

# U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
16-Nov-2015	Empire Manufacturing	Nov	-7.0	-6.35	-11.4
17-Nov-2015	CPI MoM	Oct	0.1%	0.2%	-0.2%
17-Nov-2015	CPI Ex Food and Energy MoM	Oct	0.1%	0.2%	0.2%
17-Nov-2015	Industrial Production MoM	Oct	0.1%	0.1%	-0.2%
17-Nov-2015	Capacity Utilization	Oct	77.5%	77.5%	77.5%
17-Nov-2015	NAHB Housing Market Index	Nov	63	64	64
17-Nov-2015	Net Long-term TIC Flows	Sep	NA	NA	\$20.4b
18-Nov-2015	Housing Starts	Oct	1170k	1165k	1206k
18-Nov-2015	Building Permits	Oct	1135k	1140k	1105k
18-Nov-2015	Minutes from Oct. 27-28 FOMC Meeting	Oct			
19-Nov-2015	Initial Jobless Claims	14-Nov	271K	NA	276K
19-Nov-2015	Philadelphia Fed Business Outlook	Nov	-1.0	0.0	-4.5
19-Nov-2015	Leading Index	Oct	0.6%	0.5%	-0.2%
20-Nov-2015	Kansas City Fed Manf. Activity	Nov	0	NA	-1

\*Consensus from Bloomberg

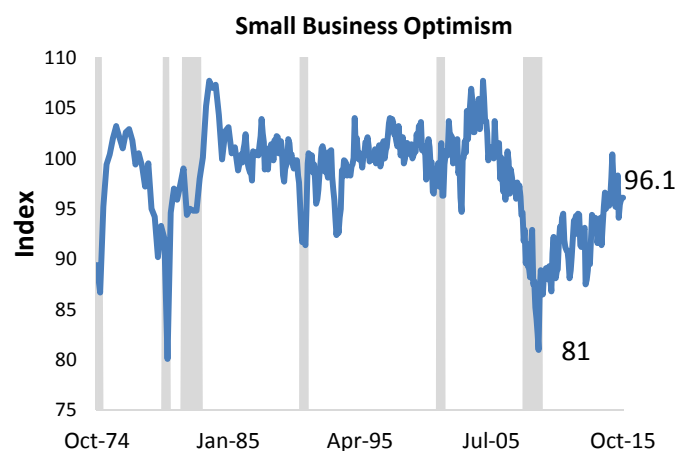
## Will Small Business Confidence Ever Recover?

The pessimism among small business owners throughout this expansion is unprecedented. According to data from the National Association of Independent Businesses, this is the slowest recovery in small business confidence ever coming out of recession, going all the way back to the mid-1970's. Small business optimism briefly moved above 100 in January of this year, a more normal expansionary reading, before retreating back to levels often seen in the midst of mild recessions. In this week's report we dig a little further into the data to see what might be behind this lingering pessimism among small business owners more than six years into this economic expansion and why we believe small business confidence could move higher from here.

First, it's important to point out the psychological trauma that the financial crisis and Great Recession brought on most small business owners. A considerable share of small business owners are dependent on strong consumer spending and housing to boost sales. So the housing market collapse that didn't start to turn around in this country until the end of 2012 decimated these businesses' sales with little prospect for a near-term recovery. It's no coincidence that small business confidence did not embark on a strong rebound until housing sales, home building, and home prices started

their rapid advance out of the depths of the Great Recession.

### Small Business Pessimism Unprecedented



Source: National Federation of Independent Business; Federal Reserve

Small business surveys often noted that the biggest concern among small businesses was a lack of demand and sales, economic and financial uncertainty, onerous

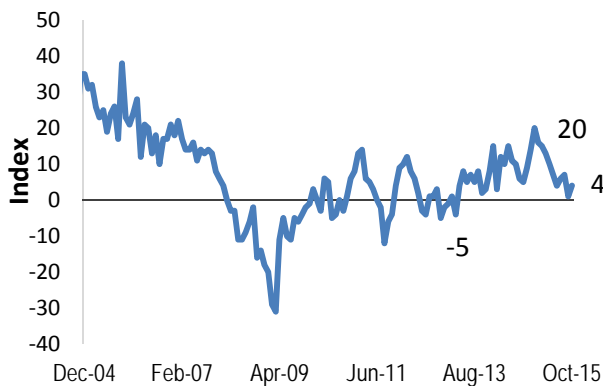
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government regulations – including new health care laws – and some concern about tighter bank credit.

Gradually those concerns dissipated allowing a steady but slow rebound in small business confidence that peaked in December of last year. Small business sales expectations climbed fairly steadily from November of 2012 when it stood at a neutral -5 rising to an expansion high +20 in December of 2014. But uneven GDP growth this year, and rising concerns surrounding low commodity prices and global growth helped push small business sales expectations back down to the low levels seen over much of this expansion.

**Sales Expectations Began the Year At Expansion Highs**

**Small Business Sales Expectations**

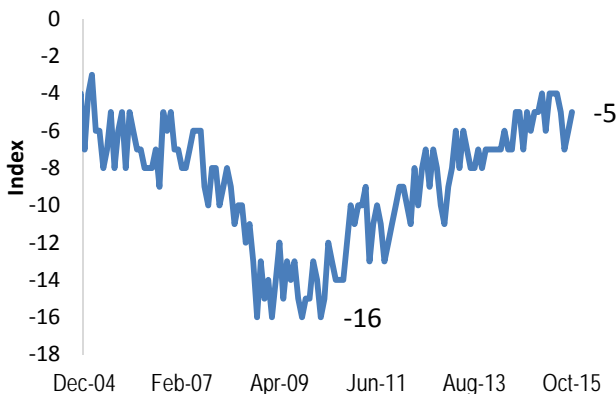


Source: National Federation of Independent Business

However, there are still plenty of positives to point out. The financial channels that were briefly closed for many small businesses are now wide open and functioning normally. Banks are competing more for small business customers, providing ample credit at attractive terms for those small businesses in need of financing.

**Small Business Credit Conditions Back to Normal Levels**

**Small Business Expected Credit Conditions**

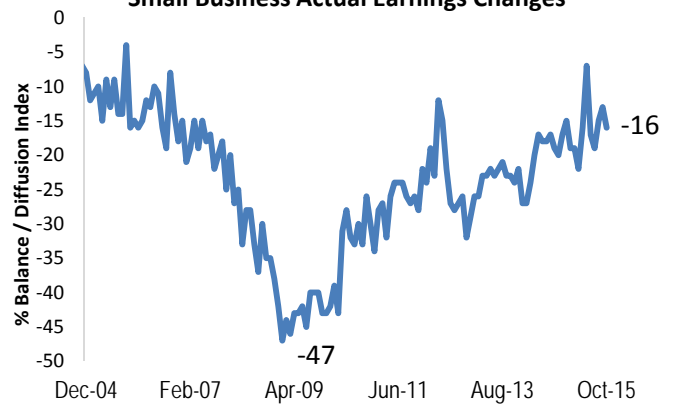


Source: National Federation of Independent Business

Small business earnings trends are also near expansion highs and at levels seen in past expansions.

**Small Business Earnings On The Mend**

**Small Business Actual Earnings Changes**

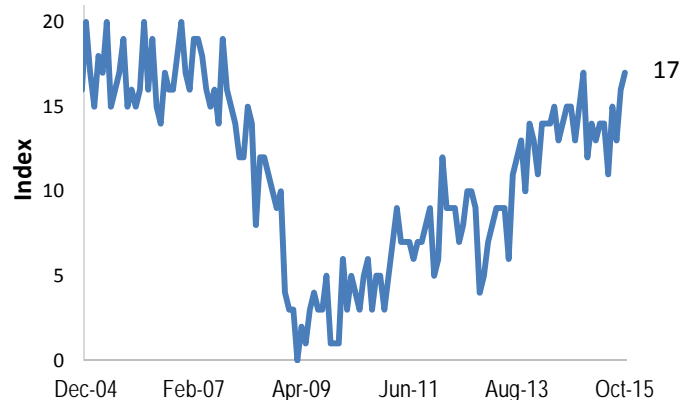


Source: National Federation of Independent Business

Finally, small business capital spending plans have improved in recent months, hiring plans are stable and robust, and more compensation plans are incorporating wage and salary increases, all good signals that small business conditions are better than they have been for years.

**Small Businesses Planning Pay Raises for 2016**

**Small Business Compensation Plans**



Source: National Federation of Independent Business

Our forecast is that 2016 growth will continue to be led by solid consumer spending, and residential construction, which should put a floor on diminished sales expectations for most small businesses. So while the pull-back in small business confidence this year is disappointing, the outlook for small businesses in my opinion is hardly tarnished, setting us up for a rebound in small business confidence in the months ahead.

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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	2014	2015	2016
Real GDP*	-0.9	4.6	4.3	2.1	0.6	3.9	1.5	2.4	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	3.0	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	1,158	1,163	1,210	1,200	1,235	1,240	1,260	928	1,001	1,127	1,234
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	142.8	143.4	144.0	144.5	145.1	136.4	139.0	141.9	144.2
Unemployment rate	6.6	6.2	6.1	5.7	5.6	5.4	5.2	4.9	4.8	4.7	4.7	4.6	7.4	6.2	5.3	4.7
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	91.7	93.0	95.2	96.4	97.5	98.7	75.9	78.4	91.0	97.0
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	0.11	0.32	0.57	0.65	0.90	0.06	0.03	0.06	0.61
Treasury-2 Year Notes (yield)	0.37	0.42	0.52	0.54	0.60	0.61	0.68	0.75	1.07	1.36	1.47	1.73	0.31	0.46	0.66	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	5.40	5.61	5.76	5.88	6.10	5.10	4.86	4.99	5.84

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