



| Date        | Indicator                            | For    | Estimate | Consensus* | Previous Period |
|-------------|--------------------------------------|--------|----------|------------|-----------------|
| 8-May-2017  | Labor Market Conditions Index Change | Apr    | NA       | NA         | 0.4             |
| 9-May-2017  | NFIB Small Business Optimism         | Apr    | 105.3    | 104.8      | 104.7           |
| 9-May-2017  | JOLTS Job Openings                   | Mar    | NA       | NA         | 5743            |
| 9-May-2017  | Wholesale Inventories MoM            | Mar F  | NA       | NA         | -0.1%           |
| 10-May-2017 | Import Price Index MoM               | Apr    | -0.1%    | 0.2%       | -0.2%           |
| 11-May-2017 | PPI Final Demand MoM                 | Apr    | 0.1%     | 0.2%       | -0.1%           |
| 11-May-2017 | PPI Ex Food and Energy MoM           | Apr    | 0.2%     | 0.2%       | 0.0%            |
| 11-May-2017 | Initial Jobless Claims               | 06-May | 243K     | NA         | 238K            |
| 12-May-2017 | CPI MoM                              | Apr    | 0.2%     | 0.3%       | -0.3%           |
| 12-May-2017 | CPI Ex Food and Energy MoM           | Apr    | 0.2%     | 0.2%       | -0.1%           |
| 12-May-2017 | Retail Sales Advance MoM             | Apr    | 0.5%     | 0.6%       | -0.2%           |
| 12-May-2017 | Retail Sales Ex Auto MoM             | Apr    | 0.4%     | 0.5%       | 0.0%            |
| 12-May-2017 | U. of Mich. Sentiment                | May P  | 97.1     | 97.0       | 97.0            |
| 12-May-2017 | Business Inventories                 | Mar    | 0.1%     | 0.2%       | 0.3%            |

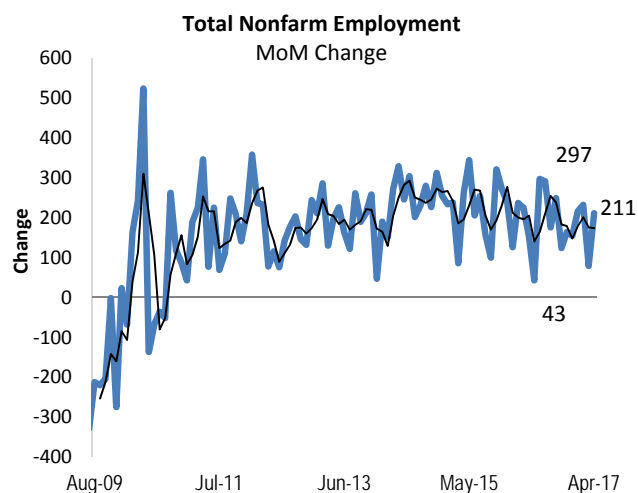
\*Consensus from Bloomberg

## A Hot Jobs Report for April

The labor market's resilience and strength was on full display in April. Nonfarm payroll growth came roaring back with a net 211K jobs created. This was well above consensus expectations for a 190K job gain.

The March payroll gain was revised down to 79K jobs, so the strong bounce in April probably reflected a little pent-up hiring activity after the winter storms of March lifted. Still, the U.S. labor market is red hot right now. Job gains have been firmly above 200K per month in three of the past four months, and the average monthly job growth so far this year is a solid 185K jobs, which is well above the monthly gains needed to keep the unemployment rate steady and future inflation at bay.

### Labor Market Resilience and Strength on Full Display in April



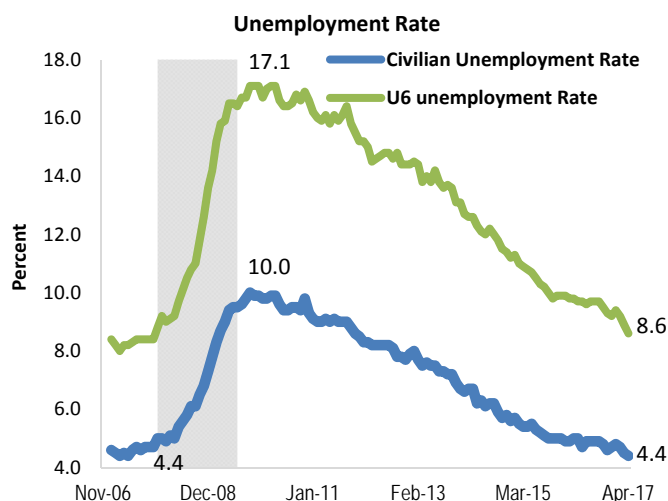
Source: U.S. Bureau of Labor Statistics

The payroll gain last month was strong enough, in our opinion, to lay to rest any doubts in the sustainability of the expansion that erupted after the weak March jobs report and lackluster Q1 GDP reading. Our analysis last month of the March jobs data pointed pretty strongly toward adverse weather impacts and only a temporary drop in monthly job growth, and that is indeed what appears to have happened.

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The Fed's strategy of looking past the weak Q1 economic data activity was validated today as the U.S. unemployment rate dropped another two-tenths of a percentage point last month to just 4.4%. This was the lowest monthly reading on the U.S. unemployment rate since May 2007 and matches the low point reached in the last expansion. Even the broader U6 measure of unemployment, which includes marginally attached workers and those working part-time for economic reasons, dropped convincingly to 8.6% — its lowest level since November 2007.

#### The Unemployment Rate Now Matches the Last Expansion Low



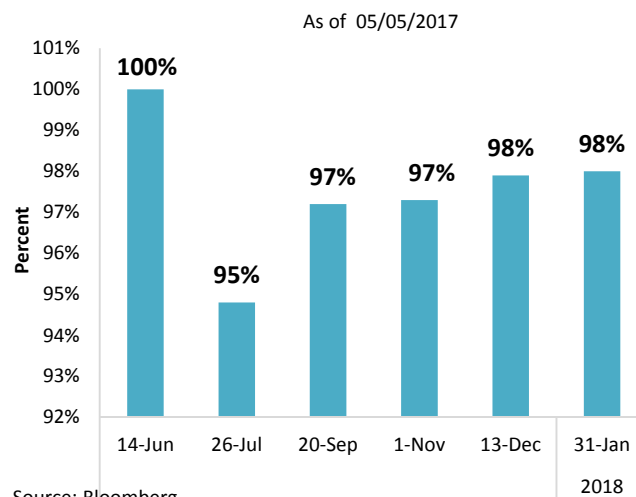
Source: U.S. Bureau of Labor Statistics

The U.S. unemployment rate at 4.4% is where we forecast the unemployment rate would be in the fourth quarter of this year, and probably lower than the FOMC thought the U.S. unemployment rate would be at this time of the year. The sharp decline in the U.S. unemployment rate so far this year will raise concerns from some that the Fed is a bit behind the curve in normalizing short-term interest rates.

The market, in our opinion, has been too skeptical of future rate hikes this year and only recently (following the May FOMC statement) started to price in a more realistic interest rate outlook. This morning's jobs report keeps the Fed firmly on its rate hike path of two more rate increases by September and an announcement of reduced reinvestment of maturing assets on its balance sheet sometime in the fourth quarter of this year. Fed funds futures, following the payroll report release this morning, puts a 100% probability of a June rate hike from the Fed.

#### A June Rate Hike from the Fed a Near Certainty Now

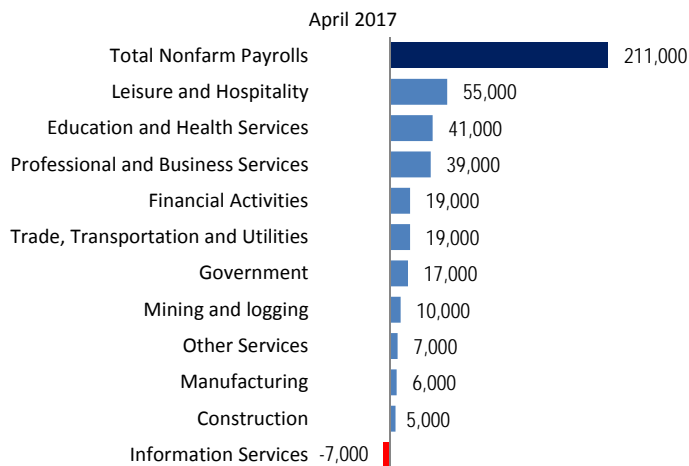
##### Market Implied Probability of Next FOMC Rate Hike



By sector, broad-based job gains continued in April, led by leisure and hospitality (+55K), education and health care (+41K), professional and business services (+39K), financial services (+19K), and trade (+19K). Manufacturing (+6k) and construction (+5K) job gains were relatively modest, while information services lost a net (-7K) jobs.

#### Another Solid Month of Job Creation

##### Nonfarm Employment Growth (MoM)



Source: BLS, Bank of the West Economics

The April payroll report provides more visible evidence that job growth may be running a bit hotter than the economy right now, and the unemployment rate is low. The probability of overshooting full employment has increased, and the Fed will be taking notice.

## 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    | 4.4      | 4.3    | 4.2    | 4.1    | 4.1    | 4.2    | 4.3    | 5.3   | 4.9                        | 4.4   | 4.2   |  |
| 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   | 0.94     | 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   | 1.92     | 2.19   | 2.39   | 2.67   | 2.87   | 3.03   | 3.30   | 1.53   | 1.34           | 2.11 | 2.97 |  |
| Treasury-10 Year Notes (yield) | 1.91    | 1.75   | 1.56   | 2.14   | 2.45   | 2.38     | 2.60   | 2.80   | 3.10   | 3.30   | 3.47   | 3.73   | 2.14   | 1.84           | 2.56 | 3.40 |  |
| 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   | 1.19     | 1.47   | 1.65   | 1.73   | 1.97   | 2.15   | 2.40   | 0.34   | 0.74           | 1.35 | 2.06 |  |
| Mortgage-30 Year (yield)       | 3.74    | 3.59   | 3.45   | 3.84   | 4.17   | 4.17     | 4.38   | 4.58   | 4.85   | 5.05   | 5.29   | 5.55   | 3.85   | 3.66           | 4.33 | 5.19 |  |
| BAA Corporate (yield)          | 5.30    | 4.66   | 4.26   | 4.64   | 4.66   | 4.65     | 4.92   | 5.17   | 5.52   | 5.75   | 5.92   | 6.18   | 5.00   | 4.71           | 4.85 | 5.84 |  |

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