

Date	Indicator	For	Estimate	Consensus*	Previous Period
25-Jun-2018	Chicago Fed Nat Activity Index	May	NA	NA	0.34
25-Jun-2018	New Home Sales	May	650k	670k	662k
25-Jun-2018	Dallas Fed Manufacturing Activity	Jun	23.0	24.0	26.8
26-Jun-2018	S&P CoreLogic CS 20-City MoM SA	Apr	0.4%	NA	0.5%
26-Jun-2018	Richmond Fed Manufacturing Index	Jun	14.0	15.0	16.0
26-Jun-2018	Conf. Board Consumer Confidence	Jun	127.0	127.2	128.0
27-Jun-2018	Wholesale Inventories MoM	May P	0.2%	NA	0.1%
27-Jun-2018	Durable Goods Orders	May P	-1.4%	-0.7%	-1.6%
27-Jun-2018	Durables Ex Transportation	May P	0.4%	0.5%	0.9%
27-Jun-2018	Advance Goods Trade Balance	May	-\$70.0b	-\$67.3b	-\$67.3b
27-Jun-2018	Pending Home Sales MoM	May	1.0%	1.0%	-1.3%
28-Jun-2018	GDP Annualized QoQ	1Q T	2.0%	2.2%	2.2%
28-Jun-2018	GDP Price Index	1Q T	1.9%	1.9%	1.9%
28-Jun-2018	Initial Jobless Claims	23-Jun	222k	NA	218k
28-Jun-2018	Kansas City Fed Manufacturing Activity	Jun	24.0	NA	29.0
29-Jun-2018	Personal Income	May	0.4%	0.4%	0.3%
29-Jun-2018	Personal Spending	May	0.4%	0.4%	0.6%
29-Jun-2018	PCE Deflator MoM	May	0.2%	NA	0.2%
29-Jun-2018	PCE Core MoM	May	0.2%	0.2%	0.2%
29-Jun-2018	Chicago Purchasing Manager	Jun	60.8	60.8	62.7
29-Jun-2018	U. of Mich. Sentiment	Jun F	99.0	NA	99.3

\*Consensus from Bloomberg

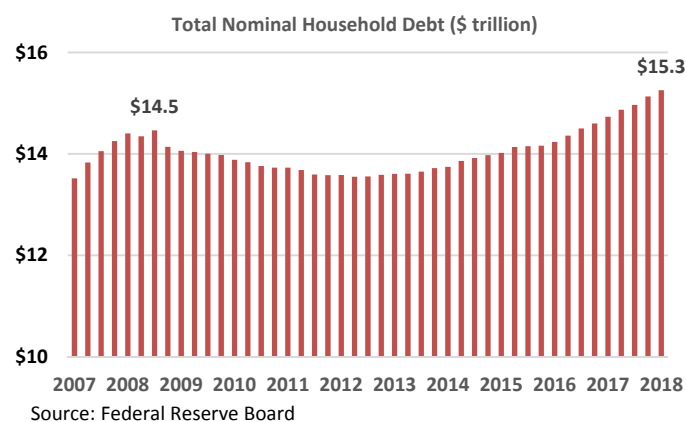
## The State of Household Finances Today

The popular narrative is that households – due to the debilitating nature of the Great Recession that lasted 18 months from December 2007 to June 2009 – have done a good job of repairing their balance sheets by paying down debt during the current economic expansion. But is that really true? What is the current state of household finances?

Data from the recently released Federal Reserve Z1 Flow of Funds report shows that nominal household debt hit a record high of \$15.3 trillion in the first quarter of 2018, a 3.5% increase from the first quarter of 2017. Household debt had previously peaked at \$14.5 trillion in the third quarter of 2008 before declining for 16 straight quarters. Nominal household debt began rising again in the first quarter of 2013 and it has been increasing each quarter ever since. This additional debt has helped support the

second longest expansion in U.S. history, trailing only the 1991-2001 expansion that lasted for 10 years.

## Total Nominal Household Debt Hit a Record High in 2018 Q1



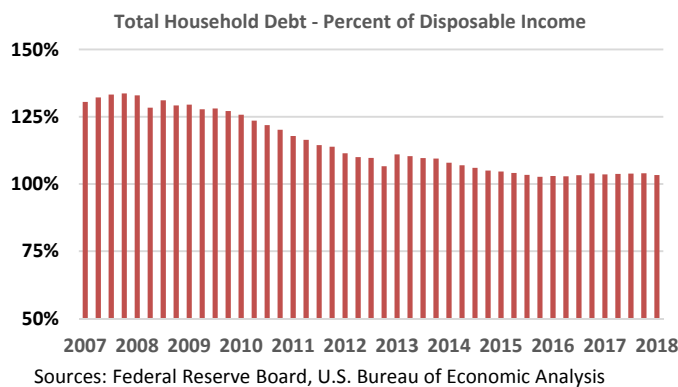
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### Household Debt Through Economists' Eyes

While it is useful to look at the absolute level of debt on household balance sheets, it's more important to look at households' ability to maintain and service that debt. One way to do that is to look at household debt relative to disposable income.

When viewed in this context, household debt as a share of disposable income has mostly been declining since hitting a peak of 133.7% in the fourth quarter of 2007 – the quarter the recession began. The 2018Q1 value of 103.3% is just below the long-run average of 103.7% from 1990Q1 to 2018Q1.

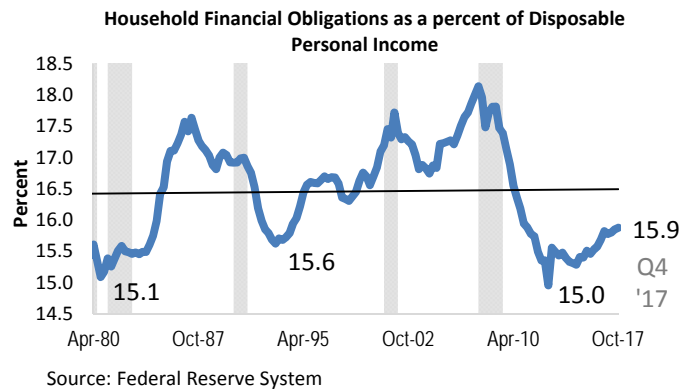
### Households' Ability to Maintain Debt Is Much Improved



While households have paid down debt in some areas, much of the improvement in household balance sheets can be tied to the ongoing labor market expansion. May marked the 92<sup>nd</sup> consecutive month of job growth, the longest streak since the Labor Department started publishing data in the 1930s. The tight labor market – the unemployment rate hit an 18-year low of 3.8% in May – is fueling income gains, thereby making it easier for households to maintain the current debt obligations.

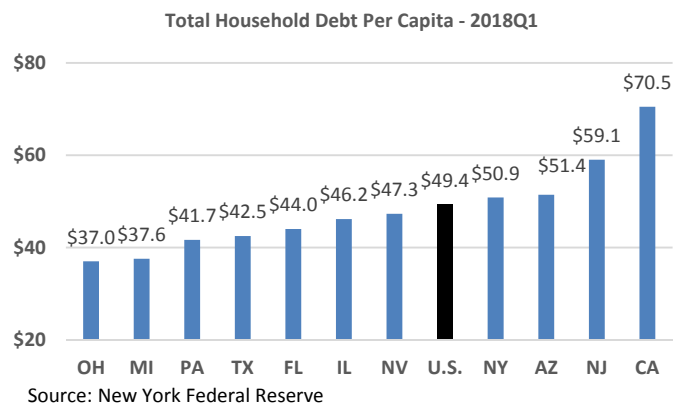
Looked at from the perspective of a household's ability to service its monthly debt obligations, debt burdens appear much more manageable today. The financial obligations ratio – defined as the ratio of household debt payments to total disposable income – was 15.9% in the fourth quarter of 2017. While the ratio had risen slightly for the last three quarters, it remains well below the series-high of 18.1% in 2007Q4 and the long-run average of 16.5% from 1980Q1 to 2017Q4.

### Households' Ability to Service Their Debts Are Manageable



However, household debt levels remain quite different by state. Per capita debt burdens appear quite high in California (\$70,500), New Jersey (\$59,100) and Arizona (\$51,400) compared to the national average (\$49,400). Conversely, Ohio (\$37,000), Michigan (\$37,600) and Pennsylvania (\$41,700) appear to have far lower debt burdens than the nation.

### Debt Levels Depend on What State You Live In



### Conclusion

In our view, current debt levels appear manageable in the current interest rate environment. However, this dynamic could shift if job and wage growth stall, or interest rates rise appreciably. The good news is the current expansion still has a ways to go.

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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	2.2	4.1	2.7	2.7	2.3	2.2	2.1	2.0	1.5	2.3	3.0	2.5
Personal Consumption Expenditures*	1.9	3.3	2.2	4.0	1.0	3.3	2.4	2.4	2.1	2.0	2.0	2.0	2.7	2.8	2.6	2.2
Non-residential Fixed Investment*	7.2	6.7	4.7	6.8	9.2	3.0	5.6	5.7	5.0	5.0	4.4	4.1	-0.6	4.7	6.2	5.0
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	17.0	17.1	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	7.7	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	149.1	149.6	150.0	150.5	150.9	151.2	144.3	146.6	148.9	150.7
Unemployment rate	4.7	4.3	4.3	4.1	4.1	3.8	3.7	3.6	3.8	3.9	4.0	4.1	4.9	4.4	3.8	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	64	61	60	59	59	57	43	51	64	59

\*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	1.96	2.21	2.46	2.63	2.63	2.63	0.39	1.00	1.83	2.59
Treasury-3 Month Bills (yield)	0.61	0.91	1.05	1.23	1.58	1.88	2.06	2.31	2.56	2.73	2.68	2.68	0.32	0.95	1.96	2.66
Treasury-2 Year Notes (yield)	1.24	1.30	1.36	1.69	2.16	2.47	2.69	2.80	2.94	3.00	3.02	2.97	0.84	1.40	2.53	2.98
Treasury-5 Year Notes (yield)	1.95	1.81	1.81	2.07	2.53	2.78	2.93	3.00	3.13	3.28	3.25	3.20	1.34	1.91	2.81	3.22
Treasury-10 Year Notes (yield)	2.45	2.26	2.24	2.37	2.76	2.94	3.08	3.19	3.34	3.50	3.51	3.47	1.84	2.33	2.99	3.46
Treasury-30 Year Notes (yield)	3.05	2.90	2.82	2.82	3.03	3.10	3.23	3.35	3.60	3.75	3.81	3.90	2.60	2.90	3.18	3.77
Prime Rate	3.80	4.05	4.25	4.29	4.52	4.75	5.00	5.25	5.50	5.75	5.75	5.75	3.51	4.10	4.88	5.69
Libor 3-Mo. U.S. Dollar	1.07	1.21	1.31	1.46	1.93	2.35	2.45	2.60	2.80	2.95	2.90	2.90	0.74	1.26	2.33	2.89
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