

Date	Indicator	For	Estimate	Consensus*	Previous Period
18-Jan-25-Jan	Wholesale Inventories MoM	Nov F	0.5%	0.5%	NA
18-Jan-25-Jan	Wholesale Inventories MoM	Nov P	0.5%	0.5%	0.8%
18-Jan-25-Jan	Advance Goods Trade Balance	Nov	-\$76.0b	-\$76.1b	-\$77.0b
18-Jan-25-Jan	New Home Sales	Nov	575k	567k	544k
18-Jan-25-Jan	Construction Spending MoM	Nov	0.2%	0.2%	-0.1%
18-Jan-25-Jan	Factory Orders	Nov	-0.3%	0.3%	-2.1%
18-Jan-25-Jan	Trade Balance	Nov	-\$54.5b	-\$54.0b	-\$55.5b
18-Jan-25-Jan	Business Inventories	Nov	0.3%	0.3%	0.6%
18-Jan-25-Jan	Retail Sales Advance MoM	Dec	0.1%	0.1%	0.2%
18-Jan-25-Jan	Retail Sales Ex Auto MoM	Dec	0.0%	0.0%	0.2%
18-Jan-25-Jan	Net Long-term TIC Flows	Nov	NA	NA	\$31.3b
18-Jan-25-Jan	Building Permits	Dec	1286k	1290k	1328k
18-Jan-25-Jan	Housing Starts	Dec	1243k	1252k	1256k
22-Jan-2019	Existing Home Sales	Dec	5.25m	5.27m	5.32m
23-Jan-2019	FHFA House Price Index MoM	Nov	0.3%	NA	0.3%
23-Jan-2019	Richmond Fed Manufacturing Index	Jan	-4.0	NA	-8.0
24-Jan-2019	Initial Jobless Claims	19-Jan	220	NA	213k
24-Jan-2019	Markit US Composite PMI	Jan P	NA	NA	54.4
24-Jan-2019	Markit US Manufacturing PMI	Jan P	54.0	NA	53.8
24-Jan-2019	Markit US Services PMI	Jan P	54.2	NA	54.4
24-Jan-2019	Leading Index	Dec	-0.1%	-0.1%	0.2%
24-Jan-2019	Kansas City Fed Manufacturing Activity	Jan	0.0	NA	3.0
25-Jan-2019	Durable Goods Orders	Dec P	0.7%	NA	0.8%
25-Jan-2019	Durables Ex Transportation	Dec P	-0.6%	NA	-0.3%
25-Jan-2019	New Home Sales	Dec	NA	NA	NA

\*Consensus from Bloomberg

## Trimming Our Q1 GDP Forecast

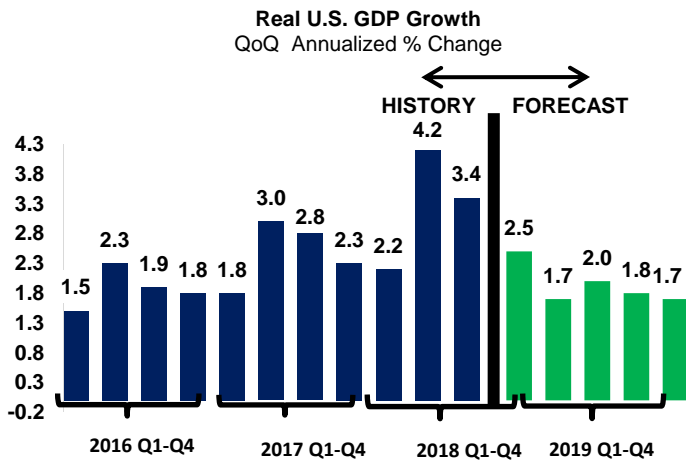
Granted, there isn't a lot of hard first-quarter economic data to hang our hat on at this point. With the U.S. government shutdown entering day 28, more and more important U.S. economic indicator releases are being delayed by the shutdown. Only the Bureau of Labor Statistics and the Federal Reserve are still releasing data. The Bureau of Economic Analysis, Census Bureau, and Commerce Department have all halted their releases due to the government closure. So economists' visibility of current economic conditions is getting cloudier by the day. With that said, I am comfortable cutting our Q1 U.S. GDP forecast by 0.4 percentage points to 1.7%, to reflect lost

economic activity due to the prolonged government shutdown, as well as lost consumer spending resulting from the negative wealth effects from the Q4 stock market selloff. If realized, U.S. economic growth would slow to its slowest pace in three years. It would also mark the slowest quarterly growth rate in the Trump presidency.

For now, we are penciling in a 0.3 percentage point hit to GDP from the government shutdown alone, though that estimate could increase in the weeks ahead if the government fails to reopen. We are shaving an additional 0.1 percentage point off of U.S. GDP growth in the first

quarter due to lost household wealth from December's stock market plunge.

**Q1 GDP Takes a Hit**



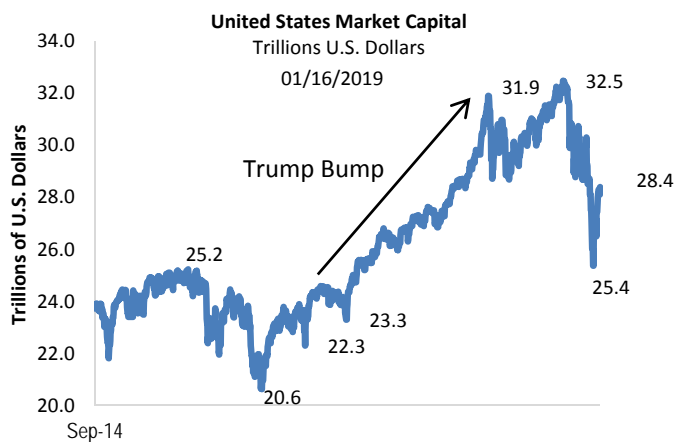
Source: Bureau of Economic Analysis; Bank of the West Economics

The measurable drop in household wealth will crimp consumer spending, especially for high-income households that are exposed to the stock market volatility. We forecast real consumer spending in the first quarter could slow to a modest 1.5% annualized growth rate, down from a robust 3.5% pace in the fourth quarter, and our prior forecast of 2.3%. The combined impact of the federal government shutdown and negative wealth effects are the primary catalysts of this downturn in consumers' willingness and ability to spend.

One positive outcome of the equity market volatility and investors flight to safety that occurred in the fourth quarter has been the nearly half a percentage point drop in 30-year mortgage rates from their November high of 5.17%, which already appears to be breathing new life into U.S. housing demand in January.

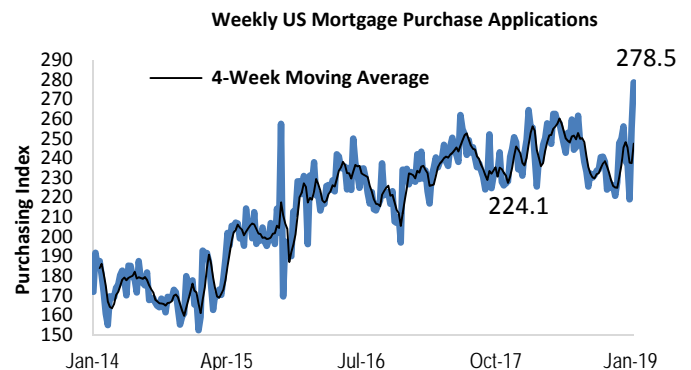
U.S. stock markets have been rebounding since the Christmas Eve low, but stock market capitalization is still down \$4.1 trillion from the September peak.

**Negative Wealth Effect Will Crimp Q1 Consumer Spending**



Source: Bloomberg

**Mortgage Purchase Applications Jump in January**



Source: Mortgage Bankers Association

Mortgage purchase applications jumped to a new expansion high last week. Applications are up about 16% from a month ago as of the second week in January. Even on a year ago basis, mortgage purchase applications are 10.7% higher, according to Mortgage Bankers Association data. This is consistent with the message we got from the NAHB housing market index for January that improved two points. That was the biggest monthly increase for the NAHB homebuilder survey since May of last year.

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**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	3.4	2.5	1.7	2.0	1.8	1.7	1.0	0.6	0.5	0.5	2.2	2.9	2.3	1.1
Personal Consumption Expenditures*	0.5	3.8	3.5	3.5	1.5	2.3	2.1	1.9	1.5	1.0	1.0	1.0	2.5	2.7	2.5	1.5
Non-residential Fixed Investment*	11.5	8.7	2.5	5.7	4.3	4.1	3.7	3.4	1.5	1.5	1.5	1.5	5.3	6.9	4.5	2.3
Private Housing Starts (000s units)	1,317	1,261	1,234	1,250	1,260	1,240	1,220	1,210	1,190	1,185	1,180	1,175	1,208	1,266	1,233	1,183
Vehicle Sales (mill. Units, annualized)	17.1	17.1	16.9	17.5	16.9	16.8	16.7	16.5	16.2	15.9	15.6	15.9	17.2	17.1	16.7	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	150.0	150.5	151.0	151.5	151.8	152.1	151.8	151.4	151.2	146.6	149.0	151.2	151.6
Unemployment rate	4.1	3.9	3.8	3.8	3.7	3.6	3.6	3.7	3.9	4.2	4.5	4.8	4.4	3.9	3.7	4.4
Consumer Price Index* (percent)	3.5	1.7	2.0	1.8	0.6	2.0	2.1	2.1	1.8	1.8	1.7	1.6	2.1	2.4	1.6	1.9
"Core" CPI* (percent)	3.0	1.8	2.0	2.0	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	2.2	-0.2	-0.1	2.1	1.8	1.8	1.3	1.4	1.4	1.4	3.2	3.0	1.1	1.6
Trade Weighted Dollar (Fed BOG, major)	86.2	88.2	90.2	91.4	91.0	90.6	89.6	88.5	88.3	88.0	87.5	87.0	91.1	89.0	89.9	87.7
Crude Oil Prices -WTI (\$ per barrel)	63	68	70	60	47	49	48	48	47	47	44	45	51	65	48	46

\*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	2,699									2,449	2,746		
Dow Jones Industrial Average	25,127	24,556	25,595	24,916									21,745	25,048		
Federal Funds Rate (effective)	1.45	1.74	1.92	2.22	2.38	2.46	2.63	2.63	2.54	2.29	2.04	1.79	1.00	1.83	2.53	2.17
Treasury-3 Month Bills (yield)	1.58	1.87	2.07	2.36	2.45	2.56	2.73	2.74	2.65	2.40	2.15	1.94	0.95	1.97	2.62	2.29
Treasury-2 Year Notes (yield)	2.16	2.48	2.67	2.80	2.55	2.67	2.85	2.80	2.75	2.60	2.35	2.15	1.40	2.53	2.72	2.46
Treasury-5 Year Notes (yield)	2.53	2.77	2.81	2.88	2.56	2.69	2.86	2.80	2.70	2.50	2.30	2.25	1.91	2.75	2.73	2.44
Treasury-10 Year Notes (yield)	2.76	2.92	2.92	3.04	2.72	2.87	3.02	2.96	2.93	2.80	2.60	2.50	2.33	2.91	2.89	2.71
Treasury-30 Year Notes (yield)	3.03	3.09	3.06	3.27	2.95	3.12	3.29	3.25	3.22	3.10	2.90	2.80	2.90	3.11	3.15	3.01
Prime Rate	4.53	4.80	5.01	5.28	5.50	5.58	5.73	5.73	5.63	5.38	5.13	4.87	4.10	4.90	5.64	5.25
Libor 3-Mo. U.S. Dollar	1.93	2.34	2.34	2.62	2.80	2.88	3.05	3.04	2.95	2.70	2.42	2.13	1.26	2.31	2.94	2.55
Mortgage-30 Year (yield)	4.28	4.54	4.57	4.78	4.53	4.72	4.85	4.85	4.85	4.70	4.50	4.40	3.99	4.54	4.74	4.61
BAA Corporate (yield)	4.47	4.78	4.81	5.14	5.20	5.40	5.60	5.90	6.10	6.20	6.20	6.10	4.44	4.80	5.53	6.15

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