

U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
27-Feb-2017	Durable Goods Orders	Jan P	-1.0%	1.6%	-0.5%
27-Feb-2017	Durables Ex Transportation	Jan P	1.3%	0.5%	0.5%
27-Feb-2017	Pending Home Sales MoM	Jan	1.0%	0.9%	1.6%
27-Feb-2017	Dallas Fed Manufacturing Activity	Feb	19.4	20.0	22.1
28-Feb-2017	GDP Annualized QoQ	4Q S	2.2%	2.1%	1.9%
28-Feb-2017	GDP Price Index	4Q S	2.1%	2.1%	2.1%
28-Feb-2017	Advance Goods Trade Balance	Jan	-\$65.5b	-\$66.0b	-\$64.4b
28-Feb-2017	Wholesale Inventories MoM	Jan P	0.3%	0.4%	1.0%
28-Feb-2017	S&P CoreLogic CS 20-City HPI MoM	Dec	0.7%	0.7%	0.9%
28-Feb-2017	Chicago Purchasing Manager	Feb	52.3	53.0	50.3
28-Feb-2017	Conf. Board Consumer Confidence	Feb	112.1	110.9	111.8
28-Feb-2017	Richmond Fed Manufacturing Index	Feb	9	10	12
1-Mar-2017	Personal Income	Jan	0.4%	0.3%	0.3%
1-Mar-2017	Personal Spending	Jan	0.3%	0.3%	0.5%
1-Mar-2017	PCE Deflator MoM	Jan	0.5%	0.5%	0.2%
1-Mar-2017	PCE Core MoM	Jan	0.2%	0.3%	0.1%
1-Mar-2017	Markit US Manufacturing PMI	Feb F	54.3	NA	54.3
1-Mar-2017	ISM Manufacturing	Feb	55.6	56.0	56.0
1-Mar-2017	Construction Spending MoM	Jan	0.5%	0.7%	-0.2%
1-Mar-2017	U.S. Federal Reserve Releases Beige Book				
1-Mar-2017	Wards Total Vehicle Sales	Feb	17.70m	17.60m	17.48m
2-Mar-2017	Initial Jobless Claims	25-Feb	242K	NA	244K
3-Mar-2017	Markit US Services PMI	Feb F	54.0	NA	53.9
3-Mar-2017	Markit US Composite PMI	Feb F	54.4	NA	54.3
3-Mar-2017	ISM Non-Manufacturing Composite	Feb	56.6	56.4	56.5

*Consensus from Bloomberg

Feeling Good - Is It the Stock Market or the Economy?

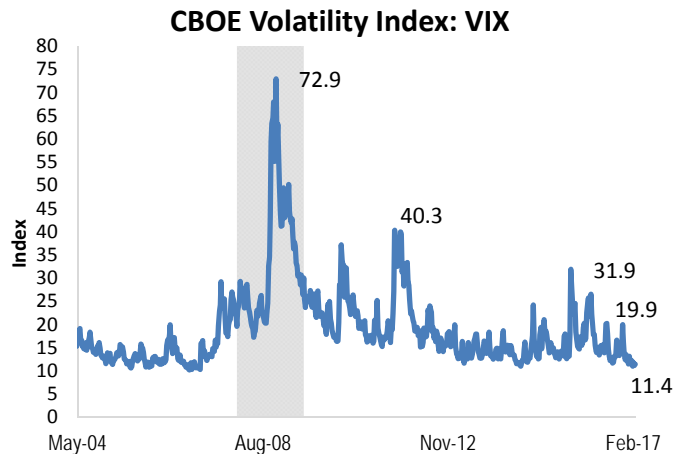
U.S. stocks (S&P 500) hit new record highs this week, at one point adding another percentage point to their gains this year. Bond investors were also in a buying mood, with 10-year Treasury bonds catching a bid this week. Yields on 10-yr Treasury bonds have dropped about 15 basis points since February 15 to 2.34%.

Investors have gotten extremely comfortable with the economic environment and outlook -- some would say the mood is positively complacent.

Case in point: Check out the VIX, a market estimate of stock market volatility over the next 60 days. A higher VIX equals more stock market volatility and uncertainty. The VIX averaged a low 11.4 last week, and as recently as November the VIX was around 20.0. At these levels, stock market investors are predicting the lowest future stock market volatility in a decade.

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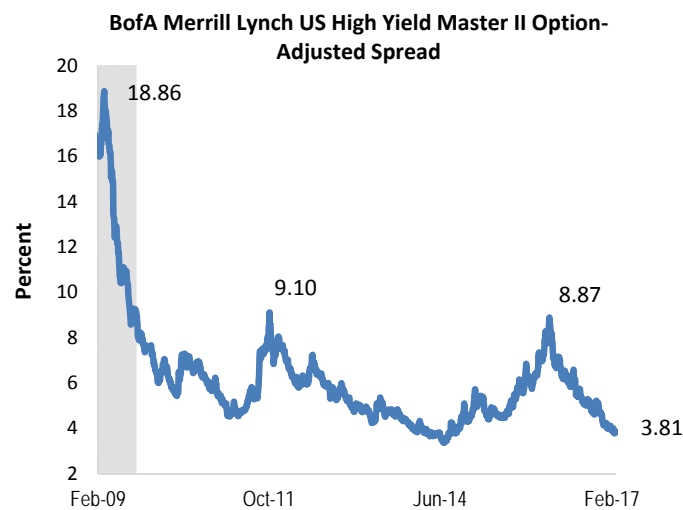
Stock Volatility Hits Expansion Lows



Source: Chicago Board Options Exchange

And it is not only stock investors; bond investors are not risk-averse today, either. High-yield corporate bond spreads over comparable Treasuries are among the lowest in this expansion. In other words, bond investors are demanding very modest returns to compensate for future credit defaults from a universe of relatively low-quality borrowers. So is this an investor delusion of good times ahead, or a true reflection of a changing economic outlook? The jury is still out that question, but I would argue the market has gotten a bit ahead of the economic reality. The extreme moves we have seen since the November election are difficult to justify on an economic basis.

Investors Have Been Snapping Up High-Yield Bonds, Too



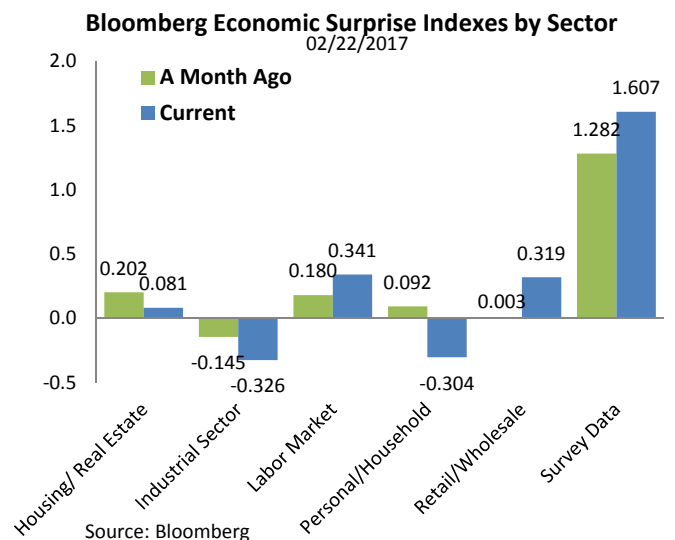
Source: BofA Merrill Lynch

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My estimate of Q1 U.S. GDP growth has barely budged in months. We still forecast Q1 GDP growth of around 2.1%, pretty close to the expansion average growth rate of 1.8%.

True, positive U.S. economic surprises have been running at the fastest pace since 2012. But digging a little deeper we see the jump in the economic data is still heavily concentrated around survey data while "better-than-expected" labor market, retail trade, and other sectors have been less impressive into February. Industrial and personal/household data have actually undershot expectations.

Positive Economic Surprises Mostly Surveys



Source: Bloomberg

The economic releases for next week should show a modestly improving economy. Durable goods orders for January could fall flat under a sharp drop in nondefense aircraft orders. We also expect some slippage in the ISM manufacturing index for February from lofty levels as a strong dollar takes some enthusiasm away. On the other hand, Q4 2016 GDP growth is expected to be revised higher to 2.2% from an originally reported 1.9% pace. We also expect some further improvement in service business sentiment as the ISM non-manufacturing index gains again in February.

Major Economic Indicators

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4	2018.1	2018.2	2018.3	2018.4	2015	2016	2017	2018
Real GDP*	0.8	1.4	3.5	1.9	2.1	2.1	2.2	2.2	2.2	2.3	2.4	2.4	2.6	1.6	2.2	2.3
Personal Consumption Expenditures*	1.6	4.3	3.0	2.5	2.6	2.5	2.5	2.4	2.4	2.4	2.4	2.4	3.2	2.7	2.7	2.4
Non-residential Fixed Investment*	-3.4	1.0	1.4	2.4	4.5	2.8	2.9	2.8	2.7	3.4	3.9	4.4	2.1	-0.4	2.9	3.2
Private Housing Starts (000s units)	1,151	1,159	1,145	1,216	1,200	1,210	1,220	1,240	1,252	1,265	1,275	1,285	1,108	1,168	1,218	1,269
Vehicle Sales (mill. Units, annualized)	17.3	17.1	17.5	18.0	17.5	17.5	17.4	17.4	17.3	17.3	17.2	17.2	17.4	17.5	17.5	17.3
Industrial Production*	-1.7	-0.8	1.8	-0.6	1.5	1.7	2.4	2.5	2.4	2.3	2.2	2.2	0.3	-0.9	1.4	2.3
Nonfarm Payroll Employment (mil.)	143.5	144.0	144.6	145.1	145.7	146.2	146.7	147.2	147.7	148.2	148.8	149.3	141.8	144.3	146.4	148.5
Unemployment rate	4.9	4.9	4.9	4.7	4.6	4.6	4.5	4.5	4.4	4.5	4.5	4.5	5.3	4.9	4.6	4.5
Consumer Price Index* (percent)	-0.3	2.5	1.6	3.4	2.2	2.5	2.3	2.3	2.3	2.2	2.2	2.2	0.1	1.3	2.5	2.3
"Core" CPI* (percent)	2.7	2.1	1.9	2.0	2.5	2.0	2.1	2.1	2.2	2.2	2.2	2.3	1.8	2.2	2.2	2.2
PPI (finished goods)* (percent)	-5.3	3.6	1.9	4.0	0.4	3.0	2.7	2.5	2.4	2.1	2.0	2.1	-3.3	-1.0	2.2	2.4
Trade Weighted Dollar (Fed BOG, major)	93.2	89.5	90.3	93.3	94.5	95.9	97.0	96.7	97.2	97.8	97.2	97.0	90.9	91.6	96.0	97.3
Crude Oil Prices -WTI (\$ per barrel)	33	45	45	49	53	54	54	54	55	55	55	56	50	43	54	55

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

Financial Data	History				Forecast								Annual Average			
	2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4	2018.1	2018.2	2018.3	2018.4	2015	2016	2017	2018
S & P 500	1,951	2,075	2,162	2,185									2,061	2,093		
Dow Jones Industrial Average	16,663	17,764	18,372	18,865									17,591	17,916		
Federal Funds Rate (effective)	0.36	0.37	0.39	0.45	0.63	0.79	0.96	1.21	1.46	1.71	1.88	2.13	0.13	0.39	0.90	1.79
Treasury-3 Month Bills (yield)	0.29	0.26	0.30	0.43	0.55	0.72	0.95	1.18	1.47	1.73	1.92	2.17	0.05	0.32	0.85	1.82
Treasury-2 Year Notes (yield)	0.84	0.77	0.73	1.01	1.23	1.36	1.56	1.75	1.99	2.26	2.40	2.66	0.69	0.84	1.48	2.33
Treasury-5 Year Notes (yield)	1.37	1.24	1.13	1.61	1.97	2.17	2.41	2.61	2.86	3.06	3.23	3.49	1.53	1.34	2.29	3.16
Treasury-10 Year Notes (yield)	1.91	1.75	1.56	2.14	2.53	2.64	2.87	3.05	3.30	3.50	3.67	3.93	2.14	1.84	2.77	3.60
Treasury-30 Year Notes (yield)	2.72	2.57	2.28	2.83	3.14	3.27	3.48	3.68	3.90	4.10	4.26	4.53	2.84	2.60	3.39	4.20
Prime Rate	3.50	3.50	3.50	3.55	3.75	3.89	4.10	4.35	4.60	4.85	5.00	5.25	3.26	3.51	4.02	4.93
Libor 3-Mo. U.S. Dollar	0.62	0.64	0.79	0.92	1.05	1.17	1.35	1.56	1.80	1.97	2.17	2.42	0.34	0.74	1.28	2.09
Mortgage-30 Year (yield)	3.74	3.59	3.45	3.84	4.20	4.31	4.50	4.70	4.90	5.10	5.39	5.65	3.85	3.66	4.43	5.26
BAA Corporate (yield)	5.30	4.66	4.26	4.64	4.80	4.94	5.24	5.49	5.85	6.01	6.20	6.45	5.00	4.71	5.12	6.13

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