

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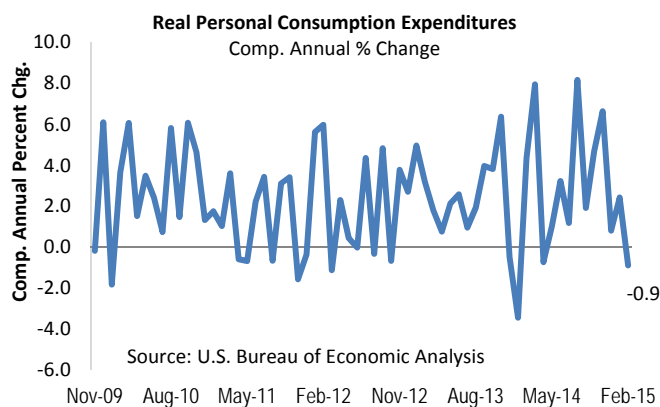
Date	Indicator	For	Estimate	Consensus*	Previous Period
6-April-2015	Labor Market Conditions Index	MAR	NA	NA	4.0
6-April-2015	ISM Non-Manufacturing Composite	MAR	56.5	56.7	56.9
7-April-2015	JOLTS Job Openings	FEB	NA	NA	4998
7-April-2015	Consumer Credit	FEB	\$12.5B	\$13.50B	\$11.56B
8-April-2015	FOMC Minutes Released	MAR	NA	NA	NA
9-April-2015	Initial Jobless Claims	04/04	275K	NA	268K
9-April-2015	Wholesale Inventories	FEB	0.2%	0.1%	0.2%
9-April-2015	Wholesale Sales	FEB	0.3%	0.3%	-3.1%
10-April-2015	Import Prices	MAR	-0.4%	-0.4%	0.4%
10-April-2015	Monthly Federal Budget Statement	MAR	NA	-\$43.0B	NA

*Consensus from Bloomberg

Flat Start But Stronger Finish Still in Focus

It has been another ham-handed start to the year. Now we can add February real consumer spending, employment and the ISM manufacturing survey for March to the list of downbeat economic indicators.

Consumers Take a Break- The Pause That Refreshes?



The ISM manufacturing index for March slumped to 51.5, the weakest reading on this index since 2013. The new export orders sub-component fell deeper into contraction to 47.5, while the employment sub-index slipped into neutral at 50.0.

ISM Manufacturing New Export Orders Particularly Weak



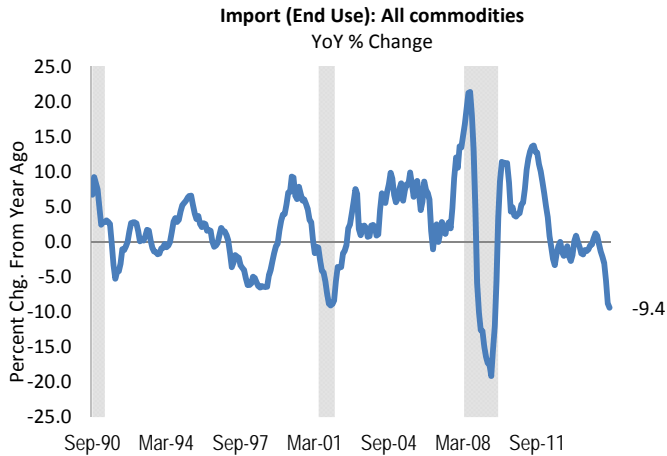
For the second week in a row we have cut our forecast for first quarter GDP. Last week we cut our business investment and industrial production forecasts due to the weakness in the durable goods orders report. Today, we cut our forecast for first quarter real consumer spending to 2.3% annualized in Q1 from 2.8%, leaving us with an estimate for Q1 real GDP of 1.2%.

Special mention should be made of the February trade report, which showed significant weakness on the month for both imports (-4.4% MoM) and exports (-1.6% MoM). From a year ago, U.S. commodity imports were 9.4%

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lower, a bigger year-on-year decline than occurred during the 2001 recession. However, this weak performance in commodity imports was likely heavily impacted by the West Coast port slowdown and recent declines in commodity prices, so it will take a few more months of data to sort out the true underlying trends in the U.S. trade balance. At any rate, the trade report had little impact on our real GDP forecast for Q1, since the monthly decline in import growth was far more severe than the decline in exports.

Imports Plunge As Cargo Is Stuck At West Coast Ports

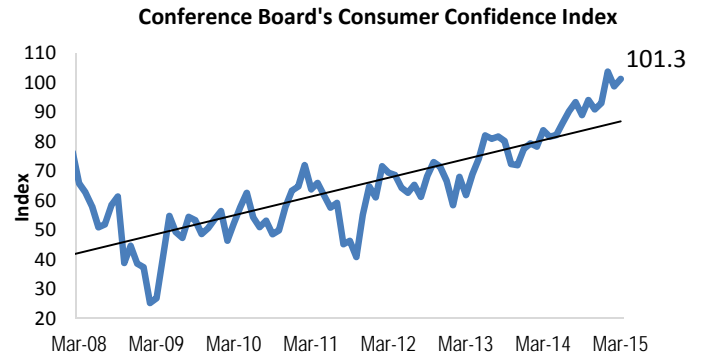


Source: US. Bureau of Labor Statistics/FRED

Despite the onslaught of weaker economic data of late, I still see plenty of reasons for optimism about our near-term economic future. The decline in real consumer spending in the first quarter is just a temporary setback. Consumers, so far, have saved their windfall from lower gasoline prices. But I suspect unseasonable weather in much of the country and the West Coast port slowdown also added to the deterioration in real consumer spending in the first quarter.

Real personal income growth trends remain firmer than spending, household wealth continues to grow, and personal savings rates are high by recent standards at 5.8%. This will give consumers the necessary mojo to reignite spending in the second quarter. Indeed, the rebound in March consumer confidence, and indications of improving demand in residential housing from pending home sales and mortgage purchase applications bode well for real GDP growth in Q2 of 2.9%.

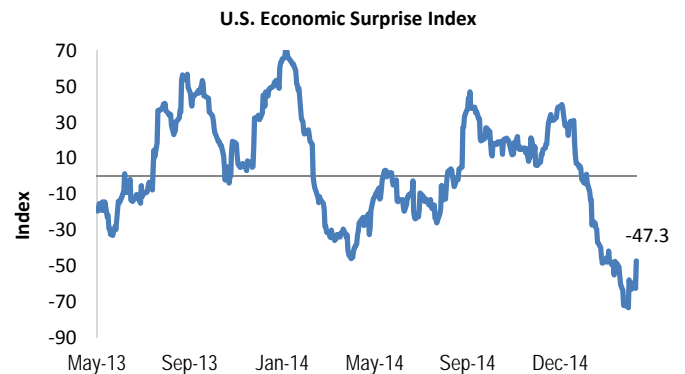
Consumer Confidence Rebounds in March- Still On Track



Source: Conference Board

In fact, economic surprise indexes have begun to improve, suggesting the worst may already be over.

Economic Surprise Indexes Turn The Corner



Source: Citigroup Global Markets

In short, despite intensifying headwinds from a strong dollar and bloated inventories on the U.S. manufacturing sector, the underpinnings of stronger domestic demand, consumer spending and employment growth remain intact. Don't throw in-the-towel on 2015 yet.

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Major Economic Indicators

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	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	1.2	2.9	2.9	3.0	2.7	2.8	2.7	2.7	2.2	2.4	2.7	2.8
Personal Consumption Expenditures*	1.2	2.5	3.2	4.4	2.3	3.5	3.5	3.4	3.1	3.1	2.9	2.8	2.4	2.5	3.3	3.2
Non-residential Fixed Investment*	1.6	9.7	8.9	4.7	2.2	2.8	5.0	5.0	4.7	4.6	4.6	4.2	3.0	6.3	4.6	4.7
Private Housing Starts (000s units)	925	985	1,030	1,075	1,010	1,070	1,101	1,133	1,145	1,170	1,230	1,250	930	1,004	1,079	1,199
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	0.0	2.0	3.3	3.2	3.4	3.4	3.4	3.4	2.9	4.2	2.7	3.3
Nonfarm Payroll Employment (mil.)	137.8	138.6	139.4	140.2	141.1	141.9	142.7	143.6	144.4	145.2	146.0	146.7	136.4	139.0	142.3	145.6
Unemployment rate	6.7	6.2	6.1	5.7	5.5	5.3	5.1	5.0	5.0	4.9	4.9	4.9	7.4	6.2	5.2	4.9
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	89.3	90.0	90.4	90.7	91.0	91.8	92.5	92.4	76.1	78.3	90.1	91.9
Crude Oil Prices -WTI (\$ per barrel)	99	103	98	76	50	50	52	54	62	63	64	65	98	94	52	64

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

Financial Data	History				Forecast								Annual Average			
	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	0.13	0.21	0.46	0.88	1.13	1.38	1.71	0.11	0.08	0.23	1.27
Treasury-3 Month Bills (yield)	0.05	0.03	0.03	0.02	0.04	0.05	0.11	0.36	0.78	1.03	1.28	1.61	0.06	0.03	0.14	1.18
Treasury-2 Year Notes (yield)	0.37	0.42	0.52	0.52	0.59	0.65	0.88	1.08	1.55	1.85	2.10	2.43	0.31	0.45	0.80	1.98
Treasury-5 Year Notes (yield)	1.60	1.66	1.70	1.57	1.46	1.53	1.72	2.00	2.44	2.64	2.89	3.02	1.17	1.63	1.68	2.75
Treasury-10 Year Notes (yield)	2.77	2.62	2.50	2.27	1.98	2.17	2.35	2.51	2.71	2.84	2.95	3.18	2.35	2.54	2.25	2.92
Treasury-30 Year Notes (yield)	3.68	3.44	3.27	2.97	2.55	2.75	2.90	3.05	3.16	3.27	3.40	3.53	3.44	3.34	2.81	3.34
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.33	3.58	4.00	4.25	4.50	4.83	3.25	3.25	3.35	4.40
Libor 3-Mo. U.S. Dollar	0.26	0.25	0.24	0.23	0.26	0.27	0.33	0.58	1.00	1.25	1.50	1.83	0.28	0.25	0.36	1.40
Mortgage-30 Year (yield)	4.36	4.23	4.14	4.03	3.71	3.92	4.16	4.30	4.52	4.65	4.76	4.99	3.98	4.19	4.02	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