U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
7-Nov-2016	Labor Market Conditions Index	Oct	NA	NA	-2.2
7-Nov-2016	Consumer Credit	Sep	$17.5b	$18.0b	$25.9b
8-Nov-2016	NFIB Small Business Optimism	Oct	94.2	NA	94.1
8-Nov-2016	JOLTS Job Openings	Sep	NA	NA	5443
9-Nov-2016	Wholesale Inventories MoM	Sep F	0.2%	0.2%	0.2%
10-Nov-2016	Initial Jobless Claims	05-Nov	262K	NA	265K
11-Nov-2016	U. of Mich. Sentiment	Nov P	88.0	87.0	87.2

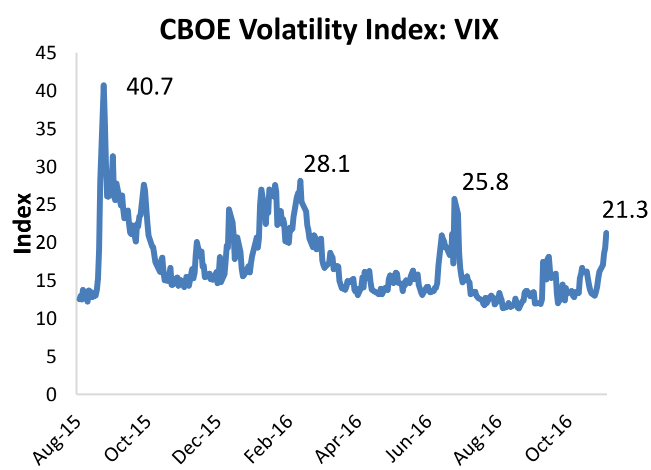
*Consensus from Bloomberg

Election Nerve Flare-Ups vs. Decent U.S. Data

Finally! Sweet relief, next Tuesday is Election Day and we should finally receive a little more clarity on the economic and fiscal policy direction the federal government is likely to pursue over the next four years. While the Presidential race has tightened over the past week, the financial markets are still generally betting against a Brexit-style financial shock come next Tuesday. Many recent polls of likely voters are within the margin of error on the percentages voting for Trump or Hillary, though most polls that look at the Electoral College votes state-by-state still give the nod to Hillary Clinton. U.S. stock and bond prices have remained relatively stable despite the renewed uncertainty of the election outcome.

Yet the VIX index, a measure of expected stock market volatility over the next two months, has soared in recent days to 21.43, nearly twice the level of a week ago and comparable to the VIX levels prior to the Brexit vote in the U.K. last June 23rd. This suggests there is enough nervousness going into next week's election outcome that some investors are starting to hedge their bets should the unexpected happen again.

Election Nerves Visible With the VIX

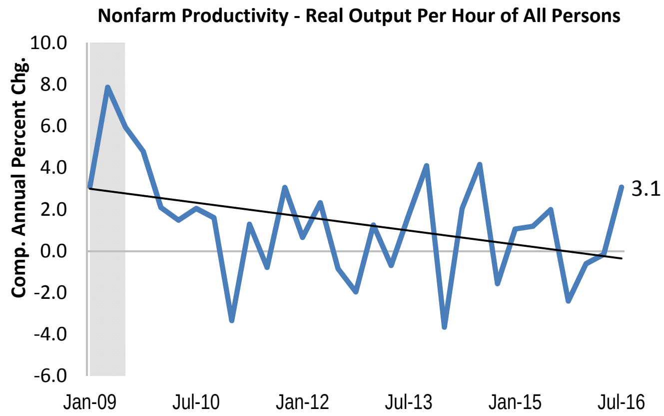


Source: Chicago Board Options Exchange

Political pundits will be watching the key Senate and House races carefully to see how the majority shifts in both houses of Congress. Political gridlock between the White House and Congress has been a major stumbling block toward enacting a number of important economic and trade policy initiatives that could improve US productivity and improve many Americans' economic prospects in the years ahead.

Speaking about productivity, we finally got some better news on that front as US productivity increased at its fastest rate in two years in the third quarter. However, the year-on-year growth rate in productivity remained lackluster.

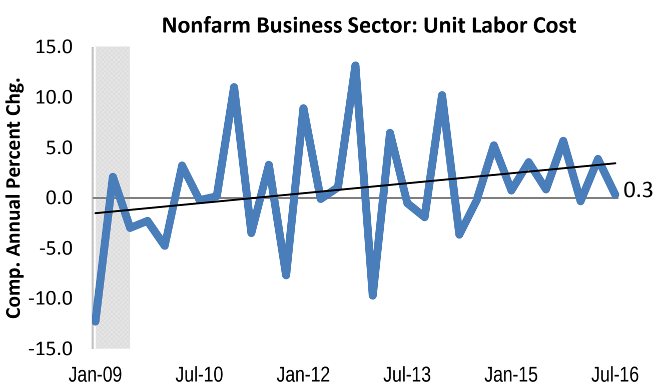
A Welcome Productivity Bounce in Q3



Source: Bureau of Labor Statistics

Output per hour worked increased 3.1% at an annual rate in the third quarter, breaking a string of disappointing productivity growth rates. The strong gain in U.S. GDP growth from exports, inventories, and consumer spending, while hours worked increased only 0.3% helped bolster productivity growth last quarter. Productivity in Q2 2016 was revised higher as well to a 0.2% drop from an initial estimate of a drop of 0.6%. Stronger productivity growth also helped keep unit labor costs down last quarter. This is good news for corporate profits. Unit labor costs increased just 0.3% last quarter, less than consensus expectations for 1.2% increase.

Unit Labor Cost Growth Slows Helping Business Profits



Source: US. Bureau of Labor Statistics

We have been forecasting a modest rebound in productivity in Q3 and the quarters ahead. But additional government investments in education, technology R&D, and infrastructure could stoke even higher productivity growth rates.

Better productivity growth is important since it helps lift workers real wages and overall standard of living. When productivity growth is low, the economy feels like a zero sum game of winners and losers. When productivity is high, everyone feels like they're making financial progress toward their goals. Chronically low productivity growth in this expansion is likely behind a lot of the political angst we are seeing at the polls this years.

Looking ahead, the U.S. manufacturing sector may be slowly returning to modest growth. Factory orders, a leading indicator of factory activity, increased 0.3% in September, slightly better than expectations and the August order estimates were revised higher as well. But the good news on the manufacturing front was not evenly distributed. Durable goods orders for September were revised lower and non-defense capital goods orders excluding aircraft dropped for another month by a large 1.3%. This last measure is the one that economists use to try and predict business fixed investment. In other words, capital spending growth could end up being weaker than expected in the fourth quarter, extending the capital spending recession into another quarter.

A final and important piece of encouraging economic data came out this morning. The October payroll report showed a net +161K non-farm jobs were created last month, while September's job gain was revised up to +191K. The unemployment rate dropped by a tenth of a percentage point to 4.9% last month as forecast, while hourly earnings growth jumped a better than expected 0.4% last month, pushing year-on-year growth up to 2.8%. This is the strongest reading on year-on-year hourly earnings growth in this expansion. Bottom-line, monthly payroll growth remains strong enough to keep the Fed firmly on track for a year-end rate hike in my opinion. The next hurdle is to get through this national election next week without a Brexit-style financial market shock ensuing in its wake.

Major Economic Indicators

	History							Forecast					Yr/Yr % chg or Annual Avg.			
Economic Data	**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	2.9	1.7	2.1	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	2.1	2.0	2.5	2.5	2.4	2.3	2.7	3.1	2.5	2.5
Non-residential Fixed Investment*	1.3	1.6	3.9	-3.3	-3.4	1.0	1.1	3.5	2.7	2.8	2.9	2.8	6.2	2.4	-0.4	2.6
Private Housing Starts (000s units)	986	1,156	1,156	1,135	1,151	1,159	1,138	1,170	1,200	1,220	1,230	1,250	1,001	1,108	1,155	1,225
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	92.7	93.0	93.5	93.0	92.6	78.4	90.9	91.4	93.0
Crude Oil Prices -WTI ($ per barrel)	48	58	46	42	33	45.5	44.9	49.0	49	50	51	52	93	49	43	51

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

	History							Forecast					Annual Average			
Financial Data	**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	0.39	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 .