

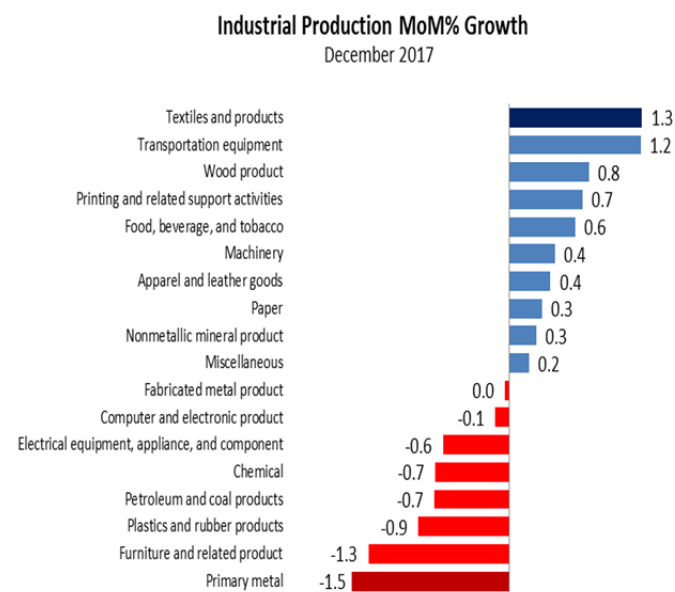
Date	Indicator	For	Estimate	Consensus*	Previous Period
22-Jan-2018	Chicago Fed Nat Activity Index	Dec	NA	NA	0.15
23-Jan-2018	Richmond Fed Manufacturing Index	Jan	17.0	18.0	20.0
24-Jan-2018	FHFA House Price Index MoM	Nov	0.4%	0.4%	0.5%
24-Jan-2018	Markit US Composite PMI	Jan P	NA	NA	54.1
24-Jan-2018	Markit US Services PMI	Jan P	54.0	54.5	53.7
24-Jan-2018	Markit US Manufacturing PMI	Jan P	54.5	55.0	55.1
24-Jan-2018	Existing Home Sales	Dec	5.75m	5.69m	5.81m
25-Jan-2018	Advance Goods Trade Balance	Dec	-\$69.0b	-\$68.5b	-\$70.0b
25-Jan-2018	Wholesale Inventories MoM	Dec P	0.4%	NA	0.8%
25-Jan-2018	Initial Jobless Claims	20-Jan	235k	NA	220k
25-Jan-2018	New Home Sales	Dec	695k	675k	733k
25-Jan-2018	Leading Index	Dec	0.5%	0.5%	0.4%
25-Jan-2018	Kansas City Fed Manufacturing Activity	Jan	14.0	NA	14.0
26-Jan-2018	GDP Annualized QoQ	4Q A	2.7%	2.9%	3.2%
26-Jan-2018	GDP Price Index	4Q A	2.1%	2.4%	2.1%
26-Jan-2018	Durable Goods Orders	Dec P	0.9%	0.9%	1.3%
26-Jan-2018	Durables Ex Transportation	Dec P	0.7%	0.7%	-0.1%

*Consensus from Bloomberg

Industrial Production Ends 2017 on a High Note

December industrial production handily beat consensus expectations, increasing 0.9% in December. Unseasonably cold weather helped push up utilities production 5.6% last month, while mining production increased 1.6% on firm demand and rising prices. But strong monthly gains were also seen in a number of manufacturing sectors from textiles and transportation equipment to food and beverage and machinery.

Industrial Production Exceeds Expectations

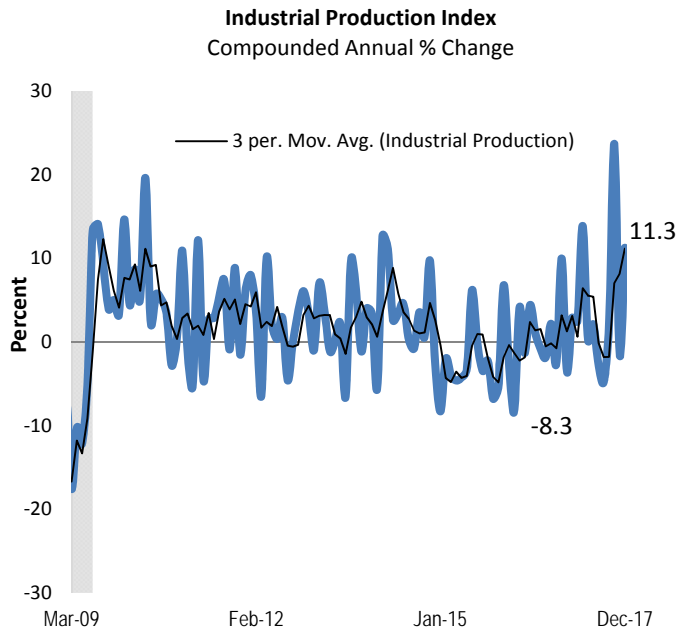


Source: Board of Governors of the Federal Reserve System (US)

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In fact, revised industrial production data reveals an 11 percent annualized gain in industrial production over the last three months of the year, a pace not achieved since the first months of the expansion.

Industrial Production Roars to Life in the Fourth Quarter

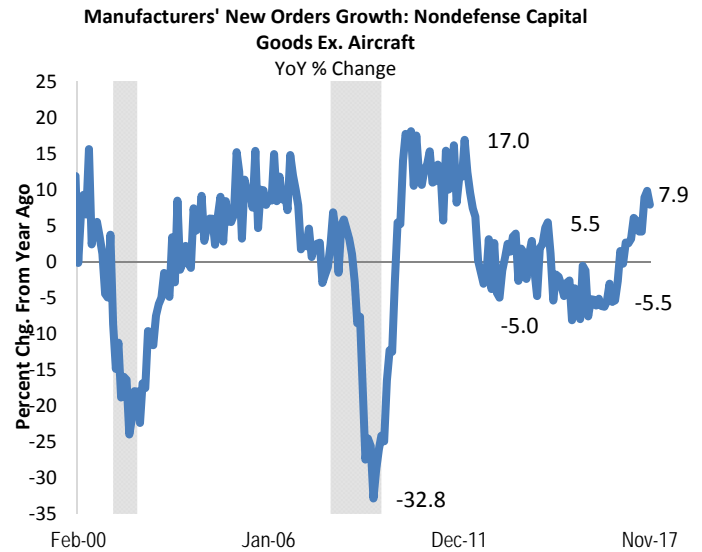


Source: Federal Reserve System

The near-term outlook for manufacturing appears bright. Non-defense capital goods orders excluding aircraft are already running 7.9% above year ago levels. Non-defense capital goods orders are a good leading indicator of business equipment spending and manufacturing activity.

The recently passed tax reform bill, which allows for five years of full expensing of new business investments, will only add to the demand for business equipment, which was already rising organically.

New Orders Growth Remains Solid

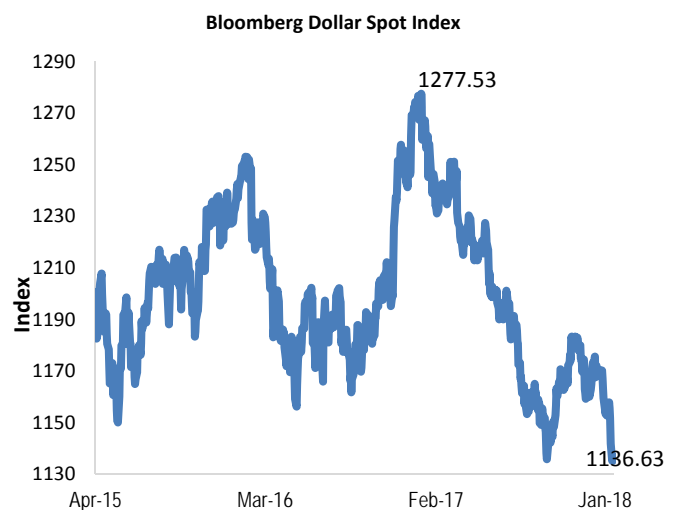


Source: U.S. Census Bureau

So why are we seeing a late-cycle acceleration in U.S. manufacturing now?

Two factors stand out in my view. One, a weak U.S. dollar is making U.S. manufactured goods more attractive globally, boosting U.S. exports and manufacturing production. The dollar has dropped 11% since the end of 2016.

New Orders Growth Remains Solid



Source: Bloomberg

Two, accelerating global growth is also increasing demand from abroad. It's a virtuous cycle never before seen in this expansion. A manufacturing revival this late in the cycle is a rare event – but better late than never.

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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	2.7	2.3	2.3	2.2	2.3	2.6	1.5	2.3	2.6
Personal Consumption Expenditures*	1.8	3.8	2.8	2.9	1.9	3.3	2.2	3.8	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	4.5	5.6	5.7	2.1	-0.6	4.8	5.4
Private Housing Starts (000s units)	1,151	1,159	1,145	1,248	1,238	1,167	1,172	1,278	1,269	1,265	1,275	1,285	1,108	1,176	1,214	1,274
Vehicle Sales (mill. Units, annualized)	17.3	17.2	17.5	17.8	17.1	16.8	17.1	17.7	17.0	16.9	16.9	16.9	17.4	17.5	17.2	16.9
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	147.2	147.7	148.2	148.7	149.1	141.8	144.3	146.4	148.4
Unemployment rate	4.9	4.9	4.9	4.7	4.7	4.3	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	3.7	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	2.3	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	6.6	2.1	1.8	1.6	1.6	-3.3	-1.0	3.0	1.8
Trade Weighted Dollar (Fed BOG, major)	93.1	89.5	90.2	93.5	94.4	93.0	88.3	88.9	87.2	87.8	87.5	87.2	90.9	91.6	91.2	87.4
Crude Oil Prices -WTI (\$ per barrel)	33	45	45	49	52	48	48	56	59	58	58	58	50	43	51	58

*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	2,603					2,061	2,093	2,449	
Dow Jones Industrial Average	16,663	17,764	18,372	18,865	20,406	20,994	21,891	23,689					17,591	17,916	21,745	
Federal Funds Rate (effective)	0.36	0.37	0.39	0.45	0.70	0.94	1.15	1.20	1.46	1.71	1.88	1.96	0.13	0.39	1.00	1.75
Treasury-3 Month Bills (yield)	0.29	0.26	0.30	0.43	0.61	0.91	1.05	1.23	1.40	1.67	1.85	1.93	0.05	0.32	0.95	1.71
Treasury-2 Year Notes (yield)	0.84	0.77	0.73	1.01	1.24	1.30	1.36	1.69	1.98	2.25	2.42	2.53	0.69	0.84	1.40	2.30
Treasury-5 Year Notes (yield)	1.37	1.24	1.13	1.61	1.95	1.81	1.81	2.07	2.30	2.50	2.68	2.81	1.53	1.34	1.91	2.57
Treasury-10 Year Notes (yield)	1.91	1.75	1.56	2.14	2.45	2.26	2.24	2.37	2.57	2.76	2.92	3.03	2.14	1.84	2.33	2.82
Treasury-30 Year Notes (yield)	2.72	2.57	2.28	2.83	3.05	2.90	2.82	2.82	2.90	3.16	3.33	3.45	2.84	2.60	2.90	3.21
Prime Rate	3.50	3.50	3.50	3.55	3.80	4.05	4.25	4.29	4.58	4.83	5.00	5.08	3.26	3.51	4.10	4.87
Libor 3-Mo. U.S. Dollar	0.62	0.64	0.79	0.92	1.07	1.21	1.31	1.46	1.70	1.90	2.05	2.10	0.34	0.74	1.26	1.94
Mortgage-30 Year (yield)	3.74	3.59	3.45	3.84	4.17	3.98	3.88	3.92	4.10	4.35	4.52	4.63	3.85	3.66	3.99	4.40
BAA Corporate (yield)	5.30	4.66	4.26	4.64	4.66	4.49	4.33	4.27	4.30	4.73	4.98	5.25	5.00	4.71	4.44	4.82

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