U.S. Outlook

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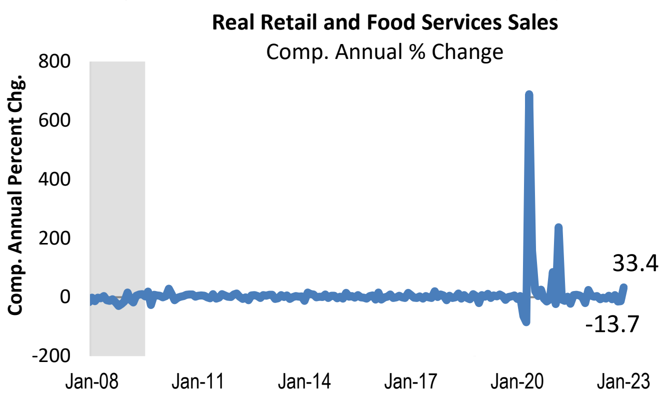
Date	Indicator	For	Estimate	Consensus*	Previous Period
21-Feb-2023	S&P Global US Manufacturing PMI	Feb P	47.2	47.0	46.9
21-Feb-2023	S&P Global US Services PMI	Feb P	47.4	46.9	46.8
21-Feb-2022	S&P Global US Composite PMI	Feb P	NA	NA	46.8
21-Feb-2023	Existing Home Sales	Jan	4.15m	4.11m	4.02m
22-Feb-2023	FOMC Meeting Minutes	Feb 1	NA	NA	NA
23-Feb-2023	Chicago Fed Nat. Activity Index	Jan	NA	NA	-0.49
23-Feb-2023	GDP Annualized QoQ	4Q S	2.7%	2.9%	2.9%
23-Feb-2023	GDP Price Index	4Q S	3.5%	3.5%	3.5%
23-Feb-2023	Initial Jobless Claims	Feb 18	205k	NA	194k
23-Feb-2023	Kansas City Fed Manf. Activity	Feb	-2.0	NA	-1.0
24-Feb-2023	Personal Income	Jan	0.6%	1.0%	0.2%
24-Feb-2023	Personal Spending	Jan	1.3%	1.0%	-0.2%
24-Feb-2023	New Home Sales	Jan	620k	620k	616k
24-Feb-2023	U. of Mich. Sentiment	Feb F	66.4	66.4	66.4

Sizzling January Growth Not A Goldilocks Moment

It's undeniable, after appearing almost comatose in November and December and against all odds, the U.S. economy picked itself off the mat and came roaring back to life in January. The evidence is piling up that January was a very good month for the U.S. economy. Five hundred and seventeen thousand net nonfarm jobs created. A surge in light vehicle sales to an annualized 15.74 million from just 13.31 million in December. A six point jump in the ISM Services index to a solid expansionary level of 55.2. Most telling, inflation adjusted retail sales rebounded at a sizzling 33.4 percent annualized rate in January.

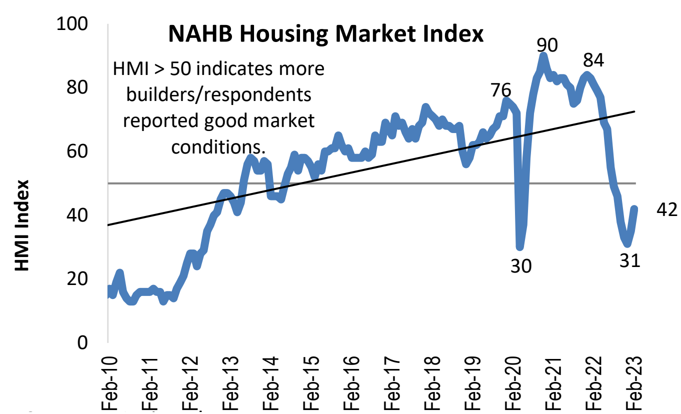
Inflation Adjusted Retail Sales Sizzled in January



Source: Federal Reserve Bank of St. Louis

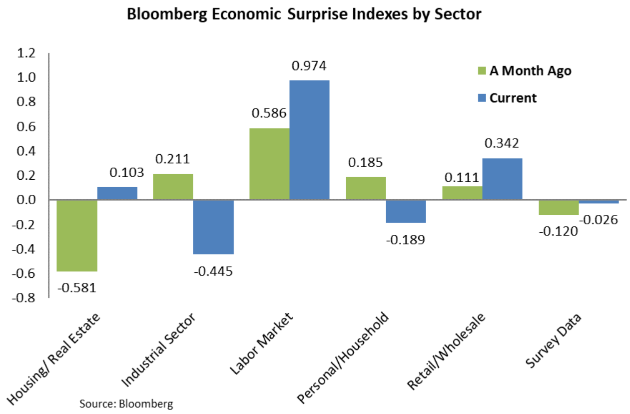
Even the troubled housing market and manufacturing sector had something to cheer about with the NAHB Housing Market Index climbing more than expected to 42 from 35, the highest level in this homebuilder sentiment index since last September, and manufacturing production increasing 1.0%. Rarely do so many diverse indicators point in the same direction.

Homebuilders Confidence Jumps in January Too



How surprising was the latest batch of U.S. economic indicators you ask? The U.S. Economic Surprise Index, a measure that climbs when economic indicators exceed economists' forecasts provides some insights. The labor market, retail trade, and housing sector all surprised sharply on the upside compared to a month ago. Survey indicators like consumer confidence and PMI measures also appear to be less negative.

Positive Economic Surprises Today More Inflation Tomorrow



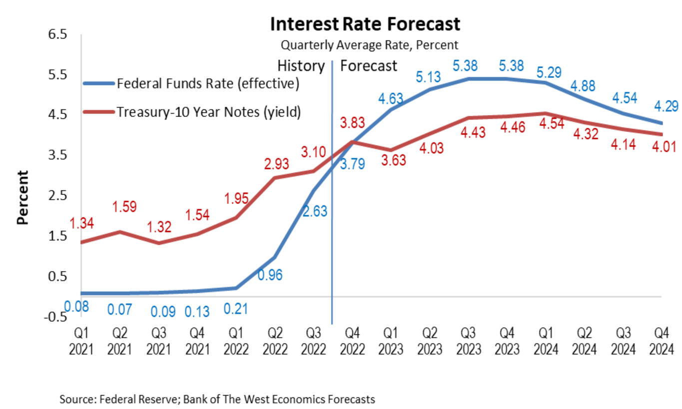
Usually we would be applauding such a performance, but at this point when the Fed is trying to stifle consumer and business demand to cool inflationary pressures, January's economic and employment data is nearly horrific. After 450 basis points of rate hikes since last March, the evidence of slack in the labor market is non-existent, and the news on the inflation front and the Fed's ability to tighten financial conditions is mixed at best and very much a work in progress. As a result of the latest incoming economic and inflation data for January, we have made some notable adjustments in the timing of the recession and interest rate outlook for 2023.

First, we have pushed out our first expected negative quarter for U.S. real GDP growth into the second quarter and extended the downturn into the third quarter. Where before we thought a slowing consumer and a sharp inventory adjustment could put a modestly negative handle on first quarter annualized GDP growth that now looks highly unlikely even if real consumer spending slows noticeably over the rest of the quarter.

Second, both the January CPI and PPI reports were too "hot" for the Fed's liking and Goldilocks is unlikely to reign supreme on Wall Street for much longer. We saw a significant acceleration in inflation in January, which we haven't seen in months. Even more troubling for a Fed that is trying to achieve a 2.0% inflation goal, a lot of the good news on energy and goods inflation may already be behind us. A broad cross-section of raw commodity prices turned higher last month and you may have noticed gasoline prices creeping higher at your neighborhood gas station again too. If allowed to flourish, these re-emerging inflationary signs could once again imbed themselves in inflation expectations. Over the last two months, we have seen consumer inflation expectations in the New York Fed's Consumer Expectations Survey turning higher again for key categories such as gasoline and food, and staying at around 10% inflation for rent and medical costs.

Like Joe Biden shooting down the Chinese Spy balloon, we think the Fed is going to have to respond to this unexpected resilience in the labor market and resurgence in consumer and producer price pressures. As a result, we have added an additional Fed rate hike into our forecast in the first half of this year. We now expect, three more 25 basis point Fed funds rate hikes from the Fed at the March, May, and June FOMC meeting, bringing the peak Fed funds rate up to between 5.25 and 5.50 percent in the second half of this year. Short-term rates will need to remain higher for longer, which will also shift up our forecasts of longer-term interest rates across the Treasury curve.

Forecasting Higher Interest Rates for Longer



This likely means 30-year mortgage rates once again moving above 7.0% before too long, putting further downward pressure on home sales and home prices. While somewhat delayed, the Fed's sustained monetary tightening and more aggressive response will still likely force the U.S. economy into a mild recession this year, and labor market, and financial markets into capitulation. One of the oldest sayings on Wall Street is don't fight the Fed. We would whole heartedly agree and note that Goldilocks is most certainly still missing in action despite the strong start to the year.

Key Economic and Interest Rate Forecasts

	History				Forecast								Yr/Yr % chg or Annual Avg.			
Economic Data	**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	0.3	-2.5	-0.6	1.4	1.8	1.4	1.6	1.8	5.9	2.1	0.5	1.0
Personal Consumption Expenditures*	1.3	2.0	2.3	2.1	1.6	-0.5	-0.5	1.2	1.4	1.4	1.7	2.0	8.3	2.8	1.1	1.1
Non-residential Fixed Investment*	7.9	0.1	6.2	0.7	2.6	-5.3	-1.0	-0.7	0.9	1.0	1.1	1.2	6.4	3.6	0.3	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	14.0	12.6	12.8	13.0	13.3	13.8	14.0	14.1	15.0	13.7	13.1	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.)	150.8	152.0	153.3	154.3	155.3	154.7	154.3	154.3	154.4	154.8	155.1	155.4	146.3	152.6	154.6	154.9
Unemployment rate	3.8	3.6	3.6	3.6	3.5	4.0	4.4	4.7	4.8	4.7	4.7	4.6	5.4	3.7	4.2	4.7
Consumer Price Index* (percent)	9.2	9.7	5.5	4.2	4.0	3.4	3.1	2.7	2.4	2.3	2.2	2.2	4.7	8.0	4.2	2.5
"Core" CPI* (percent)	6.7	6.0	6.2	5.1	4.3	4.1	3.6	3.1	2.4	2.3	2.2	2.1	3.6	6.1	4.6	2.7
PPI (finished goods)* (percent)	17.2	20.3	0.9	3.6	4.8	3.2	2.2	2.0	2.0	2.1	2.2	2.3	8.9	13.4	4.1	2.2
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	79	77	74	73	72	71	70	70	67	92	76	71

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

	History				Forecast								Annual Average			
Financial Data	**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	5.13	5.38	5.38	5.29	4.88	4.54	4.29	0.09	1.86	5.13	4.75
Treasury-3 Month Bills (yield)	0.31	1.10	2.75	4.19	4.75	5.08	5.30	5.29	5.24	4.83	4.49	4.24	0.04	2.09	5.11	4.70
Treasury-2 Year Notes (yield)	1.46	2.72	3.38	4.39	4.33	4.76	5.03	5.05	5.06	4.75	4.56	4.37	0.26	2.99	4.79	4.69
Treasury-5 Year Notes (yield)	1.83	2.96	3.23	4.00	3.73	4.18	4.55	4.60	4.64	4.43	4.24	4.09	0.84	3.00	4.27	4.35
Treasury-10 Year Notes (yield)	1.95	2.93	3.10	3.83	3.63	4.03	4.43	4.46	4.54	4.32	4.14	4.01	1.45	2.95	4.14	4.25
Treasury-30 Year Notes (yield)	2.26	3.06	3.26	3.90	3.73	4.13	4.53	4.56	4.64	4.42	4.24	4.11	2.06	3.12	4.24	4.35
Prime Rate	3.33	4.08	5.75	6.82	7.75	8.25	8.50	8.50	8.41	8.00	7.66	7.41	3.25	4.99	8.25	7.87
SOFR Overnight Rate	0.09	0.69	2.15	3.60	4.48	5.01	5.28	5.28	5.19	4.78	4.44	4.19	0.04	1.63	5.01	4.65
SOFR 3-Mo. CME	0.34	1.32	2.84	4.24	4.73	5.19	5.44	5.44	5.35	4.95	4.61	4.36	0.05	2.19	5.20	4.82
Libor 3-Mo. U.S. Dollar	0.53	1.54	3.00	4.51	4.85	5.26	5.51	5.51	5.47	5.05	4.71	4.46	0.16	2.39	5.28	4.92
Mortgage-30 Year (yield)	3.82	5.27	5.62	6.63	6.13	6.68	7.10	7.16	7.21	6.97	6.74	6.51	2.96	5.33	6.77	6.86
BAA Corporate (yield)	3.97	5.02	5.35	5.98	5.53	5.98	6.53	6.61	6.69	6.57	6.44	6.36	3.39	5.08	6.16	6.52

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