

U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
27-Mar-2017	Dallas Fed Manufacturing Activity	Mar	21.0	20.5	24.5
28-Mar-2017	Advance Goods Trade Balance	Feb	-\$66.0b	-\$66.9b	-\$68.8b
28-Mar-2017	Wholesale Inventories MoM	Feb P	0.2%	0.2%	-0.2%
28-Mar-2017	S&P CoreLogic CS 20-City HPI MoM	Jan	0.70%	0.75%	0.93%
28-Mar-2017	Conf. Board Consumer Confidence	Mar	113.0	113.0	114.8
28-Mar-2017	Richmond Fed Manufacturing Index	Mar	14	14	17
29-Mar-2017	Pending Home Sales MoM	Feb	2.2%	2.4%	-2.8%
30-Mar-2017	GDP Annualized QoQ	4Q T	2.0%	2.0%	1.9%
30-Mar-2017	GDP Price Index	4Q T	2.0%	2.0%	2.0%
30-Mar-2017	Initial Jobless Claims	25-Mar	247K	NA	258K
31-Mar-2017	Personal Income	Feb	0.3%	0.4%	0.4%
31-Mar-2017	Personal Spending	Feb	0.2%	0.2%	0.2%
31-Mar-2017	PCE Deflator MoM	Feb	0.1%	0.1%	0.4%
31-Mar-2017	PCE Core MoM	Feb	0.2%	0.2%	0.3%
31-Mar-2017	Chicago Purchasing Manager	Mar	56.8	57.0	57.4
31-Mar-2017	U. of Mich. Sentiment	Mar F	97.9	98.0	97.6

*Consensus from Bloomberg

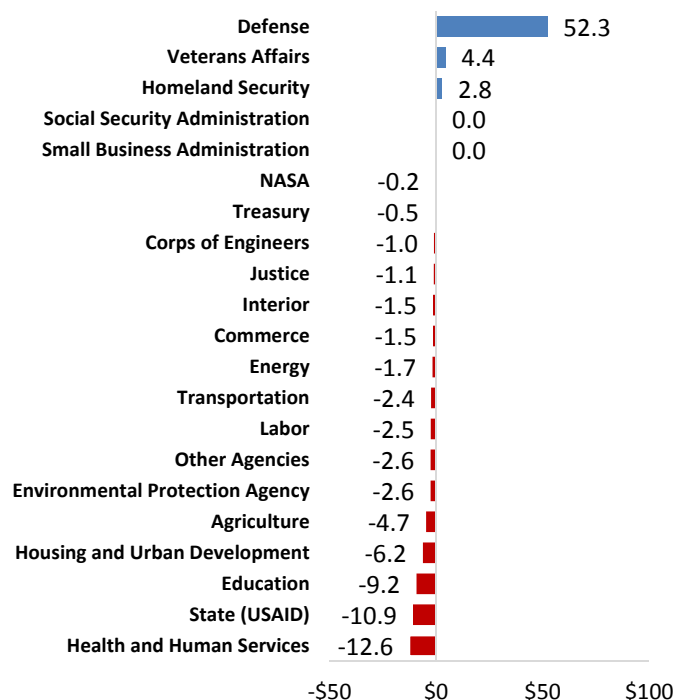
Where There Is Smoke, Is There Fire?

There has been lots of activity in Washington unrelated to tax reform from congressional hearings on Russia and Trump administration connections to a delayed nail-biting House vote on a replacement for the Affordable Care Act. Risks that the new administration and Congress could get seriously side-tracked from their tax cut, infrastructure, and deregulation agenda are on the rise. This could lead to significant legislative delays that could end up disappointing investors and dent business and consumer confidence. We have been saying for some time this was a downside risk to the outlook. Our working assumption now is that Congress won't get around to infrastructure or deregulation until 2018.

We have learned a bit more about Trump's budget priorities for next year. Trump released his "skinny" budget for FY 2018 that outlines the administration's high-level budget priorities. The bottom line: Trump would like to keep overall federal spending in line with current law, but shift spending growth sharply toward defense and homeland security while cutting aggressively many other agencies' budgets that make up much of the rest of the government's discretionary spending. He keeps Social Security spending intact. Overall, 15 of 20 major federal agencies would see budget cuts, three would see increases, and two would be unchanged.

New Administration – New Spending Priorities

Proposed FY 2018 Trump Discretionary Spending
Change in Billions of Dollars from FY 2017



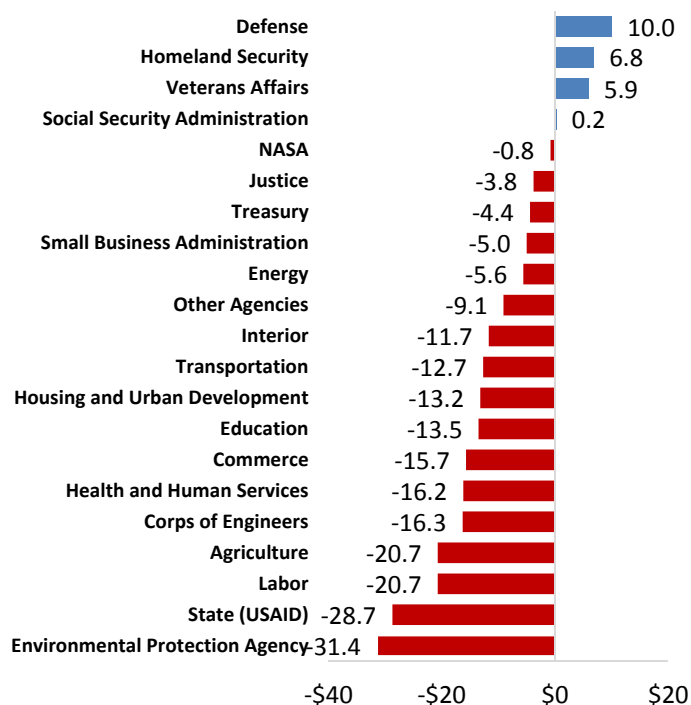
Source: Congressional Budget Office (total);
Office of Management and Budget (agencies)

Spending on defense would increase \$52.3 billion from FY 2017. Spending on Veterans Affairs would increase by \$4.4 billion, while spending on Homeland Security would increase by \$2.8 billion. Spending on Social Security and the Small Business Administration would be unchanged, while budget cuts would hit Health and Human Services, The State Department (USAID), and Education Department hard, cutting spending back by \$12.6 billion, \$10.9 billion, and \$9.2 billion, respectively.

On a percentage basis the federal spending shifts appear even more dramatic. The Environmental Protection Agency budget is being slashed by 31%, State (USAID) cut 28.7%, Labor and Agricultural departments both cut 20.7%. If passed, this budget would be a huge reshuffling of federal spending priorities that could create layoffs in many federal agencies while others like defense, homeland security, and border patrol would see increased hiring.

On a Percentage Basis the Spending Shifts Are Dramatic

Proposed FY 2018 Trump Discretionary Spending
Percent Change from FY 2017



Source: Congressional Budget Office (total); Office of Management and Budget (agencies)

Even so, overall spending in this skinny budget plan is actually in line with our previous assumptions and won't immediately have an impact on our near-term economic forecast. Still, it is Congress that ultimately will set the final contours of the FY 2018 budget. Stay tuned -- this budget will go through many iterations before we hit the finish line later this year.

It's understandable, with all that has been going on in Washington D.C., that current economic indicators haven't been top of mind. In case you are wondering, we are still on track for GDP growth in Q1 at around 1.5%. We got a few more disappointments this week with FHFA home prices, existing home sales, and initial jobless claims all coming in worse than consensus expectations. We have also scaled back modestly our 2017 forecasts for oil prices, the U.S. dollar, and long-term interest rates through the end of 2017. GDP growth is still forecast to move back above 2.0% in the second quarter.

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	1.6	2.2	2.2	2.2	2.2	2.3	2.4	2.4	2.6	1.6	2.1	2.3
Personal Consumption Expenditures*	1.6	4.3	3.0	3.0	2.1	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	1.3	5.9	4.1	2.9	2.8	2.7	3.4	3.9	4.4	2.1	-0.5	3.3	3.3
Private Housing Starts (000s units)	1,151	1,159	1,145	1,248	1,200	1,210	1,220	1,240	1,252	1,265	1,275	1,285	1,108	1,176	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	1.7	0.4	1.5	1.7	2.4	2.5	2.4	2.3	2.2	2.2	0.3	-1.0	1.4	2.3
Nonfarm Payroll Employment (mil.)	143.4	144.0	144.7	145.2	145.9	146.5	147.0	147.6	148.1	148.6	149.1	149.6	141.8	144.3	146.7	148.9
Unemployment rate	4.9	4.9	4.9	4.7	4.7	4.6	4.5	4.5	4.4	4.3	4.4	4.5	5.3	4.9	4.6	4.4
Consumer Price Index* (percent)	0.1	2.3	1.8	3.0	3.1	2.0	2.3	2.3	2.3	2.2	2.2	2.2	0.1	1.3	2.6	2.3
"Core" CPI* (percent)	2.5	2.1	2.1	2.0	2.5	2.1	2.1	2.1	2.2	2.2	2.2	2.3	1.8	2.2	2.2	2.2
PPI (finished goods)* (percent)	-3.9	3.0	1.7	3.6	3.6	3.0	2.7	2.5	2.4	2.1	2.0	2.1	-3.3	-1.0	3.0	2.4
Trade Weighted Dollar (Fed BOG, major)	93.2	89.5	90.3	93.3	94.5	94.8	96.0	95.7	96.2	96.8	96.2	96.0	90.9	91.6	95.3	96.3
Crude Oil Prices -WTI (\$ per barrel)	33	45	45	49	52	49	50	50	51	51	52	53	50	43	50	52

*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	0.71	0.88	0.96	1.21	1.46	1.71	1.88	2.13	0.13	0.39	0.94	1.79
Treasury-3 Month Bills (yield)	0.29	0.26	0.30	0.43	0.60	0.77	0.95	1.18	1.47	1.73	1.92	2.17	0.05	0.32	0.88	1.82
Treasury-2 Year Notes (yield)	0.84	0.77	0.73	1.01	1.23	1.35	1.56	1.75	1.99	2.26	2.40	2.66	0.69	0.84	1.47	2.33
Treasury-5 Year Notes (yield)	1.37	1.24	1.13	1.61	1.95	2.12	2.36	2.56	2.81	3.01	3.18	3.44	1.53	1.34	2.25	3.11
Treasury-10 Year Notes (yield)	1.91	1.75	1.56	2.14	2.44	2.55	2.78	2.98	3.20	3.40	3.57	3.83	2.14	1.84	2.69	3.50
Treasury-30 Year Notes (yield)	2.72	2.57	2.28	2.83	3.05	3.18	3.39	3.59	3.80	4.00	4.16	4.43	2.84	2.60	3.30	4.10
Prime Rate	3.50	3.50	3.50	3.55	3.77	4.00	4.10	4.35	4.60	4.85	5.00	5.25	3.26	3.51	4.06	4.93
Libor 3-Mo. U.S. Dollar	0.62	0.64	0.79	0.92	1.07	1.17	1.35	1.56	1.80	1.97	2.17	2.42	0.34	0.74	1.29	2.09
Mortgage-30 Year (yield)	3.74	3.59	3.45	3.84	4.18	4.31	4.50	4.70	4.90	5.10	5.39	5.65	3.85	3.66	4.42	5.26
BAA Corporate (yield)	5.30	4.66	4.26	4.64	4.70	4.84	5.14	5.39	5.75	5.91	6.10	6.35	5.00	4.71	5.02	6.03

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