

U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
26-May-2015	Durable Goods Orders	Apr	-1.0%	-0.5%	4.7%
26-May-2015	Durables Ex Transportation	Apr	-0.1%	0.4%	0.3%
26-May-2015	FHFA House Price Index MoM	Mar	0.9%	0.7%	0.7%
26-May-2015	S&P/CS 20 City MoM SA	Mar	1.1%	0.9%	0.93%
26-May-2015	Markit US Composite PMI	May P	NA	NA	57
26-May-2015	Markit US Services PMI	May P	NA	57.0	57.4
26-May-2015	New Home Sales	Apr	510K	500K	481K
26-May-2015	Consumer Confidence Index	May	93.5	95.2	95.2
26-May-2015	Dallas Fed Mfg. Activity	May	-14.0	-12.5	-16
28-May-2015	Initial Jobless Claims	23-May	278K	NA	274K
28-May-2015	Pending Home Sales MoM	Apr	0.5%	0.7%	1.1%
29-May-2015	GDP Annualized QoQ	1Q S	-0.6%	-0.9%	0.2%
29-May-2015	GDP Price Index	1Q S	-0.1%	-0.1%	-0.1%
29-May-2015	Chicago Purchasing Manager	May	53.0	53	52.3
29-May-2015	U. of Mich. Sentiment	May F	88.9	90.0	88.6

*Consensus from Bloomberg

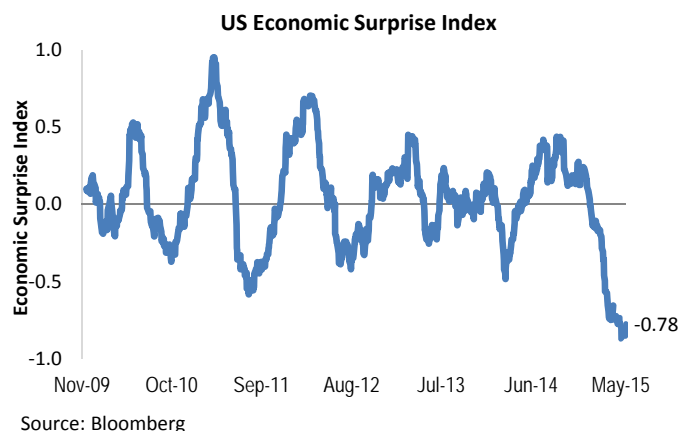
U.S. Economy Muddling Along

Do you ever get the feeling you are just going through the motions, muddling through, but your heart just isn't in it. Well that's how the U.S. economy's performance has felt over the last six months. Just as the Fed was about to sound the all clear and start normalizing short-term U.S. interest rates, and consumer spending growth was set to climb to new expansion highs on rising stock prices, improving job prospects, and declining oil prices, the economy has instead taken a step or two backwards since the second half of 2014.

A worsening trade performance and declining business investment and industrial production have dominated the economic landscape, while consumers so far have hunkered down and saved the gas price decline windfall. This week we can add existing home sales for April, the Kansas City Manufacturing index for May, and the Chicago National Activity index for April to the long and growing list of economic indicators that continue to fall short of economist forecasts.

To give you a sense of how bad the U.S. economy has been missing the mark of late, take a look at this economic surprise index from Bloomberg.

Worst Economic Surprise in Six Years of Expansion



This measures how many standard deviations economic surprises lay above or below normal surprise levels for

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economic analysts. According to the index, the U.S. economic releases have been running about 0.8 standard deviations below normal levels; the worst underperformance of economic expectations since the depths of the Great Recession.

A disappointing performance to be sure, but not necessarily a recession indicator either – just a measure that confirms the economic acceleration that was forecast to continue in the first half of 2015 ended up being a pretty substantial slowdown.

Unfortunately, the U.S. economy has not been alone in missed economic expectations. A look at economic surprise indexes across the globe show a number of economies that are having difficulty meeting expectations.

China, Emerging Markets, and Eurozone Missing Too



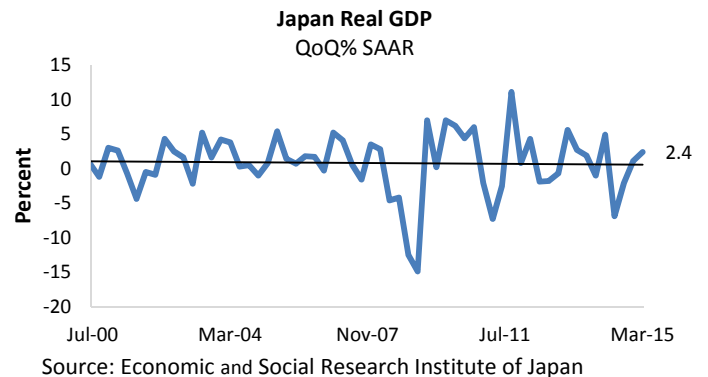
China stands out as persistently performing well below expectations lately. More broadly, the G10 developed markets, including the United Kingdom, and emerging market economic surprise indexes are running in negative territory. The Eurozone economic surprise index has also turned negative after a string of positive economic surprises from February through April.

China’s Leading Economic Indicators Weakest Since 2008



Japan is bucking current global economic trends with its economic surprise index turning solidly positive in recent weeks. Japan’s GDP growth increased at a better than expected 2.4% SAAR in Q1 on a 3.0% increase in domestic demand.

Japan’s GDP Growth Rising On Better Domestic Demand



Bottom-line, we are seeing an economic bounce in U.S. economic activity in the second quarter, but it’s shaping up to be quite weak, and still below most economist expectations. More homebuilding and consumer spending is expected in the second half of the year, but not enough to wipe away the poor start to the year. The Fed will remain in wait-and-see mode this quarter, and the Fed “dot plot” of rate hike expectations for 2016 and 2017 could be scaled back yet again at the June FOMC meeting.

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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	-0.6	2.3	3.0	2.9	2.7	2.8	2.7	2.7	2.2	2.4	2.2	2.8
Personal Consumption Expenditures*	1.2	2.5	3.2	4.4	2.0	3.2	3.5	3.4	3.1	3.1	2.9	2.8	2.4	2.5	3.2	3.2
Non-residential Fixed Investment*	1.6	9.7	8.9	4.7	-3.4	-0.2	5.0	5.0	4.7	4.6	4.6	4.2	3.0	6.3	2.9	4.5
Private Housing Starts (000s units)	934	984	1,029	1,055	975	1,080	1,101	1,133	1,145	1,170	1,230	1,250	928	1,001	1,072	1,199
Vehicle Sales (mill. Units, annualized)	15.7	16.5	16.7	16.8	16.6	16.8	17.0	17.1	17.2	17.2	17.3	17.3	15.5	16.4	16.9	17.2
Industrial Production*	3.9	5.7	4.1	4.6	-0.7	-0.8	3.3	3.2	3.4	3.4	3.4	3.4	2.9	4.2	2.0	3.1
Nonfarm Payroll Employment (mil.)	137.8	138.6	139.4	140.2	141.0	141.7	142.4	143.1	143.8	144.5	145.2	145.9	136.4	139.0	142.0	144.9
Unemployment rate	6.6	6.2	6.1	5.7	5.6	5.3	5.1	5.0	4.9	4.8	4.8	4.7	7.4	6.2	5.3	4.8
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	91.0	91.4	91.7	91.0	91.8	92.5	92.4	76.1	78.3	90.9	91.9
Crude Oil Prices -WTI (\$ per barrel)	99	103	98	73	49	58	60	60	62	63	64	65	98	94	57	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	2,064								1,644			
Dow Jones Industrial Average	16,177	16,604	16,954	17,345	17,808								15,010			
Federal Funds Rate (effective)	0.07	0.09	0.09	0.10	0.11	0.13	0.21	0.38	0.63	0.88	1.13	1.38	0.11	0.08	0.21	1.00
Treasury-3 Month Bills (yield)	0.05	0.03	0.03	0.02	0.02	0.03	0.11	0.30	0.55	0.78	1.03	1.28	0.06	0.03	0.12	0.91
Treasury-2 Year Notes (yield)	0.37	0.42	0.52	0.54	0.60	0.63	0.78	0.98	1.35	1.65	1.90	2.23	0.31	0.45	0.75	1.78
Treasury-5 Year Notes (yield)	1.60	1.66	1.70	1.60	1.46	1.55	1.72	1.95	2.34	2.54	2.79	2.92	1.17	1.63	1.67	2.65
Treasury-10 Year Notes (yield)	2.77	2.62	2.50	2.28	1.97	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	2.80	3.05	3.15	3.26	3.37	3.50	3.63	3.44	3.34	2.89	3.44
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.33	3.50	3.75	4.00	4.25	4.50	3.25	3.25	3.33	4.13
Libor 3-Mo. U.S. Dollar	0.26	0.25	0.24	0.25	0.30	0.30	0.33	0.50	0.75	1.00	1.25	1.50	0.28	0.25	0.36	1.13
Mortgage-30 Year (yield)	4.36	4.23	4.14	3.96	3.72	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	4.73	4.50	4.65	4.78	4.87	5.05	5.20	5.32	5.55	5.10	4.86	4.70	5.28

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