

U.S. Outlook

Bank of the West Economics | 415.432.3491
www.bankofthewest.com



Date	Indicator	For	Estimate	Consensus*	Previous Period
31-May-2016	Personal Income	Apr	0.4%	0.4%	0.4%
31-May-2016	Personal Spending	Apr	0.6%	0.6%	0.1%
31-May-2016	PCE Deflator MoM	Apr	0.3%	0.3%	0.1%
31-May-2016	PCE Core MoM	Apr	0.2%	0.2%	0.1%
31-May-2016	S&P/CS 20 City MoM SA	Mar	0.9%	0.6%	0.7%
31-May-2016	Chicago Purchasing Manager	May	49.5	50.7	50.4
31-May-2016	Consumer Confidence Index	May	97.0	96.0	94.2
31-May-2016	Dallas Fed Manufacturing Activity	May	-11.0	-8.0	-13.9
1-Jun-2016	Markit US Manufacturing PMI	May F	50.5	50.5	50.5
1-Jun-2016	ISM Manufacturing	May	50.4	50.5	50.8
1-Jun-2016	Construction Spending MoM	Apr	0.5%	0.5%	0.3%
1-Jun-2016	U.S. Federal Reserve Releases Beige Book				
1-Jun-2016	Wards Total Vehicle Sales	May	17.16m	17.25m	17.32m
2-Jun-2016	ADP Employment Change	May	165k	178k	156k
2-Jun-2016	Initial Jobless Claims	28-May	273K	NA	268K
2-Jun-2016	ISM New York	May	NA	NA	57.0
3-Jun-2016	Trade Balance	Apr	-\$41.0b	-\$41.9b	-\$40.4b
3-Jun-2016	Change in Nonfarm Payrolls	May	159k	160k	160k
3-Jun-2016	Change in Manufacturing Payrolls	May	-2k	0k	4k
3-Jun-2016	Unemployment Rate	May	4.9%	4.9%	5.0%
3-Jun-2016	Average Hourly Earnings MoM	May	0.2%	0.2%	0.3%
3-Jun-2016	Average Weekly Hours All Employees	May	34.5	34.5	34.5
3-Jun-2016	Markit US Services PMI	May F	51.2	51.4	51.2
3-Jun-2016	Markit US Composite PMI	May F	NA	NA	50.8
3-Jun-2016	ISM Non-Manufacturing Composite	May	55.5	55.3	55.7
3-Jun-2016	Factory Orders	Apr	1.0%	0.8%	1.5%

*Consensus from Bloomberg

Setting Up For a Better Second Half

Sometimes teams that play a lackluster first-half go into the locker-room at half-time and emerge so energized they play like a completely different team. Now, nearly two-thirds of the way through the second quarter the U.S. economy is about to go into the locker-room for half-time. So what team can we expect to emerge? The U.S. economy is about to enter its eighth year of continuous growth and recent indicators for the second quarter suggest the U.S. expansion isn't ready to roll over

anytime soon. So what does the second half of the year hold for team USA?

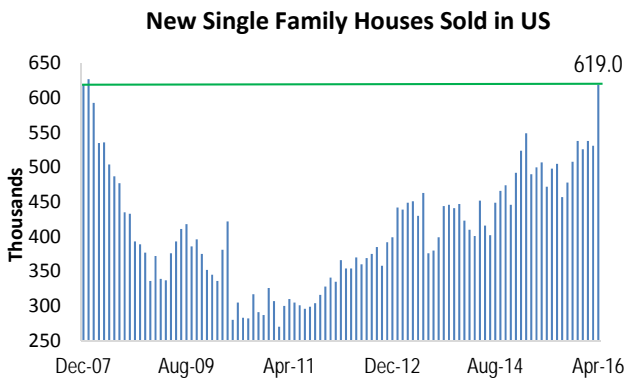
Generally, we expect a modestly stronger advance in the rate of overall U.S. economic growth over the first half of the year at about 2.3 percent. Key drivers will be solid consumer spending growth bolstered by rising incomes and a tightening labor market, and renewed but modest growth in business investment spending.

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Continued growth in government spending and homebuilding will also add modestly to U.S. growth in the last six months of the year. Nearly all the national housing data released for April beat economists' expectations. April housing starts beat economists' expectations and housing permits improved as well.

The 16.6 percent jump in April new home sales was the biggest monthly surge since 1992. This was the highest level of new houses sold since January 2008. Relatively cheap borrowing costs paired with sizable growth in real personal income will continue to invigorate the housing sector over the next few quarters.

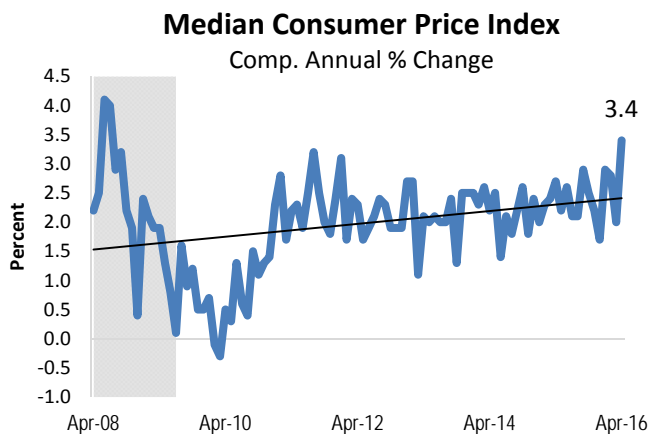
New Home Sales Beat Consensus Forecast by 96K or +17%



Source: U.S. Census Bureau

Also, brace for higher inflation. As oil prices have rebounded sharply, up about 50% over the last three months, the upward pressure on inflation has intensified as the median CPI Index – at 3.4% last month -- is at its highest annualized growth rate since the expansion began and is well-above the trend-line.

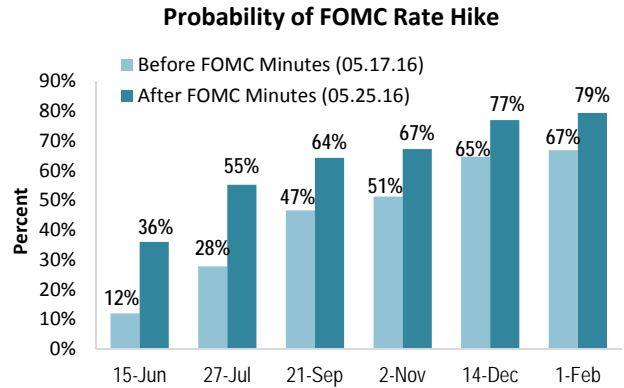
Median CPI Growth At the Highest Level since July 2008



Source: Federal Reserve Bank of Cleveland/FRED

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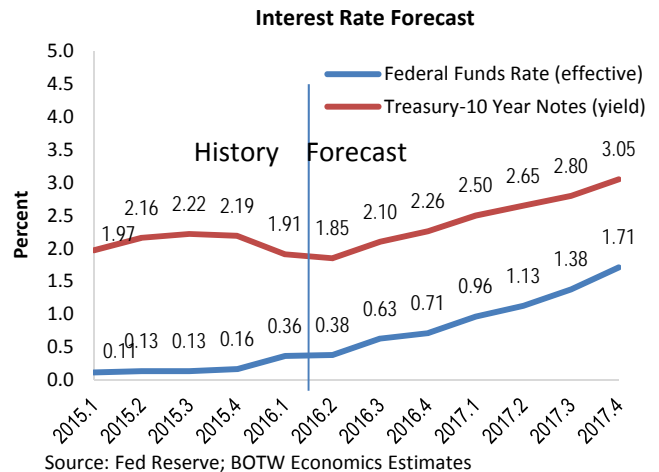
Probability for June Rate Hike Has Tripled in a Week



Source: Bloomberg

Our baseline forecast is that the Federal Reserve will raise interest rates for the second time in July and perhaps another rate hike in December, as inflation picks up and labor markets improve further. Undoubtedly, long-term interest rates, such as mortgage rates and auto loan rates, will rise accordingly, but it is expected to be a mild uptick driven by firming aggregate demand and normalizing inflation without major adverse implications on consumer spending, or housing sector growth.

Interest Rates Are Posed To Rise in the Near Future



Source: Fed Reserve; BOTW Economics Estimates

What could go wrong? The list of downside risks includes a strong U.S. dollar that will continue to be a drag on U.S. exports and manufacturing activity. Moreover, the dollar's strength could be exacerbated by additional Fed rate hikes. Also, rising wages and business costs could further erode corporate profits if businesses are unable to pass along the higher costs to their customers. If business cost pressures are sustained, businesses could scale-back future business investment plans or start cutting jobs. Let's hope team USA's coach has an inspiring half-time speech, the country could really use one right now.

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	2.5	2.4	2.2	2.2	2.3	2.2	1.9	2.4	2.4	1.8	2.3
Personal Consumption Expenditures*	1.7	3.6	3.0	2.4	1.9	3.5	2.9	2.8	2.5	2.5	2.4	2.3	2.7	3.1	2.7	2.7
Non-residential Fixed Investment*	1.6	4.1	2.6	-2.1	-5.9	3.2	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	4.9	4.9	4.8	4.7	4.7	4.7	4.6	6.2	5.3	4.9	4.7
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	1.1	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	2.2	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	-1.3	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	45	47	44	45	46	47	48	93	49	42	47

*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	0.63	0.71	0.96	1.13	1.38	1.71	0.09	0.13	0.52	1.29
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	1.31	1.58	1.74	1.96	2.13	2.38	2.66	1.64	1.53	1.50	2.28
Treasury-10 Year Notes (yield)	1.97	2.16	2.22	2.19	1.91	1.85	2.10	2.26	2.50	2.65	2.80	3.05	2.54	2.14	2.03	2.75
Treasury-30 Year Notes (yield)	2.55	2.88	2.96	2.96	2.72	2.66	2.77	2.96	3.15	3.30	3.45	3.65	3.34	2.84	2.78	3.39
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	3.60	3.77	3.94	4.15	4.30	4.45	4.65	4.17	3.85	3.76	4.39
BAA Corporate (yield)	4.50	4.83	5.24	5.42	5.30	4.76	4.93	5.16	5.48	5.64	5.78	6.03	4.85	5.00	5.04	5.73

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