

Date	Indicator	For	Estimate	Consensus*	Previous Period
26-Dec-2017	S&P CoreLogic CS 20-City MoM SA	Oct	0.8%	0.8%	0.5%
26-Dec-2017	Richmond Fed Manufacturing Index	Dec	24.0	21.0	30.0
26-Dec-2017	Dallas Fed Manufacturing Activity	Dec	21.0	20.0	19.4
27-Dec-2017	Conf. Board Consumer Confidence	Dec	129.0	128.0	129.5
27-Dec-2017	Pending Home Sales MoM	Nov	-0.5%	-0.8%	3.5%
28-Dec-2017	Advance Goods Trade Balance	Nov	-\$67.4b	-\$67.5b	-\$68.1b
28-Dec-2017	Wholesale Inventories MoM	Nov P	0.3%	NA	-0.5%
28-Dec-2017	Initial Jobless Claims	23-Dec	245k	NA	225k
28-Dec-2017	Chicago Purchasing Manager	Dec	62.0	61.8	63.9
2-Jan-2018	Markit US Manufacturing PMI	Dec F	55.0	NA	55.0
3-Jan-2018	Construction Spending MoM	Nov	0.7%	0.6%	1.4%
3-Jan-2018	ISM Manufacturing	Dec	58.0	57.9	58.2
3-Jan-2018	Wards Total Vehicle Sales	Dec	17.50m	17.50m	17.40m
4-Jan-2018	ADP Employment Change	Dec	185k	185k	190k
4-Jan-2018	Initial Jobless Claims	30-Dec	238k	NA	245k
4-Jan-2018	Markit US Services PMI	Dec F	52.4	NA	52.4
4-Jan-2018	Markit US Composite PMI	Dec F	NA	NA	53.0
5-Jan-2018	Change in Nonfarm Payrolls	Dec	188k	183k	228k
5-Jan-2018	Unemployment Rate	Dec	4.0%	4.0%	4.1%
5-Jan-2018	Change in Manufacturing Payrolls	Dec	20k	NA	31k
5-Jan-2018	Average Weekly Hours All Employees	Dec	34.5	34.5	34.5
5-Jan-2018	Average Hourly Earnings MoM	Dec	0.3%	0.3%	0.2%
5-Jan-2018	Trade Balance	Nov	-\$47.7b	-\$47.4b	-\$48.7b
5-Jan-2018	Factory Orders	Nov	1.0%	1.5%	-0.1%
5-Jan-2018	ISM Non-Manufacturing Composite	Dec	57.6	57.4	57.4

*Consensus from Bloomberg

Tax Reform Reaches the Finish Line

As Republicans in the House and Senate succeeded this week in passing the final version of their tax reform bill, we take one more look at some of the highlights and fine-tune our macroeconomic forecasts for the next few years based on the contours of the final package. So what's in the final bill? As of December 20, here is what we know.

This is largely a corporate tax cut bill with temporary personal income tax relief mixed in. The macroeconomic gains from those tax cuts and reforms will largely accrue to corporations and wealthier households.

The U.S. economy should see some increased consumer spending and business investment over the near term, all else being equal. However, at this late stage of the economic cycle a good portion of the after-tax profit benefit will go to shareholders through higher stock prices and more merger-and-acquisition activity. While there could be some pass-through of the corporate tax cut benefits through increased employment and wages, we expect such benefits to be relatively minor.

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The top corporate tax rate will drop to 21% from 35%. The bill also eliminates the corporate Alternative Minimum Tax (AMT).

New business investment purchases will receive five years of full expensing then will be phased out over the next five years. The business interest deduction will be capped at 30% of income, excluding depreciation.

2017 Tax Reform – Final Highlights

<input type="checkbox"/> Maintain <input type="checkbox"/> Revise <input type="checkbox"/> Repeal	Federal Tax Reform As of Dec. 20
Corporate tax rate	Cut to 21% from 35%, eliminates Corp. Alternative Minimum Tax rate (AMT)
Business interest deduction	Caps deduction at 30% of income (excluding depreciation)
New investment purchases	Five years of full expensing, then phased out over five more years
Income tax brackets	Keeps the 7 tax brackets, reducing the rates overall, but would expire after 2025: 10 percent, 12, 22, 24, 32, 35, 37
Top income tax rate	37%, AMT, but exemption increased to \$500,000 for single and \$1 million for couples
Standard deduction	Nearly doubled to \$12K individuals, \$24K couples
State and local tax deduction	Caps property and state and local income tax deduction at \$10,000
Medical expense deduction	Expenses that exceed 7.5% of adjusted gross income
Mortgage interest deduction	On the first \$750,000 of a new mortgage
Estate tax	Double exemption levels, keeps at 40 percent
Child tax credit	Doubled to \$2,000 for each qualifying child under age of 17
Obamacare Mandate	Repeal
Student loans	Keeps current deductions and graduate students tuition waivers remains tax free

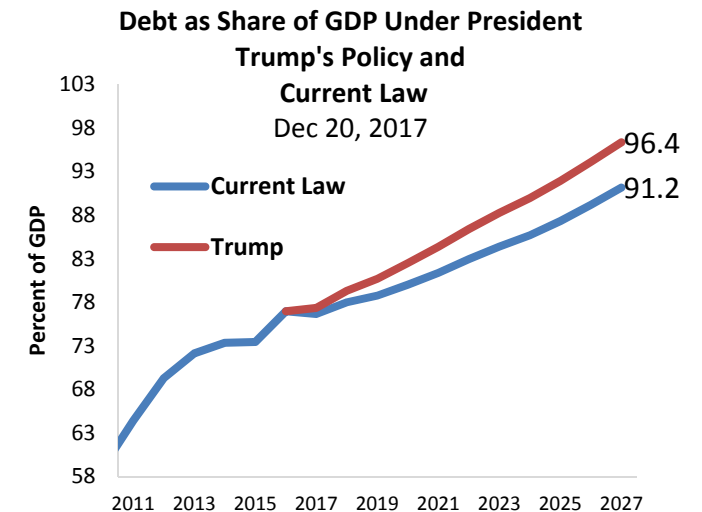
The bill also reduces most income tax rates for individuals and modifies tax brackets for those taxpayers. It nearly doubles the standard deduction, and increases the exemption for the individual AMT. However, those changes to personal income taxes are temporary and expire on December 31, 2025. Temporary tax cuts tend to have a smaller impact on consumer spending as consumers anticipate higher taxes in the future.

The bill also caps local property tax and state and local tax deductions at \$10,000, and it doubles the child tax credit to \$2,000 for each qualifying child under 17 years old. The mortgage interest deduction is limited to the first \$750,000 on a new mortgage. The estate tax exemption level doubles, but the estate tax rate remains at 40%. Deductions for medical expenses above 7.5% of adjusted gross income are kept, as are current deductions for student loans.

The Congressional Budget Office and Joint Committee on Taxation staff estimate the Conference Committee bill would reduce federal tax revenues over the next 10 years

by \$1.649 trillion and decrease federal outlays by \$194 billion compared to current law. So before taking into account dynamic effects on the economy, the tax reform cuts could widen the U.S. deficit by \$1.455 trillion over the next 10 years. We estimate that would mean an increase in the nation’s debt to the public as a share of GDP to around 96.4% of GDP from previous estimates of around 91.2% 10 years from now.

No Free Lunch - Increased Government Debt Pressures Likely



Source: CBO; Bank of the West Estimated

The tax cuts are mostly front-end-loaded with \$1.1 trillion of the reduction in tax revenue expected in the first five years, with a \$508 billion reduction in business tax revenues and \$787 billion reduction in personal tax revenues over the first 5 years.

While the final bill is hundreds of pages and the devil is in those details, we estimate a boost to U.S. real GDP growth in 2018 and 2019 of around 0.3 percentage points, about a tenth of a percentage point larger than we estimated a while back.

What’s the downside risk, you ask? Such large-scale tax cuts at this point in the cycle could further tighten labor markets and force the Fed into a more aggressive rate hike path that will largely cancel out the short-term benefits to growth. It will exacerbate income and wealth inequality in this country, perhaps leading to more economic and political instability. It could also take away an important economic policy tool – fiscal stimulus – should the economy need it down the road to insulate the economy from an adverse economic shock.

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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	3.1	3.2	2.8	2.3	2.2	2.1	2.2	2.6	1.5	2.3	2.5
Personal Consumption Expenditures*	1.8	3.8	2.8	2.9	1.9	3.3	2.2	2.9	2.5	2.4	2.3	2.3	3.2	2.7	2.7	2.5
Non-residential Fixed Investment*	-4.0	3.3	3.4	0.2	7.2	6.7	4.7	7.9	3.8	3.4	3.9	4.2	2.1	-0.6	4.8	4.9
Private Housing Starts (000s units)	1,151	1,159	1,145	1,248	1,238	1,167	1,172	1,256	1,263	1,265	1,275	1,285	1,108	1,176	1,208	1,272
Vehicle Sales (mill. Units, annualized)	17.3	17.2	17.5	17.8	17.1	16.8	17.1	17.4	16.9	16.6	16.6	16.5	17.4	17.5	17.1	16.7
Industrial Production*	-1.3	-0.7	0.8	0.7	1.5	5.6	-0.3	1.9	2.2	2.3	2.2	2.2	0.3	-1.2	1.7	2.1
Nonfarm Payroll Employment (mil.)	143.4	144.0	144.7	145.2	145.7	146.2	146.7	147.3	147.8	148.3	148.8	149.3	141.8	144.3	146.5	148.6
Unemployment rate	4.9	4.9	4.9	4.7	4.7	4.4	4.3	4.1	3.9	3.8	3.9	4.0	5.3	4.9	4.4	3.9
Consumer Price Index* (percent)	0.1	2.3	1.8	3.0	3.1	-0.3	2.0	2.2	2.2	2.0	2.0	2.0	0.1	1.3	2.0	2.0
"Core" CPI* (percent)	2.5	2.1	2.1	2.0	2.5	0.6	1.7	2.0	2.1	2.1	2.1	2.1	1.8	2.2	1.8	1.9
PPI (finished goods)* (percent)	-3.9	3.0	1.7	3.4	6.3	0.6	0.8	2.8	2.1	1.8	1.6	1.6	-3.3	-1.0	3.0	1.8
Trade Weighted Dollar (Fed BOG, major)	93.2	89.5	90.3	93.5	94.5	93.1	88.4	89.0	90.2	90.8	90.5	90.2	90.9	91.6	91.2	90.4
Crude Oil Prices -WTI (\$ per barrel)	33	45	45	49	52	48	48	54	54	54	54	54	50	43	51	54

*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	2,467						2,061	2,093		
Dow Jones Industrial Average	16,663	17,764	18,372	18,865	20,406	20,994	21,891						17,591	17,916		
Federal Funds Rate (effective)	0.36	0.37	0.39	0.45	0.70	0.94	1.15	1.21	1.38	1.46	1.63	1.71	0.13	0.39	1.00	1.55
Treasury-3 Month Bills (yield)	0.29	0.26	0.30	0.43	0.61	0.91	1.05	1.15	1.32	1.40	1.57	1.67	0.05	0.32	0.93	1.49
Treasury-2 Year Notes (yield)	0.84	0.77	0.73	1.01	1.24	1.30	1.36	1.70	1.87	2.02	2.17	2.29	0.69	0.84	1.40	2.09
Treasury-5 Year Notes (yield)	1.37	1.24	1.13	1.61	1.95	1.81	1.81	2.02	2.28	2.41	2.60	2.71	1.53	1.34	1.90	2.50
Treasury-10 Year Notes (yield)	1.91	1.75	1.56	2.14	2.45	2.26	2.24	2.40	2.57	2.76	2.92	3.03	2.14	1.84	2.34	2.82
Treasury-30 Year Notes (yield)	2.72	2.57	2.28	2.83	3.05	2.90	2.82	2.87	3.00	3.26	3.43	3.55	2.84	2.60	2.91	3.31
Prime Rate	3.50	3.50	3.50	3.55	3.80	4.05	4.25	4.30	4.50	4.58	4.75	4.83	3.26	3.51	4.10	4.67
Libor 3-Mo. U.S. Dollar	0.62	0.64	0.79	0.92	1.07	1.21	1.31	1.41	1.53	1.61	1.77	1.85	0.34	0.74	1.25	1.69
Mortgage-30 Year (yield)	3.74	3.59	3.45	3.84	4.17	3.98	3.88	4.00	4.15	4.40	4.56	4.67	3.85	3.66	4.01	4.45
BAA Corporate (yield)	5.30	4.66	4.26	4.64	4.66	4.49	4.33	4.40	4.58	5.03	5.28	5.55	5.00	4.71	4.47	5.11

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