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Date	Indicator	For	Estimate	Consensus*	Previous Period
1-May-2017	Personal Income	Mar	0.3%	0.3%	0.4%
1-May-2017	Personal Spending	Mar	0.2%	0.2%	0.1%
1-May-2017	PCE Deflator MoM	Mar	-0.2%	-0.2%	0.1%
1-May-2017	PCE Core MoM	Mar	0.0%	-0.1%	0.2%
1-May-2017	Markit US Manufacturing PMI	Apr F	52.8	NA	52.8
1-May-2017	ISM Manufacturing	Apr	56.6	56.5	57.2
1-May-2017	Construction Spending MoM	Mar	0.6%	0.4%	0.8%
2-May-2017	Wards Total Vehicle Sales	Apr	17.20m	17.10m	16.53m
3-May-2017	ADP Employment Change	Apr	170k	175k	263k
3-May-2017	Markit US Services PMI	Apr F	52.5	NA	52.5
3-May-2017	Markit US Composite PMI	Apr F	NA	NA	52.7
3-May-2017	ISM Non-Manufacturing Composite	Apr	55.7	56.0	55.2
3-May-2017	FOMC Rate Decision (Upper Bound)	03-May	1.00%	1.00%	1.00%
3-May-2017	FOMC Rate Decision (Lower Bound)	03-May	0.75%	0.75%	0.75%
4-May-2017	Nonfarm Productivity	1Q P	0.2%	0.0%	1.3%
4-May-2017	Unit Labor Costs	1Q P	2.00%	2.50%	1.70%
4-May-2017	Trade Balance	Mar	-$45.0b	-$45.2b	-$43.6b
4-May-2017	Initial Jobless Claims	29-Apr	246K	NA	257K
4-May-2017	Factory Orders	Mar	0.2%	0.6%	1.0%
5-May-2017	Change in Nonfarm Payrolls	Apr	185k	190k	98k
5-May-2017	Change in Manufacturing Payrolls	Apr	10k	12k	11k
5-May-2017	Unemployment Rate	Apr	4.5%	4.6%	4.5%
5-May-2017	Average Hourly Earnings MoM	Apr	0.3%	0.3%	0.2%
5-May-2017	Average Weekly Hours All Employees	Apr	34.3	34.4	34.3
5-May-2017	Consumer Credit	Mar	$18.000b	$14.000b	$15.206b

*Consensus from Bloomberg

Why the Fed Will Look Past Weak Q1 GDP Growth

U.S. GDP growth sputtered in the first quarter. The advance GDP estimate, released this morning, increasing a modest 0.7% at an annualized rate. That is down from a 2.1% growth pace in the fourth quarter of last year and the worst performance from the U.S. economy since the first quarter of 2014. This was in-line with our forecast but below the Bloomberg consensus forecast that was looking for a 1.0% increase.

The drop in economic growth over the last three months was driven primarily by a large deceleration in real consumer spending growth, less inventory accumulation, and declines in government spending (state and local, and federal government spending). Together these categories subtracted about 1.0 percentage point from GDP growth last quarter. In the fourth quarter last year, these three categories combined added approximately 3.4 percentage points to GDP growth.

Real consumer spending increased only 0.3% on an annualized basis in the first quarter. This was the worst quarterly performance from U.S. consumers since the fourth quarter of 2009. A large 2.5% decline in durable goods spending largely offset modest increases in non-durable (1.5%) and service (0.4%) consumption. The large decline in durable goods spending appears to have been driven by weak vehicle sales. Unit vehicle sales declined for three consecutive months during the first quarter.

While this is a scary first quarter headline performance from consumers who were supposed to be getting their confidence back (just recently consumer confidence was at expansion high levels, levels seen only a handful of time over the last several decades), I see several reasons why this was probably a one-off setback, rather than the start of a much darker road for consumers.

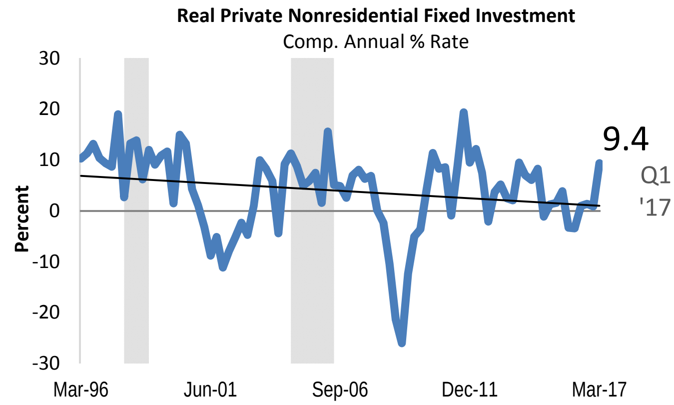
First, I believe part of the weakness in consumer spending over the last three months was payback for a consumer who probably overdid it in the fourth quarter. Real consumer spending increased at a robust 3.5% in the fourth quarter, and durable goods spending skyrocketed at an 11.4% annualized pace. These increases outstripped real personal income growth in the fourth quarter and set up the conditions of a short retrenchment in the first quarter.

Over the last three months, personal income growth has been accelerating, and we expect real income and spending to be better aligned in the second quarter. Indeed, consumers still have a lot going for them, a tightening labor market with rising income growth, solid consumer confidence readings, a strong assist from rising stock and home prices, and mortgage rates that have fallen back since the March highs. Our current forecast for real consumer spending for Q2 is a conservative 2.5% increase. There is a good chance real consumer spending comes back even stronger over the next several months.

Second, the decline in business inventory accumulation and government spending also look temporary. The 1.9% drop in federal spending was largely driven by a 4.0% decline in defense spending that is not expected to be repeated. Usually a large slowdown in inventory accumulation spurs more production and orders and stronger inventory accumulation in the next quarter. This is what we are forecasting this time, too.

Third, there was a strong and encouraging acceleration in business investment buried deep in this report. Non-residential fixed investment increased at a 9.4% annualized pace with the structures and equipment spending sub-components increasing 22.1% and 9.1%, respectively. A sign of rekindled animal spirit, perhaps? If so, this is where we would expect to find it. This was a better performance by businesses than we expected and could set us up for further upward revisions on the business spending front in the quarters ahead. Business spending has been noticeably weak throughout this expansion.

Business Investment Growth Steps Up; Is It Sustainable?



Source: Bureau of Economic Analysis

Fourth, net exports stabilized in the first quarter as export growth accelerated to a 5.8% growth rate. This is a visible sign that the global economy is re-engaging, and the drag from net exports that subtracted 1.8 percentage points from fourth quarter GDP will not be repeated anytime soon.

Fifth, overall price inflation also came in somewhat hotter than analysts expected. The price index on gross domestic purchases increased 2.6% in the first quarter, up from a 2.0% increase in the fourth quarter. The PCE price index increased 2.4% in the first quarter, also a noticeable increase from the 2.0% gain in the fourth quarter.

In short, there is nothing to panic about at this point. We see U.S. GDP growth rebounding to a 2.9% annualized pace in the second quarter on somewhat stronger consumer and government spending and a rebuilding of business inventories. For the full year, we are still forecasting 2.1% GDP growth despite the lackluster start to the year — not all that different from the expansion average.

I think the FOMC will also look past this quarter of economic weakness as it charts a course for interest rate normalization this year. The next rate hike from the Fed will likely come in June, if second quarter growth evolves as we envision, with another rate hike coming in September. Then get ready for balance sheet shrinkage sometime in the fourth 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	2.1	0.7	2.9	2.2	2.2	2.3	2.3	2.4	2.4	2.6	1.6	2.1	2.3
Personal Consumption Expenditures*	1.6	4.3	3.0	3.5	0.3	2.5	2.5	2.4	2.4	2.4	2.4	2.4	3.2	2.7	2.3	2.4
Non-residential Fixed Investment*	-3.4	1.0	1.4	0.9	9.4	4.6	2.9	2.9	2.8	3.4	3.9	4.5	2.1	-0.5	4.1	3.3
Private Housing Starts (000s units)	1,151	1,159	1,145	1,248	1,253	1,250	1,255	1,261	1,263	1,265	1,275	1,285	1,108	1,176	1,255	1,272
Vehicle Sales (mill. Units, annualized)	17.3	17.1	17.5	18.0	17.2	17.4	17.4	17.4	17.3	17.3	17.2	17.2	17.4	17.5	17.3	17.3
Industrial Production*	-1.3	-0.7	0.8	0.7	1.5	1.7	2.4	2.5	2.4	2.3	2.2	2.2	0.3	-1.2	1.4	2.3
Nonfarm Payroll Employment (mil.)	143.4	144.0	144.7	145.2	145.7	146.3	146.8	147.3	147.8	148.3	148.8	149.4	141.8	144.3	146.5	148.6
Unemployment rate	4.9	4.9	4.9	4.7	4.7	4.5	4.5	4.4	4.3	4.3	4.4	4.5	5.3	4.9	4.5	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	2.2	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	6.1	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	2,326								2,061	2,093		
Dow Jones Industrial Average	16,663	17,764	18,372	18,865	20,406								17,591	17,916		
Federal Funds Rate (effective)	0.36	0.37	0.39	0.45	0.70	0.96	1.21	1.38	1.46	1.71	1.88	2.13	0.13	0.39	1.06	1.79
Treasury-3 Month Bills (yield)	0.29	0.26	0.30	0.43	0.61	0.85	1.15	1.34	1.47	1.73	1.92	2.17	0.05	0.32	0.99	1.82
Treasury-2 Year Notes (yield)	0.84	0.77	0.73	1.01	1.24	1.28	1.51	1.70	1.94	2.21	2.35	2.61	0.69	0.84	1.43	2.28
Treasury-5 Year Notes (yield)	1.37	1.24	1.13	1.61	1.95	1.97	2.24	2.44	2.71	2.91	3.08	3.34	1.53	1.34	2.15	3.01
Treasury-10 Year Notes (yield)	1.91	1.75	1.56	2.14	2.45	2.48	2.70	2.90	3.15	3.35	3.52	3.78	2.14	1.84	2.63	3.45
Treasury-30 Year Notes (yield)	2.72	2.57	2.28	2.83	3.05	3.07	3.31	3.51	3.78	3.98	4.15	4.43	2.84	2.60	3.24	4.09
Prime Rate	3.50	3.50	3.50	3.55	3.80	4.06	4.32	4.50	4.60	4.85	5.00	5.25	3.26	3.51	4.17	4.93
Libor 3-Mo. U.S. Dollar	0.62	0.64	0.79	0.92	1.07	1.21	1.49	1.67	1.75	1.97	2.17	2.42	0.34	0.74	1.36	2.08
Mortgage-30 Year (yield)	3.74	3.59	3.45	3.84	4.17	4.22	4.43	4.63	4.85	5.05	5.34	5.60	3.85	3.66	4.36	5.21
BAA Corporate (yield)	5.30	4.66	4.26	4.64	4.66	4.67	4.94	5.19	5.55	5.78	5.94	6.20	5.00	4.71	4.87	5.87

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