

Date	Indicator	For	Estimate	Consensus*	Previous Period
4-Sep-2018	Markit US Manufacturing PMI	Aug F	54.5	NA	54.5
4-Sep-2018	Construction Spending MoM	Jul	0.4%	0.4%	-1.1%
4-Sep-2018	ISM Manufacturing	Aug	57.7	57.4	58.1
4-Sep-2018	Wards Total Vehicle Sales	Aug	17.09m	NA	16.68m
5-Sep-2018	Trade Balance	Jul	-\$48.6b	-\$47.0b	-\$46.3b
6-Sep-2018	ADP Employment Change	Aug	190k	191k	219k
6-Sep-2018	Nonfarm Productivity	2Q F	2.9%	2.9%	2.9%
6-Sep-2018	Unit Labor Costs	2Q F	-0.9%	-0.9%	-0.9%
6-Sep-2018	Initial Jobless Claims	01-Sep	216k	NA	213k
6-Sep-2018	Markit US Services PMI	Aug F	55.2	NA	55.2
6-Sep-2018	Markit US Composite PMI	Aug F	55.0	NA	55.0
6-Sep-2018	ISM Non-Manufacturing Index	Aug	56.0	56.8	55.7
6-Sep-2018	Factory Orders	Jul	-0.6%	-0.5%	0.7%
7-Sep-2018	Change in Nonfarm Payrolls	Aug	187k	192k	157k
7-Sep-2018	Change in Manufacturing Payrolls	Aug	27k	30k	37k
7-Sep-2018	Unemployment Rate	Aug	3.8%	3.8%	3.9%
7-Sep-2018	Average Hourly Earnings MoM	Aug	0.2%	0.3%	0.3%
7-Sep-2018	Average Weekly Hours All Employees	Aug	34.5	34.5	34.5

*Consensus from Bloomberg

U.S.-Mexico Reach Preliminary Trade Agreement

The 16-year trade deal between the U.S. and Mexico announced by the Trump administration earlier this week sets into motion a series of events that could ultimately lead to an overhaul of the North American Free Trade Agreement (NAFTA), which has been in force among the U.S., Mexico, and Canada since 1994.

In fact, President Trump has expressed his desire to terminate NAFTA, which could place pressure on Canada to rejoin the discussions. While the present agreement between the U.S. and Mexico creates some uncertainty for U.S.-Canada trade, free trade will likely continue between the two countries in some fashion. Canada will likely either: 1) sign on to the just-announced U.S.-Mexico agreement, 2) negotiate a separate bilateral trade pact with the U.S., or 3) revert to pre-NAFTA trade policies. It is improbable, however, that future U.S.-Canada trade will not be governed by a trade agreement in one form or another.

Key Provisions of the Announced Agreement So Far

Although the deal has yet to be finalized, some of the key provisions include:

- The percentage of each car that must be made in the U.S. or Mexico rises from 62.5% to 75.0% to qualify for duty-free treatment.
- Mandates that 40-45% of auto content will be made by workers earnings at least \$16 an hour.
- New digital trade and intellectual property rights.
- Tariff-free trade remains for farm products, but new measures on health standards will be adopted.
- No resolution on the issue of eliminating the U.S. import tariffs of aluminum and steel from Mexico and Canada.
- The proposed U.S. sunset clause has been diluted and now calls for a review process every six years that would extend the agreement to 16 years.

Autos were one of the main sticking points holding up the negotiations. This issue is particularly important to

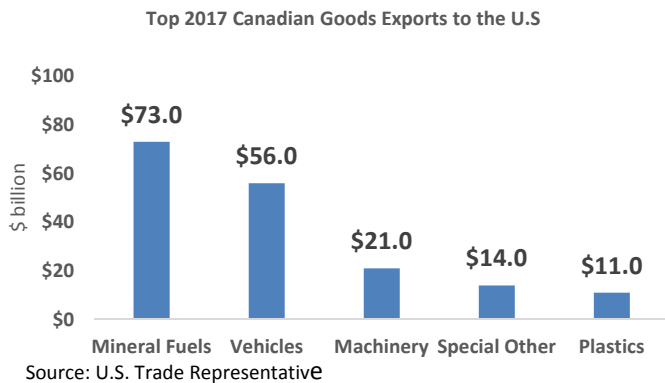
Mexico because vehicles were the top goods export from Mexico to the U.S. in 2017, equal to \$84 billion or more than 25% of Mexico’s total goods exports to the United States.

Autos Are a Vital Export to the U.S. for Mexico



Canada has expressed support for the new rule changes on auto content agreed to by Mexico and the U.S., and the Trump administration is using the new Mexico-U.S. agreement to pressure Canada to come on board or be left behind. While auto exports to the U.S. are not as important to Canada as they are to Mexico, they were the second biggest goods export to the U.S. in 2017, trailing only mineral fuels. Moreover, Canada views Mexico’s auto concessions as being good for Canadian automotive workers.

Autos Are Also an Important Export for Canada



Timeline

The U.S. has set this Friday as the deadline for wrapping up the negotiations on the agreement. At that time, the U.S. Trade Representative will issue a Trade Promotion Authority Notice to Congress, triggering the 90-day waiting period required by law before President Trump is allowed to sign the agreement.

The December 1 deadline is important for two reasons: 1) it will give the Mexican Congress enough time to pass the bill before the president-elect takes office. While he has been supportive of the negotiations, he would likely seek changes if the pact is not finalized before his term begins; and 2) the already arduous process of getting the U.S. Congress to approve the bill could get even more difficult if Democrats retake control of the House in the midterm elections in November and the agreement is not finalized before they take office in January 2019.

Benefits of the Agreement

For Mexico, the preliminary trade agreement removes some of the uncertainty regarding the future of bilateral trade negotiations with the U.S., which had been weighing on Mexico’s business investment and economic growth. Therefore, the new trade agreement raises the prospects for stabilizing Mexico’s economic growth. It also demonstrates that, despite all of the protectionist rhetoric, President Trump was willing to accept relatively modest adjustments to the existing U.S. trade agreement with Mexico.

For the U.S., the agreement would help American workers by making it more difficult for countries such as China to ship cheap products, such as auto parts, through Mexico and then enter the U.S. as automobile exports from Mexico. Moreover, harmonizing labor and environmental rules could theoretically protect U.S. jobs by making it less attractive in the future for U.S. companies to move their operations to Mexico. In the short run, however, the revised trade agreement between Mexico and the United States is not expected to have substantive impacts on the U.S. economy.

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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*	1.8	3.0	2.8	2.3	2.2	4.2	3.0	2.2	1.9	1.9	1.9	1.8	1.5	2.2	2.8	2.2
Personal Consumption Expenditures*	1.8	2.9	2.2	3.9	0.5	3.8	3.0	2.7	2.1	2.1	2.0	1.8	2.7	2.5	2.6	2.4
Non-residential Fixed Investment*	9.6	7.3	3.4	4.8	11.5	8.5	4.2	4.2	3.6	4.0	3.4	2.7	-0.6	5.3	7.0	4.1
Private Housing Starts (000s units)	1,231	1,171	1,172	1,259	1,317	1,254	1,220	1,240	1,270	1,280	1,277	1,275	1,176	1,208	1,258	1,276
Vehicle Sales (mill. Units, annualized)	17.1	16.8	17.1	17.7	17.1	17.1	17.1	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	2.4	6.0	3.0	2.6	2.2	2.0	1.7	1.5	-1.2	1.6	3.8	2.5
Nonfarm Payroll Employment (mil.)	145.9	146.3	146.9	147.4	148.1	148.7	149.3	149.8	150.3	150.7	151.1	151.5	144.3	146.6	149.0	150.9
Unemployment rate	4.7	4.3	4.3	4.1	4.1	3.9	3.8	3.6	3.7	3.8	3.9	4.0	4.9	4.4	3.9	3.9
Consumer Price Index* (percent)	3.0	0.1	2.1	3.3	3.5	1.7	2.2	2.1	2.0	2.0	2.1	2.1	1.3	2.1	2.5	2.1
"Core" CPI* (percent)	2.2	0.8	1.8	2.2	3.0	1.8	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	1.6	5.7	3.5	2.7	2.5	2.0	1.8	1.8	1.7	1.7	-1.0	3.2	3.1	2.0
Trade Weighted Dollar (Fed BOG, major)	94.4	93.0	88.3	88.9	86.2	88.2	90.4	91.4	91.1	90.4	89.6	88.5	91.6	91.1	89.0	89.9
Crude Oil Prices -WTI (\$ per barrel)	52	48	48	55	63	68	68	65	63	61	61	59	43	51	66	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	2,703							2,093	2,449		
Dow Jones Industrial Average	20,406	20,994	21,891	23,689	25,127	24,556							17,916	21,745		
Federal Funds Rate (effective)	0.70	0.95	1.15	1.20	1.45	1.74	1.91	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	1.87	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	2.48	2.62	2.77	2.91	3.01	3.02	2.97	0.84	1.40	2.51	2.98
Treasury-5 Year Notes (yield)	1.95	1.81	1.81	2.07	2.53	2.77	2.79	2.91	3.05	3.15	3.16	3.11	1.34	1.91	2.75	3.12
Treasury-10 Year Notes (yield)	2.45	2.26	2.24	2.37	2.76	2.92	2.91	3.02	3.19	3.28	3.27	3.21	1.84	2.33	2.90	3.24
Treasury-30 Year Notes (yield)	3.05	2.90	2.82	2.82	3.03	3.09	3.03	3.11	3.26	3.35	3.34	3.28	2.60	2.90	3.07	3.31
Prime Rate	3.80	4.05	4.25	4.29	4.53	4.80	5.00	5.25	5.50	5.75	5.75	5.75	3.51	4.10	4.90	5.69
Libor 3-Mo. U.S. Dollar	1.07	1.21	1.31	1.46	1.93	2.34	2.35	2.50	2.70	2.85	2.80	2.80	0.74	1.26	2.28	2.79
Mortgage-30 Year (yield)	4.17	3.98	3.88	3.92	4.28	4.54	4.52	4.60	4.77	4.87	4.88	4.85	3.66	3.99	4.49	4.84
BAA Corporate (yield)	4.66	4.49	4.33	4.27	4.47	4.78	4.79	5.04	5.40	5.60	5.80	6.10	4.71	4.44	4.77	5.73

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