

U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
13-Oct-2015	NFIB Small Business Optimism	Sep	95.5	95.9	95.9
14-Oct-2015	PPI Final Demand MoM	Sep	-0.3%	-0.3%	0.0%
14-Oct-2015	PPI Ex Food and Energy MoM	Sep	0.1%	0.1%	0.3%
14-Oct-2015	Retail Sales Advance MoM	Sep	0.1%	0.2%	0.2%
14-Oct-2015	Retail Sales Ex Auto MoM	Sep	-0.2%	-0.1%	0.1%
14-Oct-2015	Business Inventories	Aug	0.2%	0.1%	0.1%
14-Oct-2015	U.S. Federal Reserve Releases Beige Book				
15-Oct-2015	Initial Jobless Claims	10-Oct	268K	NA	263K
15-Oct-2015	CPI MoM	Sep	-0.3%	-0.2%	-0.1%
15-Oct-2015	CPI Ex Food and Energy MoM	Sep	0.1%	0.1%	0.1%
15-Oct-2015	Empire Manufacturing	Oct	-9.0	-7.5	-14.7
15-Oct-2015	Philadelphia Fed Business Outlook	Oct	-3.0	0.0	-6.0
16-Oct-2015	Industrial Production MoM	Sep	-0.2%	-0.3%	-0.4%
16-Oct-2015	Capacity Utilization	Sep	77.4%	77.4%	77.6%
16-Oct-2015	U. of Mich. Sentiment	Oct P	88.4	88.5	87.2
16-Oct-2015	Net Long-term TIC Flows	Aug	NA	NA	\$7.7b

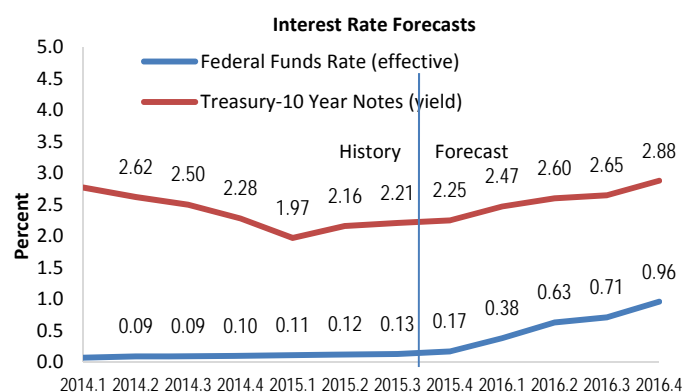
*Consensus from Bloomberg

Replacing Liftoff with Gradual Levitation

The word “liftoff” brings visions of a rocket on the launch pad ready to vault into outer space. But recent downward revisions to our growth outlook for 2016, suggest a far calmer interest rate normalization approach, more like a day old helium balloon that is able to levitate off the floor, but can’t quite touch the ceiling. Compared to previous tightening cycles, interest rate increases this time around we will be riding a glacier not a rocket.

While I still believe the FOMC will raise interest rates for the first time at their December 2015 meeting, I no longer see a steady, every-other-FOMC-meeting move higher from there for 2016. I removed one 25-basis-point rate hike from our 2016 interest rate forecast. After the December 2015 initial hike, I expect a longer pause before the next leg higher. We are penciling in the next increase at the April 2016 FOMC meeting, another increase in September, with the last one for the year coming in December 2016.

A Glacial Crawl toward Rate Normalization Expected



Source: Federal Reserve; Bank of the West Economics

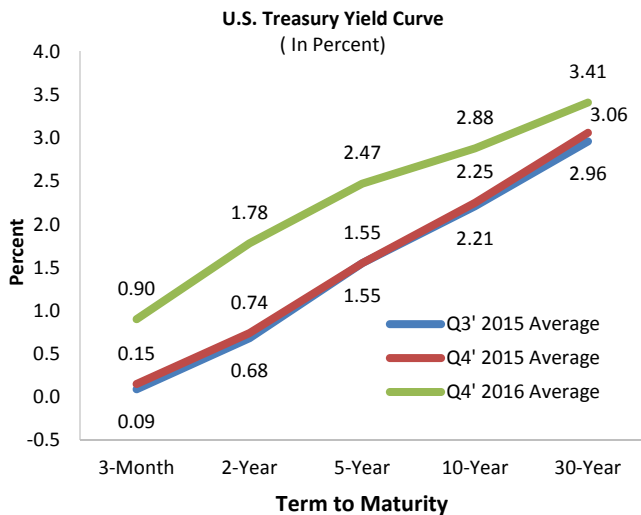
While not as pessimistic as the Fed Funds Futures market, which currently forecasts no rate hikes in 2015 and only two next year, our latest Fed funds rate forecast is now about a quarter percentage point below the FOMC’s September “dot-plot” guidance for year-end

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2016, and a half a percentage point below their year-end 2017 guidance.

This creates a much more gradual glide path for interest rate normalization as moderate growth continues and other central banks around the world either ramp up monetary accommodation, or keep their monetary taps wide open.

What The Yield Curve Might Look Like a Year From Now?

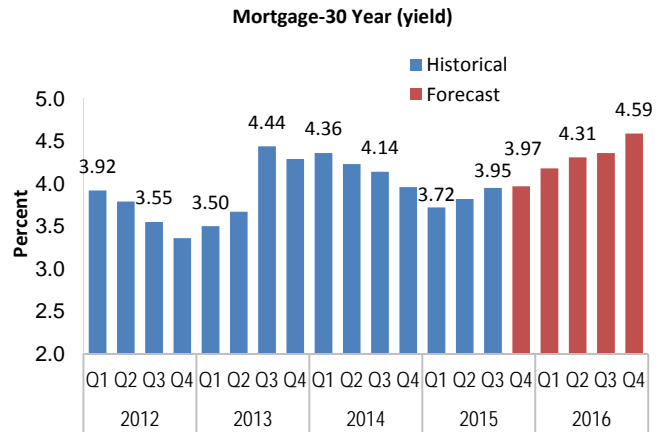


For the United States, we expect the push and pull from relatively robust consumer spending and housing demand to be nearly equally balanced by relative weakness in business spending, industrial production, exports, and business inventories in the quarters ahead. This counsels for a more nuanced and data-dependent approach to interest rate normalization in the quarters ahead than one that keeps to a set every-other-meeting schedule.

This will be a distinct break from the Greenspan era Federal Reserve that tended to raise a quarter of a percentage point at every scheduled FOMC meeting during a tightening cycle. It's hard to believe, but the last time the Federal Reserve began an interest rate tightening cycle was way back in June 2004.

This rate outlook bodes well for home buyers. Even though Halloween is approaching fast, future mortgage rates don't look too scary. If you are looking to buy a house or car over the next twelve months, the sticker shock on your monthly payments might not be as bad as you thought.

Mortgage Rate Outlook Is Not Too Scary This Halloween

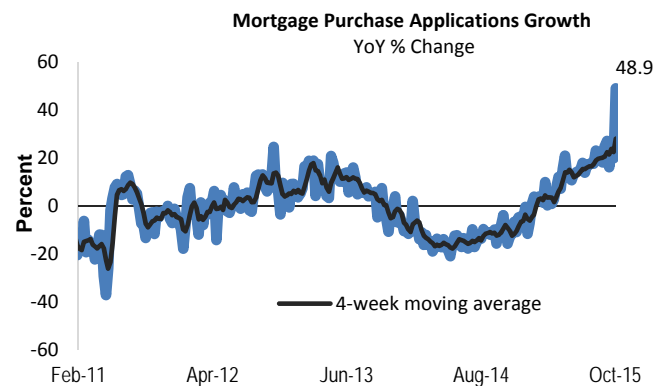


Source: Federal Reserve, Bank of the West Economics

Assuming you are looking for a median priced existing home – the national median is currently around \$230,000 – and you plan to put down 20% or \$46,000, your monthly mortgage payment would go from around \$1,170 per month at today's 30-year mortgage rates to just \$1,239 per month if rates increased to 4.59 percent at year-end 2016. That is an increase of around \$69.00 per month; a noticeable increase, but probably not a game changer for most potential home buyers.

Meanwhile, housing market trends remain favorable. Mortgage applications jumped 26% last week on lower mortgage rates and a new home buyer protection clause implemented by the Consumer Financial Protection Bureau that requires greater loan disclosure by mortgage lenders. The Mortgage Bankers Association reports, "many applications were filed prior to the regulatory change". But it didn't hurt that the average fixed rate mortgage slipped to 3.99 percent last week from 4.08 percent the week before.

Mortgage Purchase Applications Jump on Lower Rates



Source: Mortgage Bankers Association

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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	2013.0	2014	2015	2016
Real GDP*	-0.9	4.6	4.3	2.1	0.6	3.9	1.8	2.4	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	3.6	3.6	3.2	3.0	3.0	2.9	2.8	1.7	2.7	3.2	3.2
Non-residential Fixed Investment*	8.3	4.4	9.0	0.7	1.6	4.1	6.5	3.8	2.9	2.9	3.3	3.5	3.0	6.2	3.7	3.7
Private Housing Starts (000s units)	934	984	1,029	1,055	978	1,155	1,150	1,164	1,210	1,235	1,240	1,260	928	1,001	1,112	1,236
Vehicle Sales (mill. Units, annualized)	15.7	16.5	16.7	16.8	16.6	17.1	17.8	17.5	17.4	17.3	17.2	17.2	15.5	16.4	17.3	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	142.1	142.7	143.3	143.8	144.4	145.0	136.4	139.0	141.9	144.1
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	91.8	92.0	92.2	92.2	92.7	92.6	75.9	78.4	90.8	92.4
Crude Oil Prices -WTI (\$ per barrel)	99	103	98	73	48	58	47	46	52	54	56	56	98	93	50	55

*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	2009	2,064	2102	2027						1,644			
Dow Jones Industrial Average	16,177	16,604	16,954	17345	17,808	18,004	17,077						15,010			
Federal Funds Rate (effective)	0.07	0.09	0.09	0.10	0.11	0.12	0.13	0.17	0.38	0.63	0.71	0.96	0.11	0.09	0.13	0.67
Treasury-3 Month Bills (yield)	0.05	0.03	0.03	0.02	0.02	0.02	0.09	0.15	0.32	0.57	0.65	0.90	0.06	0.03	0.07	0.61
Treasury-2 Year Notes (yield)	0.37	0.42	0.52	0.54	0.60	0.61	0.68	0.74	1.12	1.41	1.52	1.78	0.31	0.46	0.66	1.46
Treasury-5 Year Notes (yield)	1.60	1.66	1.70	1.60	1.46	1.53	1.55	1.55	1.99	2.19	2.34	2.47	1.17	1.64	1.52	2.25
Treasury-10 Year Notes (yield)	2.77	2.62	2.50	2.28	1.97	2.16	2.21	2.25	2.47	2.60	2.65	2.88	2.35	2.54	2.15	2.65
Treasury-30 Year Notes (yield)	3.68	3.44	3.27	2.97	2.55	2.88	2.96	3.06	3.13	3.19	3.28	3.41	3.44	3.34	2.86	3.25
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.33	3.50	3.75	3.83	4.08	3.25	3.25	3.27	3.79
Libor 3-Mo. U.S. Dollar	0.26	0.25	0.24	0.25	0.30	0.30	0.31	0.37	0.57	0.82	0.90	1.15	0.28	0.25	0.32	0.86
Mortgage-30 Year (yield)	4.36	4.23	4.14	3.96	3.72	3.82	3.95	3.97	4.18	4.31	4.36	4.59	3.98	4.17	3.87	4.36
BAA Corporate (yield)	5.12	4.82	4.74	4.73	4.50	4.83	5.24	5.40	5.51	5.66	5.77	6.00	5.10	4.86	4.99	5.74

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