

Date	Indicator	For	Estimate	Consensus*	Previous Period
12-Sep-2017	NFIB Small Business Optimism	Aug	105.0	NA	105.2
12-Sep-2017	JOLTS Job Openings	Jul	NA	NA	6163
13-Sep-2017	PPI Final Demand MoM	Aug	0.3%	0.3%	-0.1%
13-Sep-2017	PPI Ex Food and Energy MoM	Aug	0.2%	0.2%	-0.1%
14-Sep-2017	Initial Jobless Claims	09-Sep	NA	NA	NA
14-Sep-2017	CPI MoM	Aug	0.3%	0.3%	0.1%
14-Sep-2017	CPI Ex Food and Energy MoM	Aug	0.1%	0.2%	0.1%
15-Sep-2017	Empire Manufacturing	Sep	20.0	18.0	25.2
15-Sep-2017	Retail Sales Advance MoM	Aug	0.3%	0.2%	0.6%
15-Sep-2017	Retail Sales Ex Auto MoM	Aug	0.5%	0.5%	0.5%
15-Sep-2017	Industrial Production MoM	Aug	0.1%	0.1%	0.2%
15-Sep-2017	Capacity Utilization	Aug	76.8%	76.8%	76.7%
15-Sep-2017	U. of Mich. Sentiment	Sep P	94.8	95.0	96.8
15-Sep-2017	Business Inventories	Jul	0.2%	0.2%	0.5%

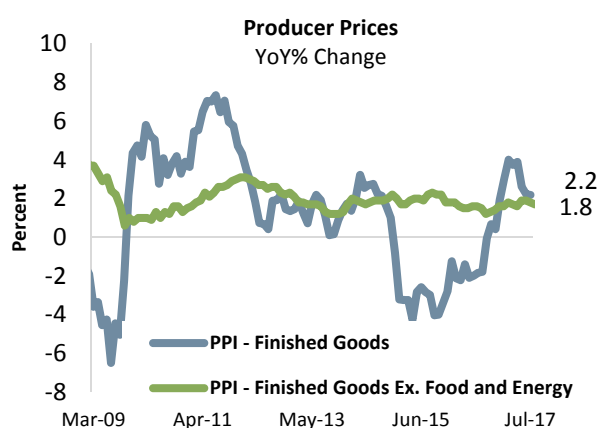
*Consensus from Bloomberg

Will Inflation Come Back to Life in August?

Just when the market and the Federal Reserve had nearly lost all hope on inflation, we will be watching next week's inflation data for August with a keen interest. We are forecasting a modest bounce back in producer price inflation, both overall and core, off of July declines. We forecast final demand producer price index increased 0.3% last month. Excluding volatile food and energy categories we are forecasting a 0.2% increase last month.

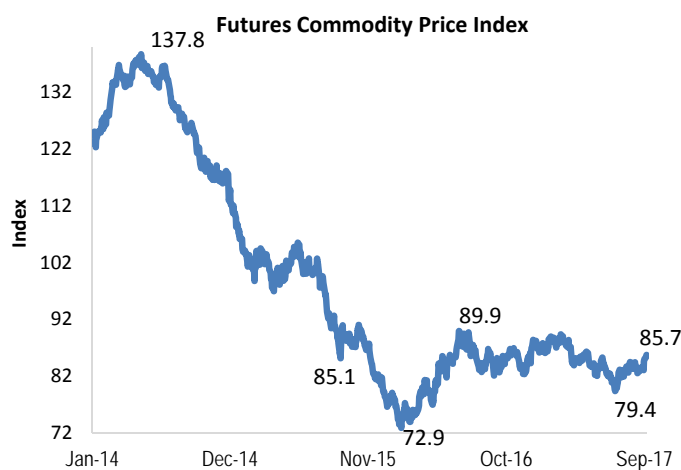
One of the drivers should be basic commodities and material prices that are starting to rise from low levels. The broad commodity price index we track is up about 7.9% since the end of June. Hurricanes Harvey and Irma should only add to the upward price pressure on commodities as rebuilding gets underway.

Producer Price Inflation Expected to Mover Higher in August



Source: US. Bureau of Labor Statistics/FRED

Commodity Futures Prices Moving Higher Over Last Two Months

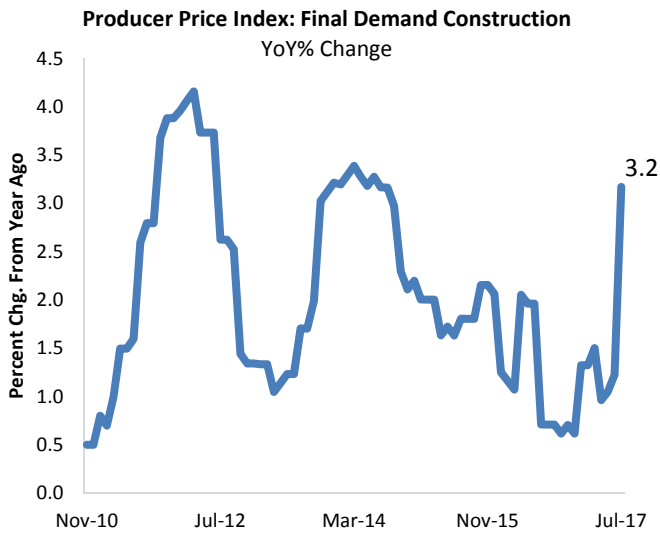


Source: Bloomberg

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Moreover, the price pressures are starting to become visible in sectors like construction where both material and labor costs are on the rise. Producer prices in the construction sector are rising at the fastest pace since 2014.

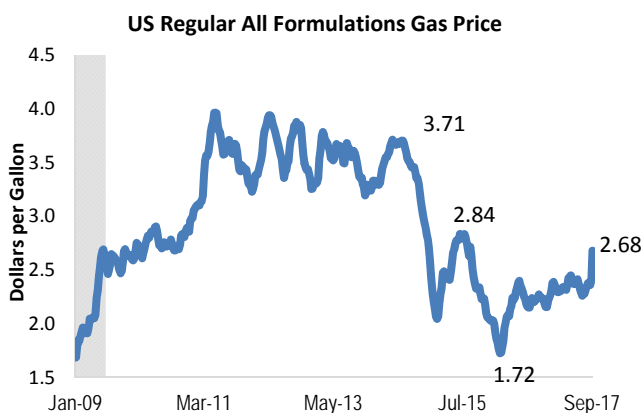
Construction Costs Already Rising At Fastest Pace Since 2014



Source: US. Bureau of Labor Statistics/FRED

At the consumer level, goosed by temporary supply disruptions from Gulf Coast refineries, retail gasoline prices are rising at a rapid clip. At 2.68 per gallon, gasoline prices are at levels last seen two years ago.

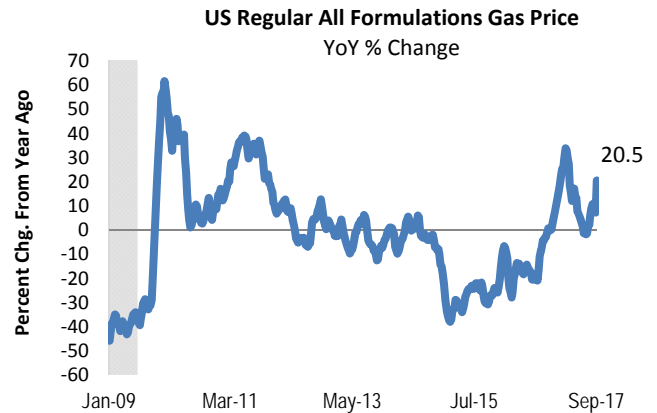
Gasoline Prices Nearing Two Year Highs After Harvey



Source: U.S. Energy Information Administration

From a year ago, retail gasoline prices are now up 20.5%.

Gasoline Price Inflation Returns



Source: U.S. Energy Information Administration

We know it will take more than a month of stronger inflation data to move the needle on inflation expectations, but it's a step in the right direction. The Fed funds futures market is largely discounting a December rate hike, placing only about a one in four chance of another rate hike in December. We believe the chance of a December rate hike from the Fed is much higher at just over 50%.

We got some important compromise and action from the President and the U.S. Congress this week that we think bolsters our case. Indeed, the largest downside risks to the U.S. economy and inflation from a weak global economy to Federal debt ceiling defaults to a government shutdown appear to be on the wane. This is good news for the U.S. economy and the outlook for inflation.

Indeed, should inflation surprise on the upside next week, the probability of a December rate hike from the Fed could start rising again in the futures market.

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	3.0	3.0	2.2	2.0	2.1	2.1	2.1	2.6	1.5	2.2	2.3
Personal Consumption Expenditures*	1.8	3.8	2.8	2.9	1.9	3.3	2.8	2.4	2.2	2.2	2.1	2.1	3.2	2.7	2.7	2.4
Non-residential Fixed Investment*	-4.0	3.3	3.4	0.2	7.2	6.9	4.4	2.8	2.8	3.4	3.9	4.4	2.1	-0.6	4.5	3.6
Private Housing Starts (000s units)	1,153	1,158	1,150	1,248	1,238	1,165	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	1.6	5.2	1.8	1.9	2.2	2.3	2.2	2.2	0.3	-1.2	1.9	2.3
Nonfarm Payroll Employment (mil.)	143.4	144.0	144.7	145.2	145.7	146.2	146.7	147.2	147.7	148.2	148.7	149.2	141.8	144.3	146.5	148.4
Unemployment rate	4.9	4.9	4.9	4.7	4.7	4.4	4.3	4.2	4.2	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	-0.3	1.9	2.2	2.2	2.0	2.0	2.0	0.1	1.3	2.0	1.9
"Core" CPI* (percent)	2.5	2.1	2.1	2.0	2.5	0.6	1.9	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	3.2	2.8	2.1	1.8	1.6	1.6	-3.3	-1.0	3.3	2.1
Trade Weighted Dollar (Fed BOG, major)	93.2	89.5	90.3	93.5	94.5	93.1	89.0	89.7	90.2	90.5	90.2	90.0	90.9	91.6	91.6	90.2
Crude Oil Prices -WTI (\$ per barrel)	33	45	45	49	52	48	47	48	49	49	50	50	50	43	49	50

*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	1.15	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	1.03	1.10	1.36	1.63	1.90	2.07	0.05	0.32	0.91	1.74
Treasury-2 Year Notes (yield)	0.84	0.77	0.73	1.01	1.24	1.30	1.33	1.50	1.75	2.06	2.30	2.48	0.69	0.84	1.34	2.15
Treasury-5 Year Notes (yield)	1.37	1.24	1.13	1.61	1.95	1.81	1.82	2.00	2.30	2.52	2.72	2.98	1.53	1.34	1.90	2.63
Treasury-10 Year Notes (yield)	1.91	1.75	1.56	2.14	2.45	2.26	2.28	2.50	2.77	3.00	3.26	3.45	2.14	1.84	2.37	3.12
Treasury-30 Year Notes (yield)	2.72	2.57	2.28	2.83	3.05	2.90	2.88	3.10	3.37	3.62	3.90	4.05	2.84	2.60	2.98	3.74
Prime Rate	3.50	3.50	3.50	3.55	3.80	4.05	4.25	4.30	4.55	4.80	5.00	5.25	3.26	3.51	4.10	4.90
Libor 3-Mo. U.S. Dollar	0.62	0.64	0.79	0.92	1.07	1.21	1.31	1.40	1.66	1.92	2.17	2.35	0.34	0.74	1.25	2.03
Mortgage-30 Year (yield)	3.74	3.59	3.45	3.84	4.17	3.98	3.95	4.18	4.45	4.72	4.98	5.18	3.85	3.66	4.07	4.83
BAA Corporate (yield)	5.30	4.66	4.26	4.64	4.66	4.49	4.35	4.65	5.03	5.25	5.52	5.78	5.00	4.71	4.54	5.40

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