

Date	Indicator	For	Estimate	Consensus*	Previous Period
4-Feb-8-Feb	Personal Income	Dec	0.5%	0.5%	0.2%
4-Feb-8-Feb	Personal Spending	Dec	0.3%	0.3%	0.4%
4-Feb-8-Feb	PCE Deflator MoM	Dec	0.1%	0.0%	0.1%
4-Feb-8-Feb	PCE Core MoM	Dec	0.2%	0.2%	0.1%
4-Feb-8-Feb	GDP Annualized QoQ	4Q A	2.7%	2.6%	3.4%
4-Feb-8-Feb	GDP Price Index	4Q A	1.9%	1.7%	1.8%
5-Feb-15-Feb	Retail Sales Advance MoM	Dec	0.1%	0.1%	0.2%
5-Feb-15-Feb	Retail Sales Ex Auto MoM	Dec	0.0%	0.1%	0.2%
5-Feb-15-Feb	Housing Starts	Dec	1243k	1253k	1256k
5-Feb-15-Feb	Building Permits	Dec	1286k	1290k	1322k
5-Feb-15-Feb	Advance Goods Trade Balance	Dec	-\$76.1b	-\$76.3b	NA
5-Feb-15-Feb	Wholesale Inventories MoM	Dec P	0.4%	NA	NA
5-Feb-15-Feb	New Home Sales	Dec	595k	575k	657k
5-Feb-15-Feb	Durable Goods Orders	Dec P	1.1%	1.7%	NA
5-Feb-15-Feb	Durables Ex Transportation	Dec P	-0.2%	0.2%	NA
5-Feb-15-Feb	Factory Orders	Dec	NA	NA	NA
7-Feb-15-Feb	Trade Balance	Dec	NA	NA	NA
7-Feb-15-Feb	Wholesale Inventories MoM	Dec F	0.4%	NA	NA
4-Feb-2019	Factory Orders	Nov	-0.3%	0.3%	-2.1%
5-Feb-2019	Markit US Services PMI	Jan F	54.2	54.2	54.2
5-Feb-2019	Markit US Composite PMI	Jan F	NA	NA	54.5
5-Feb-2019	ISM Non-Manufacturing Index	Jan	57.4	57.0	58.0
6-Feb-2019	Trade Balance	Nov	-\$54.5b	-\$54.0b	-\$55.5b
6-Feb-2019	Nonfarm Productivity	4Q P	1.8%	1.7%	2.3%
6-Feb-2019	Unit Labor Costs	4Q P	1.7%	1.7%	0.9%
7-Feb-2019	Initial Jobless Claims	02-Feb	218k	220k	253k
7-Feb-2019	Consumer Credit	Dec	\$17.000b	\$16.000b	\$22.149b

*Consensus from Bloomberg

The Fed Thinks Twice About Raising Rates Again

Chairman Jerome Powell and the FOMC rapidly shied away from further rate hikes at this week's FOMC meeting. Spooked by slowing U.S. inflation, slowing growth in Europe and China, and bond market signals of more trouble ahead, the Fed retreated further from their rate hike guidance for 2019.

Jerome Powell signaled a prolonged pause in further rate hikes and opened the door that the next rate move from the Fed could in fact be a rate cut. The FOMC continued

to describe current economic conditions as solid and their baseline forecast remains that the U.S. expansion will continue, but the cross-currents of slowing inflation and downside risks to global growth were enough to weaken the case for further rate hikes. Powell said the Fed has the "luxury of patience" before deciding to raise rates again. In the back of his mind, though, he doesn't want to be the one to cut the current expansion short.

The Fed estimates that the Fed funds rate is already at the lower-end of estimates of the neutral rate, suggesting that

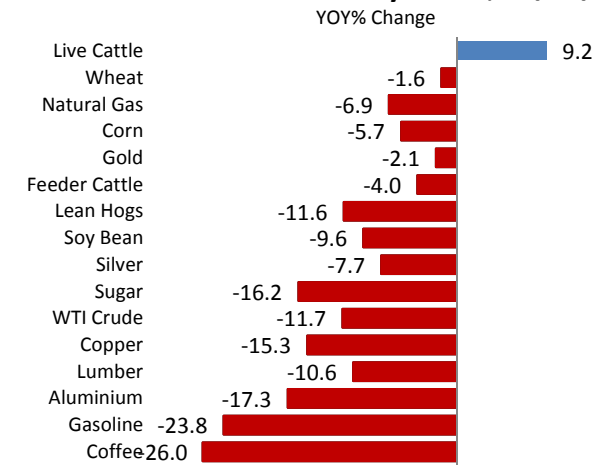
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further rate hikes could lead to unfavorably slower growth and an unwelcome period of disinflation.

Despite robust job growth of 304K in January, real consumer inflation pressures appear a long way off. There has been widespread declines in global commodity prices over the past year.

Consumer Inflation Pressures Appear a Long Way Off

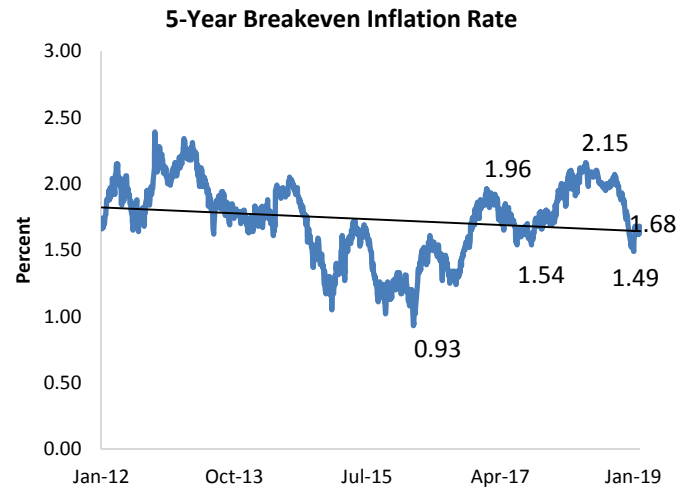
Future Commodity Prices, 01/29/2019



Source: Bloomberg

This drop in commodity prices is likely to keep core-PCE inflation below the Fed’s medium-term target until the fourth quarter of 2019, according to our forecasts. Moreover, medium-term bond market inflation expectations have plunged in recent months and even consumer inflation expectation from the University of Michigan survey appear to have peaked. How inflation actually evolves in the months ahead will have a huge bearing on the timing and direction of the Fed’s next interest rate move.

Inflation Expectations Retreat From Fed Target



Source: Bloomberg; Bank of the West Economics

With no visible signs of inflation emerging, the Fed has the “luxury of being patient” today. The FOMC has also ditched forward interest rate guidance in their official post meeting statements, increasing their degree of freedom to move interest rates up or down in future meetings. Bottom-line, the message from the Fed is that they are data-dependent, patient, and even prepared to adjust their balance sheet normalization in light of evolving economic and financial developments.

Given the FOMC’s rapid change of heart and our own forecast that core-PCE inflation will not return to the FOMC’s 2.0% target until the fourth quarter of 2019, we think the Fed is on hold now until the December FOMC meeting, where we are forecasting one final quarter-point rate hike from the Fed, before they have to start cutting interest rates again in early 2020 on fading growth prospects. Of course, economic shocks from the U.S. and China Trade War, Brexit, and renewed financial instability, if they go terribly wrong over the next couple of quarters, could make even one more tentative interest rate hike from the Fed a bridge too far.

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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	3.8	2.1	2.0	1.7	1.5	-0.5	-1.0	-1.0	-1.0	1.6	4.0	2.8	0.1
Nonfarm Payroll Employment (mil.)	148.0	148.7	149.4	150.1	150.7	151.2	151.7	152.1	152.4	152.0	151.6	151.4	146.6	149.1	151.4	151.9
Unemployment rate	4.1	3.9	3.8	3.8	3.9	3.7	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	1.1	2.1	2.1	2.1	1.8	1.8	1.7	1.6	2.1	2.4	1.8	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	91.1	90.6	89.6	88.5	88.3	88.0	87.5	87.0	91.1	89.0	90.0	87.7
Crude Oil Prices -WTI (\$ per barrel)	63	68	70	60	52	54	53	53	51	50	47	46	51	65	53	49

*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	2.38	2.38	2.46	2.54	2.29	2.04	1.79	1.00	1.83	2.40	2.17
Treasury-3 Month Bills (yield)	1.58	1.87	2.07	2.36	2.37	2.39	2.48	2.56	2.65	2.40	2.15	1.89	0.95	1.97	2.45	2.27
Treasury-2 Year Notes (yield)	2.16	2.48	2.67	2.80	2.51	2.50	2.60	2.65	2.75	2.60	2.35	2.15	1.40	2.53	2.57	2.46
Treasury-5 Year Notes (yield)	2.53	2.77	2.81	2.88	2.50	2.52	2.65	2.70	2.70	2.50	2.30	2.25	1.91	2.75	2.59	2.44
Treasury-10 Year Notes (yield)	2.76	2.92	2.92	3.04	2.68	2.70	2.80	2.88	2.95	2.77	2.57	2.50	2.33	2.91	2.77	2.70
Treasury-30 Year Notes (yield)	3.03	3.09	3.06	3.27	3.02	3.08	3.20	3.28	3.30	3.10	2.90	2.80	2.90	3.11	3.15	3.03
Prime Rate	4.53	4.80	5.01	5.28	5.50	5.50	5.50	5.58	5.66	5.38	5.13	4.87	4.10	4.90	5.52	5.26
Libor 3-Mo. U.S. Dollar	1.93	2.34	2.34	2.62	2.77	2.76	2.79	2.87	2.95	2.70	2.42	2.13	1.26	2.31	2.80	2.55
Mortgage-30 Year (yield)	4.28	4.54	4.57	4.78	4.43	4.45	4.60	4.75	4.85	4.70	4.50	4.40	3.99	4.54	4.56	4.61
BAA Corporate (yield)	4.47	4.78	4.81	5.14	5.10	5.30	5.50	5.80	6.10	6.20	6.20	6.10	4.44	4.80	5.43	6.15

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