

Date	Indicator	For	Estimate	Consensus*	Previous Period
31-Jul-2017	Chicago Purchasing Manager	Jul	59	59	65.7
31-Jul-2017	Pending Home Sales MoM	Jun	0.2%	1.0%	-0.8%
31-Jul-2017	Dallas Fed Manufacturing Activity	Jul	13	14	15
1-Aug-2017	Personal Income	Jun	0.3%	0.4%	0.4%
1-Aug-2017	Personal Spending	Jun	0.1%	0.1%	0.1%
1-Aug-2017	PCE Deflator MoM	Jun	0.0%	0.0%	-0.1%
1-Aug-2017	PCE Core MoM	Jun	0.1%	0.1%	0.1%
1-Aug-2017	Markit US Manufacturing PMI	Jul F	NA	NA	53.2
1-Aug-2017	ISM Manufacturing	Jul	56.4	56.2	57.8
1-Aug-2017	Construction Spending MoM	Jun	0.4%	0.5%	0.0%
1-Aug-2017	Wards Total Vehicle Sales	Jul	16.60m	16.78m	16.41m
2-Aug-2017	ADP Employment Change	Jul	200k	195k	158k
3-Aug-2017	Initial Jobless Claims	29-Jul	240k	NA	244k
3-Aug-2017	Markit US Services PMI	Jul F	NA	NA	54.2
3-Aug-2017	Markit US Composite PMI	Jul F	NA	NA	54.2
3-Aug-2017	ISM Non-Manufacturing Composite	Jul	56.9	56.8	57.4
3-Aug-2017	Factory Orders	Jun	2.4%	1.9%	-0.8%
4-Aug-2017	Change in Nonfarm Payrolls	Jul	181k	183k	222k
4-Aug-2017	Change in Manufacturing Payrolls	Jul	4k	5k	1k
4-Aug-2017	Unemployment Rate	Jul	4.3%	4.3%	4.4%
4-Aug-2017	Average Hourly Earnings MoM	Jul	0.3%	0.3%	0.2%

*Consensus from Bloomberg

U.S. GDP Growth Rebounds to a Respectable Pace in Q2

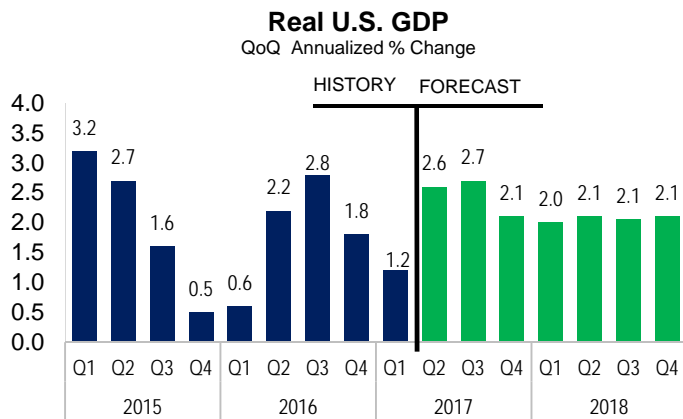
The Bureau of Economic Analysis's (BEA) advanced estimate of second quarter real GDP growth showed solid improvement over the first quarter performance, coming in at a 2.6% annualized pace from a downwardly revised first quarter growth rate of 1.2%. First quarter GDP previously was reported at a 1.4% annualized growth rate.

Over the first half of this year, U.S. GDP growth was very close to the expansion average at a 1.9% annualized pace. The market reaction to the release has been relatively muted so far, as a rebound in GDP growth of this magnitude was widely anticipated by the market, and our outlook for U.S. GDP growth over the balance of the year is generally little changed by this new information. This data is generally in line with FOMC

expectations and will not alter the Fed's balance sheet reduction or interest rate plans.

Today's advanced estimate of second quarter GDP growth came along with the BEA's annual GDP revisions, based on improved source data, that revised quarterly GDP estimates going all the way back to Q1 2014. With the revisions, annual GDP growth for 2016 slipped to 1.5% from a previously reported 1.6%. With the release of this morning's Q2 estimates we forecast Q3 GDP growth at 2.7% and 2017 annual GDP growth of 2.1%.

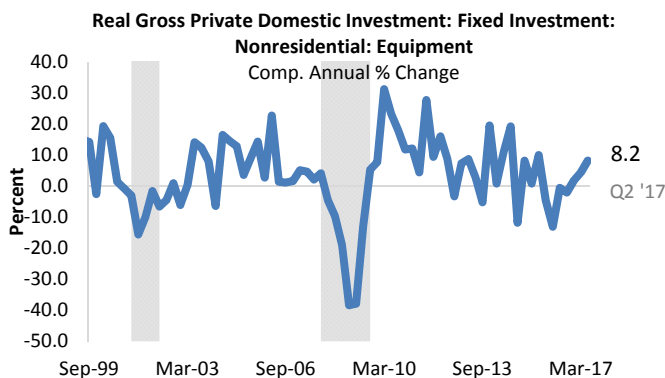
GDP Growth on Track – Modest Improvement over Last Year



Source: Bureau of Economic Analysis

The rebound in second quarter GDP was driven by a marked improvement in real consumer spending growth to a 2.8% annualized pace from a 1.9% pace in the first quarter. Consumers’ durable goods spending increased at an encouraging 6.3% pace last quarter compared to a 0.1% decline in the first quarter. Business spending and export growth also appears to be benefiting from the improved global economy, increased oil drilling activity, and rising business confidence.

Equipment Spending Accelerates in Q2



Source: US. Bureau of Economic Analysis/FRED

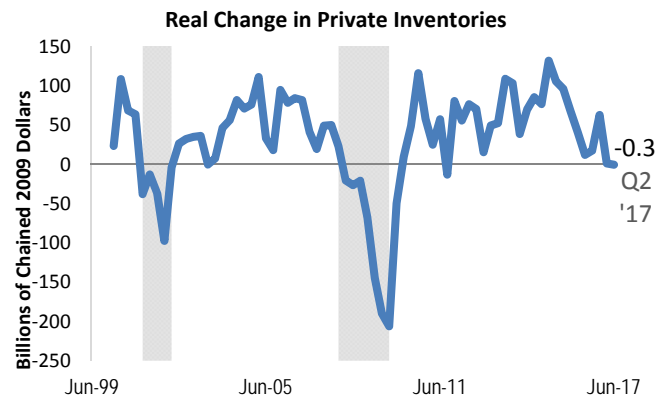
Equipment spending increased a better-than-expected 8.2% annual pace last quarter, continuing the rebound in business investment that began at the start of the year, though that was partially offset by a 6.8% annualized drop in residential fixed investment. Both commercial and residential construction could continue to slow as the Fed normalizes interest rates and banks marginally tighten lending standards. The government also helped boost growth last quarter. Federal spending, increasing

at a 2.3% annualize pace, broke a decline of 2.4% in the first quarter.

The U.S. trade balance improved last quarter as well, adding almost two-tenths of a percent to U.S. GDP growth. Export growth increased at a solid 4.1% pace, though that was slightly slower than the first quarter’s 7.3% annualized increase. The weaker dollar and stronger growth abroad, especially in Europe and Asia, appears to be helping the production side of the U.S. economy.

The only real surprise in my opinion was the lack of inventory investment in Q2. Private inventories slipped \$0.3 billion last quarter and only increased a paltry \$1.2 billion in the first quarter. This sets the U.S. economy up for continued solid GDP in the third quarter, as businesses need to replenish inventories that may now be too low given the firming in final demand.

Business Inventories Need to Be Rebuilt – Adding to 2H Growth



Source: Bureau of Economic Analysis

Overall, the second quarter GDP report was a pleasant read that the U.S. economic expansion remains on a steady growth trajectory, despite the gridlock permeating Washington D.C. Even so, trend growth remains about where it has been throughout this expansion; and there is little sign we are breaking out of our 2.0% growth rut longer-term, without a significant boost to U.S. productivity growth. Congressional action on infrastructure investment and taxes would be a start in the right direction. This morning’s GDP data should give the FOMC the green light to continue on its normalization path and increases the odds of another rate hike from the Fed in December. Another fed funds rate hike in December continues to be my forecast.

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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*	0.6	2.2	2.8	1.8	1.2	2.6	2.7	2.1	2.0	2.1	2.1	2.1	2.6	1.5	2.1	2.2
Personal Consumption Expenditures*	1.8	3.8	2.8	2.9	1.9	2.8	2.7	2.4	2.2	2.2	2.1	2.1	3.2	2.7	2.6	2.3
Non-residential Fixed Investment*	-4.0	3.3	3.4	0.2	7.2	5.2	3.9	2.9	2.8	3.4	3.9	4.4	2.1	-0.6	4.1	3.5
Private Housing Starts (000s units)	1,153	1,158	1,150	1,248	1,238	1,164	1,230	1,256	1,263	1,265	1,275	1,285	1,108	1,177	1,222	1,272
Vehicle Sales (mill. Units, annualized)	17.3	17.1	17.5	18.0	17.2	16.6	16.8	16.8	16.7	16.6	16.6	16.5	17.4	17.5	16.8	16.6
Industrial Production*	-1.3	-0.7	0.8	0.7	1.4	4.7	1.8	1.9	2.2	2.3	2.2	2.2	0.3	-1.2	1.8	2.3
Nonfarm Payroll Employment (mil.)	143.4	144.0	144.7	145.2	145.7	146.2	146.7	147.2	147.6	148.1	148.5	149.0	141.8	144.3	146.5	148.3
Unemployment rate	4.9	4.9	4.9	4.7	4.7	4.4	4.2	4.1	4.1	4.0	4.1	4.2	5.3	4.9	4.3	4.1
Consumer Price Index* (percent)	0.1	2.3	1.8	3.0	3.1	-0.3	2.1	2.1	2.1	2.1	2.1	2.1	0.1	1.3	2.1	2.0
"Core" CPI* (percent)	2.5	2.1	2.1	2.0	2.5	0.6	2.0	2.0	2.1	2.1	2.1	2.1	1.8	2.2	1.9	2.0
PPI (finished goods)* (percent)	-3.9	3.0	1.7	3.4	6.3	0.4	2.7	2.5	2.4	2.1	2.0	2.1	-3.3	-1.0	3.2	2.2
Trade Weighted Dollar (Fed BOG, major)	93.2	89.5	90.3	93.5	94.5	93.1	91.0	91.7	92.2	92.5	92.2	92.0	90.9	91.6	92.6	92.2
Crude Oil Prices -WTI (\$ per barrel)	33	45	45	49	52	48	45	45	46	46	47	48	50	43	47	47

*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	2,398							2,061	2,093		
Dow Jones Industrial Average	16,663	17,764	18,372	18,865	20,406	20,994							17,591	17,916		
Federal Funds Rate (effective)	0.36	0.37	0.39	0.45	0.70	0.94	1.16	1.21	1.46	1.71	1.96	2.13	0.13	0.39	1.00	1.81
Treasury-3 Month Bills (yield)	0.29	0.26	0.30	0.43	0.61	0.91	1.08	1.16	1.41	1.67	1.92	2.08	0.05	0.32	0.94	1.77
Treasury-2 Year Notes (yield)	0.84	0.77	0.73	1.01	1.24	1.30	1.48	1.65	1.90	2.16	2.40	2.58	0.69	0.84	1.42	2.26
Treasury-5 Year Notes (yield)	1.37	1.24	1.13	1.61	1.95	1.81	2.00	2.20	2.50	2.72	2.92	3.15	1.53	1.34	1.99	2.82
Treasury-10 Year Notes (yield)	1.91	1.75	1.56	2.14	2.45	2.26	2.45	2.65	2.92	3.12	3.36	3.55	2.14	1.84	2.45	3.24
Treasury-30 Year Notes (yield)	2.72	2.57	2.28	2.83	3.05	2.90	3.13	3.33	3.57	3.77	4.01	4.20	2.84	2.60	3.10	3.89
Prime Rate	3.50	3.50	3.50	3.55	3.80	4.05	4.32	4.35	4.60	4.85	5.00	5.25	3.26	3.51	4.13	4.93
Libor 3-Mo. U.S. Dollar	0.62	0.64	0.79	0.92	1.07	1.21	1.39	1.47	1.73	1.97	2.22	2.40	0.34	0.74	1.28	2.08
Mortgage-30 Year (yield)	3.74	3.59	3.45	3.84	4.17	3.98	4.23	4.43	4.70	4.92	5.16	5.40	3.85	3.66	4.20	5.05
BAA Corporate (yield)	5.30	4.66	4.26	4.64	4.66	4.49	4.70	4.95	5.33	5.55	5.79	5.98	5.00	4.71	4.70	5.66

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