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U.S. Outlook

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

Date	Indicator	For	Estimate	Consensus*	Previous Period
31-Aug-2015	ISM Milwaukee	Aug	NA	NA	47.12
31-Aug-2015	Chicago Purchasing Manager	Aug	54.6	54.8	54.7
31-Aug-2015	Dallas Fed Manf. Activity	Aug	-3.5	-2.5	-4.6
1-Sept-2015	Markit US Manufacturing PMI	Aug F	52.8	52.9	52.9
1-Sept-2015	Construction Spending MoM	Jul	0.9%	0.8%	0.1%
1-Sept-2015	ISM Manufacturing	Aug	52.6	52.8	52.7
1-Sept-2015	Wards Total Vehicle Sales	Aug	17.3M	17.3M	17.5M
2-Sept-2015	ADP Employment Change	Aug	206K	200K	185K
2-Sept-2015	ISM New York	Aug	NA	NA	68.8
2-Sept-2015	Factory Orders	Jul	0.8%	0.7%	1.8%
2-Sept-2015	U.S. Federal Reserve Releases Beige Book				
3-Sept-2015	Initial Jobless Claims	29-Aug	273K	NA	271K
3-Sept-2015	Trade Balance	Jul	-$44.3B	-$44.3B	-$43.8B
3-Sept-2015	Markit US Composite PMI	Aug F	55.0	NA	55.0
3-Sept-2015	Markit US Services PMI	Aug F	55.2	NA	55.2
3-Sept-2015	ISM Non-Manf. Composite	Aug	59.3	58.3	60.3
4-Sept-2015	Change in Nonfarm Payrolls	Aug	223K	218K	215K
4-Sept-2015	Change in Manufact. Payrolls	Aug	10K	5K	15K
4-Sept-2015	Unemployment Rate	Aug	5.2%	5.3%	5.3%
4-Sept-2015	Average Hourly Earnings MoM	Aug	0.2%	0.2%	0.2%
4-Sept-2015	Average Weekly Hours All Employees	Aug	34.5	34.5	34.6

*Consensus from Bloomberg

Tallying Up the Damage from Financial Panic

Global investor confidence rapidly eroded this week before recovering some poise by week end, doing noticeable damage to global and U.S. stock market wealth. The selling pressure was mitigated temporarily as China jumped in on Tuesday with across the board 25-basis-point cuts to their monetary policy rates, the 1-Yr lending and deposit rate. This was the fifth cut in these rates since last November. At the same time, the People's Bank of China cut their reserve requirement ratio by 50 basis points. But in the end, it wasn't enough to end concerns about the near-term global outlook or staunch the decline in China's stock market, which continued to drop as Chinese authorities refused to prop-up the stock market with direct actions.

Since June 14 through Wednesday's close, China's stock market capitalization had dropped by almost $5.2 trillion dollars - a stinging drop of 51.4%. But to keep things into perspective that was the level of China's stock market capitalization only a few months ago-back in January of this year.

The Stock Bubble Pop Felt Round the World

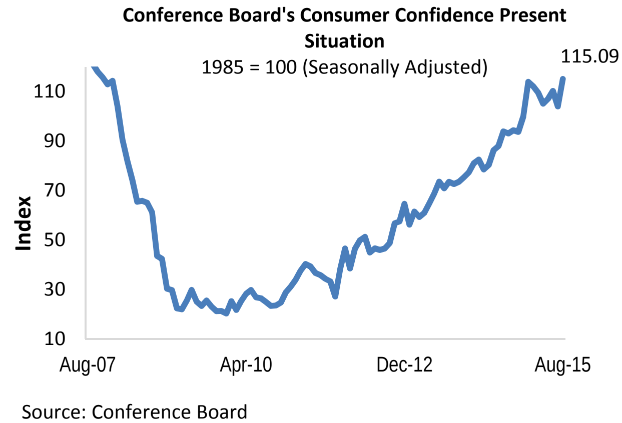
Global stock markets have dropped about $12.7 trillion from their June peak, so China's stock market losses have accounted for approximately 41% of the global losses since June, even though China's stock market comprises only about 8.1% of total global stock market valuation. In short, this sell-off remains a Made-in-China event, despite the global spillovers into other markets around the world.

By comparison, U.S. stock market wealth declines have been smaller. The U.S. market capitalization has fallen $2.75 trillion since the June all-time peak. Moreover, since the February 2009 low, stock market capitalization in the U.S. has still increased by $13.74 trillion (+157%) even with the losses chalked-up over the past month and a half. Assuming a wealth effect of a 2 cent decline in consumer spending over the next two years for every dollar lost in the U.S. stock market (an historical rule-of-thumb), we arrive at a hit to nominal consumer spending of around $55 billion over the next 24 months. Admittedly, this calculation is a crude approximation, since some U.S. stock investors are foreign and many U.S. households invest in stocks overseas, but it does give you a sense that the panic surrounding recent equity market moves may be overdone.

Still it's possible, the negative economic impact on the U.S. economy could be somewhat larger than the pure wealth effect implies, especially if the global economy enters into a full-blown recession, hitting U.S. exporters. Or if psychologically traumatizing consumers and businesses lose their confidence in the economy and respond by raising savings rates and cash and delaying planned spending.

Thankfully, that does not appear to be the case yet as U.S. consumer confidence jumped in August with the present situation component hitting expansion highs despite the recent market turmoil. An improving labor market appears to be trumping stock market price declines in consumers' minds so far.

U.S. Consumer Confidence Un-phased in August



We will also be closely monitoring global liquidity conditions and corporate credit spreads for any signs the global equity market selloff is creating strains other parts of the financial or banking system. For now, it appears strains are minor compared to what we saw happening in 2008-2009 during the Great Recession. This should not be surprising as bank's are better capitalized and consumers and businesses are not as leveraged as they were in 2008.

Also, don't forget the tailwind of lower oil prices for U.S. consumers. While low oil prices and inflation could delay a Fed rate hike, it shouldn't be an impediment for the U.S. consumer. We are starting to see, and anticipate further gains in consumer spending growth from the improvement in disposable personal income from declining energy prices. If oil prices were to stay near current levels the net add to real consumer spending could be as high as $150 billion over the next two years. So you see, if the stock sell-off halts near current levels, the U.S. consumer and economic outlook should remain quite sanguine.

Lastly, the large upward revision in U.S. real GDP growth in the second quarter with upward revisions to nearly all components of final sales underlines the resilience of the U.S. economic expansion and sets up the U.S. economy for another decent quarter of 2.7% annualized growth in the third quarter. While it now appears likely the recent market volatility and concerns for global growth and low inflation will scare the FOMC into delaying a Fed rate hike for a month or two, my vote would still be for a September initial increase.

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*	-0.9	4.6	4.3	2.1	0.6	3.7	2.7	2.8	2.7	2.7	2.7	2.7	1.5	2.4	2.6	2.8
Personal Consumption Expenditures*	1.3	3.8	3.5	4.3	1.7	3.1	3.5	3.4	3.1	3.1	2.9	2.8	1.7	2.7	3.1	3.2
Non-residential Fixed Investment*	8.3	4.4	9.0	0.7	1.6	3.2	3.0	5.0	4.7	4.6	4.6	4.1	3.0	6.2	3.2	4.4
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	17.3	17.2	17.3	17.3	17.2	17.2	15.5	16.4	17.1	17.3
Industrial Production*	3.6	5.7	3.9	4.7	-0.2	-2.0	3.0	3.0	3.2	3.2	3.3	3.3	1.9	3.7	1.9	2.9
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	92.1	92.3	92.4	92.4	93.1	93.0	75.9	78.4	90.9	92.7
Crude Oil Prices -WTI ($ per barrel)	99	103	98	73	48	58	47	48	54	56	58	59	98	93	50	57

*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	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	0.14	0.21	0.46	0.71	0.96	1.21	0.11	0.09	0.15	0.84
Treasury-3 Month Bills (yield)	0.05	0.03	0.03	0.02	0.02	0.02	0.05	0.15	0.40	0.65	0.90	1.15	0.06	0.03	0.06	0.78
Treasury-2 Year Notes (yield)	0.37	0.42	0.52	0.54	0.60	0.61	0.70	0.94	1.33	1.62	1.87	2.15	0.31	0.46	0.71	1.75
Treasury-5 Year Notes (yield)	1.60	1.66	1.70	1.60	1.46	1.53	1.58	1.80	2.29	2.49	2.74	2.87	1.17	1.64	1.59	2.60
Treasury-10 Year Notes (yield)	2.77	2.62	2.50	2.28	1.97	2.16	2.25	2.45	2.71	2.84	2.95	3.18	2.35	2.54	2.21	2.92
Treasury-30 Year Notes (yield)	3.68	3.44	3.27	2.97	2.55	2.88	3.00	3.15	3.31	3.37	3.50	3.63	3.44	3.34	2.90	3.44
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.50	3.75	4.00	4.25	4.50	3.25	3.25	3.31	4.13
Libor 3-Mo. U.S. Dollar	0.26	0.25	0.24	0.25	0.30	0.30	0.32	0.40	0.65	0.90	1.15	1.40	0.28	0.25	0.33	1.03
Mortgage-30 Year (yield)	4.36	4.23	4.14	3.96	3.72	3.82	4.00	4.17	4.52	4.65	4.76	4.99	3.98	4.17	3.93	4.73
BAA Corporate (yield)	5.12	4.82	4.74	4.73	4.50	4.83	5.22	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 .