

U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
16-May-2016	Empire Manufacturing	May	6.50	7.00	9.56
16-May-2016	NAHB Housing Market Index	May	59	59	58
16-May-2016	Net Long-term TIC Flows	Mar	NA	NA	\$72.0b
17-May-2016	Housing Starts	Apr	1140k	1120k	1089k
17-May-2016	Building Permits	Apr	1130k	1128k	1076k
17-May-2016	CPI MoM	Apr	0.4%	0.4%	0.1%
17-May-2016	CPI Ex Food and Energy MoM	Apr	0.2%	0.2%	0.1%
17-May-2016	Industrial Production MoM	Apr	0.2%	0.3%	-0.6%
17-May-2016	Capacity Utilization	Apr	74.9%	75.0%	74.8%
18-May-2016	Minutes from April 26-27 FOMC Meeting				
19-May-2016	Chicago Fed Nat Activity Index	Apr	NA	NA	-0.44
19-May-2016	Initial Jobless Claims	14-May	280K	NA	294K
19-May-2016	Philadelphia Fed Business Outlook	May	2.0	3.5	-1.6
19-May-2016	Leading Index	Apr	0.3%	0.4%	0.2%
20-May-2016	Existing Home Sales	Apr	5.38m	5.40m	5.33m

*Consensus from Bloomberg

Housing Market Doing Just Fine

A number of indicators will be released next week that will reveal the latest developments in the U.S. housing market. Despite the scary drop in housing starts and permits last month, the upcoming housing data for April should appear more reassuring. The current low interest-rate environment, healthy labor market, rising real personal incomes and pent-up demand for housing will power the housing market recovery to new highs in 2016.

According to the National Association of Realtors, home prices improved in 87 percent of major U.S. metro areas in Q1 2016 as demand for housing outstripped the tight supply of available listings. The most expensive areas include San Francisco and San Jose metros, where the creation of high-paid jobs in the last 2-3 years has outpaced both the nation and the state by about two times. It also caused an influx of new highly-educated and entrepreneurial migrants who accelerated the home price growth in the Bay Area. The astronomical prices in the Bay Area have forced some residents to relocate to more affordable regions, such as Modesto and Stockton, while remaining within commuting distance. The steady growth of housing prices is expected to persist throughout 2016

as we see further gradual improvement in employment and real earnings growth along with historically low mortgage rates.

U.S. 30-Year Fixed Mortgage Rates At Three-Year Low

30-Year Conventional Mortgage Rate



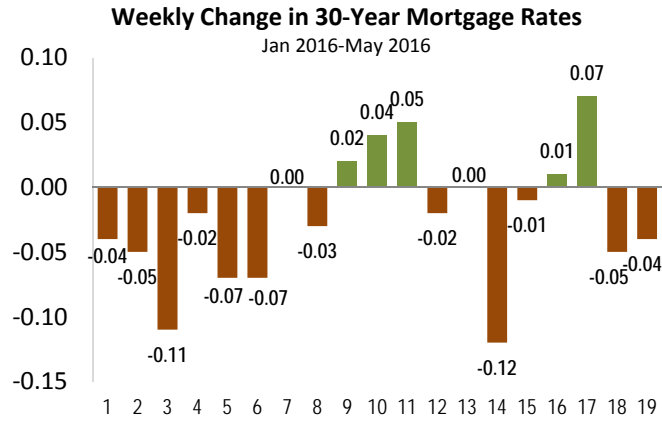
Source: Federal Reserve System

The slowdown in nonfarm payrolls growth for April, released last week, helped push 30-year fixed mortgage

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rates down to 3.57 percent, the lowest since May 2013. Potential homebuyers in the country are expected to take advantage of the low interest rates that have been declining for most of 2016.

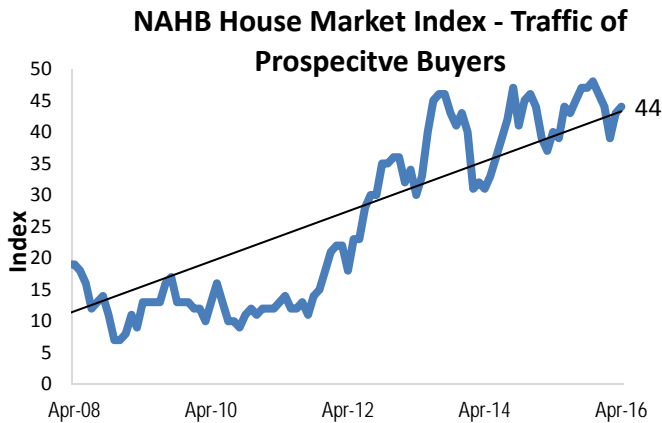
Mortgage Rates Fell in 13 of the Last 19 Weeks



Source: Federal Reserve

The headline National Association of Homebuilders' (NAHB) housing market index for April remained unchanged at 58 where it has been over the last three months, as increases in future single-family sales and traffic of prospective buyers offset a drop in present sales. The improvement in the forward-looking subcomponents of the NAHB report suggests that the housing sector will continue to be an important source of economic growth in the near future.

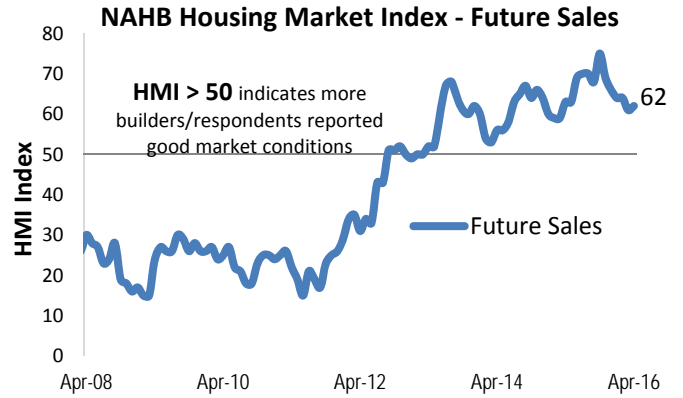
Homebuilders Become More Optimistic About Buyers



Source: National Association of Home Builders

After continuously declining from its post-recession high of 75, NAHB Future Sales ticked up to 62 while remaining well above 50, indicating good market conditions continue to prevail.

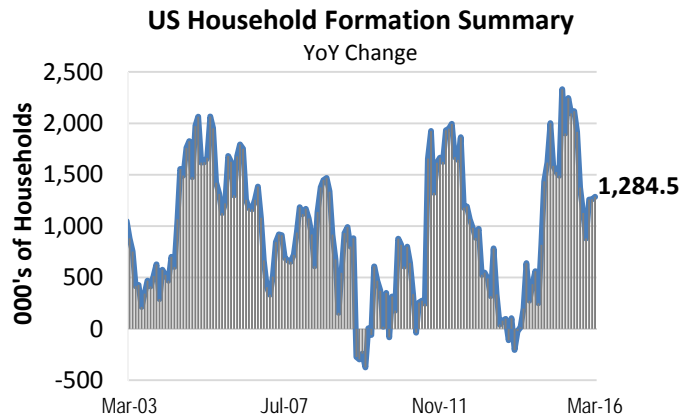
Future Sales Sentiment Rises First Time Since October



Source: National Association of Home Builders

Another important factor that will positively impact the housing market is the pace of household formation. In March 2016, according to the U.S. Census Bureau, the estimated number of households in the country reached 117.4 million, a total increase of 6.1 million household units since the end of Great Recession.

YoY Household Growth Has Been Positive Since Feb 2014



Source: U.S. Census Bureau

Household formation will continue to grow over the medium term, as more people find better jobs with better pay, stand on a more solid financial ground, and have the confidence to create independent households. According to Pew Research, the millennial generation cohort just surpassed the baby-boomers as the largest living generation. Millennials are forming new careers and starting new households as we speak and will need more housing options, so demographic tailwinds will also play a crucial role in keeping the housing market pointed in the right direction.

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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	1.4	0.5	2.1	2.4	2.2	2.2	2.3	2.2	1.9	2.4	2.4	1.7	2.2
Personal Consumption Expenditures*	1.7	3.6	3.0	2.4	1.9	2.8	2.9	2.8	2.5	2.5	2.4	2.3	2.7	3.1	2.6	2.6
Non-residential Fixed Investment*	1.6	4.1	2.6	-2.1	-5.9	3.3	2.7	3.0	3.2	3.4	3.4	3.4	6.2	2.8	-0.2	3.2
Private Housing Starts (000s units)	978	1,158	1,158	1,135	1,133	1,195	1,200	1,220	1,240	1,250	1,280	1,300	1,001	1,107	1,187	1,268
Vehicle Sales (mill. Units, annualized)	16.7	17.1	17.8	17.8	17.1	17.7	17.6	17.6	17.5	17.5	17.4	17.4	16.4	17.3	17.6	17.5
Industrial Production*	-1.9	-2.7	1.5	-3.3	-2.2	1.4	1.9	1.8	1.7	1.8	1.7	1.7	3.7	-0.5	-0.6	1.8
Nonfarm Payroll Employment (mil.)	140.8	141.5	142.2	142.9	143.5	144.2	144.7	145.3	145.9	146.5	147.1	147.7	138.9	141.8	144.4	146.8
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)	-2.9	2.4	1.4	0.8	-0.3	2.0	2.0	2.1	2.2	2.2	2.3	2.3	1.6	0.1	1.5	2.2
"Core" CPI* (percent)	1.7	2.3	1.8	2.2	2.7	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)	-11.0	3.4	-0.4	-4.8	-4.9	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	93.2	91.0	92.9	94.1	94.4	93.8	93.3	92.9	78.4	91.0	92.8	93.6
Crude Oil Prices -WTI (\$ per barrel)	48	58	46	42	33	42	42	43	44	45	46	47	93	49	40	46

*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	1,951								1,930	2,061		
Dow Jones Industrial Average	17,808	18,004	17,077	17,475	16,663								16,770	17,591		
Federal Funds Rate (effective)	0.11	0.13	0.13	0.16	0.36	0.38	0.61	0.69	0.94	1.11	1.36	1.69	0.09	0.13	0.51	1.28
Treasury-3 Month Bills (yield)	0.02	0.02	0.04	0.13	0.33	0.28	0.56	0.64	0.90	1.07	1.32	1.65	0.03	0.05	0.45	1.24
Treasury-2 Year Notes (yield)	0.60	0.61	0.69	0.84	0.83	0.82	1.02	1.25	1.48	1.65	1.90	2.23	0.46	0.69	0.98	1.82
Treasury-5 Year Notes (yield)	1.46	1.53	1.56	1.58	1.36	1.36	1.63	1.79	2.01	2.18	2.43	2.71	1.64	1.53	1.54	2.33
Treasury-10 Year Notes (yield)	1.97	2.16	2.22	2.19	1.91	1.90	2.15	2.31	2.55	2.70	2.85	3.10	2.54	2.14	2.07	2.80
Treasury-30 Year Notes (yield)	2.55	2.88	2.96	2.96	2.72	2.71	2.82	3.01	3.20	3.30	3.45	3.65	3.34	2.84	2.82	3.40
Prime Rate	3.25	3.25	3.25	3.29	3.50	3.50	3.75	3.83	4.08	4.25	4.50	4.83	3.25	3.26	3.65	4.42
Libor 3-Mo. U.S. Dollar	0.30	0.30	0.33	0.43	0.63	0.63	0.83	0.91	1.16	1.33	1.58	1.89	0.25	0.34	0.75	1.49
Mortgage-30 Year (yield)	3.72	3.82	3.95	3.90	3.74	3.65	3.82	3.99	4.20	4.35	4.50	4.70	4.17	3.85	3.80	4.44
BAA Corporate (yield)	4.50	4.83	5.24	5.42	5.30	4.81	4.98	5.21	5.53	5.69	5.83	6.08	4.85	5.00	5.08	5.78

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