

# 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
27-Jul-2015	Durable Goods Orders	Jun	3.5%	3.0%	-2.2%
27-Jul-2015	Durables Ex Transportation	Jun	0.9%	0.5%	0.0%
27-Jul-2015	Dallas Fed Manf. Activity	Jul	NA	-4	-7
28-Jul-2015	S&P/CS 20 City MoM SA	May	0.4%	0.2%	0.3%
28-Jul-2015	Markit US Composite PMI	Jul P	NA	NA	54.6
28-Jul-2015	Markit US Services PMI	Jul P	NA	55.0	54.8
28-Jul-2015	Consumer Confidence Index	Jul	100.5	100.0	101.4
29-Jul-2015	Pending Home Sales MoM	Jun	1.3%	1.1%	0.9%
29-Jul-2015	FOMC Rate Decision (Upper Bound)	29-Jul	0.25%	0.25%	0.25%
29-Jul-2015	FOMC Rate Decision (Lower Bound)	29-Jul	0.00%	0.00%	0.00%
30-Jul-2015	GDP Annualized QoQ	2Q A	2.6%	2.5%	-0.2%
30-Jul-2015	Personal Consumption	2Q A	2.7%	NA	2.1%
30-Jul-2015	GDP Price Index	2Q A	1.5%	1.5%	0.0%
30-Jul-2015	Initial Jobless Claims	25-Jul	272K	NA	255K
31-Jul-2015	Employment Cost Index	2Q	0.6%	0.6%	0.7%
31-Jul-2015	Chicago Purchasing Manager	Jul	50.5	50.5	49.4
31-Jul-2015	U. of Mich. Sentiment	Jul F	94.3	94.0	93.3

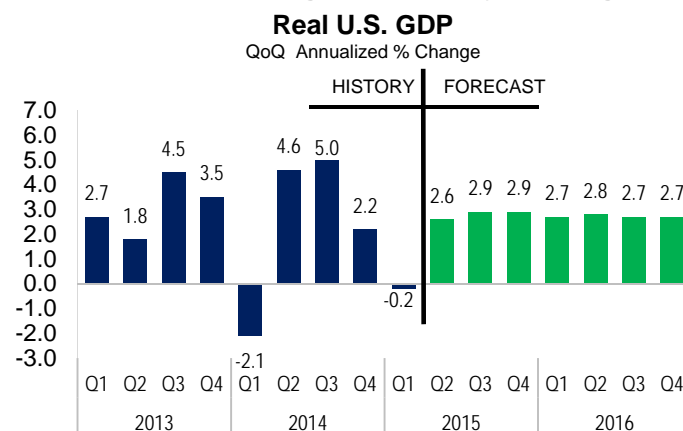
\*Consensus from Bloomberg

## No Worries Mate - Rebound Continues

You might actually get a restful August vacation in this year. With Greece well on its way towards another bailout package, and China managing to calm its stock market plunge, there appears a window of opportunity for U.S. domestic demand to blossom uninterrupted by negative economic and financial headlines around the world.

It has been another week of better readings on U.S. housing, initial jobless claims, and leading economic indicators, suggesting the economic rebound begun in the second quarter will carry-on and accelerate in the second half of 2015 - just as we have been forecasting. We will get our first hint next Thursday with the release of the advance estimate of U.S. GDP growth for the second quarter. We are looking for a 2.6% annualized growth pace on real GDP driven by healthy real consumer spending growth of 2.7% and nearly 9.0% annualized growth in residential investment. That is a decent step up from the -0.2% performance in the first quarter.

## Consumption and Housing Keep Economy Humming

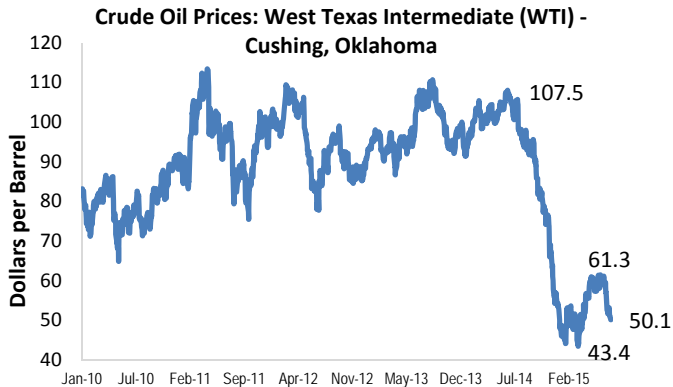


Source: Bureau of Economic Analysis

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.

WTI crude oil prices dropped below \$49.00 per barrel yesterday, and with the end of the summer driving season approaching, retail gasoline prices should follow suit. This will add to consumers' disposable spending power at a time when wages appear to already be inching higher.

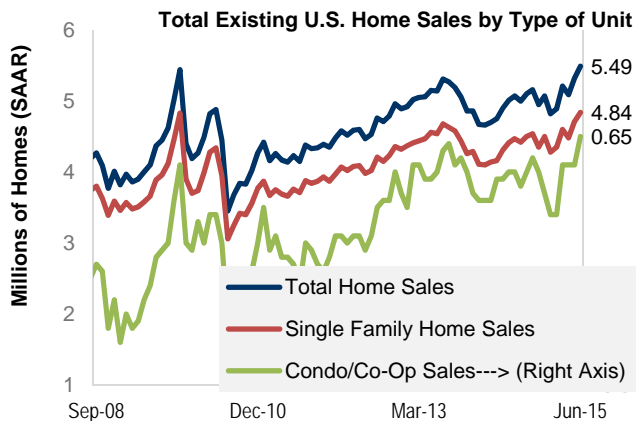
**Still a Consumer Windfall- Low Oil Prices**



Source: U.S. Energy Information Administration

Existing home sales jumped 3.2% in June and are now nearly 10% above year ago levels, but what is more impressive is the fact that existing home sales have already returned to pre-bubble levels.

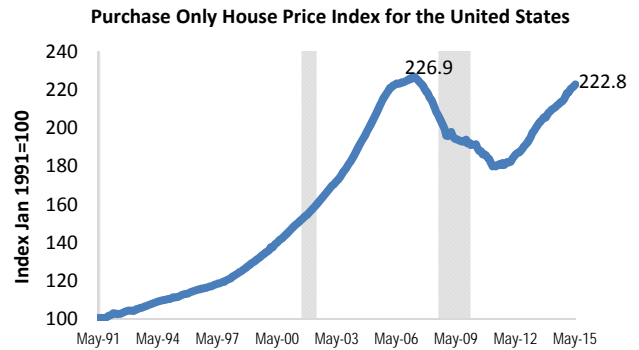
**Existing Home Sales Back to Normal Levels**



Source: National Association of Realtors

Moreover, national home purchase prices are now just a hair's breadth, 1.8% away, from their previous peak in March 2007.

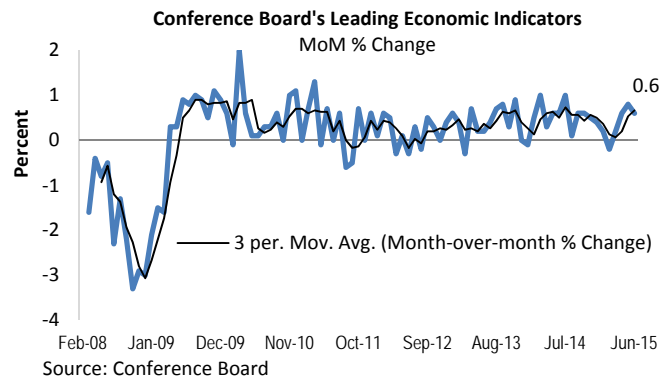
**Home Prices Just Shy Of Previous Peak in May**



Source: Federal Housing Finance Agency

Finally, the Conference Board's Leading Economic Indicators index over the last three months has been rising like it did before last summer's growth explosion, implying stronger second-half growth ahead.

**Leading Indicators Point to Stronger Growth Ahead**



Source: Conference Board

**Fed Rate Hike May Be Closer Than You Think**

I believe the labor market recovery is far enough along and the economic expansion is enduring enough to prompt the first Federal Reserve rate hike at the September FOMC meeting. But before September, we have the July FOMC meeting next week that will be closely scrutinized by the markets for clues on the FOMC's evolving views on the economy. Based on the last beige book report, I suspect the FOMC will be more upbeat in its assessment of current economic conditions.

Another focus will be whether their forward guidance on rate hikes will change to better signal to the markets an impending rate hike in September. While I think a September rate hike is likely, I don't expect the FOMC to tip its hand at the July meeting. They don't want to cause a premature tightening and hope to maintain the flexibility of their data dependency right up until the live meeting and the final decision is made to go ahead. Relax and enjoy your summer vacations everyone!

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.

## 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	-0.2	2.6	2.9	2.9	2.7	2.8	2.7	2.7	2.2	2.4	2.3	2.8
Personal Consumption Expenditures*	1.2	2.5	3.2	4.4	2.1	2.7	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	-2.0	2.1	5.0	5.0	4.7	4.6	4.6	4.2	3.0	6.3	3.4	4.6
Private Housing Starts (000s units)	934	984	1,029	1,055	978	1,144	1,175	1,195	1,220	1,235	1,240	1,260	928	1,001	1,123	1,239
Vehicle Sales (mill. Units, annualized)	15.7	16.5	16.7	16.8	16.6	17.1	17.2	17.1	17.2	17.2	17.3	17.3	15.5	16.4	17.0	17.3
Industrial Production*	3.6	5.7	3.9	4.7	-0.2	-1.7	3.3	3.2	3.4	3.4	3.4	3.4	1.9	3.7	1.9	3.1
Nonfarm Payroll Employment (mil.)	137.8	138.6	139.4	140.2	141.0	141.6	142.3	143.0	143.6	144.3	145.0	145.7	136.4	139.0	142.0	144.7
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	-3.1	3.0	2.0	2.0	2.0	2.0	2.0	2.1	1.5	1.6	0.3	2.1
"Core" CPI* (percent)	1.8	2.2	1.4	1.5	1.7	2.5	1.8	1.9	1.9	1.9	2.0	2.0	1.8	1.7	1.8	2.0
PPI (finished goods)* (percent)	4.1	3.5	0.4	-5.1	-11.2	3.6	1.8	1.7	1.7	1.7	1.8	1.8	1.2	1.9	-2.6	1.9
Trade Weighted Dollar (Fed BOG, major)	76.9	76.4	77.5	82.5	89.3	90.0	91.4	91.7	91.0	91.8	92.5	92.4	75.9	78.4	90.6	91.9
Crude Oil Prices -WTI (\$ per barrel)	99	103	98	73	48	58	52	55	58	60	61	62	98	93	53	60

\*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	2,102							1,644			
Dow Jones Industrial Average	16,177	16,604	16,954	17,345	17,808	18,004							15,010			
Federal Funds Rate (effective)	0.07	0.09	0.09	0.10	0.11	0.12	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	0.02	0.05	0.24	0.53	0.78	1.03	1.28	0.06	0.03	0.08	0.91
Treasury-2 Year Notes (yield)	0.37	0.42	0.52	0.54	0.60	0.61	0.74	0.98	1.35	1.65	1.90	2.23	0.31	0.45	0.73	1.78
Treasury-5 Year Notes (yield)	1.60	1.66	1.70	1.60	1.46	1.53	1.70	1.93	2.34	2.54	2.79	2.92	1.17	1.63	1.66	2.65
Treasury-10 Year Notes (yield)	2.77	2.62	2.50	2.28	1.97	2.16	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	2.88	3.14	3.27	3.31	3.37	3.50	3.63	3.44	3.34	2.96	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	0.32	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	4.17	4.00	4.73
BAA Corporate (yield)	5.12	4.82	4.74	4.73	4.50	4.83	5.20	5.30	5.55	5.70	5.82	6.05	5.10	4.86	4.96	5.78

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