

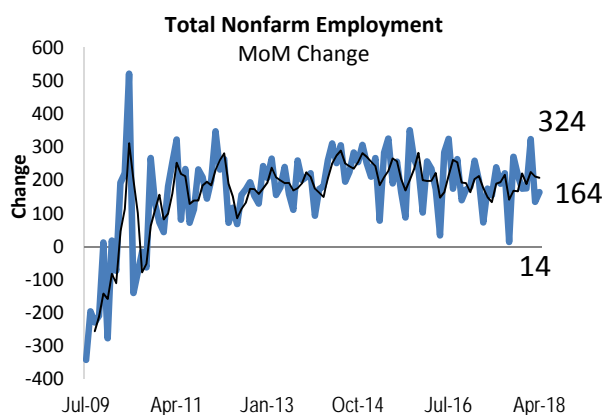
Date	Indicator	For	Estimate	Consensus*	Previous Period
7-May-2018	Consumer Credit	Mar	\$16.500b	\$16.000b	\$10.601b
8-May-2018	NFIB Small Business Optimism	Apr	105.0	105.0	104.7
8-May-2018	JOLTS Job Openings	Mar	NA	NA	6052.0
9-May-2018	PPI Final Demand MoM	Apr	0.3%	0.2%	0.3%
9-May-2018	PPI Ex Food and Energy MoM	Apr	0.2%	0.2%	0.3%
9-May-2018	Wholesale Inventories MoM	Mar F	0.6%	NA	0.5%
10-May-2018	CPI MoM	Apr	0.3%	0.3%	-0.1%
10-May-2018	CPI Ex Food and Energy MoM	Apr	0.2%	0.2%	0.2%
10-May-2018	Initial Jobless Claims	05-May	220k	NA	211k
10-May-2018	Bloomberg May United States Economic Survey				
11-May-2018	Import Price Index MoM	Apr	0.6%	0.5%	0.0%
11-May-2018	U. of Mich. Sentiment	May P	98.0	98.0	98.8

*Consensus from Bloomberg

A Goldilocks Payroll Report in April

Net new job creation is cooling off. Nonfarm payroll growth at 164K in April came in a bit short of analysts' expectations for the second month in a row. However, the March gain was revised up to 135K from an originally reported 103K. Still the slowdown trend is clear: Average monthly payroll gains over the last two months is around 150K. Over the December through February period, monthly job growth averaged a stellar 225K jobs a month.

Monthly Job Growth Downshifts



Source: U.S. Bureau of Labor Statistics

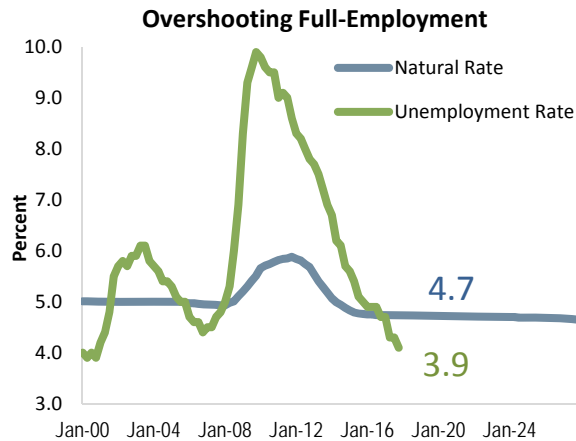
Should we be worried about this deceleration in job growth? I'm not at this point, and I think the Fed is going to be okay with moderation in monthly job growth, too. Economists, including at the Fed, have noted that monthly job growth above 200K jobs per month was unsustainable, given our sluggish labor force growth. A few more months of 200K jobs a month, and wage and inflation pressures would have been raging; and many analysts would be saying today that the Fed is behind the curve and needs to step up the pace of fed funds interest rate hikes.

In reality, the drop in job growth to around a 150K monthly pace is more likely a reflection of a tight labor market at this stage of the expansion, rather than a sign the economy is in imminent danger of stalling. With 6.1 million open positions and only 6.3 million unemployed workers, it gets a lot harder to create a net new hire without luring someone into the labor force who had exited.

To highlight this point, the U.S. unemployment rate plunged to a new expansion low of 3.9% in April after being stuck at 4.1% for six consecutive months. This is the lowest unemployment rate in this country since December 2000. Indeed, the FOMC is likely to focus in on the large drop in the unemployment rate to multi-decade lows rather than fret about the monthly gyrations of a few thousand net new jobs. For those

economists who see the natural rate of U.S. unemployment rate closer to 4.4% or above, this is a signal that the U.S. economy now is severely overshooting full employment, and serious wage and inflation pressures could soon follow.

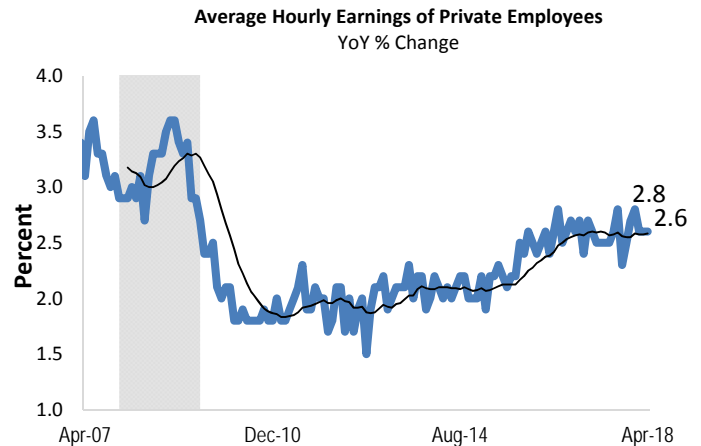
U.S. Unemployment Rate Lowest Since 2000



Source: Congressional Budget Office/Bureau of Labor Statistics

The one problem with that narrative, however — and a growing mystery for the Fed — is the complete lack of evidence in the average hourly earnings data that those wage pressures are actually building. Despite the steep drop in the unemployment rate last month, average hourly earnings growth slipped to 0.1% in April, and March was revised down to 0.2% from 0.3%. On a year-ago basis, average hourly earnings are up only 2.6%, and on a more recent three-month annual average basis average hourly earnings growth has slipped to 2.5%.

Where's the Wage Growth?



Source: Bureau of Labor Statistics

This puzzle is likely to consume the Fed staff in the weeks ahead, and more private sector macroeconomists will start to question where the natural rate of unemployment in the United State really is.

In short, the cool-down in the average monthly job growth in recent months and lack of visible wage pressure — even at this stage of the expansion, with an unemployment rate at 3.9% — will be a welcome development for the Fed that is trying to normalize interest rates at a gradual pace. It is probably one of the reasons the FOMC didn't come out more hawkish in this week's FOMC meeting statement and appeared so patient with the current gradual approach. It also makes me more comfortable with my forecast for just three interest rate hikes this year. Slower job growth with little sign of inflation pressures is just what the doctor ordered to keep this economic expansion on track without a serious case of overheating.

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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	2.3	3.0	2.6	2.6	2.3	2.2	2.1	2.0	1.5	2.3	2.8	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	6.1	4.8	5.6	5.7	5.1	5.1	4.4	4.1	-0.6	4.7	5.8	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	17.3	17.0	16.9	16.5	16.5	16.4	16.3	17.5	17.2	17.1	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	66	64	63	62	61	61	58	43	51	64	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