U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
1-Feb-2016	Personal Income	Dec	0.3%	0.2%	0.3%
1-Feb-2016	Personal Spending	Dec	0.0%	0.1%	0.3%
1-Feb-2016	PCE Deflator MoM	Dec	0.0%	0.0%	0.0%
1-Feb-2016	PCE Core MoM	Dec	0.1%	0.1%	0.1%
1-Feb-2016	Markit US Manufacturing PMI	Jan F	52.5	NA	52.7
1-Feb-2016	ISM Manufacturing	Jan	48.0	48.5	48.2
1-Feb-2016	Construction Spending MoM	Dec	0.5%	0.6%	-0.4%
2-Feb-2016	ISM New York	Jan	NA	NA	62
2-Feb-2016	Wards Total Vehicle Sales	Jan	17.45m	17.55m	17.22m
3-Feb-2016	ADP Employment Change	Jan	190k	195k	257k
3-Feb-2016	Markit US Services PMI	Jan F	NA	NA	53.7
3-Feb-2016	Markit US Composite PMI	Jan F	NA	NA	53.7
3-Feb-2016	ISM Non-Manf. Composite	Jan	54.5	55.3	55.3
4-Feb-2016	Nonfarm Productivity	4Q P	-1.5%	-1.5%	2.2%
4-Feb-2016	Unit Labor Costs	4Q P	5.4%	3.9%	1.8%
4-Feb-2016	Initial Jobless Claims	30-Jan	285K	NA	278K
4-Feb-2016	Factory Orders	Dec	-1.3%	-1.3%	-0.2%
5-Feb-2016	Trade Balance	Dec	-$42.90b	-$42.70b	-$42.37b
5-Feb-2016	Change in Nonfarm Payrolls	Jan	198k	200k	292k
5-Feb-2016	Change in Manufact. Payrolls	Jan	-2k	NA	8k
5-Feb-2016	Unemployment Rate	Jan	5.0%	5.0%	5.0%
5-Feb-2016	Average Hourly Earnings MoM	Jan	0.2%	0.3%	0.0%
5-Feb-2016	Average Weekly Hours All Employees	Jan	34.5	34.5	34.5
5-Feb-2016	Consumer Credit	Dec	$14.5b	$15.500b	$13.951b

*Consensus from Bloomberg

Another Leg Down For Manufacturing

It was another week of disappointing readings on the state of U.S. manufacturing. From regional manufacturing surveys to durable goods orders, the near-term outlook for U.S. manufacturing remains moribund. A combination of a strong U.S. dollar and fading demand abroad is having a chilling effect on a broader cross-section of manufacturers. So what does this mean for the entire U.S. economy and the outlook for economic growth?

U.S. manufacturers employ 12.3 million people or 8.6 percent of total employment in the United States. Manufacturers' share of the nation's GDP is only 12.1 percent. Despite its relatively modest stature on the employment and share of GDP metrics, manufacturing still fights above its weight class and could have an outsized impact on the U.S. economic outlook. Every U.S. recession since the 1970s has either been proceeded by or happened currently with a recession in manufacturing. Any prolonged slowdown or outright recession in this sector will likely have a direct and significant impact on the national output.

The latest Empire State Manufacturing Survey data, covering the New York region, came at -19.4 in January, far lower than consensus expectations of -4.0, and the lowest reading on this indicator since April 2009. New

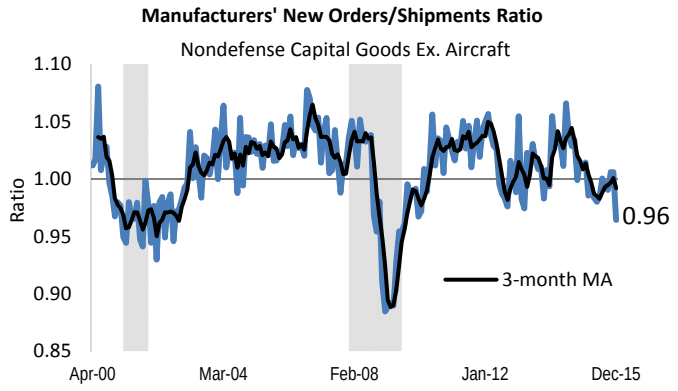
orders and employment subcomponents were all reported with negative signs, indicating contraction.

The Dallas Fed manufacturing survey for January came in at a disastrous -34.6, a worse reading than the Dallas region reported during the early quarters of the Great Recession.

The U.S. manufacturing industry ended 2015 with a thud. Durable goods orders sank 5.1 percent in December despite analysts' expectations of a gentler 0.7 percent decline. There were downward revisions for November orders to boot. Aircraft orders slumped 29 percent on the month and motor vehicle sales softened by -0.4 percent. Core capital goods orders, which excludes defense equipment and aircraft and is a better indicator of business spending trends, were a discouraging -4.3 percent, including a 5.6 percent fall in machinery, 8.7 percent decline in computers, and a whopping 21 percent in communication equipment.

New orders to shipments ratio is also suffering, reaching 0.96, the lowest reading since August 2009. A reading below 1 indicates that new orders are less than shipments, signaling weak production in the near future.

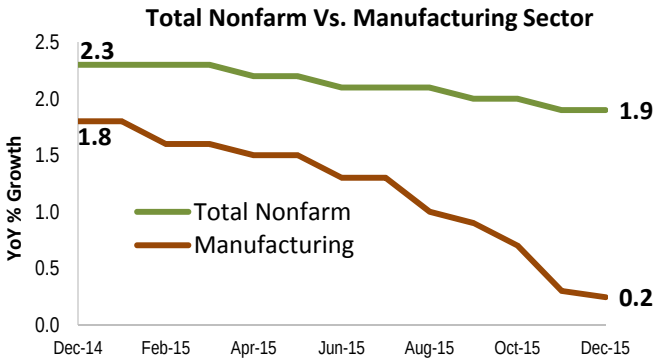
Durable Goods Orders Are "Canceled"



Source: Census Bureau, BOTW Economics

Following strong job growth of +215,000 jobs in 2014, the manufacturing sector added only 30,000 jobs in 2015, a subdued annual growth of 0.2 percent versus healthy 1.9 percent growth in total payrolls.

Divergence of Total Nonfarm and Manufacturing Jobs



Source: BLS, BOTW Economics

One of the fastest growing states in the nation, Texas, lost 41,900 jobs in manufacturing (-4.7%) and 33,600 in mining sectors (-10.5%) in 2015. Low oil prices are decimating the oil and gas industry of Texas and those businesses that depend on it. But the rising US dollar has also made local producers less competitive in foreign markets, making U.S.-made goods less affordable abroad.

Another contributor to the soft employment situation is labor productivity gains in the manufacturing sector, defined as *output per hour worked*. According to Bureau of Labor Statistics (BLS), labor productivity in the U.S. soared 6.9 percent in the durable goods manufacturing sector in Q3 2015, and 2.3 percent in the nondurable goods sector. This means with increasing labor productivity the same output can be produced with fewer people. Moreover, inflation adjusted hourly compensation in manufacturing rose a healthy 5.8 percent over year, lowering further the demand for additional labor amid plummeting energy prices, and weak global demand.

So far the U.S. consumer is still holding up well, supporting nearly 70 percent of the nation's GDP. New jobless claims remain relatively low, signaling health and momentum in the labor market, but if recent trends in manufacturing don't start turning the corner soon, it is doubtful that the momentum in these other areas will be sustained.

Major Economic Indicators

	History								Forecast				Yr/Yr % chg or Annual Avg.			
Economic Data	**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	2.0	0.8	2.3	2.4	2.5	2.2	1.5	2.4	2.4	2.2
Personal Consumption Expenditures*	1.3	3.8	3.5	4.3	1.7	3.6	3.0	1.8	2.9	3.0	2.9	2.8	1.7	2.7	3.1	2.9
Non-residential Fixed Investment*	8.3	4.4	9.0	0.7	1.6	4.1	2.6	3.0	2.8	2.3	2.7	3.0	3.0	6.2	3.2	2.9
Private Housing Starts (000s units)	934	984	1,029	1,055	978	1,158	1,153	1,133	1,170	1,225	1,230	1,250	928	1,001	1,105	1,219
Vehicle Sales (mill. Units, annualized)	15.7	16.5	16.7	16.8	16.6	17.1	17.8	17.8	17.9	17.8	17.6	17.6	15.5	16.4	17.3	17.7
Industrial Production*	3.6	5.7	3.9	4.7	-0.3	-2.3	2.8	-3.4	1.8	1.9	1.9	1.8	1.9	3.7	1.3	0.7
Nonfarm Payroll Employment (mil.)	137.8	138.6	139.4	140.2	141.0	141.6	142.2	143.0	143.5	144.1	144.7	145.2	136.4	139.0	142.0	144.4
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	0.2	0.9	2.0	2.0	2.1	1.5	1.6	0.1	1.4
"Core" CPI* (percent)	1.8	2.2	1.4	1.5	1.7	2.5	1.7	2.1	1.8	1.8	1.9	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	0.4	-5.8	-1.0	1.6	2.1	2.5	1.2	1.9	-3.3	-0.4
Trade Weighted Dollar (Fed BOG, major)	76.9	76.4	77.6	82.5	89.3	90.1	91.7	93.1	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	46	42	32	34	38	41	98	93	49	36

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

	History								Forecast				Annual Average			
Financial Data	**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	2,102	2,027	2,052					1,644	1,930	2,061	
Dow Jones Industrial Average	16,177	16,604	16,954	17345	17,808	18,004	17,077	17,475					15,010	16,770	17,591	
Federal Funds Rate (effective)	0.07	0.09	0.09	0.10	0.11	0.12	0.13	0.16	0.36	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	0.04	0.13	0.25	0.50	0.60	0.85	0.06	0.03	0.05	0.55
Treasury-2 Year Notes (yield)	0.37	0.42	0.52	0.54	0.60	0.61	0.69	0.84	0.94	1.26	1.37	1.63	0.31	0.46	0.69	1.30
Treasury-5 Year Notes (yield)	1.60	1.66	1.70	1.60	1.46	1.53	1.56	1.58	1.58	1.82	1.97	2.10	1.17	1.64	1.53	1.87
Treasury-10 Year Notes (yield)	2.77	2.62	2.50	2.28	1.97	2.16	2.22	2.19	2.12	2.30	2.40	2.57	2.35	2.54	2.14	2.35
Treasury-30 Year Notes (yield)	3.68	3.44	3.27	2.97	2.55	2.88	2.96	2.96	2.92	2.99	3.08	3.21	3.44	3.34	2.84	3.05
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.29	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	0.33	0.43	0.62	0.87	0.95	1.20	0.28	0.25	0.34	0.91
Mortgage-30 Year (yield)	4.36	4.23	4.14	3.96	3.72	3.82	3.95	3.90	3.91	4.09	4.19	4.36	3.98	4.17	3.85	4.14
BAA Corporate (yield)	5.12	4.82	4.74	4.73	4.50	4.83	5.24	5.42	5.49	5.64	5.75	5.98	5.10	4.85	5.00	5.72

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