

U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
8-Sept-2015	NFIB Small Business Optimism	Aug	96.0	95.9	95.4
8-Sept-2015	Labor Market Conditions Index Change	Aug	NA	NA	1.1
8-Sept-2015	Consumer Credit	Jul	\$18.0B	\$18.5B	\$20.7B
9-Sept-2015	JOLTS Job Openings	Jul	5.27M	5.301M	5.249M
10-Sept-2015	Import Price Index MoM	Aug	-1.7%	-1.6%	-0.9%
10-Sept-2015	Wholesale Inventories MoM	Jul	0.3%	0.3%	0.9%
11-Sept-2015	PPI Final Demand MoM	Aug	-0.1%	-0.1%	0.2%
11-Sept-2015	PPI Ex Food and Energy MoM	Aug	0.1%	0.1%	0.3%
11-Sept-2015	U. of Mich. Sentiment	Sep P	91.2	91.5	91.9

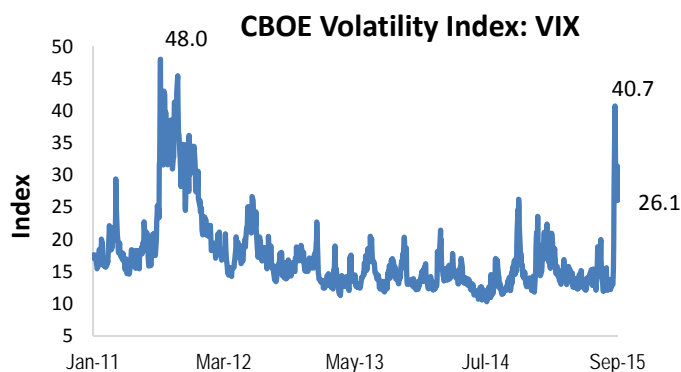
*Consensus from Bloomberg

Right Down The Pike - Now What?

Like a pitcher that's on fire, U.S. economic data keeps coming in right across the plate. Just as we tipped readers off too last week, the U.S. economic data has remained resilient despite the nervous Nellies on Wall Street. The August payroll report of +173K jobs with a two tenths decline in the unemployment rate capped a decent week of U.S. economic data. The U.S. stock market has remained volatile, however. The market volatility has investors on edge, but many have not yet lost all hope.

The VIX index, a measure of S&P stock market volatility hit its highest levels since 2011 last week at 40.7, but has since managed to calm a bit this week, though as you can see in the chart below, the VIX has not yet returned to recent averages.

A Volatile Couple of Weeks in the Markets

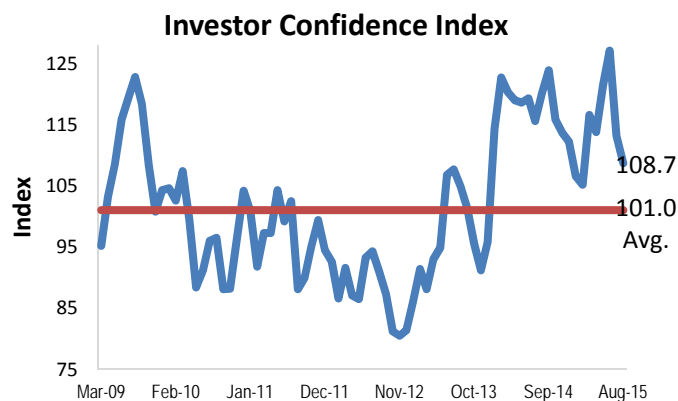


Source: Chicago Board Options Exchange

What is the smart money doing you ask? Good question. Readings on investor confidence have slumped with the market, but investors have not yet capitulated. In fact, a measure of institutional investor confidence compiled by State Street Global Markets remained above its historical average last week. It measures investor confidence or risk appetite quantitatively by analyzing actual buying and selling patterns of institutional investors.

A reading of 100.0 on this index is considered neutral with investors neither increasing nor decreasing their exposure to risky assets. The current reading of around 108 is in stark contrast to the 2011 to 2012 period, when institutional investors were actively scaling back their risk appetite.

Investor Confidence Dented, But Not Destroyed



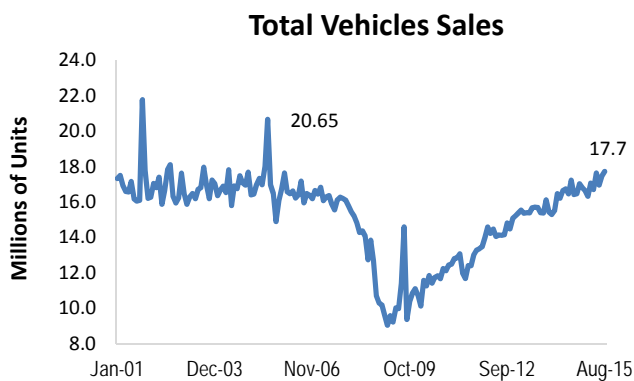
Source: State Street; Bloomberg

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But if you are in need of some reassurance that we're not about to head off another economic cliff, here are some reasons why we think it's too early to call a global recession. Turning first to the U.S., job growth continues at a decent monthly pace, in fact we are still on track for nearly 3.0 million net new jobs this year, and the unemployment rate continues to fall and hit a new expansion low of 5.1 percent last month. But even beyond jobs, the economy appears to be hanging in there quite well. Construction spending and the trade balance for July both exceeded economists' consensus expectations laying a nice base for respectable third quarter U.S. GDP growth.

Consumers continued to spend aggressively on cars in August as light vehicle sales jumped to 17.7 million, the highest month rate of total sales since July 2005.

Car Buyer Let The Good Times Roll



Source: Bloomberg

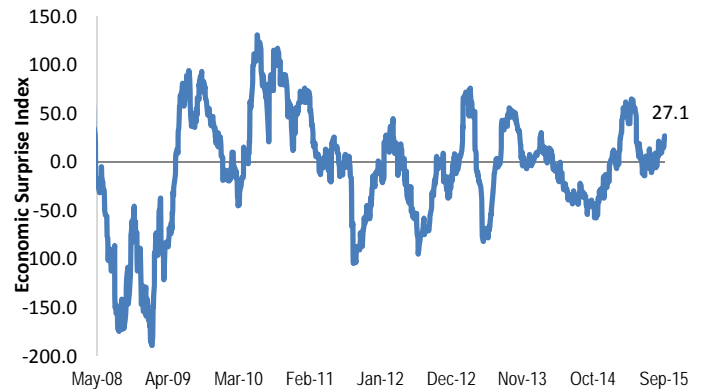
Low gasoline prices, rising real incomes and consumer confidence, and low consumer debt levels have rekindle consumer demand for light trucks and SUVs. U.S. consumer confidence clearly hasn't caved, and improving real income growth may finally be having the desired effect. Despite a small move lower, service business PMI's remain very strong, and the ISM non-manufacturing survey surpassed consensus expectations.

The global economy isn't completely dead in the water either. It's more like the leaders are switching places, many emerging market economies, most of the BRIC's are going from leaders to laggards. In fact, we see a couple of interesting trend changes. Economic surprises indexes have turned higher for the G10 countries, but especially in the Eurozone.

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Eurozone Economy Beating Analyst Expectations

Citigroup Eurozone Economic Surprise Index



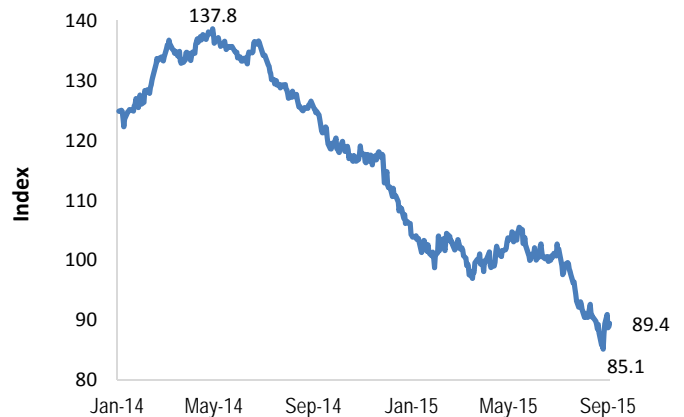
Source: Citigroup Global Markets

Manufacturing and service PMI in the Eurozone continue to firm. While those for emerging markets, and China in particular, remain weak.

Could the worst be over? A general global commodity price index, including oil prices, has turned higher after hitting a bottom on August 24th. If you are looking for a turn higher in the global economy, it is likely you would see it first in global commodity prices.

A Trend Change For Global Commodities?

Futures Commodity Price Index



Source: Bloomberg

A calmer market could once again revive FOMC rate hike expectations for September, though as of today, the futures market is putting only a 34% probability of a September move. In our view, the U.S. economic data and outlook remain supportive of a September initial rate hike; however, we are just not convinced the FOMC will be confident enough to actually pull the trigger with the market still casting a no vote.

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*	-0.9	4.6	4.3	2.1	0.6	3.7	2.5	2.7	2.6	2.7	2.7	2.7	1.5	2.4	2.5	2.7
Personal Consumption Expenditures*	1.3	3.8	3.5	4.3	1.7	3.1	3.0	3.2	3.1	3.1	2.9	2.8	1.7	2.7	3.1	3.1
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	17.5	17.3	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	5.0	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	-3.1	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.

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	0.14	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	1.55	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	2.20	2.45	2.71	2.84	2.95	3.18	2.35	2.54	2.20	2.92
Treasury-30 Year Notes (yield)	3.68	3.44	3.27	2.97	2.55	2.88	2.90	3.15	3.31	3.37	3.50	3.63	3.44	3.34	2.87	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	3.95	4.17	4.52	4.65	4.76	4.99	3.98	4.17	3.92	4.73
BAA Corporate (yield)	5.12	4.82	4.74	4.73	4.50	4.83	5.22	5.45	5.55	5.70	5.82	6.05	5.10	4.86	5.00	5.78

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