



Date	Indicator	For	Estimate	Consensus*	Previous Period
21-Mar-2018	Current Account Balance	4Q	-\$125.0b	NA	-\$100.6b
21-Mar-2018	Existing Home Sales	Feb	5.33m	5.43m	5.38m
21-Mar-2018	FOMC Rate Decision (Upper Bound)	21-Mar	1.75%	1.75%	1.50%
21-Mar-2018	FOMC Rate Decision (Lower Bound)	21-Mar	1.50%	1.50%	1.25%
22-Mar-2018	Initial Jobless Claims	17-Mar	230k	NA	226k
22-Mar-2018	FHFA House Price Index MoM	Jan	0.3%	NA	0.3%
22-Mar-2018	Markit US Manufacturing PMI	Mar P	55.8	NA	55.3
22-Mar-2018	Leading Index	Feb	0.4%	0.4%	1.0%
22-Mar-2018	Markit US Services PMI	Mar P	55.0	NA	55.9
22-Mar-2018	Markit US Composite PMI	Mar P	NA	NA	55.8
22-Mar-2018	Kansas City Fed Manufacturing Activity	Mar	18.0	NA	17.0
23-Mar-2018	Durable Goods Orders	Feb P	1.6%	1.7%	-3.6%
23-Mar-2018	Durables Ex Transportation	Feb P	0.5%	0.5%	-0.3%
23-Mar-2018	New Home Sales	Feb	610k	620k	593k

*Consensus from Bloomberg

Preview of Next Week's FOMC Meeting

The decision next week to raise the Fed funds target rate another quarter percentage point to between 1.50% and 1.75% is as close to a sure thing as an upcoming FOMC meeting can get. The Fed funds futures market is currently putting a 99.3% probability on another rate hike next Wednesday. So it won't be the FOMC rate decision that will be capturing investors' attention next week but all the contextual information that comes with it. Adding to the interest: This is likely to be Jerome Powell's first Fed funds rate hike as Federal Reserve chairman and his first post-FOMC meeting press conference. The FOMC will also be releasing a refreshed Summary of Economic Projections and Fed funds rate "dot-plot."

Investors will be trying to divine what it all means for the expected Fed funds rate hike path over the rest of the year and 2019. Will the Fed median "dot plot" migrate toward 4 rate hikes this year from the 3 rate hikes penciled in last December when Janet Yellen was still at the helm?

So what do we expect from the FOMC next week?

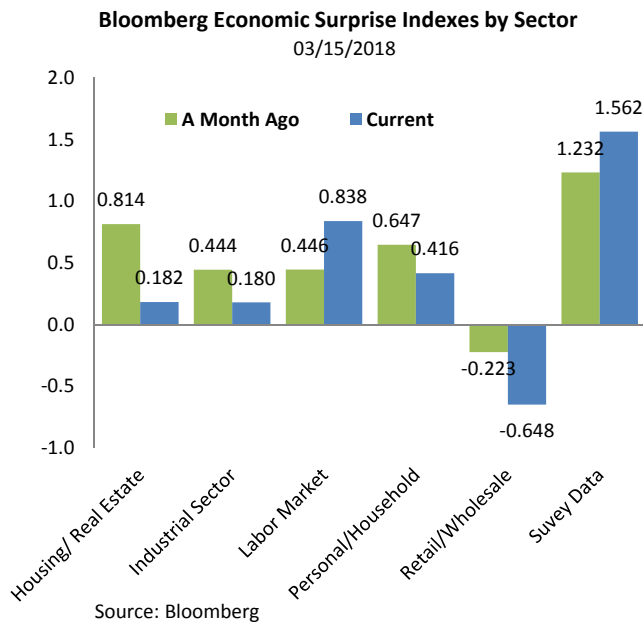
Let's turn first to the Fed's refreshed Summary of Economic Projections. We wouldn't be surprised to see a modest upward revision in the median FOMC forecast for real GDP for 2018 and 2019. Since the December FOMC meeting, the federal government has added an additional \$300 billion in government spending over the next two years on top of the tax cuts passed in December. This implies more federal fiscal stimulus over the next two years that will like boost many FOMC members' estimates for real GDP growth over the next few years.

For the sake of full disclosure, I have not materially lifted our forecast for real GDP for 2018 and 2019 as a result of the additional government spending, and our estimates of real GDP growth for 2018 and 2019 are somewhat below the Fed's December median estimates. First quarter GDP likely dropped below 2.0%; and consumer spending has weakened from the fourth quarter pace as rising interest rates, lackluster real income growth, and lower personal savings rates weigh on some consumers' ability to spend.

U.S. economic surprise indexes remain net positive, though the mix has shifted toward stronger "soft" survey data and weaker "hard" economic data.

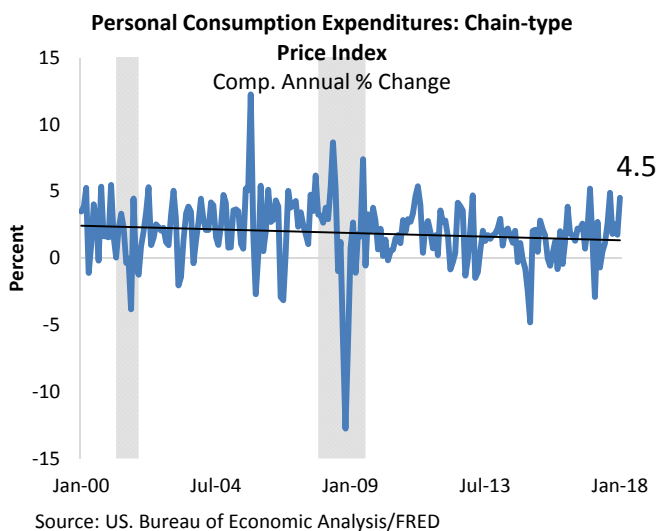
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Positive Economic Surprises Reveal Mixed Signals in Q1



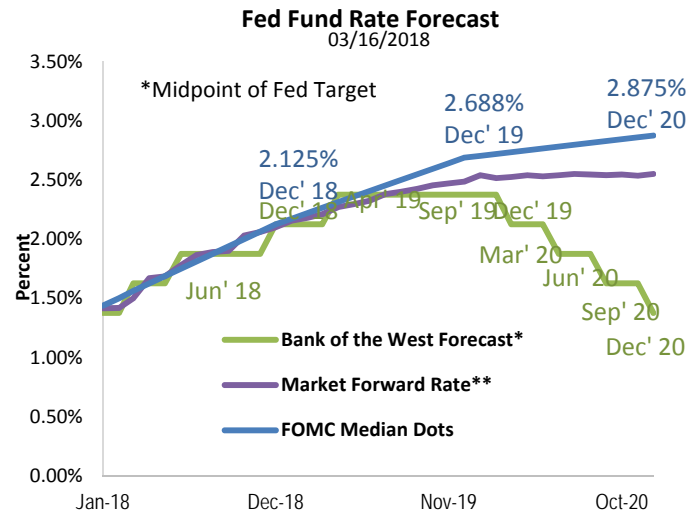
We have also seen acceleration in consumer inflation in the first quarter of 2018 that leaves a somewhat stronger path for overall PCE inflation in 2018 than the FOMC estimated back in December. So we expect a modest upward revision in the FOMC median 2018 PCE inflation forecast, too. However, we expect little to no revision in the unemployment rate and Core-PCE inflation forecasts made in December.

PCE Inflation Heats Up in the First Quarter



So, will rising upside risks to GDP growth from additional government spending, rapid job growth, and a positive Q1 consumer inflation surprise be enough to move the median dot-plot from 3 rate hikes this year to 4 rate hikes?

Market Has Fed's Rate Hike Path Just About Right Today



I would be surprised if the Fed's median rate hike path changed materially from the December "dot-plot" plan. I think the market today has the Fed's rate hike path just about right. The market's Fed rate hike expectations have moved up since the beginning of the year and are now much closer to the Fed's December median dot-plot path. The market's forecast is now also in-line with our baseline forecasts for the Fed funds rate. We are forecasting 3 quarter point rate hikes in 2018 and 1 more in 2019. If we are right, then Treasury yields won't move a whole lot in the aftermath of next week's FOMC decision. But if the Fed surprises with a 4 rate hike median, or makes bigger upward revisions to PCE inflation and GDP forecasts, then Treasury yields will be heading even higher.

Major Economic Indicators

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2017.1	2017.2	2017.3	2017.4	2018.1	2018.2	2018.3	2018.4	2019.1	2019.2	2019.3	2019.4	2016	2017	2018	2019
Real GDP*	1.2	3.1	3.2	2.5	1.8	2.2	2.2	2.3	2.1	2.0	1.9	1.8	1.5	2.3	2.4	2.1
Personal Consumption Expenditures*	1.9	3.3	2.2	3.8	1.6	2.6	2.3	2.3	2.1	2.0	2.0	2.0	2.7	2.7	2.5	2.2
Non-residential Fixed Investment*	7.2	6.7	4.7	6.6	3.3	4.5	5.6	5.7	5.1	5.0	4.4	4.1	-0.6	4.7	5.0	5.2
Private Housing Starts (000s units)	1,238	1,167	1,172	1,251	1,269	1,265	1,275	1,285	1,294	1,303	1,312	1,321	1,176	1,207	1,274	1,308
Vehicle Sales (mill. Units, annualized)	17.1	16.8	17.1	17.7	17.0	16.9	16.9	16.9	16.5	16.5	16.4	16.3	17.5	17.2	16.9	16.4
Industrial Production*	1.5	5.6	-1.2	8.3	2.2	2.3	2.2	2.2	2.0	1.7	1.6	1.5	-1.2	2.0	3.1	2.0
Nonfarm Payroll Employment (mil.)	145.9	146.3	146.9	147.4	148.2	148.7	149.2	149.7	150.0	150.4	150.8	151.2	144.3	146.6	148.9	150.6
Unemployment rate	4.7	4.3	4.3	4.1	4.1	3.9	3.8	3.9	4.0	4.0	4.1	4.2	4.9	4.4	3.9	4.1
Consumer Price Index* (percent)	3.0	0.1	2.1	3.3	3.2	2.2	2.0	2.0	2.0	2.0	2.1	2.1	1.3	2.1	2.5	2.0
"Core" CPI* (percent)	2.2	0.8	1.8	2.2	2.4	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.2	1.9	2.1	2.1
PPI (finished goods)* (percent)	5.7	1.0	1.4	6.0	2.4	1.8	1.6	1.6	1.6	1.6	1.7	1.7	-1.0	3.2	2.6	1.6
Trade Weighted Dollar (Fed BOG, major)	94.4	93.0	88.3	88.9	87.2	87.8	87.5	87.2	88.0	87.7	87.0	86.5	91.6	91.2	87.4	87.3
Crude Oil Prices -WTI (\$ per barrel)	52	48	48	55	63	62	62	62	63	62	61	58	43	51	62	61

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

Financial Data	History				Forecast								Annual Average			
	2017.1	2017.2	2017.3	2017.4	2018.1	2018.2	2018.3	2018.4	2019.1	2019.2	2019.3	2019.4	2016	2017	2018	2019
S & P 500	2,326	2,398	2,467	2,603									2,093	2,449		
Dow Jones Industrial Average	20,406	20,994	21,891	23,689									17,916	21,745		
Federal Funds Rate (effective)	0.70	0.95	1.15	1.20	1.46	1.71	1.88	1.96	2.13	2.38	2.38	2.38	0.39	1.00	1.75	2.32
Treasury-3 Month Bills (yield)	0.61	0.91	1.05	1.23	1.42	1.67	1.85	1.93	2.10	2.35	2.34	2.35	0.32	0.95	1.72	2.29
Treasury-2 Year Notes (yield)	1.24	1.30	1.36	1.69	2.06	2.30	2.47	2.55	2.69	2.86	2.88	2.85	0.84	1.40	2.35	2.82
Treasury-5 Year Notes (yield)	1.95	1.81	1.81	2.07	2.47	2.60	2.78	2.85	2.96	3.15	3.10	3.15	1.34	1.91	2.68	3.09
Treasury-10 Year Notes (yield)	2.45	2.26	2.24	2.37	2.70	2.91	3.02	3.10	3.30	3.53	3.52	3.50	1.84	2.33	2.93	3.46
Treasury-30 Year Notes (yield)	3.05	2.90	2.82	2.82	3.00	3.16	3.33	3.45	3.74	3.90	3.93	4.01	2.60	2.90	3.24	3.90
Prime Rate	3.80	4.05	4.25	4.29	4.58	4.83	5.00	5.08	5.25	5.50	5.50	5.50	3.51	4.10	4.87	5.44
Libor 3-Mo. U.S. Dollar	1.07	1.21	1.31	1.46	1.80	1.95	2.10	2.15	2.30	2.50	2.50	2.46	0.74	1.26	2.00	2.44
Mortgage-30 Year (yield)	4.17	3.98	3.88	3.92	4.18	4.36	4.52	4.63	4.85	5.05	5.15	5.25	3.66	3.99	4.42	5.08
BAA Corporate (yield)	4.66	4.49	4.33	4.27	4.30	4.70	4.98	5.25	5.60	5.80	6.00	6.30	4.71	4.44	4.81	5.93

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