

Date	Indicator	For	Estimate	Consensus*	Previous Period
17-Dec-2018	Empire Manufacturing	Dec	20.6	20.2	23.3
17-Dec-2018	NAHB Housing Market Index	Dec	61.0	61.0	60.0
17-Dec-2018	Net Long-term TIC Flows	Oct	NA	NA	\$30.8b
18-Dec-2018	Housing Starts	Nov	1240k	1233k	1228k
18-Dec-2018	Building Permits	Nov	1260k	1270k	1265k
19-Dec-2018	Current Account Balance	3Q	NA	NA	-\$101.5b
19-Dec-2018	Existing Home Sales	Nov	5.19m	5.20m	5.22m
19-Dec-2018	FOMC Rate Decision (Upper Bound)	19-Dec	2.50%	2.50%	2.25%
19-Dec-2018	FOMC Rate Decision (Lower Bound)	19-Dec	2.25%	2.25%	2.00%
20-Dec-2018	Philadelphia Fed Business Outlook	Dec	11.0	15.0	12.9
20-Dec-2018	Initial Jobless Claims	15-Dec	218k	NA	206k
20-Dec-2018	Leading Index	Nov	0.1%	0.0%	0.1%
21-Dec-2018	GDP Annualized QoQ	3Q T	3.5%	3.5%	3.5%
21-Dec-2018	GDP Price Index	3Q T	1.7%	1.7%	1.7%
21-Dec-2018	Durable Goods Orders	Nov P	1.7%	2.0%	-4.3%
21-Dec-2018	Durables Ex Transportation	Nov P	0.2%	0.3%	0.2%
21-Dec-2018	Personal Income	Nov	0.3%	0.3%	0.5%
21-Dec-2018	Personal Spending	Nov	0.3%	0.3%	0.6%
21-Dec-2018	PCE Deflator MoM	Nov	0.0%	0.0%	0.2%
21-Dec-2018	PCE Core MoM	Nov	0.1%	0.2%	0.1%
21-Dec-2018	U. of Mich. Sentiment	Dec F	97.3	97.5	97.5
21-Dec-2018	Kansas City Fed Manufacturing Activity	Dec	12.0	NA	15.0

*Consensus from Bloomberg

Market Fears of Near-Term Recession Overblown

As recently as September when U.S. stocks were hitting new record highs, economic optimism was rampant and, in retrospect, probably overdone. Even the Fed got a little carried away with hawkish comments from Jerome Powell about interest rates being well below neutral. Markets promptly starting penciling in more rate hikes for 2019 and beyond, and the 10-year Treasury jumped to 3.24% in a matter of weeks.

10-Year Treasury Bonds Get Whipsawed

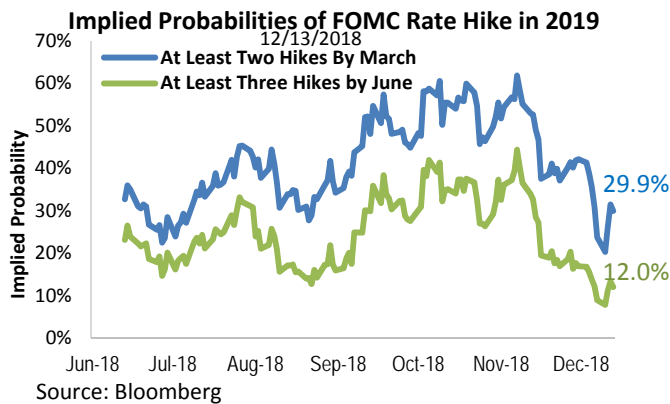


Source: Federal Reserve System

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By last week, the pendulum had swung 180 degrees in the opposite direction. Several FOMC members were counseling a pause in rate hikes for 2019, and Jerome Powell was singing a different tune of being just below the neutral rate. Bond investors swiftly got out their pencils once again, this time to erase all the rate hikes priced in for 2019.

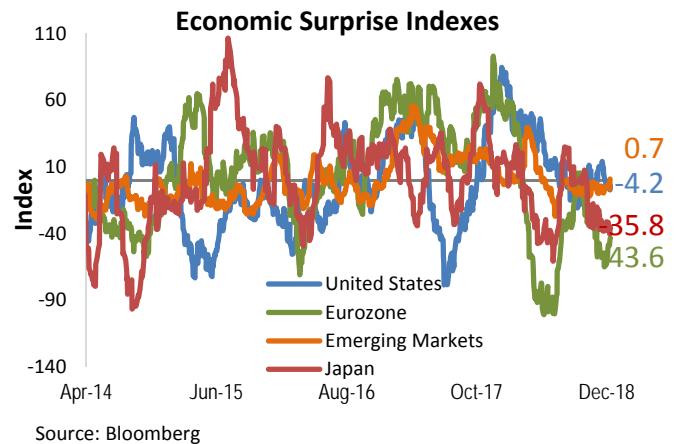
Markets Have Nearly Priced Out Fed Rate Hikes for 2019



In my view, the markets are once again overreacting, this time to the downside. Market fears of imminent recession are overblown. Yes, the global economy is in what appears to be a synchronized slowdown. But if you are able to take your eyes off the daily 500-point swings in the Dow and the fact that your stock portfolio has probably dropped by around 10% since the end of September, you would realize the U.S. economic data are not yet raising red flags that a recession has already begun — only that the growth we saw in the second and third quarter of this year is not likely to be repeated in 2019. Tighter monetary policy and financial conditions, fading fiscal stimulus, and slowing global growth will all conspire to slow down the economic freight train that has been the U.S. economy this year.

Economic surprise indexes have softened across the board for most major economies, especially in the Eurozone and Japan, but the economic indicators for emerging market economies and the U.S. are tracking fairly closely to economists' forecasts. If the U.S. and global economies

were about to fall off an unexpected economic cliff, we would see it reflected here with big downside misses for all the major regions of the world, including the United States. That simply is not the case today.



In fact, we have seen more positive U.S. economic surprises of late coming from sentiment measures, personal and household measures, and initial jobless claims. Today's retail sales report for November shows consumers continue to spend at a rapid pace in the current quarter. U.S. GDP growth is expected to clock in at an expansion record 3.1% in 2018 on a fourth quarter to fourth quarter basis, and Q4 GDP growth is expected at a respectable 2.4% annualized. By the end of next year, U.S. GDP growth is expected to slow to a 1.9% Q4/Q4 pace, but growth could remain somewhat above 2.0% in the first half of 2019.

So what do we expect from next week's FOMC meeting? We forecast another quarter-point rate hike from the FOMC next week, bringing the fed funds target rate to a 2.25 to 2.50% range. While we do expect a downward migration in the FOMC dot plot, we still think we will see a median forecast for two more Fed rate hikes by the end of 2019. In short, Wall Street's hope for a hard stop after the December hike is way too dovish, given the near-term U.S. economic outlook. A recession may come by sometime in 2020, but this episode of market volatility isn't it.

Key Economic and Interest Rate Forecasts

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2018.1	2018.2	2018.3	2018.4	2019.1	2019.2	2019.3	2019.4	2020.1	2020.2	2020.3	2020.4	2017	2018	2019	2020
Real GDP*	2.2	4.2	3.5	2.4	2.1	2.0	1.8	1.7	1.0	0.6	0.5	0.5	2.2	2.9	2.4	1.1
Personal Consumption Expenditures*	0.5	3.8	3.6	2.4	2.3	2.3	2.1	1.9	1.5	1.0	1.0	1.0	2.5	2.6	2.5	1.5
Non-residential Fixed Investment*	11.5	8.7	2.5	6.4	3.8	4.1	3.7	3.4	1.5	1.5	1.5	1.5	5.3	7.0	4.5	2.3
Private Housing Starts (000s units)	1,317	1,261	1,225	1,250	1,260	1,240	1,220	1,210	1,190	1,185	1,180	1,175	1,208	1,263	1,233	1,183
Vehicle Sales (mill. Units, annualized)	17.1	17.1	16.9	16.9	16.7	16.6	16.5	16.4	16.2	15.9	15.6	15.9	17.2	17.0	16.6	15.9
Industrial Production*	2.5	5.3	4.7	2.7	2.1	2.0	1.7	1.5	-0.5	-1.0	-1.0	-1.0	1.6	3.9	2.6	0.1
Nonfarm Payroll Employment (mil.)	148.1	148.7	149.3	149.8	150.3	150.8	151.2	151.5	151.6	151.2	150.8	150.6	146.6	149.0	150.9	151.0
Unemployment rate	4.1	3.9	3.8	3.7	3.6	3.5	3.5	3.6	3.8	4.2	4.5	4.8	4.4	3.9	3.6	4.3
Consumer Price Index* (percent)	3.5	1.7	2.0	2.8	2.5	2.0	2.1	2.1	1.8	1.8	1.7	1.6	2.1	2.5	2.3	1.9
"Core" CPI* (percent)	3.0	1.8	2.0	1.9	2.2	2.1	2.1	2.1	2.0	1.9	1.8	1.8	1.8	2.1	2.1	2.0
PPI (finished goods)* (percent)	3.6	2.9	2.0	2.8	2.0	1.9	1.7	1.7	1.3	1.4	1.4	1.4	3.2	3.2	2.1	1.5
Trade Weighted Dollar (Fed BOG, major)	86.2	88.2	90.2	91.1	90.8	90.4	89.6	88.5	88.3	88.0	87.5	87.0	91.1	88.9	89.8	87.7
Crude Oil Prices -WTI (\$ per barrel)	63	68	70	63	52	52	51	51	50	50	46	47	51	66	52	48

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

Financial Data	History				Forecast								Annual Average			
	2018.1	2018.2	2018.3	2018.4	2019.1	2019.2	2019.3	2019.4	2020.1	2020.2	2020.3	2020.4	2017	2018	2019	2020
S & P 500	2,733	2,703	2,850										2,449			
Dow Jones Industrial Average	25,127	24,556	25,595										21,745			
Federal Funds Rate (effective)	1.45	1.74	1.92	2.19	2.46	2.71	2.88	2.88	2.79	2.54	2.29	2.04	1.00	1.83	2.73	2.42
Treasury-3 Month Bills (yield)	1.58	1.87	2.07	2.32	2.58	2.79	2.95	2.91	2.70	2.35	2.10	1.84	0.95	1.96	2.81	2.25
Treasury-2 Year Notes (yield)	2.16	2.48	2.67	2.85	2.91	3.00	2.98	2.95	2.90	2.65	2.40	2.15	1.40	2.54	2.96	2.53
Treasury-5 Year Notes (yield)	2.53	2.77	2.81	2.97	3.09	3.19	3.21	3.15	3.05	2.80	2.60	2.35	1.91	2.77	3.16	2.70
Treasury-10 Year Notes (yield)	2.76	2.92	2.92	3.10	3.22	3.32	3.38	3.31	3.21	3.00	2.80	2.65	2.33	2.93	3.31	2.92
Treasury-30 Year Notes (yield)	3.03	3.09	3.06	3.32	3.43	3.56	3.64	3.55	3.45	3.40	3.20	2.95	2.90	3.13	3.55	3.25
Prime Rate	4.53	4.80	5.01	5.25	5.50	5.75	6.00	6.00	5.90	5.60	5.35	5.10	4.10	4.90	5.81	5.49
Libor 3-Mo. U.S. Dollar	1.93	2.34	2.34	2.57	2.79	3.01	3.12	3.13	2.95	2.70	2.42	2.13	1.26	2.29	3.01	2.55
Mortgage-30 Year (yield)	4.28	4.54	4.57	4.75	4.92	5.03	5.09	5.02	4.95	4.75	4.60	4.50	3.99	4.53	5.02	4.70
BAA Corporate (yield)	4.47	4.78	4.81	5.15	5.40	5.60	5.80	6.10	6.30	6.40	6.35	6.20	4.44	4.80	5.73	6.31

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