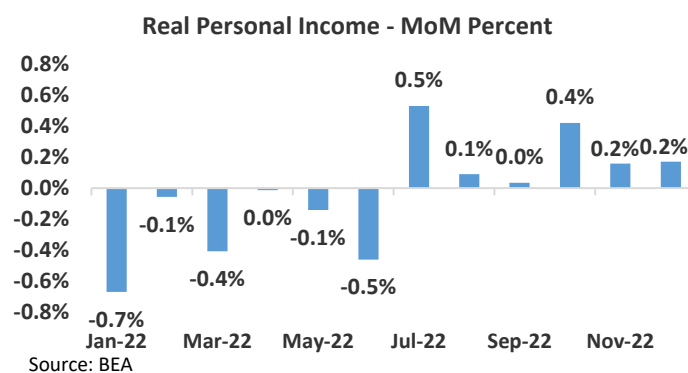


Date	Indicator	For	Estimate	Consensus*	Previous Period
30-Jan-2023	Dallas Fed Manf. Activity	Jan	-16.0	-15.0	-18.8
31-Jan-2023	Employment Cost Index	4Q	1.2%	1.1%	1.2%
31-Jan-2023	FHFA House Price Index MoM	Nov	-0.4%	-0.5%	0.0%
31-Jan-2023	S&P CoreLogic CS 20-City MoM SA	Nov	-0.5%	-0.60%	-0.52%
31-Jan-2023	MNI Chicago PMI	Jan	44.0	45.0	45.1
31-Jan-2023	Conf. Board Consumer Confidence	Jan	109.5	109.0	108.3
01-Feb-2023	ADP Employment Change	Jan	180k	170k	235k
01-Feb-2023	S&P Global US Manufacturing PMI	Jan F	46.8	NA	46.8
01-Feb-2023	Construction Spending MoM	Dec	0.1%	0.0%	0.2%
01-Feb-2023	ISM Manufacturing	Jan	48.0	48.0	48.4
01-Feb-2023	JOLTS Job Openings	Dec	NA	10248k	10458k
01-Feb-2023	FOMC Rate Decision (Lower Bound)	Feb 1	4.50%	4.50%	4.25%
01-Feb-2023	FOMC Rate Decision (Upper Bound)	Feb 1	4.75%	4.75%	4.50%
01-Feb-2023	Wards Total Vehicle Sales	Jan	13.70m	15.10m	13.31m
02-Feb-2023	Unit Labor Costs	4Q P	1.8%	1.5%	2.4%
02-Jan-2023	Nonfarm Productivity	4Q P	2.5%	2.5%	0.8%
02-Feb-2023	Initial Jobless Claims	Jan 28	200k	200k	186k
02-Feb-2023	Factory Orders	Dec	1.5%	2.5%	-1.8%
03-Feb-2023	Change In Nonfarm Payrolls	Jan	185k	188k	223k
03-Feb-2023	Change in Manufact. Payrolls	Jan	5k	8k	8k
03-Feb-2023	Unemployment Rate	Jan	3.6%	3.6%	3.5%
03-Feb-2023	Average Hourly Earnings MoM	Jan	0.4%	0.3%	0.3%
03-Feb-2023	Average Weekly Hours All Employees	Jan	34.4	34.3	34.3
03-Feb-2023	ISM Services Index	Jan	50.3	50.5	49.6

## Fed's Aggressive Interest Rate Hikes Begin Bearing Fruit

The Federal Reserve's quest to slow the U.S. economy and lower inflation is gaining some traction. Nominal personal income growth decelerated to 0.2% month-on-month in December, down from 0.3% in November and a robust 0.8% in October. This is the smallest income advance since April 2022. The income increase was driven by a 0.8% surge in rental income, but wages and salaries – which represent just over half of total personal income and are the main supports to consumer spending – rising just 0.3%. In inflation adjusted, real terms, personal income climbed 0.2% in December, unchanged from November but down from 0.4% in October.

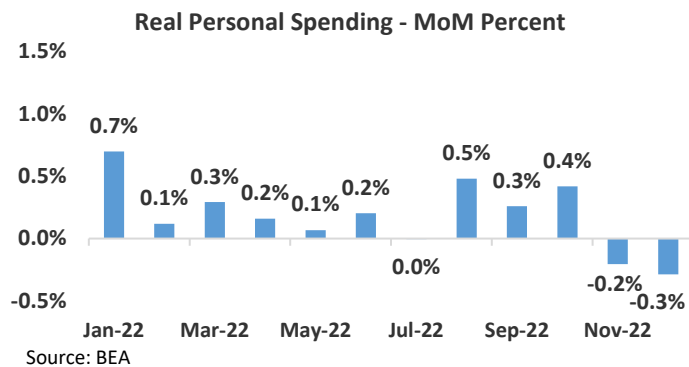
## Real Personal Income Growth Was Weak In December



From a year ago, however, real personal income improved to -0.4% last month. This is the strongest print in a year, as real personal income growth has been negative for 12 consecutive months amid runaway inflation.

The impact of higher interest rates is even more pronounced on consumer outlays. Real personal spending declined 0.3% in December following a dip of 0.2% in November. The decrease was driven entirely by a 0.9% drop in goods spending following a 0.9% decline in November. Services spending was flat last month, the first month without an increase since January 2022.

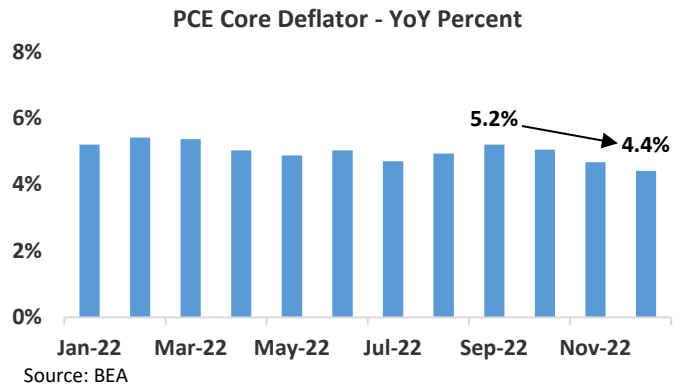
**Inflation Adjusted Spending Declined Again Last Month**



On a brighter note, high interest rates and tightening financial conditions are having a measurable impact on U.S. inflationary pressures. The personal consumption price index climbed a modest 0.1% in December in line with November’s increase, but down sharply from a 0.4% advance in October. From a year ago, PCE inflation slowed to 5.0% from 7.0% in June.

More importantly for the Fed, the core PCE price index, which excludes volatile food and energy prices, increased 0.3% in December. While this was up slightly from November, it was in-line with the consensus view. Moreover, despite a slight acceleration in monthly core price growth, the increase from a year ago fell to 4.4% from 4.7% in November. Core inflation has moderated for the last three months since posting a 5.2% year-on-year gain in September. This is a visible and sustained slowdown in core consumer inflation, even as further improvement is needed.

**Core PCE Inflation Growth Has Fallen For Three Months**

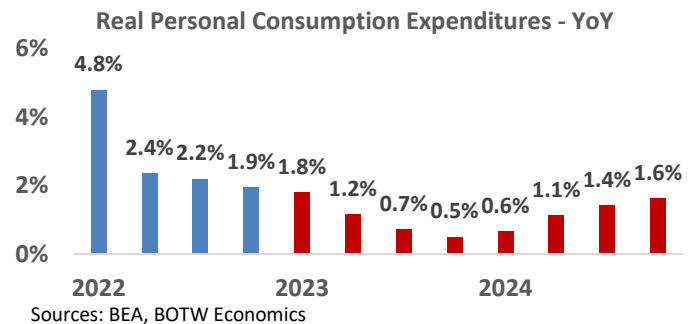


**Consumer Spending Outlook**

The slowdown in real consumer spending at the end of last year is likely to persist in 2023 due to rising interest rates and a weakening labor market. We expect the Fed to raise the fed funds target rate by an additional 75 basis points into the spring before stopping to gauge the impact of higher rates on the real economy and inflation. Slowing job growth, volatile equity markets, and declining household wealth are the likely consequences.

Real consumer spending growth from a year ago is forecast to continue moderating through the fourth quarter of this year with a weak gain of 0.5%. On an annual basis, real consumer growth is projected to fall to 1.0% from a solid 2.8% for 2022.

**Consumer Spending Growth Forecast To Moderate**



On an annualized quarterly basis, we expect real consumer spending growth to start to gradually rebound in the second half of 2023 as declining inflation boosts the real incomes of workers who manage to hold on to their jobs. Growth should accelerate further in 2024 as inflation approaches the Fed’s target, allowing the FOMC to begin cutting interest rates from their restrictive stance.

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Key Economic and Interest Rate Forecasts

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2022.1	2022.2	2022.3	2022.4	2023.1	2023.2	2023.3	2023.4	2024.1	2024.2	2024.3	2024.4	2021	2022	2023	2024
Real GDP*	-1.6	-0.6	3.2	2.9	-0.8	-2.5	0.2	1.4	1.8	1.4	1.6	1.8	5.9	2.1	0.3	1.2
Personal Consumption Expenditures*	1.3	2.0	2.3	2.1	0.8	-0.5	0.5	1.2	1.4	1.4	1.7	2.0	8.3	2.8	1.0	1.2
Non-residential Fixed Investment*	7.9	0.1	6.2	0.7	3.0	-5.3	-1.0	-0.7	0.9	1.0	1.1	1.2	6.4	3.6	0.4	0.0
Private Housing Starts (000s units)	1,720	1,647	1,450	1,403	1,385	1320	1300	1280	1274	1320	1355	1390	1,605	1,555	1321	1335
Vehicle Sales (mill. Units, annualized)	14.1	13.3	13.3	14.1	13.0	12.6	12.8	13.0	13.3	13.8	14.0	14.1	15.0	13.7	12.9	13.8
Industrial Production*	4.7	5.0	1.8	-1.7	-2.2	-3.0	-0.8	0.5	1.3	1.2	1.8	1.9	4.9	3.9	-1.0	0.7
Nonfarm Payroll Employment (mil.)	150.4	151.6	152.7	153.5	153.2	152.6	152.2	152.2	152.4	152.7	153.0	153.3	146.1	152.0	152.5	152.8
Unemployment rate	3.8	3.6	3.6	3.6	3.8	4.3	4.6	4.8	4.9	4.8	4.7	4.6	5.4	3.7	4.4	4.8
Consumer Price Index* (percent)	9.2	10.5	5.7	3.1	3.7	3.1	3.0	2.5	2.4	2.3	2.2	2.2	4.7	8.0	4.0	2.5
"Core" CPI* (percent)	6.5	6.6	6.4	4.4	4.2	3.9	3.5	3.0	2.4	2.3	2.2	2.1	3.6	6.1	4.4	2.7
PPI (finished goods)* (percent)	18.3	22.3	-0.5	2.5	3.0	1.6	1.7	1.8	2.0	2.1	2.2	2.3	8.9	13.5	3.0	2.0
Trade Weighted Dollar (Fed AFE)	108.5	113.7	119.0	120.0	115.0	113.3	112.4	111.8	111.8	111.9	112.1	112.3	104.6	115.3	113.1	112.0
Crude Oil Prices -WTI (\$ per barrel)	91	104	89	83	78	76	72	71	71	71	70	70	67	92	74	71

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

Financial Data	History				Forecast								Annual Average			
	2022.1	2022.2	2022.3	2022.4	2023.1	2023.2	2023.3	2023.4	2024.1	2024.2	2024.3	2024.4	2021	2022	2023	2024
S & P 500	4,464	4,106	3,980	3,852									3,218	4,273		
Dow Jones Industrial Average	34,679	32,688	31,774	32,490									26,891	34,055		
Federal Funds Rate (effective)	0.21	0.96	2.63	3.64	4.63	5.04	5.13	5.13	5.04	4.79	4.54	4.29	0.09	1.86	4.98	4.67
Treasury-3 Month Bills (yield)	0.31	1.10	2.75	4.19	4.70	4.99	5.05	5.04	4.99	4.74	4.49	4.24	0.04	2.09	4.95	4.62
Treasury-2 Year Notes (yield)	1.46	2.72	3.38	4.39	4.24	4.67	4.82	4.83	4.81	4.66	4.56	4.37	0.26	2.99	4.64	4.60
Treasury-5 Year Notes (yield)	1.83	2.96	3.23	4.00	3.78	4.29	4.50	4.57	4.64	4.59	4.49	4.29	0.84	3.00	4.29	4.50
Treasury-10 Year Notes (yield)	1.95	2.93	3.10	3.83	3.73	4.24	4.40	4.43	4.44	4.38	4.32	4.14	1.45	2.95	4.20	4.32
Treasury-30 Year Notes (yield)	2.26	3.06	3.26	3.90	3.68	4.27	4.42	4.45	4.46	4.40	4.36	4.19	2.06	3.12	4.21	4.35
Prime Rate	3.33	4.08	5.75	6.82	7.75	8.16	8.25	8.25	8.16	7.91	7.66	7.41	3.25	4.99	8.10	7.79
SOFR Overnight Rate	0.09	0.69	2.15	3.60	4.40	4.82	4.93	4.96	4.90	4.69	4.44	4.19	0.04	1.63	4.78	4.56
SOFR 3-Mo. CME	0.34	1.32	2.84	4.24	4.68	5.09	5.18	5.19	5.10	4.86	4.61	4.36	0.05	2.19	5.04	4.73
Libor 3-Mo. U.S. Dollar	0.53	1.54	3.00	4.51	4.82	5.17	5.26	5.26	5.22	4.96	4.71	4.46	0.16	2.39	5.13	4.84
Mortgage-30 Year (yield)	3.82	5.27	5.62	6.63	6.43	7.04	7.20	7.18	7.14	7.03	6.92	6.64	2.96	5.33	6.96	6.93
BAA Corporate (yield)	3.97	5.02	5.35	5.98	5.83	6.49	6.90	6.93	6.94	6.83	6.77	6.59	3.39	5.08	6.54	6.78

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