

U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
28-Sep-2015	Personal Income	Aug	0.4%	0.4%	0.4%
28-Sep-2015	Personal Spending	Aug	0.4%	0.3%	0.3%
28-Sep-2015	PCE Deflator MoM	Aug	0.0%	0.0%	0.1%
28-Sep-2015	PCE Core MoM	Aug	0.1%	0.1%	0.1%
28-Sep-2015	Pending Home Sales MoM	Aug	0.4%	0.5%	0.5%
28-Sep-2015	Dallas Fed Manf. Activity	Sep	-16.8	-9.5	-15.8
29-Sep-2015	S&P/CS 20 City MoM SA	Jul	0.2%	0.0%	-0.1%
29-Sep-2015	Consumer Confidence Index	Sep	98.0	97.0	101.5
30-Sep-2015	ADP Employment Change	Sep	195k	185k	190k
30-Sep-2015	Chicago Purchasing Manager	Sep	52.9	53.1	54.4
1-Oct-2015	Initial Jobless Claims	26-Sep	270K	NA	267K
1-Oct-2015	Construction Spending MoM	Aug	0.8%	0.6%	0.7%
1-Oct-2015	ISM Manufacturing	Sep	50.6	50.8	51.1
1-Oct-2015	Wards Total Vehicle Sales	Sep	17.7m	17.6m	17.7m
2-Oct-2015	Change in Nonfarm Payrolls	Sep	205k	200k	173k
2-Oct-2015	Unemployment Rate	Sep	5.1%	5.1%	5.1%
2-Oct-2015	Average Hourly Earnings MoM	Sep	0.2%	0.2%	0.3%
2-Oct-2015	Average Weekly Hours All Employees	Sep	34.6	34.6	34.6
2-Oct-2015	Factory Orders	Aug	-1.0%	-1.1%	0.4%

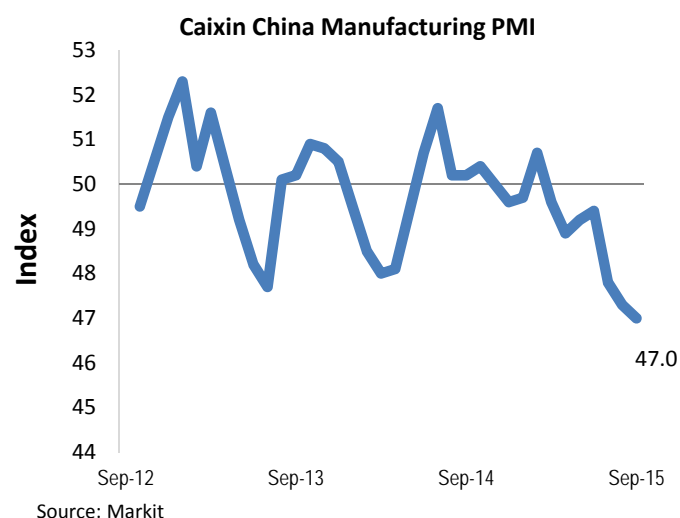
*Consensus from Bloomberg

More Signs of Weakness in Global Production

We received more confirmation this week that global manufacturing activity in September continues to slow, though there are no clear signs, yet, of a global recession. Preliminary Markit manufacturing PMI's fell in Germany, the Eurozone, China, and Japan this month.

The weakest manufacturing PMI data comes out of China, where the Caixin PMI produced by Markit dropped to 47.0. Any number below 50.0 indicates contraction. This is the lowest reading on this measure since March 2009. We are lowering our GDP growth forecast for China to 6.5% for 2015 and 6.0% for 2016, from 6.8% and 6.3% respectively. While it's likely China's GDP growth is currently below that figure, further policy stimulus could get China somewhat closer to its goal by year-end.

China's September Mfg. PMI Worst Since 2009



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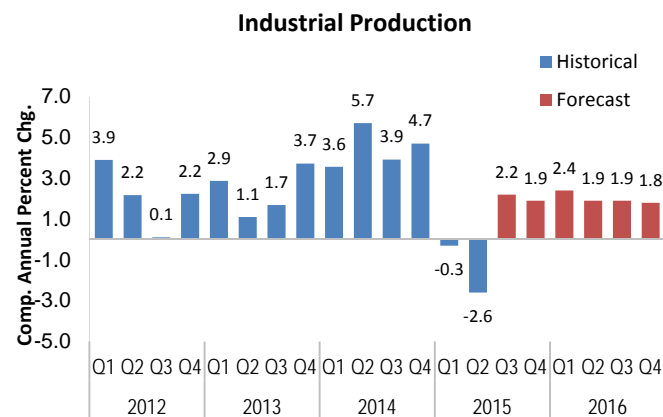
At the same time, global inflation is slipping. Producer prices are contracting steadily in Europe, Japan, China, and the United States, just to name a few major regions, and financial instability is still evident in global equity and bond markets. The FOMC's caution in raising rates in this environment appears warranted.

I think getting upset at the Federal Reserve for not raising rates last week, is a little like shooting the messenger. After all, the Fed not raising last week didn't make global PMI indexes decline in September. And it's a stretch to say the Fed decision helped push oil and commodity prices lower. In fact, delayed action from the Fed should weaken the U.S. dollar and stabilize commodity prices, all else being equal.

Indeed, the financial market's reaction so far is probably a natural reaction to growing global growth and inflation concerns. The Treasury yield curve made nearly a parallel 15 basis point shift lower between the 6-month and 30-year maturities. If it was only the Fed decision driving things, you would have seen more downward movement at the short-end of the yield curve not the long-end.

Last week, we cut our inflation forecasts in response to the continuing drop in commodity prices, and this week we cut our U.S. industrial production, business investment, and inventory accumulation forecasts over the balance of this year and into 2016.

U.S. Industrial Production Headwinds To Linger into 2016

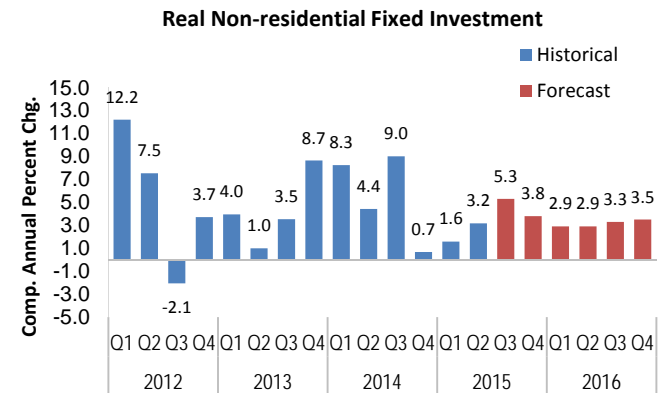


Source: Bureau of Economic Analysis

We are trimming our business investment forecasts for the next six quarters as well. Excess global capacity in manufacturing and oil production, a stronger dollar, the hit to U.S. corporate profitability due to China, and somewhat bloated business inventories, will likely keep business investment from accelerating along with consumer spending.

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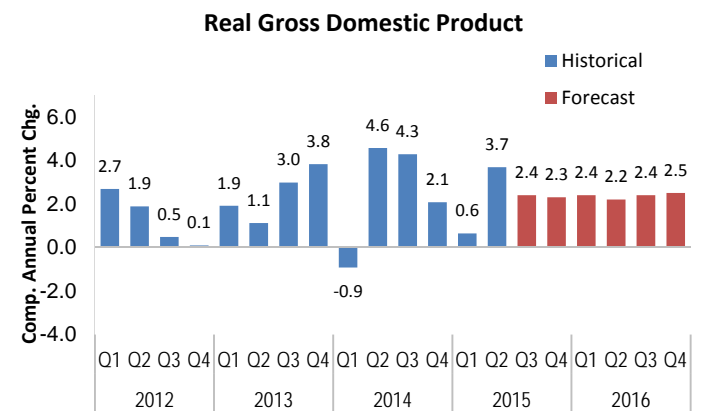
U.S. Business Investment Set To Soften



Source: Bureau of Economic Analysis

The cumulative impact on real GDP growth from these adjustments is to cut about 3 tenths of a percent off of our U.S. real GDP growth forecast for 2016. We now see U.S. GDP growth around 2.4% on an annualized basis in 2016, down from 2.5% this year.

U.S. GDP Growth Forecasts Get a Haircut



Source: Bureau of Economic Analysis

While not a disaster for the U.S. economic outlook, the accumulating evidence is that low commodity prices, weaker demand from China and emerging markets, along with a stronger dollar, will weigh more heavily on U.S. GDP growth over the next six quarters than previously anticipated. On the brighter side, consumer spending forecasts remain intact and robust, and consumers will continue to drive moderate economic growth in the United States. The FOMC pause in September caught some by surprise, but it is hardly the cause for what is ailing the equity markets, you can chalk that one up to the mixed signals coming from the U.S. and global economies.

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	2.4	2.3	2.4	2.2	2.4	2.5	1.5	2.4	2.5	2.4
Personal Consumption Expenditures*	1.3	3.8	3.5	4.3	1.7	3.1	3.3	3.2	3.0	3.0	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	5.3	3.8	2.9	2.9	3.3	3.5	3.0	6.2	3.4	3.5
Private Housing Starts (000s units)	934	984	1,029	1,055	978	1,155	1,200	1,220	1,225	1,235	1,240	1,260	928	1,001	1,138	1,240
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	-0.3	-2.6	2.2	1.9	2.4	1.9	1.9	1.8	1.9	3.7	1.5	1.8
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	-0.5	1.8	2.0	2.0	2.0	2.1	1.5	1.6	-0.1	1.7
"Core" CPI* (percent)	1.8	2.2	1.4	1.5	1.7	2.5	1.2	1.5	1.9	1.9	2.0	2.0	1.8	1.7	1.7	1.8
PPI (finished goods)* (percent)	4.1	3.5	0.4	-5.1	-11.2	3.6	-6.0	1.7	1.7	1.7	1.8	1.8	1.2	1.9	-3.6	0.9
Trade Weighted Dollar (Fed BOG, major)	76.9	76.4	77.5	82.5	89.3	90.0	91.7	91.9	92.0	92.0	92.7	92.6	75.9	78.4	90.7	92.3
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	0.10	0.40	0.65	0.90	1.15	0.06	0.03	0.05	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	1.56	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	2.22	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	2.97	3.21	3.31	3.37	3.50	3.63	3.44	3.34	2.90	3.45
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	0.39	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	3.96	4.17	4.42	4.55	4.66	4.89	3.98	4.17	3.92	4.63
BAA Corporate (yield)	5.12	4.82	4.74	4.73	4.50	4.83	5.24	5.48	5.55	5.70	5.82	6.05	5.10	4.86	5.01	5.78

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