

Date	Indicator	For	Estimate	Consensus*	Previous Period
7-Aug-2017	Labor Market Conditions Index	Jul	NA	NA	1.5
7-Aug-2017	Consumer Credit	Jun	\$14.0b	\$16.0b	\$18.4b
8-Aug-2017	NFIB Small Business Optimism	Jul	102.7	NA	103.6
8-Aug-2017	JOLTS Job Openings	Jun	NA	NA	5666
9-Aug-2017	Nonfarm Productivity	2Q P	0.9%	0.8%	0.0%
9-Aug-2017	Unit Labor Costs	2Q P	0.9%	1.0%	2.2%
9-Aug-2017	Wholesale Inventories MoM	Jun F	0.6%	0.6%	0.6%
10-Aug-2017	Initial Jobless Claims	05-Aug	243K	NA	240k
10-Aug-2017	PPI Final Demand MoM	Jul	0.2%	0.1%	0.1%
10-Aug-2017	PPI Ex Food and Energy MoM	Jul	0.2%	0.2%	0.1%
11-Aug-2017	CPI MoM	Jul	0.2%	0.1%	0.0%
11-Aug-2017	CPI Ex Food and Energy MoM	Jul	0.2%	0.2%	0.1%

\*Consensus from Bloomberg

## 'You're Hired' – July Jobs Report Sizzles

The Bureau of Labor Statistics reported another all-around solid jobs report for July. The U.S. economy created 209K net new jobs last month, easily beating consensus expectations for 180K jobs. We have now had two consecutive months of 200+ jobs, so I guess you could say the economy is batting a thousand when it comes to the labor market. June job creation was also revised up to 231K from initial estimates of 222K.

Job gains in July were led by private service providers. Leisure and hospitality employment increased 62K with strong gains in eating and drinking establishments. Education and healthcare rose by 54K, and business services employment was up 49K. Goods producing industries also increased their hiring last month with manufacturers adding 16K jobs and construction 6K.

The headline unemployment rate dropped to 4.3% in July from 4.4% in June, and the labor force participation rate improved to 62.9% from 62.8%; so plentiful jobs could still be pulling people into the labor market from the sidelines. Average hourly earnings stepped up as well, increasing 0.3% on the month and 2.5% year-on-year.

This jobs report is strong enough to keep the Fed on course for a September balance sheet reduction announcement; and it will keep a December rate hike

from the Fed on the table, even though the futures market has largely discounted any possibility of another rate hike this year. In fact, some FOMC members could begin to worry that the labor market is running a little too hot right now. This July jobs report bolsters the case for another solid quarter of real consumer spending and GDP growth.

### July Jobs Report Sizzles – Pointing to Solid Q3 Growth

#### Nonfarm Employment MoM Growth July 2017

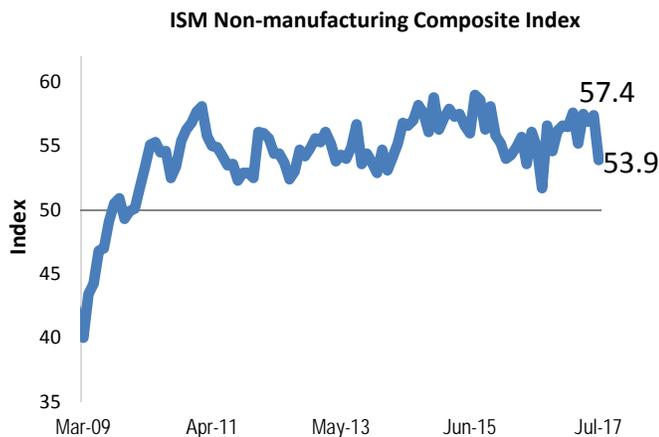


Source: BLS, Bank of the West

However, not all the economic indicators released recently tell the same story. Service sector expansion appeared to stumble in July, according to the ISM Non-Manufacturing Index. The index fell 3.5 points to 53.9, the biggest monthly drop in this measure since November 2008. This index has seen big drops before, only to bounce back a month later. Moreover, the index had probably gotten too high given economic reality, and this may only be reversion to the mean behavior; but it's worth watching in the months ahead.

Last note of caution: The economic surprises continue to lean toward the negative side. The economic surprises on the hard data have gotten worse over the past month, while the softer confidence measures continue to hold below recent highs. Just this week real personal spending for June and July unit vehicle sales were both weaker than consensus forecasts.

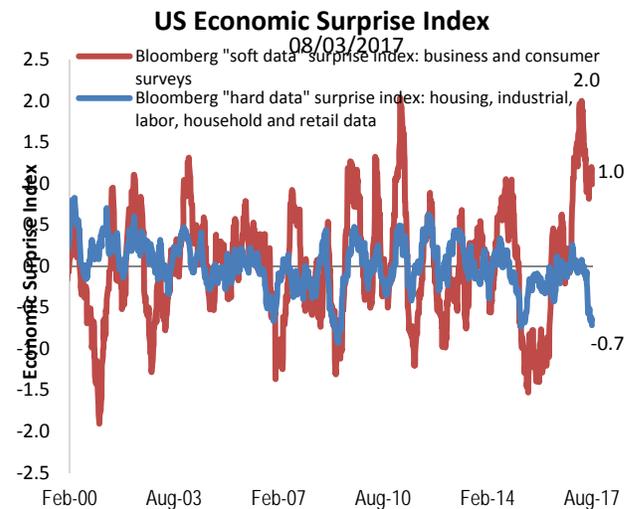
**Service Sector Stumbles in July**



Source: Institute for Supply Management

The sub-components in the report did not look much better than the headline. New orders, export orders, and employment all softened significantly last month.

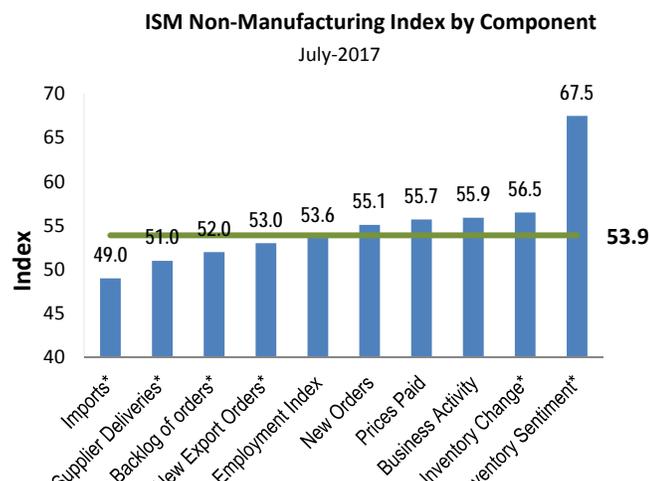
**Economic Surprises Become More Negative over the Past Month**



Source: Bloomberg

In short, it's premature to conclude the U.S. economy is breaking out of its 2% trend growth rut, though we do think GDP growth in Q3 will come in closer to 2.6% than 2.0%. The Fed will view monthly job growth of 200+ with an unemployment rate at 4.3% as an economy in danger of overheating down the road and in need of more interest rate normalization and balance sheet reductions.

**New Orders for Service Sector Businesses Slow**



\*Denotes not seasonally adjusted figures. All others are seasonally adjusted. Source: Institute of Supply

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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	2.6	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	2.6	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	17.2	17.5	17.8	17.1	16.8	16.8	16.8	16.7	16.6	16.6	16.5	17.4	17.5	16.9	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