

Date	Indicator	For	Estimate	Consensus*	Previous Period
23-Apr-2018	Chicago Fed Nat Activity Index	Mar	NA	0.25	0.88
23-Apr-2018	Markit US Manufacturing PMI	Apr P	55.1	55.3	55.6
23-Apr-2018	Markit US Services PMI	Apr P	53.7	54.0	54.0
23-Apr-2018	Markit US Composite PMI	Apr P	NA	NA	54.2
23-Apr-2018	Existing Home Sales	Mar	5.55m	5.55m	5.54m
24-Apr-2018	FHFA House Price Index MoM	Feb	0.5%	0.4%	0.8%
24-Apr-2018	S&P CoreLogic CS 20-City MoM SA	Feb	0.65%	0.65%	0.75%
24-Apr-2018	New Home Sales	Mar	625k	627k	618k
24-Apr-2018	Richmond Fed Manufacturing Index	Apr	16.0	17.0	15.0
24-Apr-2018	Conf. Board Consumer Confidence	Apr	126.0	126.3	127.7
26-Apr-2018	Initial Jobless Claims	21-Apr	234k	NA	232k
26-Apr-2018	Advance Goods Trade Balance	Mar	-\$75.5b	-\$74.5b	-\$75.9b
26-Apr-2018	Wholesale Inventories MoM	Mar P	0.7%	NA	1.0%
26-Apr-2018	Durable Goods Orders	Mar P	0.8%	1.0%	3.0%
26-Apr-2018	Durables Ex Transportation	Mar P	0.1%	0.4%	1.0%
26-Apr-2018	Kansas City Fed Manufacturing Activity	Apr	19.0	NA	17.0
27-Apr-2018	Employment Cost Index	1Q	0.7%	0.7%	0.6%
27-Apr-2018	GDP Annualized QoQ	1Q	1.7%	2.2%	2.9%
27-Apr-2018	GDP Price Index	1Q	2.1%	2.2%	2.3%
27-Apr-2018	U. of Mich. Sentiment	Apr F	97.9	97.9	97.8

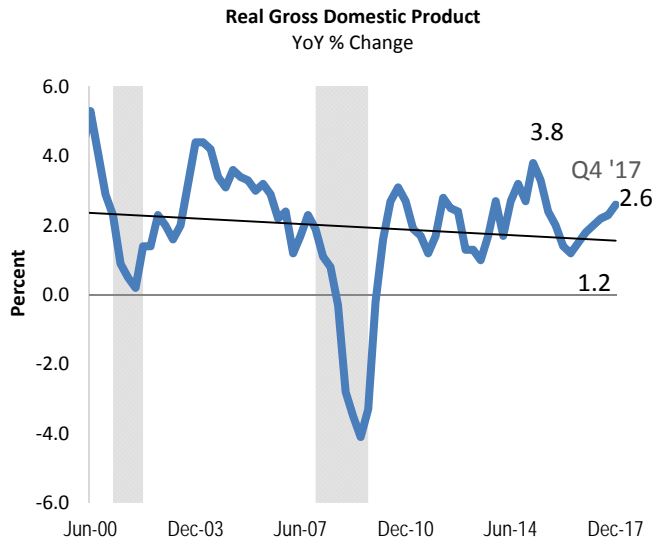
\*Consensus from Bloomberg

### Keeping Next Week's Q1 GDP Report in Perspective

Before I jump into the details about what we expect from next week's advanced Q1 GDP release and what it might mean for the quarters ahead, I want to take a step back for a longer-term view of where we are in this economic expansion. Over the last three quarters, the U.S. economy and real GDP have been on a sprint, the latter rising at an annual average 3.06%. But the race started even earlier, back in the middle of 2016, when the global economy, including Europe, started to see more signs of life; and rising oil prices started to lift U.S oil production and investment.

GDP growth fell to 1.2% on a year-over-year basis by the second quarter of 2016, largely as a result of a mini-recession in business investment caused by a 2015 plunge in global oil prices. But since WTI oil prices bottomed in January 2016 at \$39.56 per barrel and then increased more than 70% off those lows through yesterday, U.S. GDP growth has rebounded to a respectable 2.6% year-on-year.

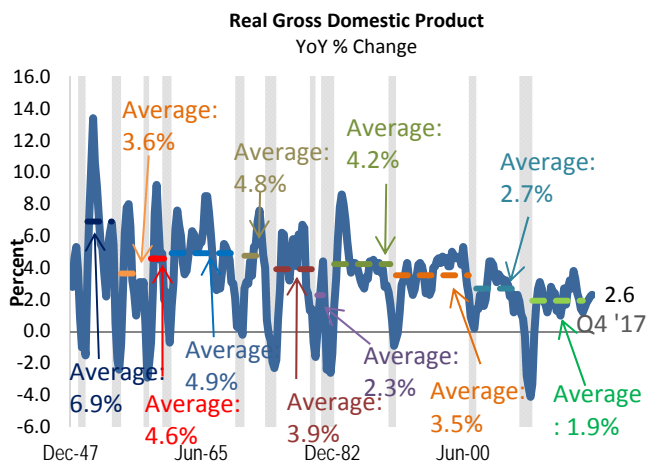
**Thank Oil and Global Growth for a Rebound in U.S. GDP**



Source: U.S. Bureau of Economic Analysis

That is a decent performance, no doubt, since the average growth rate over this expansion is still a more subdued 1.9% annual pace. However, it is hardly a barn-burner compared to past expansions. We are just now approaching the average GDP growth rate achieved over the entire last expansion in the early 2000s, which was the second-slowest growth rate for an expansion in the post-war period. The average annual real GDP growth rate for all expansions in the post-war period is 3.2%.

**Let's Put the Recent Growth in Perspective**

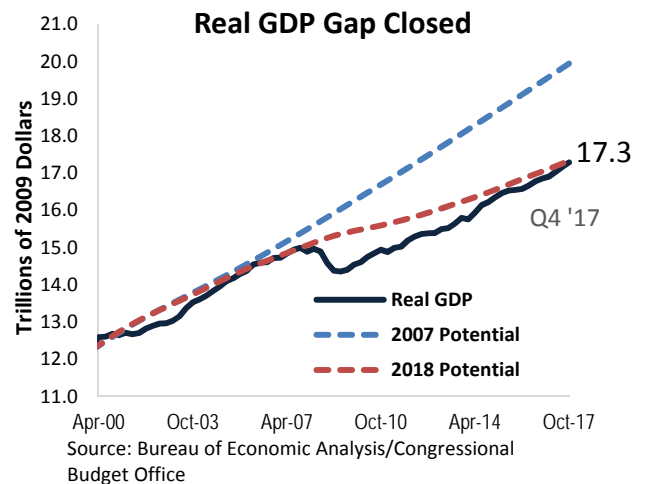


Source: U.S. Bureau of Economic Analysis

But what makes the Federal Reserve a bit nervous here is that after nine years of continuous economic growth, the U.S. Output Gap probably fully closed in the fourth

quarter. In other words, the U.S. economy has finally moved back to its potential GDP level as estimated by the Congressional Budget Office (CBO), raising the risk that further above-trend growth may only fuel rising inflationary pressures from here. Either GDP growth will have to slow or inflation will have to rise. But notice how far estimates of U.S. potential GDP have fallen since the Great Recession. An aging population and lower-than-forecast total factor productivity growth are behind the reduced estimates of potential GDP. The CBO's estimate of potential GDP today is about \$3 trillion dollars below what the CBO estimated it would be today back in 2007.

**Output Gap Has Closed on Falling Estimates of U.S. Potential**



Source: Bureau of Economic Analysis/Congressional Budget Office

So what do we expect to see from next week's advanced Q1 GDP report when it is released on Friday? We are forecasting a below-consensus 1.7% annualized increase in the first quarter, down from 2.9% in Q4. We expect the main driver will be a shortfall in real consumer spending growth, which is expected to slip to 1.1% from a 4.0% growth pace in Q4. Problems with seasonal adjustment in Q1 GDP data and poor winter weather will receive most of the blame for the lackluster performance. Residential construction and net exports are expected to subtract from Q1 GDP growth, too. On the other hand, business inventories probably added more to GDP growth last quarter, and business investment and government spending will also contribute to overall GDP gains. Growth is expected to rebound back to 2.6% in the second quarter as consumer spending bounces back and government spending ramps up, but on a year-ago basis U.S. GDP growth may have already peaked.

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## 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	2.9	1.7	2.6	2.6	2.5	2.3	2.2	2.1	2.0	1.5	2.3	2.5	2.4
Personal Consumption Expenditures*	1.9	3.3	2.2	4.0	1.1	2.7	2.4	2.4	2.1	2.0	2.0	2.0	2.7	2.8	2.5	2.2
Non-residential Fixed Investment*	7.2	6.7	4.7	6.8	5.6	4.8	5.6	5.7	5.1	5.1	4.4	4.1	-0.6	4.7	5.7	5.2
Private Housing Starts (000s units)	1,238	1,167	1,172	1,256	1,318	1,265	1,275	1,285	1,290	1,298	1,300	1,300	1,176	1,208	1,286	1,297
Vehicle Sales (mill. Units, annualized)	17.1	16.8	17.1	17.7	17.2	17.1	16.9	16.9	16.5	16.5	16.4	16.3	17.5	17.2	17.0	16.4
Industrial Production*	1.0	5.0	-1.5	7.8	4.5	3.9	3.0	2.6	2.2	2.0	1.7	1.5	-1.2	1.6	4.0	2.4
Nonfarm Payroll Employment (mil.)	145.9	146.3	146.9	147.4	148.1	148.6	149.2	149.7	150.1	150.6	151.0	151.4	144.3	146.6	148.9	150.8
Unemployment rate	4.7	4.3	4.3	4.1	4.1	3.9	3.8	3.6	3.8	3.9	4.0	4.1	4.9	4.4	3.9	4.0
Consumer Price Index* (percent)	3.0	0.1	2.1	3.3	3.5	2.2	2.0	2.0	2.0	2.0	2.1	2.1	1.3	2.1	2.6	2.0
"Core" CPI* (percent)	2.2	0.8	1.8	2.2	3.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.2	1.8	2.2	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	86.5	86.9	87.2	87.8	87.5	87.1	86.6	85.5	91.6	91.2	87.1	86.7
Crude Oil Prices -WTI (\$ per barrel)	52	48	48	55	63	64	62	62	62	61	61	58	43	51	63	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	2,733								2,093	2,449		
Dow Jones Industrial Average	20,406	20,994	21,891	23,689	25,127								17,916	21,745		
Federal Funds Rate (effective)	0.70	0.95	1.15	1.20	1.44	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	1.58	1.75	1.90	2.00	2.15	2.40	2.40	2.36	0.32	0.95	1.81	2.33
Treasury-2 Year Notes (yield)	1.24	1.30	1.36	1.69	2.16	2.39	2.47	2.55	2.69	2.86	2.88	2.85	0.84	1.40	2.39	2.82
Treasury-5 Year Notes (yield)	1.95	1.81	1.81	2.07	2.53	2.60	2.78	2.85	2.96	3.15	3.10	3.15	1.34	1.91	2.69	3.09
Treasury-10 Year Notes (yield)	2.45	2.26	2.24	2.37	2.76	2.87	2.98	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	3.03	3.10	3.28	3.40	3.69	3.85	3.90	3.96	2.60	2.90	3.20	3.85
Prime Rate	3.80	4.05	4.25	4.29	4.52	4.75	4.98	5.06	5.23	5.48	5.48	5.48	3.51	4.10	4.83	5.42
Libor 3-Mo. U.S. Dollar	1.07	1.21	1.31	1.46	1.93	2.20	2.27	2.33	2.40	2.50	2.50	2.46	0.74	1.26	2.18	2.47
Mortgage-30 Year (yield)	4.17	3.98	3.88	3.92	4.28	4.38	4.50	4.63	4.83	5.08	5.15	5.25	3.66	3.99	4.45	5.08
BAA Corporate (yield)	4.66	4.49	4.33	4.27	4.47	4.75	4.98	5.25	5.60	5.80	6.00	6.30	4.71	4.44	4.86	5.93

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