

# U.S. Outlook

SCOTT ANDERSON, Ph.D. | Chief Economist | 415.765.8020  
www.bankofthewest.com



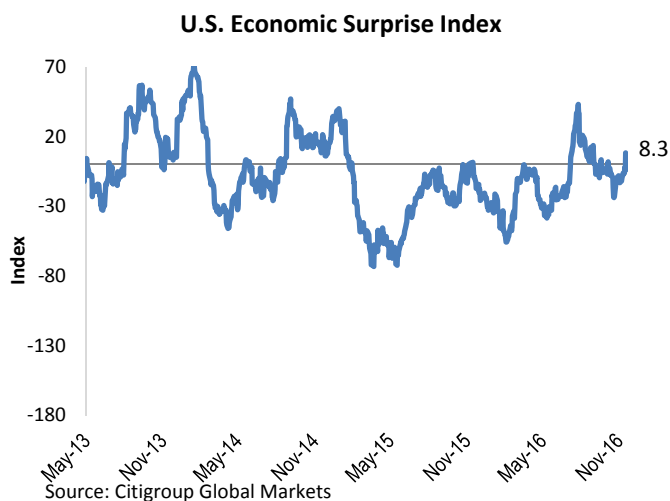
Date	Indicator	For	Estimate	Consensus*	Previous Period
21-Nov-2016	Chicago Fed Nat Activity Index	Oct	NA	NA	-0.1
22-Nov-2016	Richmond Fed Manufacturing Index	Nov	-1	0	-4
22-Nov-2016	Existing Home Sales	Oct	5.40m	5.44m	5.47m
23-Nov-2016	Durable Goods Orders	Oct P	0.8%	1.1%	-0.3%
23-Nov-2016	Durables Ex Transportation	Oct P	0.3%	0.2%	0.1%
23-Nov-2016	Initial Jobless Claims	19-Nov	242K	NA	235k
23-Nov-2016	FHFA House Price Index MoM	Sep	0.5%	0.5%	0.7%
23-Nov-2016	Markit US Manufacturing PMI	Nov P	53.2	53.5	53.4
23-Nov-2016	New Home Sales	Oct	596k	590k	593k
23-Nov-2016	U. of Mich. Sentiment	Nov F	91.6	91.6	91.6
23-Nov-2016	FOMC Minutes from November Meeting				
25-Nov-2016	Advance Goods Trade Balance	Oct	-\$58.5b	-\$59.0b	-\$56.5b
25-Nov-2016	Wholesale Inventories MoM	Oct P	0.2%	0.3%	0.1%
25-Nov-2016	Markit US Services PMI	Nov P	54.6	54.8	54.8
25-Nov-2016	Markit US Composite PMI	Nov P	NA	NA	54.9

\*Consensus from Bloomberg

## An Early Thanksgiving This Year

Upside U.S. economic surprises were a common theme this week, helping to support the post-election equity rally and prolonging the Treasury bond market sell-off.

### U.S. Economic Surprises Turn Positive

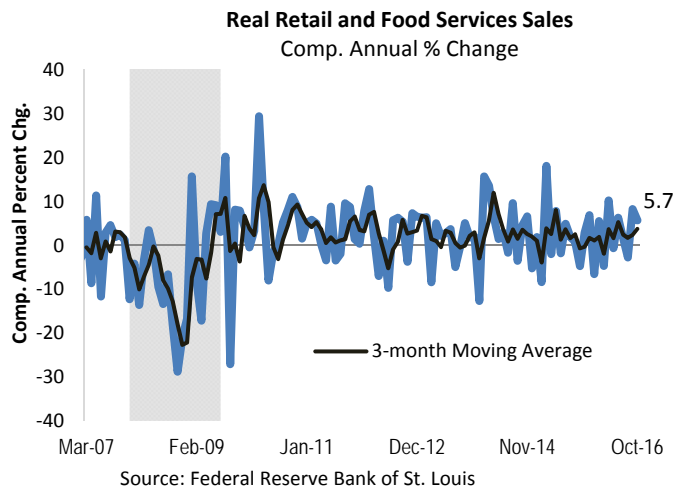


U.S. economic surprises had turned more negative since the end of July, but since the last week in October, the data have steadily improved. The U.S. Economic Surprise Index hasn't been this positive since August as more and more economic indicators exceed analysts' consensus expectations.

Most telling in my mind is the U-turn in real retail sales as consumer confidence builds on a tightening labor market and rising incomes. We received encouraging reports of robust retail sales in October, with upward revisions to prior months to boot. Real retail sales have averaged 7.0% annualized growth over the past two months. In response, we have revised our real consumer spending forecast for the fourth quarter up to 2.3% from 2.0% last week.

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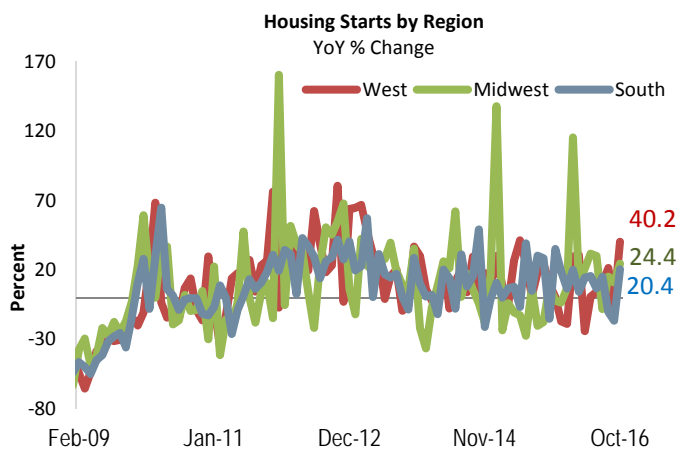
**Real Retail Sales Growth Picking Up**



Black Friday is fast approaching, and the recent spurt in retail sales growth bodes well for retail sales gains this holiday season. The National Retail Federation is currently forecasting holiday retail sales growth of 3.6% - an increase over last year's 3.2% gain. This forecast may end up being too conservative, if recent retail sales trends are any indication.

Housing starts exploded higher last month, rising a massive 26% on the month. The gain was largely driven by a spike in volatile multi-family starts which increased 69% from the month before.

**Homebuilding Jumps in October**

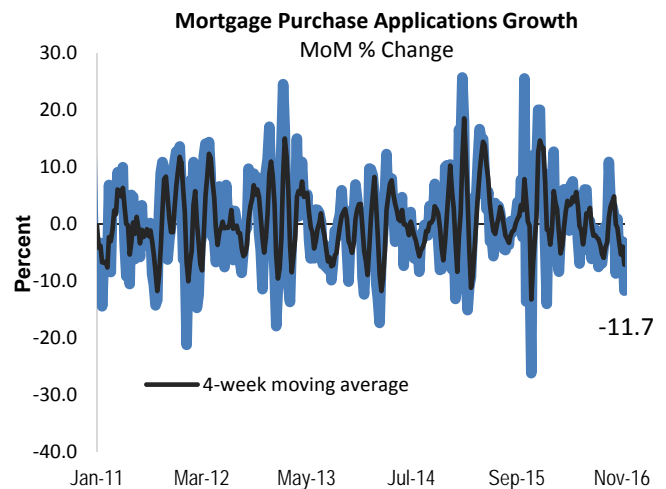


Construction activity had been cooling over the summer, but recent indicators suggest a reacceleration of housing activity. But before you let all that homebuilding go to your head, it might be wise to keep one eye on rising

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mortgage rates. Home builders may be rushing to complete building projects before interest rates move any higher from here. The Mortgage Bankers Association reported a sharp 9.2% drop in mortgage applications last week as 30-year mortgage rates have shot up 24 basis points since October 21.

**Mortgage Applications Sink on Rising Rates**



Given the improving economic environment, Fed Chair Yellen's testimony before Congress this week strongly hinted at a December rate hike from the Fed. Now that the election is past us and there has been no risk aversion in the financial markets, there is virtually nothing holding the Fed back from another nudge toward interest rate normalization. Commenting on the possibility of looser fiscal policy ahead, she noted that fiscal stimulus is less effective when the economy is already at full employment; and any upward revision in growth or inflation forecasts would require a more aggressive tightening response from the Federal Reserve.

The Fed funds futures current probability of a December rate hike from the Federal Reserve is at a near-certain 96% today.

The labor market is showing no sign of cooling down, either. Initial jobless claims fell to 235K last week from 254K the week before. This is the lowest level of jobless claims in the United States since the summer of 1973. Happy Thanksgiving everyone!

## 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	2.9	2.1	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	2.3	2.5	2.5	2.4	2.3	2.7	3.1	2.6	2.5
Non-residential Fixed Investment*	1.3	1.6	3.9	-3.3	-3.4	1.0	1.1	4.8	2.7	2.8	2.9	2.8	6.2	2.4	-0.3	2.9
Private Housing Starts (000s units)	986	1,156	1,156	1,135	1,151	1,159	1,145	1,170	1,200	1,220	1,230	1,250	1,001	1,108	1,156	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	2.0	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	47.0	49	50	51	52	93	49	43	51

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

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	0.39	0.77
Treasury-3 Month Bills (yield)	0.02	0.02	0.04	0.13	0.29	0.26	0.30	0.40	0.55	0.55	0.82	0.90	0.03	0.05	0.31	0.71
Treasury-2 Year Notes (yield)	0.60	0.61	0.69	0.84	0.84	0.77	0.73	0.90	1.11	1.15	1.34	1.44	0.46	0.69	0.81	1.26
Treasury-5 Year Notes (yield)	1.46	1.53	1.56	1.58	1.37	1.24	1.13	1.40	1.61	1.69	1.84	1.94	1.64	1.53	1.29	1.77
Treasury-10 Year Notes (yield)	1.97	2.16	2.22	2.19	1.91	1.75	1.56	1.90	2.16	2.29	2.44	2.59	2.54	2.14	1.78	2.37
Treasury-30 Year Notes (yield)	2.55	2.88	2.96	2.96	2.72	2.57	2.28	2.75	3.02	3.14	3.34	3.54	3.34	2.84	2.58	3.26
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	3.78	4.01	4.16	4.31	4.46	4.17	3.85	3.64	4.24
BAA Corporate (yield)	4.50	4.83	5.24	5.42	5.30	4.66	4.26	4.61	4.93	5.09	5.29	5.57	4.85	5.00	4.71	5.22

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