

# U.S. Outlook

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

**BANK OF THE WEST**



**BNP PARIBAS GROUP**

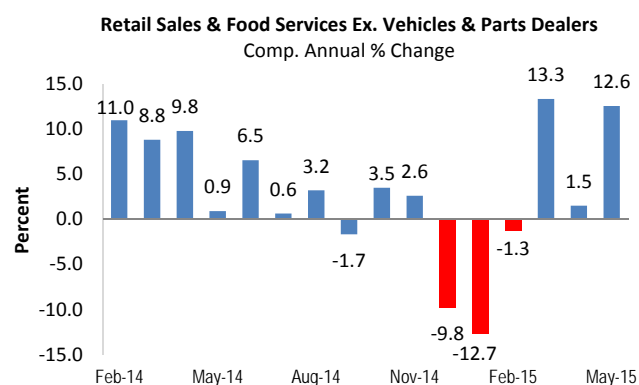
Date	Indicator	For	Estimate	Consensus*	Previous Period
15-Jun-15	Empire Manufacturing	Jun	6.8	5.0	3.1
15-Jun-15	Industrial Production MoM	May	0.2%	0.2%	-0.3%
15-Jun-15	Capacity Utilization	May	78.3%	78.3%	78.2%
15-Jun-15	NAHB Housing Market Index	Jun	55.0	56.0	54.0
15-Jun-15	Net Long-term TIC Flows	Apr	NA	NA	\$17.6B
16-Jun-15	Housing Starts	May	1060K	1100K	1135K
16-Jun-15	Building Permits	May	1090K	1100K	1140K
17-Jun-15	FOMC Rate Decision (Upper Bound)	17-Jun	0.25%	0.25%	0.25%
17-Jun-15	FOMC Rate Decision (Lower Bound)	17-Jun	0.00%	0.00%	0.00%
18-Jun-15	Current Account Balance	1Q	-\$119.5B	-\$116.4B	-\$113.5B
18-Jun-15	CPI MoM	May	0.5%	0.5%	0.1%
18-Jun-15	CPI Ex Food and Energy MoM	May	0.2%	0.2%	0.3%
18-Jun-15	Initial Jobless Claims	13-Jun	281K	NA	279K
18-Jun-15	Philadelphia Fed Business Outlook	Jun	8.0	8.0	6.7
18-Jun-15	Leading Index	May	0.3%	0.4%	0.7%

\*Consensus from Bloomberg

## Retail Sales Shift into Higher Gear

The U.S. consumer is coming through in a big way, and not a moment too soon. The retail sales report for May revealed a resilient consumer that will help lift growth in the second quarter and beyond. The retail sales data, much like the numbers on durable goods orders released two weeks ago, saw important upward revisions for March and April, and a better-than-expected follow through for May, that gives the first-quarter economic downturn a far more transitory feel. The consumer has always been the cornerstone of our second-half rebound forecast, and the latest data appear right in-line with that view. Real consumer spending in the second quarter is likely near 3.0% on an annualized basis, well above the first quarter's mediocre 1.8% growth performance. This should provide enough oomph to push real GDP growth in the second quarter back up toward 2.5%, even with continued weakness in business investment and trade.

## Winter's Chilling Effect Wears Off On Consumers



Source: U.S. Census Bureau

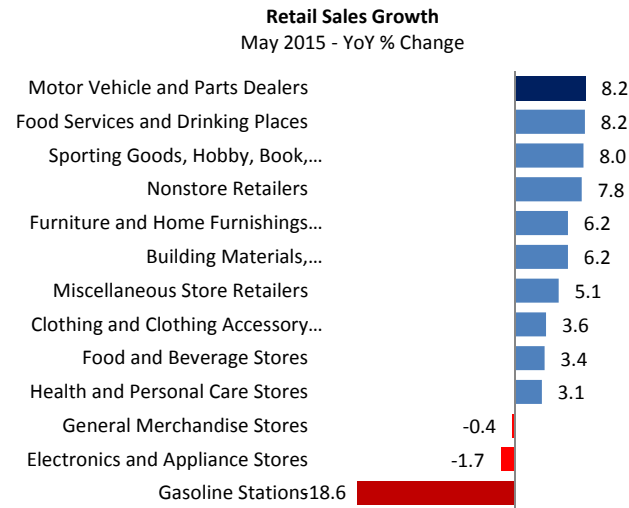
Robust motor vehicle, gasoline station, and building material sales fed 72% of the advance in total retail and food service sales last month.

However, the chart below shows healthy sales gains compared to a year ago in a broad range of categories, except for gasoline station, electronics and appliance

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.

stores, and general merchandise stores. Motor vehicle and parts, food service and drinking place, and sporting goods sales were particularly strong. The breadths of the sales gains from a year ago are a telling indicator of a consumer that has some staying power.

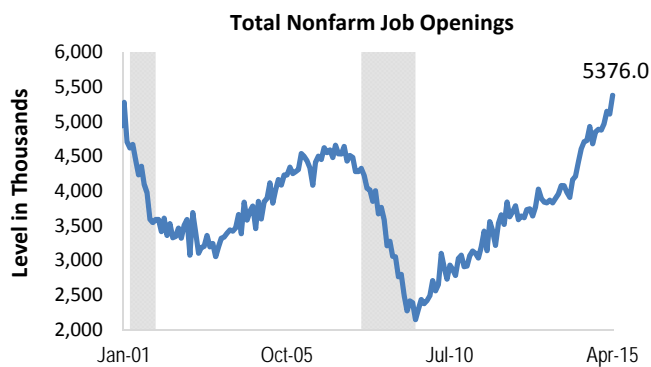
**Consumers Spend on Cars, Restaurants, and Sports**



Source: BLS, Moody's

Moreover, the fundamentals driving the consumer remain fully intact. U.S. job openings in April hit a new cyclical high of 5.376 million, the highest level of job openings in the more than 15 years this data has been collected. This should ensure decent net payroll gains into 2016 and better wage growth, while also attracting more discouraged workers to return to the labor force.

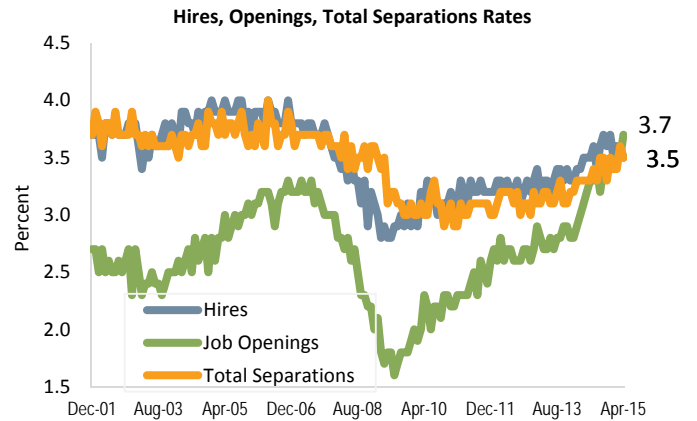
**Job Openings At Record High**



In fact in April, the job opening rate moved ahead of the hiring and separation rate for the first time ever.

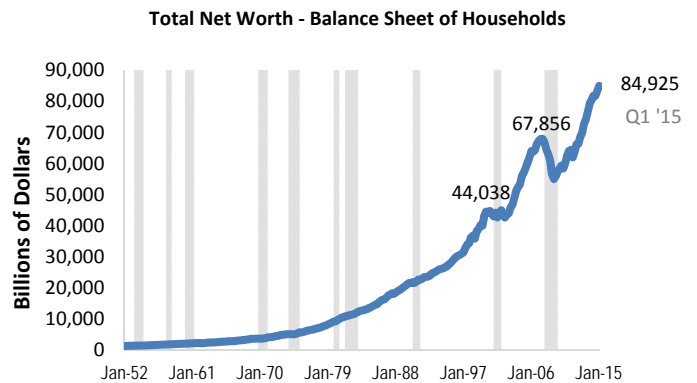
The discussions and information contained in this document are the opinions of BOTW chief economist Dr. Scott Anderson and economist Myasnik "Nik" Poghosyan and should not be construed or used as a specific recommendation for the investment of assets, and is not intended as an offer, or a solicitation 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.

**Job Opening Rate Exceeds Hiring Rate For First Time**



It's not just jobs and wage growth, but wealth gains that should help sustain consumer spending growth over the near-term. Consumers and households continue to get richer. Household net worth increased another 2.0% or \$1.6 trillion dollars in the first quarter, according to the Fed's Flow of Funds report. Homeowners equity increased by a solid \$443.2 billion last quarter as home prices continued to rise. Household net worth at \$84.9 trillion is at its highest level ever- nearly double the wealth that households commanded in 2000 at the height of the dot-com bubble.

**U.S. Household Net Worth Has Doubled Since 2000**



So despite headwinds from abroad, a strong dollar, and somewhat higher interest rates ahead, the U.S. economic recovery can rely on the bedrock of a re-emerging U.S. consumer to sustain and in some areas accelerate the pace of economic activity.

## 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	-0.7	2.5	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	1.8	3.0	3.5	3.4	3.1	3.1	2.9	2.8	2.4	2.5	3.1	3.2
Non-residential Fixed Investment*	1.6	9.7	8.9	4.7	-2.8	1.2	5.0	5.0	4.7	4.6	4.6	4.2	3.0	6.3	3.0	4.6
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	17.0	17.2	17.1	17.2	17.2	17.3	17.3	15.5	16.4	17.0	17.3
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	141.8	142.5	143.2	143.9	144.6	145.3	146.0	136.4	139.0	142.1	145.0
Unemployment rate	6.6	6.2	6.1	5.7	5.6	5.4	5.2	5.1	5.0	4.9	4.9	4.8	7.4	6.2	5.3	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	90.5	91.4	91.7	91.0	91.8	92.5	92.4	76.1	78.3	90.7	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	0.61	0.78	0.98	1.35	1.65	1.90	2.23	0.31	0.45	0.74	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	2.85	3.10	3.20	3.26	3.37	3.50	3.63	3.44	3.34	2.93	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	3.82	4.16	4.30	4.52	4.65	4.76	4.99	3.98	4.19	4.00	4.73
BAA Corporate (yield)	5.12	4.82	4.74	4.73	4.50	4.78	4.97	5.10	5.35	5.50	5.62	5.85	5.10	4.86	4.84	5.58

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