

U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
2-Nov-2015	Markit US Manufacturing PMI	Oct F	54.0	NA	54.0
2-Nov-2015	Construction Spending MoM	Sep	0.4%	0.5%	0.7%
2-Nov-2015	ISM Manufacturing	Oct	50.9	49.7	50.2
3-Nov-2015	ISM New York	Oct	47.0	NA	44.5
3-Nov-2015	Factory Orders	Sep	-0.9%	-1.0%	-1.7%
3-Nov-2015	Wards Total Vehicle Sales	Oct	17.9m	17.8m	18.1m
4-Nov-2015	ADP Employment Change	Oct	190k	180k	200k
4-Nov-2015	Trade Balance	Sep	-\$43.8b	-\$46.5b	-\$48.3b
4-Nov-2015	Markit US Composite PMI	Oct F	54.5	NA	54.5
4-Nov-2015	Markit US Services PMI	Oct F	54.4	NA	54.4
4-Nov-2015	ISM Non-Manf. Composite	Oct	57.9	56.5	56.9
5-Nov-2015	Initial Jobless Claims	31-Oct	262K	NA	260K
5-Nov-2015	Nonfarm Productivity	3Q P	0.2	0.3	3.3
5-Nov-2015	Unit Labor Costs	3Q P	2.2	2.0	-1.4
6-Nov-2015	Change in Nonfarm Payrolls	Oct	180k	177k	142k
6-Nov-2015	Change in Manufact. Payrolls	Oct	-5k	0k	-9k
6-Nov-2015	Unemployment Rate	Oct	5.1%	5.1%	5.1%
6-Nov-2015	Average Hourly Earnings MoM	Oct	0.3%	0.2%	0.0%
6-Nov-2015	Average Weekly Hours All Employees	Oct	34.5	34.5	34.5
6-Nov-2015	Consumer Credit	Sep	\$17.0b	\$17.5b	\$16.0b

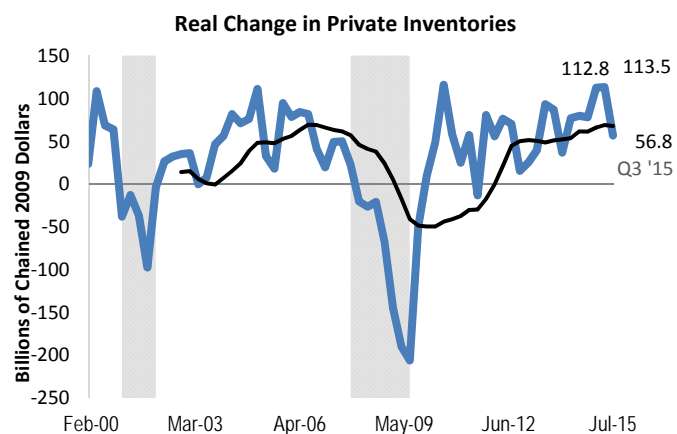
*Consensus from Bloomberg

Ignore the Headline- Q3 GDP Report Was Solid

Third quarter U.S. real GDP growth came in a touch lighter than our forecast at 1.5%, and was a big deterioration from the second quarter's 3.9% real GDP growth, but in this instance the headline is deceiving.

Our view is that third quarter U.S. GDP was solid, nearly in-line with our expectations for a 1.6% advanced reading. The primary, and virtually only driver of the drop in growth from the second quarter, was a steep inventory correction that sliced a whopping 1.4 percentage points off the third quarter GDP growth estimate.

Q3 Inventory Correction Just An Adjustment to the Mean



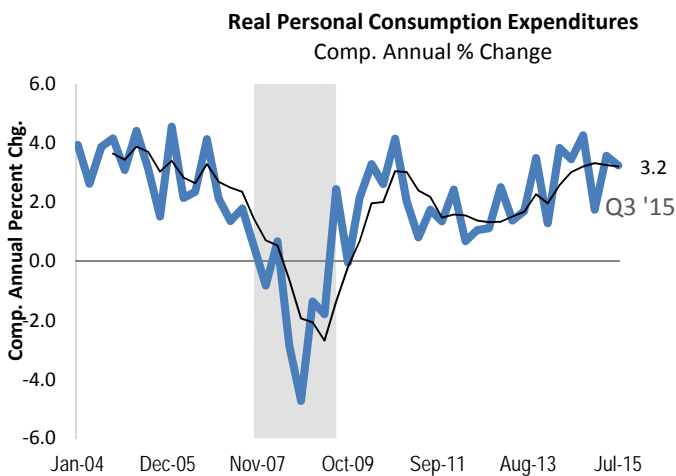
Source: Bureau of Economic Analysis

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This is merely a correction of the outsized inventory growth that occurred over the first half of 2015. As the chart above illustrates, business inventories grew by \$112.8 billion in the first quarter and \$113.5 billion in the second quarter of this year. A three-year moving average of inventory growth shows a much more modest average quarterly growth of inventories of around \$68 billion a quarter. So the drop in inventory gains in Q3 to \$56.8 billion is just an adjustment to the mean and is not likely to be repeated in the quarters ahead.

Moreover, domestic demand appears strong. Real consumer spending held above three percent for the second quarter in a row, and we anticipate a similar performance from the consumer in the fourth quarter.

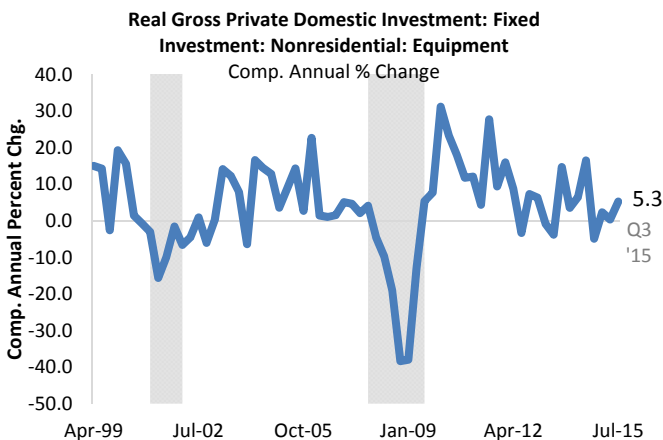
Consumer Spending Holds Up Well



Source: U.S. Bureau of Economic Analysis

Even business equipment spending rebounded to a respectable 5.3 percent growth rate last quarter, the fastest growth rate on this measure since last year at this time.

Business Equipment Spending Growth Best In a Year

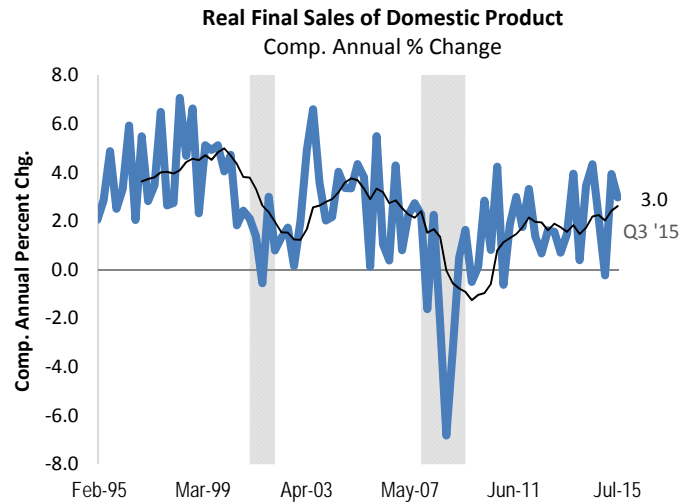


Source: US. Bureau of Economic Analysis/FRED

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Indeed, final sales a measure of total expenditures that excludes inventory changes remained at a healthy 3.0 percent last quarter. Despite all the hand wringing about the strong U.S. dollar, the trade balance only deteriorated by \$1.6 billion last quarter, subtracting a miniscule 0.03 percent from U.S. GDP, according to the Bureau of Economic Analysis.

Robust Final Demand Persists



Source: Bureau of Economic Analysis

Bringing it all together, the strong read on domestic demand in Thursday's Q3 GDP report bolsters the case that GDP growth will bounce back in the fourth quarter just in time for the Fed to go ahead with their first interest rate increase in more than eight years. Our current forecast for Q4 real GDP growth is 2.5%. At this rate, U.S. growth remains above the U.S. long-term potential and we should continue to see more tightening in the labor market and improvement in U.S. unemployment rates.

Next week, we get our first look at job growth in the fourth quarter with the release of the October payroll report on Friday. I am forecasting a solid 180K net new nonfarm jobs were created in October with the unemployment rate holding at 5.1 percent. The signals of a potential interest rate hike from the Fed as early as December in this week's FOMC meeting statement have already helped nudge market rate expectations closer to the Fed's projected interest rate path. If October's payrolls come in as hot as I think they will, I expect those expectations will continue to converge.

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	1.5	2.5	2.4	2.3	2.5	2.5	1.5	2.4	2.4	2.4
Personal Consumption Expenditures*	1.3	3.8	3.5	4.3	1.7	3.6	3.2	3.2	3.0	3.0	2.9	2.8	1.7	2.7	3.2	3.1
Non-residential Fixed Investment*	8.3	4.4	9.0	0.7	1.6	4.1	2.1	4.4	2.9	2.9	3.3	3.5	3.0	6.2	3.2	3.3
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	142.2	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	1.6	1.8	2.0	2.0	2.0	2.1	1.5	1.6	0.2	2.0
"Core" CPI* (percent)	1.8	2.2	1.4	1.5	1.7	2.5	1.7	1.5	1.9	1.9	2.0	2.0	1.8	1.7	1.8	1.9
PPI (finished goods)* (percent)	4.1	3.5	0.4	-5.1	-11.2	3.6	0.8	1.7	1.7	1.7	1.8	1.8	1.2	1.9	-2.8	1.7
Trade Weighted Dollar (Fed BOG, major)	76.9	76.4	77.5	82.5	89.3	90.0	91.6	91.5	92.0	92.0	92.5	92.4	75.9	78.4	90.7	92.2
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	1,930		
Dow Jones Industrial Average	16,177	16,604	16,954	17345	17,808	18,004	17,077						15,010	16,770		
Federal Funds Rate (effective)	0.07	0.09	0.09	0.10	0.11	0.12	0.13	0.15	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	0.06	0.32	0.57	0.65	0.90	0.06	0.03	0.05	0.61
Treasury-2 Year Notes (yield)	0.37	0.42	0.52	0.54	0.60	0.61	0.68	0.71	1.07	1.36	1.47	1.73	0.31	0.46	0.65	1.41
Treasury-5 Year Notes (yield)	1.60	1.66	1.70	1.60	1.46	1.53	1.55	1.55	1.89	2.09	2.24	2.37	1.17	1.64	1.52	2.15
Treasury-10 Year Notes (yield)	2.77	2.62	2.50	2.28	1.97	2.16	2.21	2.20	2.47	2.60	2.65	2.88	2.35	2.54	2.14	2.65
Treasury-30 Year Notes (yield)	3.68	3.44	3.27	2.97	2.55	2.88	2.96	3.00	3.13	3.19	3.28	3.41	3.44	3.34	2.85	3.25
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.31	3.50	3.75	3.83	4.08	3.25	3.25	3.26	3.79
Libor 3-Mo. U.S. Dollar	0.26	0.25	0.24	0.25	0.30	0.30	0.31	0.33	0.57	0.82	0.90	1.15	0.28	0.25	0.31	0.86
Mortgage-30 Year (yield)	4.36	4.23	4.14	3.96	3.72	3.82	3.95	3.98	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	5.34	5.51	5.66	5.77	6.00	5.10	4.86	4.98	5.74

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