

U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
24-Oct-2016	Chicago Fed Nat Activity Index	Sep	NA	-0.25	-0.55
24-Oct-2016	Markit US Manufacturing PMI	Oct P	51.7	51.5	51.5
25-Oct-2016	FHFA House Price Index MoM	Aug	0.4%	0.5%	0.5%
25-Oct-2016	Consumer Confidence Index	Oct	102.2	101.3	104.1
25-Oct-2016	Richmond Fed Manufacturing Index	Oct	-4	-4	-8
26-Oct-2016	Advance Goods Trade Balance	Sep	-\$60.8b	-\$60.5b	-\$59.2b
26-Oct-2016	Wholesale Inventories MoM	Sep P	0.1%	0.1%	-0.2%
26-Oct-2016	Markit US Services PMI	Oct P	52.0	52.6	52.3
26-Oct-2016	Markit US Composite PMI	Oct P	NA	NA	52.3
26-Oct-2016	New Home Sales	Sep	620k	603k	609k
27-Oct-2016	Durable Goods Orders	Sep P	0.5%	0.1%	0.1%
27-Oct-2016	Durables Ex Transportation	Sep P	0.3%	0.2%	-0.2%
27-Oct-2016	Initial Jobless Claims	22-Oct	262K	NA	260K
27-Oct-2016	Pending Home Sales MoM	Sep	1.4%	1.2%	-2.4%
27-Oct-2016	Kansas City Fed Manufacturing Activity	Oct	NA	NA	6
28-Oct-2016	Employment Cost Index	3Q	0.6%	0.6%	0.6%
28-Oct-2016	GDP Annualized QoQ	3Q A	2.6%	2.5%	1.4%
28-Oct-2016	GDP Price Index	3Q A	1.3%	1.3%	2.3%
28-Oct-2016	U. of Mich. Sentiment	Oct F	88.2	88.1	87.9

*Consensus from Bloomberg

Follow the Leading Indicators

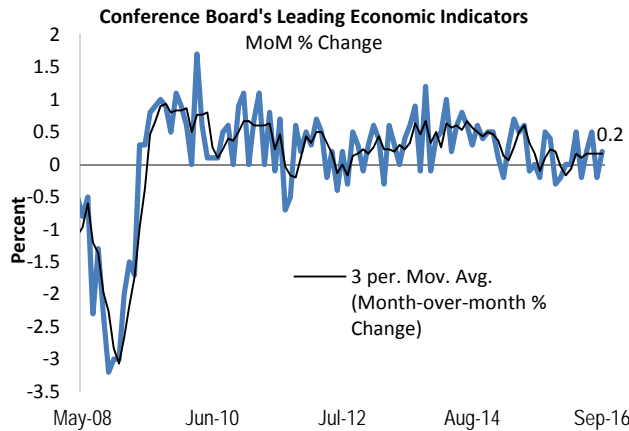
The latest Beige Book from the Federal Reserve, an anecdotal report of economic conditions across the country, revealed modest to moderate economic growth continued in eleven of twelve Federal Reserve districts from late August to early October. Only the New York District reported no change in activity over the period.

Labor markets remained tight across the country, and retail sales increased in the majority of districts. However, manufacturing activity was mixed due to the strong dollar, and the agricultural sector revenue was being held back by low crop prices though crop yields were strong. Residential construction and real estate activity continued to expand, but a low supply of housing was constricting sales. The economic outlook for most districts was generally positive, according to the Fed.

We are seeing the same thing. The Conference Board's Leading Economic Indicators Index has been growing at a steady monthly pace since April on a three month moving average basis.

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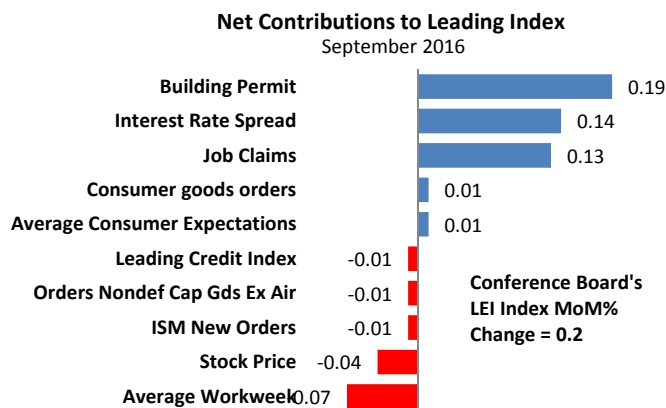
Leading Indicators On a Steady Growth Trend



Source: Conference Board

For September, the Leading Indicators Index increased another 0.2% on the month. September's gains were driven by robust growth in building permits of 6.3% on the month, the widening interest rate spread, steady drop in initial jobless claims, as well as improvements in consumer goods orders and consumer confidence. The average work week and stock price declines proved the biggest headwinds to even stronger gains in the leading indicators last month.

Consumers, Construction and Jobs Lead the Way



Source: Conference Board

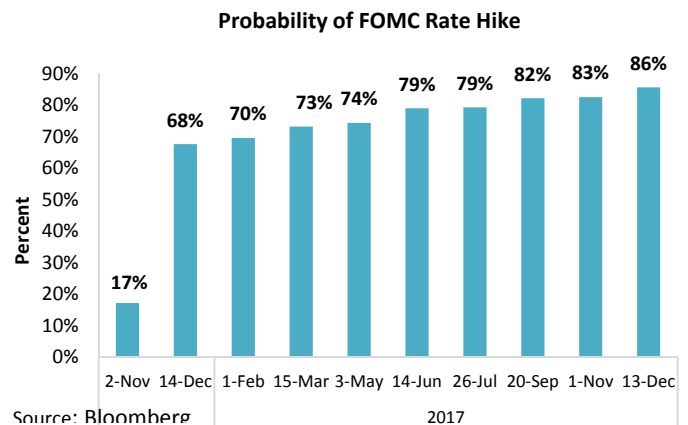
The gains we are seeing in the leading indicators index, suggests a pick-up in U.S. GDP growth in the third quarter. We will get our initial estimate of Q3 Real GDP from the Bureau of Economic Analysis next Friday. We are currently forecasting an increase of 2.6% on a seasonally adjusted annualized basis, up from a 1.4% growth rate in the second quarter. Gains in real consumer

spending growth and net exports are expected to be important drivers of the pick-up in GDP growth in the third quarter. The reversal of inventory declines seen in the second quarter should also help add to third quarter GDP growth.

In the October Beige Book report, wage growth was characterized as steady at modest levels and overall price pressures were mild. There is nothing in the latest Beige Book report that would keep the Fed from raising rates again in December, but modest levels of wage and price pressures would give them little reason to push the rate hike forward into November either.

On the other hand, the possibility of an economic or financial shock around the Presidential election on November 8th appears less and less likely, given the distance Hillary Clinton's campaign has made against the Trump campaign in most polls. A close vote could be more troubling for investors, since it could lead to speculation of rigged elections and possible voter-fraud that would seriously ramp up the economic and financial uncertainty. A clean passing of the torch to the next Administration is needed for the Federal Reserve to pull the trigger on another rate hike before the end of the year.

Markets Are Penciling-In a Fed Rate Hike in December



With every passing day of continued steady U.S. economic growth readings and the November election outcome coming into tighter focus, the implied probability of a December rate hike from the FOMC is now 68.3% in the Fed Funds futures market, the highest it has been so far.

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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*	2.0	2.6	2.0	0.9	0.8	1.4	2.6	1.9	2.2	2.1	2.0	1.8	2.4	2.7	1.5	2.1
Personal Consumption Expenditures*	2.4	2.9	2.7	2.3	1.6	4.3	2.5	2.5	2.5	2.5	2.4	2.3	2.7	3.1	2.6	2.6
Non-residential Fixed Investment*	1.3	1.6	3.9	-3.3	-3.4	1.0	0.9	2.0	2.7	2.8	2.9	2.8	6.2	2.4	-0.5	2.3
Private Housing Starts (000s units)	986	1,156	1,156	1,135	1,151	1,159	1,138	1,200	1,220	1,240	1,250	1,270	1,001	1,108	1,162	1,245
Vehicle Sales (mill. Units, annualized)	16.9	17.2	17.7	17.9	17.3	17.1	17.5	17.1	17.0	17.0	16.9	16.9	16.4	17.4	17.2	17.0
Industrial Production*	-1.9	-2.7	1.5	-3.3	-1.7	-0.8	1.8	1.2	1.5	1.7	1.7	1.7	3.7	-0.5	-0.9	1.4
Nonfarm Payroll Employment (mil.)	140.8	141.5	142.2	142.9	143.5	144.0	144.6	145.1	145.6	146.1	146.6	147.1	138.9	141.8	144.3	146.4
Unemployment rate	5.6	5.4	5.2	5.0	4.9	4.9	4.9	4.9	4.8	4.8	4.7	4.7	6.2	5.3	4.9	4.8
Consumer Price Index* (percent)	-2.9	2.4	1.4	0.8	-0.3	2.5	1.6	2.1	2.2	2.2	2.3	2.3	1.6	0.1	1.2	2.2
"Core" CPI* (percent)	1.7	2.3	1.8	2.2	2.7	2.1	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	-5.3	3.6	1.5	2.5	2.4	2.2	2.0	2.0	1.9	-3.3	-1.1	2.3
Trade Weighted Dollar (Fed BOG, major)	89.2	90.0	91.5	92.9	93.2	89.5	90.3	91.7	92.0	92.5	92.0	91.6	78.4	90.9	91.2	92.0
Crude Oil Prices -WTI (\$ per barrel)	48	58	46	42	33	45.5	44.9	49	50	50	51	52	93	49	43	51

*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	2,075	2,162						1,930	2,061		
Dow Jones Industrial Average	17,808	18,004	17,077	17,475	16,663	17,764	18,372						16,770	17,591		
Federal Funds Rate (effective)	0.11	0.13	0.13	0.16	0.36	0.37	0.39	0.46	0.63	0.63	0.88	0.96	0.09	0.13	0.40	0.77
Treasury-3 Month Bills (yield)	0.02	0.02	0.04	0.13	0.29	0.26	0.30	0.38	0.53	0.53	0.80	0.88	0.03	0.05	0.31	0.69
Treasury-2 Year Notes (yield)	0.60	0.61	0.69	0.84	0.84	0.77	0.73	0.88	1.06	1.10	1.29	1.39	0.46	0.69	0.81	1.21
Treasury-5 Year Notes (yield)	1.46	1.53	1.56	1.58	1.37	1.24	1.13	1.30	1.51	1.59	1.74	1.84	1.64	1.53	1.26	1.67
Treasury-10 Year Notes (yield)	1.97	2.16	2.22	2.19	1.91	1.75	1.56	1.75	2.01	2.14	2.29	2.44	2.54	2.14	1.74	2.22
Treasury-30 Year Notes (yield)	2.55	2.88	2.96	2.96	2.72	2.57	2.28	2.50	2.77	2.89	3.09	3.29	3.34	2.84	2.52	3.01
Prime Rate	3.25	3.25	3.25	3.29	3.50	3.50	3.50	3.58	3.75	3.75	4.00	4.08	3.25	3.26	3.52	3.90
Libor 3-Mo. U.S. Dollar	0.30	0.30	0.33	0.43	0.67	0.65	0.81	0.90	1.04	1.05	1.22	1.30	0.25	0.34	0.76	1.15
Mortgage-30 Year (yield)	3.72	3.82	3.95	3.90	3.74	3.59	3.45	3.63	3.86	4.01	4.16	4.31	4.17	3.85	3.60	4.09
BAA Corporate (yield)	4.50	4.83	5.24	5.42	5.30	4.66	4.26	4.46	4.78	4.94	5.14	5.42	4.85	5.00	4.67	5.07

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