

U.S. Outlook

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



Date	Indicator	For	Estimate	Consensus*	Previous Period
09-Nov-2015	Labor Market Conditions Index Change	Oct	NA	NA	0.0
10-Nov-2015	NFIB Small Business Optimism	Oct	96.6	NA	96.1
10-Nov-2015	Import Price Index MoM	Oct	-0.2%	-0.1%	-0.1%
10-Nov-2015	Wholesale Inventories MoM	Sep	0.1%	0.1%	0.1%
12-Nov-2015	Initial Jobless Claims	07-Nov	268K	NA	276K
13-Nov-2015	Retail Sales Advance MoM	Oct	0.3%	0.2%	0.1%
13-Nov-2015	Retail Sales Ex Auto MoM	Oct	0.4%	0.4%	-0.3%
13-Nov-2015	PPI Final Demand MoM	Oct	-0.1%	0.2%	-0.5%
13-Nov-2015	PPI Ex Food and Energy MoM	Oct	0.1%	0.1%	-0.3%
13-Nov-2015	Business Inventories	Sep	0.1%	0.0%	0.0%
13-Nov-2015	U. of Mich. Sentiment	Nov P	92.0	91.3	90.0

*Consensus from Bloomberg

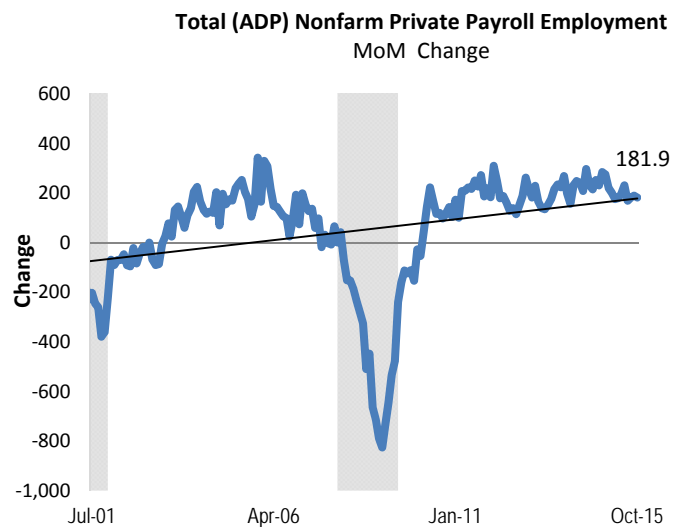
It's All About The Jobs

There were more hits than misses this week with the U.S. economic indicators. The October jobs report revealed a solid improvement in job creation from the prior two months, solidifying expectations for better economic growth in the fourth quarter. This will likely trigger an initial interest rate hike from the Federal Reserve in December and an acceleration in U.S. dollar appreciation and interest rate increases. The Treasury yield curve shifted up from the 2-year to the 10-year maturities by 7 to 11 basis points this morning in response.

Nonfarm payrolls increased by a better than expected +271K last month, while the unemployment rate dropped to 5.0% from 5.1% in September. Income growth accelerated with average hourly earnings increasing a robust 0.4%, pushing the year-on-year growth rate to 2.5% from 2.3% a month before.

The ADP employment figures released on Wednesday foreshadowed the better job gains last month. While private payroll gains have downshifted a bit from the pace we saw late last year, the adjacent chart shows the uptrend in private payroll growth remains in place.

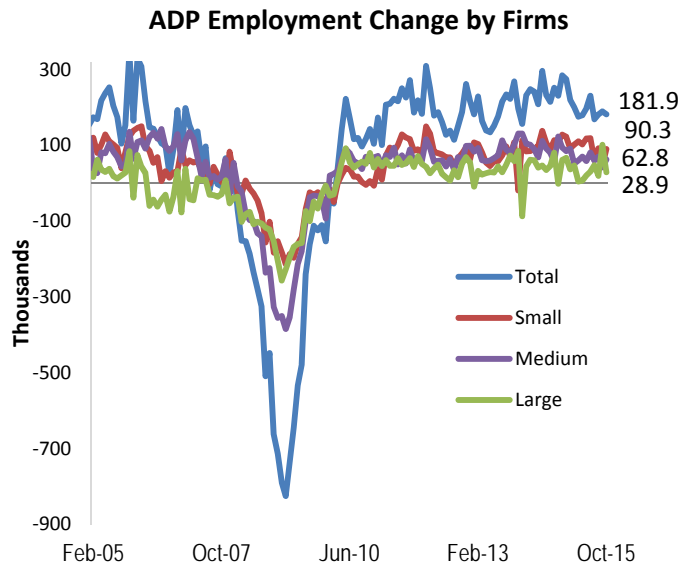
Private Sector's Positive Job Growth Trend Intact Thru Oct.



Source: Automatic Data Processing, Inc.

Beyond the headline ADP figures, the October report showed an important improvement in job gains among small employers (with 1 to 49 employees) and medium employers (with 50-499 employees).

Smaller Employers Leading The Job Creation Engine



Source: Automatic Data Processing, Inc

This is what we have been anticipating as smaller employers are more insulated from the vagaries of a rising U.S. dollar and the ebb and flow of foreign demand. This is consistent with our own Bank of the West small business confidence survey results released last month and the improvement we are seeing in the NFIB small business index on hiring plans this year.

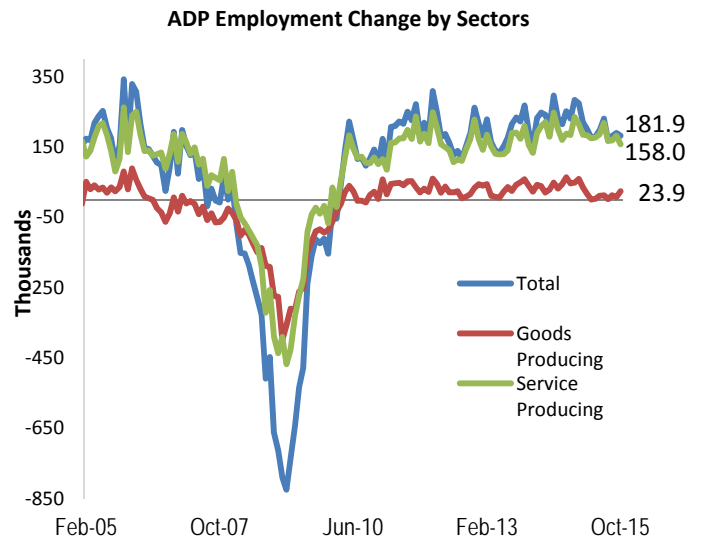
NFIB Small Business Hiring Plans Remain Robust



Source: National Federation of Independent Business

By sector, the ADP jobs report shows that nearly all the net job gains are coming from the services sector. In October, 87 percent of the net new jobs came from services. Service producers added 158K jobs last month, while goods producers added a modest 24K jobs. Encouragingly, however, the October net gain in goods producers' jobs was the best monthly performance since January. This is a sign, perhaps, that an inflection point has been reached and the manufacturing sector is successfully weathering the storm of sluggish growth from abroad.

Services Drive Job Gains, Goods Producers Step Up in Oct.



Source: Automatic Data Processing, Inc

Bottom-line, the economic indicators for October likely met or surpassed the Fed's sniff test on the resilience of the U.S. expansion. This week we can add the October payroll report, ISM Non-manufacturing purchasing managers index (that unexpectedly jumped to 59.1 from 56.9), and a blowout unit vehicle sales report (at 18.12 million units for October) to the positive column for the U.S. economy. The probability of a December rate increase continues to rise. The Fed Funds futures market is currently pricing in a 72 percent probability of a December liftoff from the Federal Reserve. As Janet Yellen told Congress this week, a December rate hike is a "live possibility."

Next week, retail sales and the producer price index for October will get some close scrutiny from the markets and the Fed. We expect a rebound in retail sales on the month with a mixed reading on the PPI. Neither release is likely to change minds on the FOMC on the timing of the first interest rate hike. The preliminary University of Michigan Consumer Sentiment index for November will be watched as well to see if the consumer is going to show up for the all-important holiday shopping season.

The discussions and information contained in this document are the opinions of BOTW chief economist Dr. Scott Anderson and economist Myasnik "Nik" Poghosyan and should not be construed or used as a specific recommendation for the investment of assets, and is not intended as an offer, or a solicitation of an offer, to purchase or sell any security or financial instrument. Nor does the information constitute advice or an expression of the Bank's view as to whether a particular security or financial instrument is appropriate for you or meets your financial objectives. Economic and market observations and forecasts, such as those offered by Dr. Anderson and Poghosyan, reflect subjective judgments and assumptions, and unexpected events may occur. There can be no assurance that developments will transpire as forecasted. Nothing in this document should be interpreted to state or imply that past results are an indication of future performance.

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