

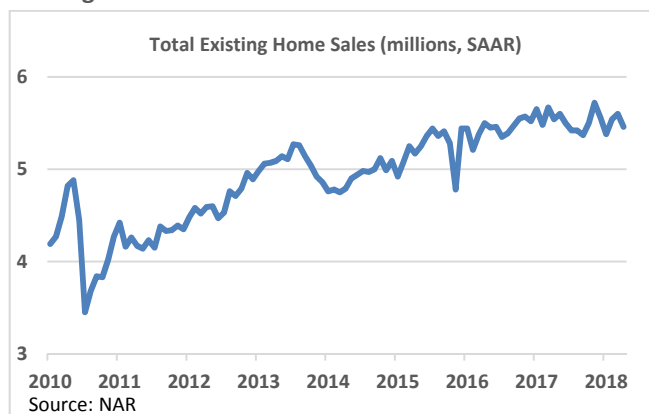
Date	Indicator	For	Estimate	Consensus*	Previous Period
29-May-2018	S&P CoreLogic CS 20-City MoM SA	Mar	0.6%	NA	0.8%
29-May-2018	Conf. Board Consumer Confidence	May	127.7	128.0	128.7
29-May-2018	Dallas Fed Manufacturing Activity	May	24.5	NA	21.8
30-May-2018	ADP Employment Change	May	180k	188k	204k
30-May-2018	Wholesale Inventories MoM	Apr P	0.5%	NA	0.3%
30-May-2018	GDP Annualized QoQ	1Q S	2.2%	2.3%	2.3%
30-May-2018	GDP Price Index	1Q S	2.0%	2.0%	2.0%
30-May-2018	Advance Goods Trade Balance	Apr	-\$70.5b	-\$71.0b	-\$68.3b
30-May-2018	U.S. Federal Reserve Releases Beige Book				
31-May-2018	Initial Jobless Claims	26-May	229k	NA	234k
31-May-2018	Personal Income	Apr	0.3%	0.3%	0.3%
31-May-2018	Personal Spending	Apr	0.3%	0.4%	0.4%
31-May-2018	PCE Deflator MoM	Apr	0.2%	0.2%	0.0%
31-May-2018	PCE Core MoM	Apr	0.1%	0.1%	0.2%
31-May-2018	Chicago Purchasing Manager	May	57.9	58.2	57.6
31-May-2018	Pending Home Sales MoM	Apr	0.2%	1.0%	0.4%
1-Jun-2018	Change in Nonfarm Payrolls	May	169k	193k	164k
1-Jun-2018	Change in Manufacturing Payrolls	May	18k	20k	24k
1-Jun-2018	Unemployment Rate	May	3.9%	3.9%	3.9%
1-Jun-2018	Average Hourly Earnings MoM	May	0.3%	0.3%	0.1%
1-Jun-2018	Average Weekly Hours All Employees	May	34.5	34.5	34.5
1-Jun-2018	Markit US Manufacturing PMI	May F	56.8	NA	56.6
1-Jun-2018	Construction Spending MoM	Apr	0.6%	0.9%	-1.7%
1-Jun-2018	ISM Manufacturing	May	58.0	58.0	57.3

\*Consensus from Bloomberg

## What Is the Current Health of the Housing Market?

Both new and existing home sales dropped sharply in April. So we thought now would be a good time to look at the health of the U.S. housing market, given the 66 basis point rise in 30-Yr mortgage interest rates since the beginning of the year. Existing home sales – which comprise the bulk of total home sales – declined 2.5% to a seasonally adjusted annual rate of 5.46 million in April. Further, the weakness was widespread, with sales declining in all regions but the Midwest where they were unchanged. Moreover, U.S. existing home sales have basically plateaued since first hitting that level in April 2016. On a year-ago basis, total existing home sales were down 1.4%.

### Existing Homes Sales Have Plateaued Since 2016

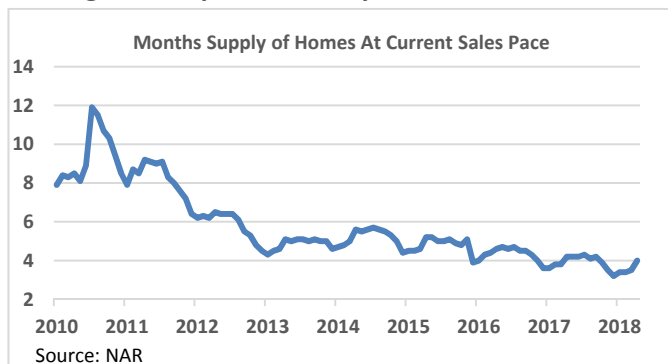


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### Housing Inventories Are Lean

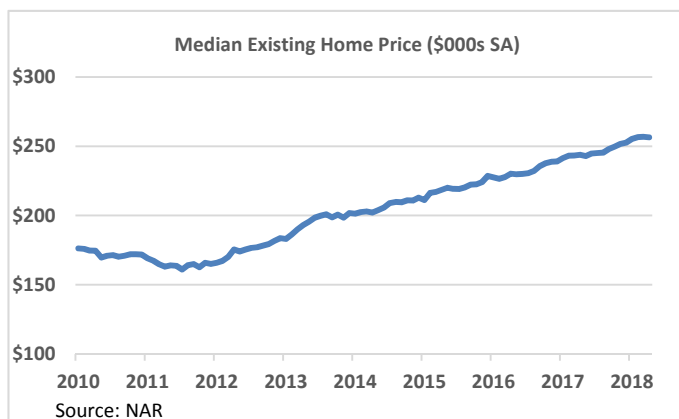
A widely cited cause of the recent weakness in existing home sales is the lack of available inventory for sale. However, we suspect rising mortgage rates and declining housing affordability are playing a growing role as well. Total existing home inventory at the end of April was 1.80 million units, a 6.3% drop from a year ago. Existing home inventories have fallen year-over-year for 35 consecutive months. Unsold existing home inventory is at a 4.0-month supply at the current sales pace compared to 4.2 months a year ago. Moreover, properties typically stayed on the market for 26 days in April, which is down from 29 days a year ago. Fifty-seven percent of homes sold in April were on the market for less than a month.

#### Housing Inventory At Historically Low Levels



Low inventory also is having a big impact on home prices and affordability. The median existing home price increased 5.3% year-over-year in April to \$257,900, an increase in the median home price of 60% since July 2011. Additional home inventory is needed to slow the further erosion of housing affordability.

#### Rising Home Prices Are Being Supported by Low Inventory

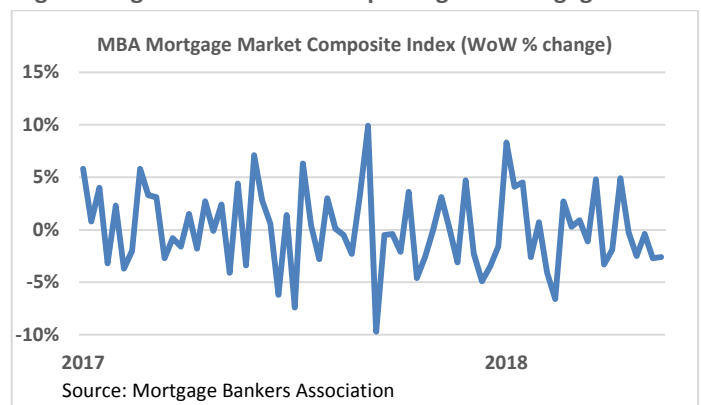


### The Outlook

It is increasingly apparent that the recent rise in long-term interest rates – which are influenced by rising inflationary expectations and expectations of further Fed interest rate hikes – are weighing on the housing market. The 10-year note first pierced 3.0% in late April and hit a high of 3.11% last week before retreating. Mortgage rates, which tend to move directionally with the 10-year rate, have also been rising. According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage increased for the seventh straight month to 4.47% in April (their highest level since 4.49% in September 2013). We expect the 30-Year mortgage rate to rise at least another 20 basis points by the end of the year to 4.73%.

The recent increase in mortgage rates is already limiting the number of people applying for a mortgage. According to the Mortgage Bankers Association’s Weekly Mortgage Applications Survey, mortgage applications fell 2.6% for the week ending May 18 after falling 2.7% in the prior week. This is the fifth consecutive weekly decline. The number of refinance applications – which are very sensitive to interest rate movements – declined 4% last week and are at the lowest level since December 2000.

#### Higher Long-Term Rates Ares Impacting the Mortgage Market



We believe the combination of a lack of existing home supply, rising mortgage rates, and home price growth that continues to outpace incomes will continue to hold back existing home sales this year. We forecast a modest 0.7% increase in existing home sales in 2018, down from a 1.8% increase in 2017.

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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	2.9	2.6	2.6	2.3	2.2	2.1	2.0	1.5	2.3	2.7	2.4
Personal Consumption Expenditures*	1.9	3.3	2.2	4.0	1.1	2.4	2.4	2.4	2.1	2.0	2.0	2.0	2.7	2.8	2.4	2.2
Non-residential Fixed Investment*	7.2	6.7	4.7	6.8	6.1	5.0	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)	1,231	1,171	1,172	1,259	1,320	1,300	1,290	1,295	1,290	1,292	1,290	1,285	1,176	1,208	1,301	1,289
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	7.7	2.3	7.2	3.0	2.6	2.2	2.0	1.7	1.5	-1.2	1.6	4.0	2.6
Nonfarm Payroll Employment (mil.)	145.9	146.3	146.9	147.4	148.1	148.6	149.0	149.5	149.9	150.4	150.7	151.1	144.3	146.6	148.8	150.5
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	2.9	1.6
Trade Weighted Dollar (Fed BOG, major)	94.4	93.0	88.3	88.9	86.5	87.3	88.3	88.1	87.8	87.4	86.9	85.8	91.6	91.2	87.6	87.0
Crude Oil Prices -WTI (\$ per barrel)	52	48	48	55	63	68	66	63	62	61	61	58	43	51	65	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	1.83	1.98	2.04	2.18	2.41	2.40	2.36	0.32	0.95	1.86	2.34
Treasury-2 Year Notes (yield)	1.24	1.30	1.36	1.69	2.16	2.47	2.59	2.67	2.74	2.90	2.92	2.87	0.84	1.40	2.47	2.86
Treasury-5 Year Notes (yield)	1.95	1.81	1.81	2.07	2.53	2.82	2.93	3.00	3.08	3.15	3.10	3.15	1.34	1.91	2.82	3.12
Treasury-10 Year Notes (yield)	2.45	2.26	2.24	2.37	2.76	2.94	3.05	3.15	3.30	3.53	3.52	3.50	1.84	2.33	2.98	3.46
Treasury-30 Year Notes (yield)	3.05	2.90	2.82	2.82	3.03	3.15	3.28	3.40	3.69	3.85	3.90	3.96	2.60	2.90	3.22	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	2.35	2.43	2.46	2.50	2.60	2.58	2.56	0.74	1.26	2.29	2.56
Mortgage-30 Year (yield)	4.17	3.98	3.88	3.92	4.28	4.50	4.60	4.73	4.90	5.20	5.21	5.25	3.66	3.99	4.53	5.14
BAA Corporate (yield)	4.66	4.49	4.33	4.27	4.47	4.77	4.99	5.25	5.60	5.80	6.00	6.30	4.71	4.44	4.87	5.93

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