

# U.S. Outlook

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

**BANK OF THE WEST**



**BNP PARIBAS GROUP**

Date	Indicator	For	Estimate	Consensus*	Previous Period
14-Feb-2017	NFIB Small Business Optimism	Jan	104.8	105.0	105.8
14-Feb-2017	PPI Final Demand MoM	Jan	0.3%	0.3%	0.3%
14-Feb-2017	PPI Ex Food and Energy MoM	Jan	0.2%	0.2%	0.2%
15-Feb-2017	Empire Manufacturing	Feb	7.5	7.0	6.5
15-Feb-2017	CPI MoM	Jan	0.3%	0.3%	0.3%
15-Feb-2017	CPI Ex Food and Energy MoM	Jan	0.2%	0.2%	0.2%
15-Feb-2017	Retail Sales Advance MoM	Jan	0.1%	0.1%	0.6%
15-Feb-2017	Retail Sales Ex Auto MoM	Jan	0.4%	0.4%	0.2%
15-Feb-2017	Industrial Production MoM	Jan	0.1%	0.0%	0.8%
15-Feb-2017	Capacity Utilization	Jan	75.5%	75.5%	75.5%
15-Feb-2017	NAHB Housing Market Index	Feb	68	68	67
15-Feb-2017	Business Inventories	Dec	0.3%	0.4%	0.7%
15-Feb-2017	Net Long-term TIC Flows	Dec	NA	NA	\$30.8b
16-Feb-2017	Housing Starts	Jan	1200k	1230k	1226k
16-Feb-2017	Building Permits	Jan	1220k	1230k	1228k
16-Feb-2017	Initial Jobless Claims	11-Feb	240K	NA	234K
16-Feb-2017	Philadelphia Fed Business Outlook	Feb	19.0	17.5	23.6
17-Feb-2017	Leading Index	Jan	0.4%	0.4%	0.5%

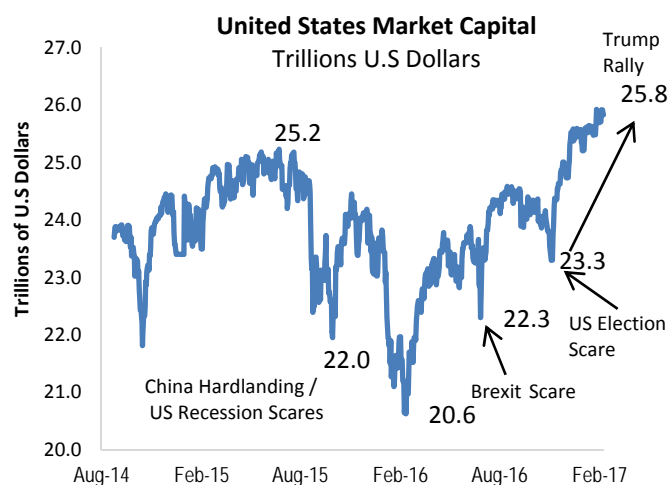
\*Consensus from Bloomberg

## Floating Higher

U.S. stocks are once again levitating to new record highs after taking a breather over the last few weeks.

Investors have been mostly shrugging off the presidential tweet storms on immigration and political squabbling taking place in the nation's capital. Instead investors are celebrating one of the best earnings seasons in more than two years and U.S. economic data that continues to surpass analysts' expectations well into the first quarter of 2017. Trump teased the market yesterday with comments that a "phenomenal" tax plan announcement could be expected in the next 2 to 3 weeks.

## Q4 2016 Best Earnings Season in Years

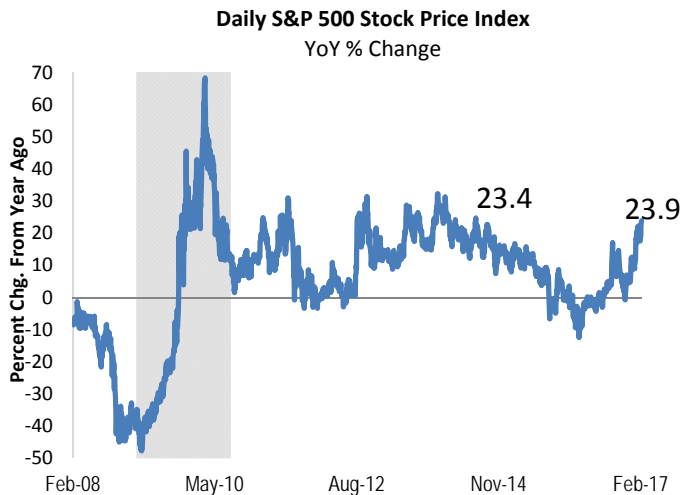


Source: Bloomberg

The discussions and information contained in this document are the opinions of BOTW chief economist Dr. Scott Anderson and should not be construed or used as a specific recommendation for the investment of assets, and is not intended as an offer, or a solicitation of an offer, to purchase or sell any security or financial instrument. Nor does the information constitute advice or an expression of the Bank's view as to whether a particular security or financial instrument is appropriate for you or meets your financial objectives. Economic and market observations and forecasts, such as those offered by Dr. Anderson reflect subjective judgments and assumptions, and unexpected events may occur. There can be no assurance that developments will transpire as forecasted. Nothing in this document should be interpreted to state or imply that past results are an indication of future performance.

Investors who have just been sitting in cash or short-term bonds over the past 12 months have missed out on one of the strongest annual stock market rallies in recent memory. The S&P 500 index has climbed 24% from a year ago.

**Strongest 12-Month Stock Rally in 3 Years**



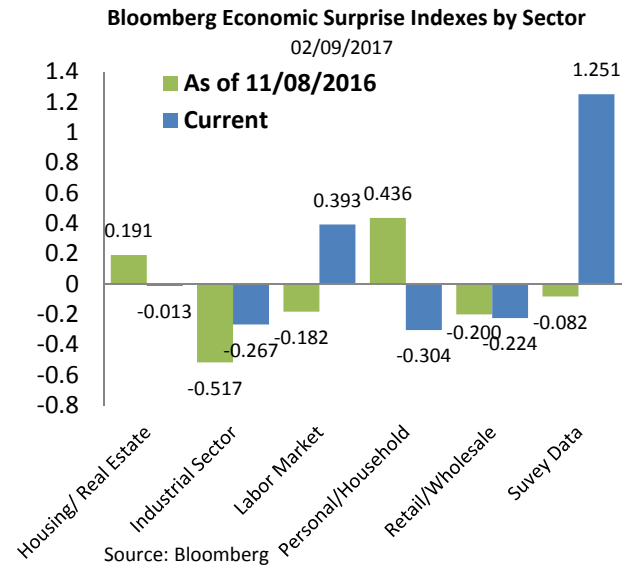
Source: Standard and Poor's

U.S. economic indicators have easily surpassed analysts' expectations so far this year. But a closer scrutiny of the data tell a far more nuanced story that isn't quite as rosy as current equity markets valuations would have you believe.

Much of the outperformance in the U.S. economic data since the national election is actually coming from just a few areas, primarily sentiment and labor market indicators.

But indicators around retail/wholesale, personal and household, and housing/real estate have actually been underperforming expectations a bit more than they were back in November. This gap between sentiment and jobs and other major indicators is not too concerning at the moment; but if we don't get more follow-through from "harder" indicators, some of the sentiment gains we have seen since November could swiftly evaporate.

**Where Is the Follow-through From Hard Data?**

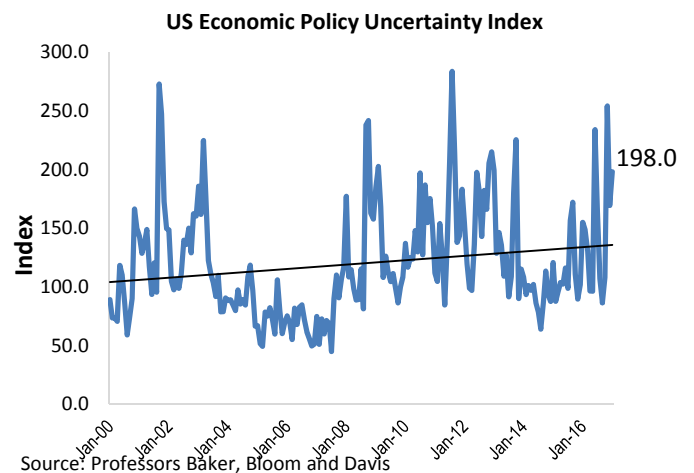


Source: Bloomberg

Advance retail sales for January, released next week, is unlikely to get us where we need to go. A sharp slowdown in retail sales growth to +0.1% on the month from a +0.6% gain in December is forecast. Light vehicle sales fell sharply in January to 17.48 Million units from 18.29 Million in December, holding back total retail sales.

Contrary to the complacency on Wall Street, the newspaper headlines are screaming, "Beware uncertainty ahead." An economic policy uncertainty index compiled by Bloomberg that tracks mentions of uncertainty, economy, and policy is at historically high levels. Buckle your seat belts; we could be in for a wild ride.

**Economic Policy Uncertainty Abounds**



Source: Professors Baker, Bloom and Davis

The discussions and information contained in this document are the opinions of BOTW chief economist Dr. Scott Anderson and should not be construed or used as a specific recommendation for the investment of assets, and is not intended as an offer, or a solicitation of an offer, to purchase or sell any security or financial instrument. Nor does the information constitute advice or an expression of the Bank's view as to whether a particular security or financial instrument is appropriate for you or meets your financial objectives. Economic and market observations and forecasts, such as those offered by Dr. Anderson reflect subjective judgments and assumptions, and unexpected events may occur. There can be no assurance that developments will transpire as forecasted. Nothing in this document should be interpreted to state or imply that past results are an indication of future performance.

## Major Economic Indicators

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4	2018.1	2018.2	2018.3	2018.4	2015	2016	2017	2018
Real GDP*	0.8	1.4	3.5	1.9	2.1	2.1	2.2	2.2	2.2	2.3	2.4	2.4	2.6	1.6	2.2	2.3
Personal Consumption Expenditures*	1.6	4.3	3.0	2.5	2.6	2.5	2.5	2.4	2.4	2.4	2.4	2.4	3.2	2.7	2.7	2.4
Non-residential Fixed Investment*	-3.4	1.0	1.4	2.4	4.5	2.8	2.9	2.8	2.7	3.4	3.9	4.4	2.1	-0.4	2.9	3.2
Private Housing Starts (000s units)	1,151	1,159	1,145	1,216	1,200	1,210	1,220	1,240	1,252	1,265	1,275	1,285	1,108	1,168	1,218	1,269
Vehicle Sales (mill. Units, annualized)	17.3	17.1	17.5	18.0	17.5	17.5	17.4	17.4	17.3	17.3	17.2	17.2	17.4	17.5	17.5	17.3
Industrial Production*	-1.7	-0.8	1.8	-0.6	1.5	1.7	1.7	1.7	1.9	2.0	2.0	2.0	0.3	-1.0	1.1	1.9
Nonfarm Payroll Employment (mil.)	143.5	144.0	144.6	145.1	145.7	146.2	146.7	147.2	147.7	148.2	148.8	149.3	141.8	144.3	146.4	148.5
Unemployment rate	4.9	4.9	4.9	4.7	4.6	4.6	4.5	4.5	4.4	4.5	4.5	4.5	5.3	4.9	4.6	4.5
Consumer Price Index* (percent)	-0.3	2.5	1.6	3.4	2.2	2.5	2.3	2.3	2.3	2.2	2.2	2.2	0.1	1.3	2.5	2.3
"Core" CPI* (percent)	2.7	2.1	1.9	2.0	2.5	2.0	2.1	2.1	2.2	2.2	2.2	2.3	1.8	2.2	2.1	2.2
PPI (finished goods)* (percent)	-5.3	3.6	1.9	4.0	0.4	3.0	2.7	2.5	2.4	2.1	2.0	2.1	-3.3	-1.0	2.4	2.4
Trade Weighted Dollar (Fed BOG, major)	93.2	89.5	90.3	93.3	94.5	95.9	97.0	96.7	97.2	97.8	97.2	97.0	90.9	91.6	96.0	97.3
Crude Oil Prices -WTI (\$ per barrel)	33	45	45	49	53	54	54	54	55	55	55	56	50	43	54	55

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

Financial Data	History				Forecast								Annual Average			
	2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4	2018.1	2018.2	2018.3	2018.4	2015	2016	2017	2018
S & P 500	1,951	2,075	2,162	2,185									2,061	2,093		
Dow Jones Industrial Average	16,663	17,764	18,372	18,865									17,591	17,916		
Federal Funds Rate (effective)	0.36	0.37	0.39	0.45	0.63	0.71	0.96	1.21	1.46	1.71	1.88	2.13	0.13	0.39	0.88	1.79
Treasury-3 Month Bills (yield)	0.29	0.26	0.30	0.43	0.55	0.72	0.95	1.18	1.47	1.73	1.92	2.17	0.05	0.32	0.85	1.82
Treasury-2 Year Notes (yield)	0.84	0.77	0.73	1.01	1.23	1.36	1.56	1.75	1.99	2.26	2.40	2.66	0.69	0.84	1.48	2.33
Treasury-5 Year Notes (yield)	1.37	1.24	1.13	1.61	1.97	2.17	2.41	2.61	2.86	3.06	3.23	3.49	1.53	1.34	2.29	3.16
Treasury-10 Year Notes (yield)	1.91	1.75	1.56	2.14	2.53	2.64	2.87	3.05	3.30	3.50	3.67	3.93	2.14	1.84	2.77	3.60
Treasury-30 Year Notes (yield)	2.72	2.57	2.28	2.83	3.14	3.27	3.48	3.68	3.90	4.10	4.26	4.53	2.84	2.60	3.39	4.20
Prime Rate	3.50	3.50	3.50	3.55	3.75	3.85	4.10	4.35	4.60	4.85	5.00	5.25	3.26	3.51	4.01	4.93
Libor 3-Mo. U.S. Dollar	0.62	0.64	0.79	0.92	1.05	1.13	1.35	1.56	1.80	1.97	2.17	2.42	0.34	0.74	1.27	2.09
Mortgage-30 Year (yield)	3.74	3.59	3.45	3.84	4.20	4.31	4.50	4.70	4.90	5.10	5.39	5.65	3.85	3.66	4.43	5.26
BAA Corporate (yield)	5.30	4.66	4.26	4.64	4.80	4.94	5.24	5.49	5.85	6.01	6.20	6.45	5.00	4.71	5.12	6.13

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