

U.S. Outlook

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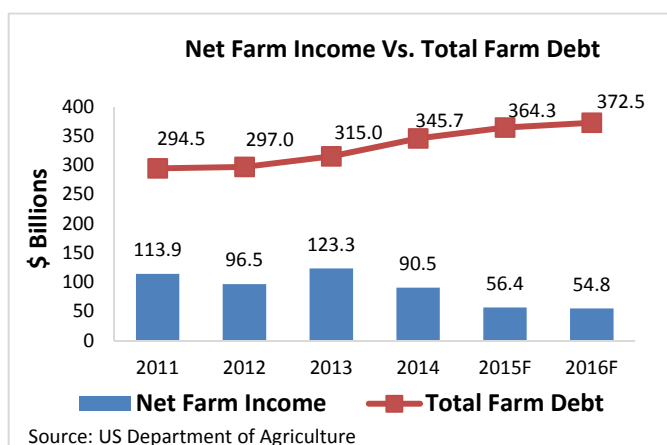
Date	Indicator	For	Estimate	Consensus*	Previous Period
15-Mar-2016	Retail Sales Advance MoM	Feb	0.1%	-0.1%	0.2%
15-Mar-2016	Retail Sales Ex Auto MoM	Feb	-0.1%	-0.2%	0.1%
15-Mar-2016	PPI Final Demand MoM	Feb	-0.2%	-0.2%	0.1%
15-Mar-2016	PPI Ex Food and Energy MoM	Feb	0.1%	0.1%	0.4%
15-Mar-2016	Empire Manufacturing	Mar	-12.0	-10.0	-16.6
15-Mar-2016	NAHB Housing Market Index	Mar	59	59	58
15-Mar-2016	Business Inventories	Jan	0.1%	0.0%	0.1%
15-Mar-2016	Net Long-term TIC Flows	Jan	NA	NA	-\$29.4b
16-Mar-2016	Housing Starts	Feb	1160k	1143k	1099k
16-Mar-2016	Building Permits	Feb	1212k	1200k	1202k
16-Mar-2016	CPI MoM	Feb	-0.1%	-0.2%	0.0%
16-Mar-2016	CPI Ex Food and Energy MoM	Feb	0.2%	0.1%	0.3%
16-Mar-2016	Industrial Production MoM	Feb	-0.2%	-0.2%	0.9%
16-Mar-2016	Capacity Utilization	Feb	76.9%	76.9%	77.1%
16-Mar-2016	FOMC Rate Decision (Lower Bound)	16-Mar	0.25%	0.25%	0.25%
16-Mar-2016	FOMC Rate Decision (Upper Bound)	16-Mar	0.50%	0.50%	0.50%
17-Mar-2016	Current Account Balance	4Q	-\$116.0b	-\$115.0b	-\$124.1b
17-Mar-2016	Philadelphia Fed Business Outlook	Mar	-1.8	-1.4	-2.8
17-Mar-2016	Initial Jobless Claims	12-Mar	266K	NA	259K
17-Mar-2016	JOLTS Job Openings	Jan	NA	NA	5607
17-Mar-2016	Leading Index	Feb	0.2%	0.2%	-0.2%
18-Mar-2016	U. of Mich. Sentiment	Mar P	92.2	92.2	91.7

*Consensus from Bloomberg

The Agricultural Outlook Remains Challenging

The outlook for American agriculture has steadily deteriorated since 2013. While not a disaster, the economic and financial pain is beginning to show. Net farm incomes were at their highest levels on record in 2013, riding the wave of rising agricultural prices and robust demand from abroad. From a peak of \$123.3 billion in 2013, net farm income is estimated to have been cut in half to \$56.4 billion in 2015, according to the U.S. Department of Agriculture. And the outlook is that net farm income could slump another 2.8% to \$54.8 billion for all of 2016, a \$68.5 billion or 56% decline from the 2013 peak.

National Farm Incomes Cut in Half Over Past Two Years

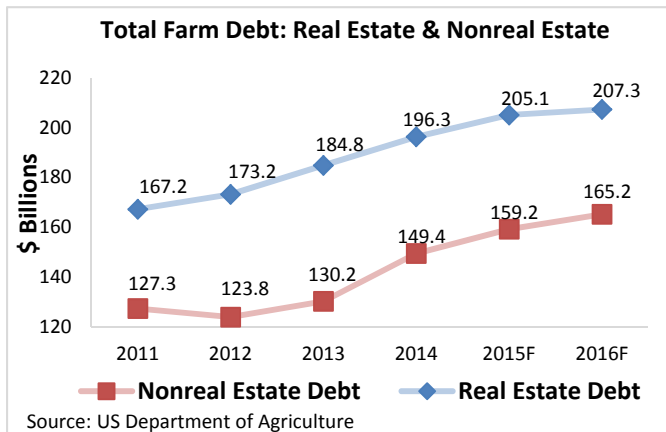


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At the same time total farm debt is expected to rise to \$372.5 billion this year. That is an increase of \$78 billion, or 26.5%, over the past five years. It doesn't take a Ph.D. in Economics to conclude that rising debt in a period of slumping incomes is not a healthy financial path to be on for too long.

Digging a little deeper, we find that the \$78 billion increase in farm debt is driven by nearly equal increases in farm real estate debt, up \$40.1 billion or 24.0% over the last five years, and non-real estate debt, which rose \$37.9 billion or 29.8% over the same period. Following periods when farm incomes are strong, farmers tend to plow their profits back into investments in farm land and equipment.

Farm Real Estate and Non-Real Estate Debt on the Rise



Behind the drop in farm incomes, of course, are the steep declines in nearly all agricultural prices over the last two years, and strong competition and weaker demand from abroad. The U.S. dollar index has strengthened approximately 22% since 2014, while major agriculture trading partner currencies from the Mexican peso, Canadian dollar, Brazilian real, and Argentine peso have all slumped, giving their agricultural imports into the U.S. a competitive price advantage over U.S. growers.

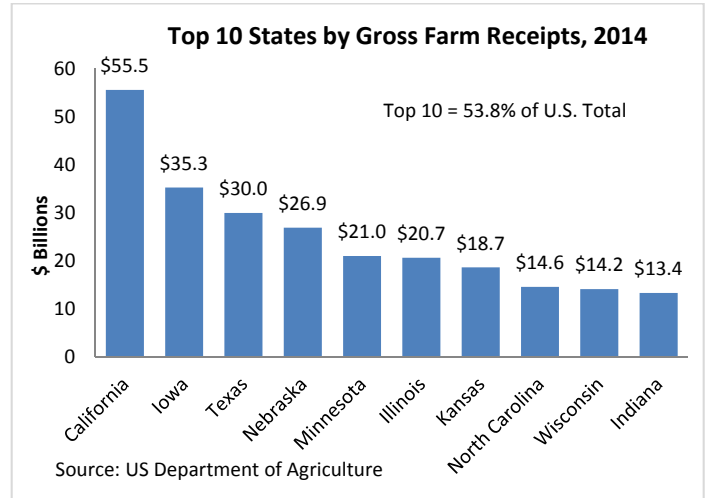
U.S. agricultural exports are expected to drop another 10.5% in 2016 to \$125 billion from \$139.7 billion in 2015, according to US Department of Agriculture forecasts. U.S. agricultural exports have slumped a whopping 17.9% since their 2014 peak.

Further large declines are expected in 2016 in U.S. exports of grains and feeds, oilseeds and products, livestock, poultry, dairy, and cotton. Cotton exports are projected to drop 23% in 2016; oilseed and products - 19.9%; grains and feeds -14.0%; livestock, poultry, and dairy -12.3%, according to USDA estimates. On a somewhat better path, exports of fruits and vegetables, tree nuts, and sugar are expected to be near 2015 levels.

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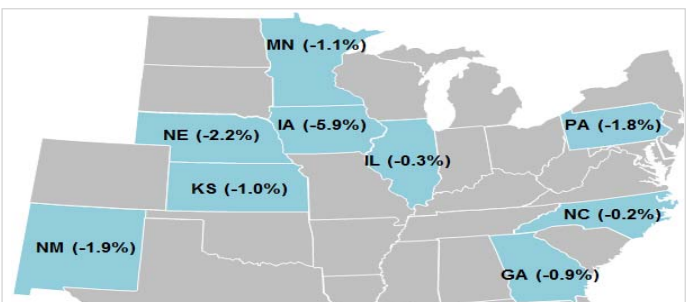
Geographically, where is the financial hit the greatest from these deteriorating agricultural industry fundamentals? The chart below shows the top 10 states by gross farm receipts for 2014 – the latest year available. As you can see, agricultural industry exposure is high in states like California, Iowa, Texas, Nebraska, and Minnesota. California alone generated \$55.5 billion in gross farm receipts in 2014 comprising 12.0% of the national total. Together the top ten states comprise nearly 54% of U.S. total farm receipts. In other words, the negative economic impacts across the nation can be expected to be geographically concentrated - literally pockets of woe.

Negative Impacts From Ag. Sector Outlook Concentrated



Farm real estate prices skyrocketed along with rising farm incomes, but now that trend is in full reverse. Through 2015, nine states were already seeing year-on-year declines in farm real estate values, and ten states were seeing declines in crop land values. The biggest percentage point drops are found in the Midwest. Iowa farm real estate values dropped 5.9% last year. Declines are also occurring in Minnesota, Illinois, Nebraska, Kansas, New Mexico, Georgia, North Carolina, and Pennsylvania. U.S. agriculture will remain an important source of long-term growth and exports for large areas of the country, but it is hard to ignore the near-term change in the weather for this sector.

Farm Values Declined in Nine States in 2015



Major Economic Indicators

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2015.1	2015.2	2015.3	2015.4	2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4	2014	2015	2016	2017
Real GDP*	0.6	3.9	2.0	0.7	2.1	2.2	2.5	2.2	2.3	2.3	2.1	2.0	2.4	2.4	2.1	2.2
Personal Consumption Expenditures*	1.7	3.6	3.0	2.2	3.0	3.0	2.9	2.8	2.5	2.5	2.4	2.3	2.7	3.1	2.9	2.6
Non-residential Fixed Investment*	1.6	4.1	2.6	-1.8	0.7	2.4	2.7	3.0	3.2	3.4	3.4	3.4	6.2	2.9	1.4	3.2
Private Housing Starts (000s units)	978	1,158	1,158	1,130	1,170	1,225	1,230	1,250	1,270	1,280	1,310	1,330	1,001	1,106	1,219	1,298
Vehicle Sales (mill. Units, annualized)	16.6	17.1	17.8	17.8	17.6	17.7	17.6	17.6	17.5	17.5	17.4	17.4	16.4	17.3	17.6	17.5
Industrial Production*	-0.3	-2.3	2.8	-3.4	0.6	1.4	1.9	1.8	1.7	1.8	1.7	1.7	3.7	1.3	0.3	1.8
Nonfarm Payroll Employment (mil.)	140.8	141.5	142.2	142.9	143.5	144.1	144.6	145.2	145.8	146.4	147.0	147.6	138.9	141.8	144.4	146.7
Unemployment rate	5.6	5.4	5.2	5.0	4.9	4.8	4.8	4.7	4.6	4.6	4.6	4.5	6.2	5.3	4.8	4.6
Consumer Price Index* (percent)	-3.1	3.0	1.6	0.2	0.9	2.0	2.0	2.1	2.2	2.2	2.3	2.3	1.6	0.1	1.4	2.2
"Core" CPI* (percent)	1.7	2.5	1.7	2.1	1.8	1.8	1.9	2.0	2.0	2.0	2.1	2.1	1.7	1.8	1.9	2.0
PPI (finished goods)* (percent)	-11.2	3.6	0.4	-5.8	-1.0	1.6	2.1	2.5	2.4	2.2	2.0	2.0	1.9	-3.3	-0.4	2.2
Trade Weighted Dollar (Fed BOG, major)	89.3	90.1	91.7	93.1	94.1	94.3	95.4	96.6	96.9	96.3	95.8	95.4	78.4	91.0	95.1	96.1
Crude Oil Prices -WTI (\$ per barrel)	48	58	46	42	33	35	38	39	40	42	44	45	93	49	36	43

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

Financial Data	History				Forecast								Annual Average			
	2015.1	2015.2	2015.3	2015.4	2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4	2014	2015	2016	2017
S & P 500	2,064	2,102	2,027	2,052									1,930	2,061		
Dow Jones Industrial Average	17,808	18,004	17,077	17,475									16,770	17,591		
Federal Funds Rate (effective)	0.11	0.12	0.13	0.16	0.37	0.46	0.63	0.71	0.96	1.13	1.38	1.71	0.09	0.13	0.54	1.30
Treasury-3 Month Bills (yield)	0.02	0.02	0.04	0.13	0.31	0.37	0.58	0.66	0.92	1.09	1.34	1.67	0.03	0.05	0.48	1.26
Treasury-2 Year Notes (yield)	0.60	0.61	0.69	0.84	0.81	0.96	1.12	1.35	1.58	1.75	2.00	2.33	0.46	0.69	1.06	1.92
Treasury-5 Year Notes (yield)	1.46	1.53	1.56	1.58	1.36	1.62	1.77	1.94	2.16	2.33	2.58	2.91	1.64	1.53	1.67	2.50
Treasury-10 Year Notes (yield)	1.97	2.16	2.22	2.19	1.92	2.10	2.30	2.47	2.65	2.80	2.95	3.20	2.54	2.14	2.20	2.90
Treasury-30 Year Notes (yield)	2.55	2.88	2.96	2.96	2.74	2.81	2.92	3.11	3.30	3.40	3.55	3.75	3.34	2.84	2.90	3.50
Prime Rate	3.25	3.25	3.25	3.29	3.50	3.58	3.75	3.83	4.08	4.25	4.50	4.83	3.25	3.26	3.67	4.42
Libor 3-Mo. U.S. Dollar	0.30	0.30	0.33	0.43	0.62	0.67	0.85	0.93	1.18	1.35	1.60	1.91	0.25	0.34	0.77	1.51
Mortgage-30 Year (yield)	3.72	3.82	3.95	3.90	3.76	3.92	4.10	4.27	4.45	4.55	4.70	4.90	4.17	3.85	4.01	4.65
BAA Corporate (yield)	4.50	4.83	5.24	5.42	5.38	5.52	5.63	5.86	6.13	6.29	6.43	6.68	4.85	5.00	5.60	6.38

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