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U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
14-Mar-2023	NFIB Small Business Optimism	Feb	90.5	NA	90.3
14-Mar-2022	CPI MoM	Feb	0.4%	0.4%	0.5%
14-Mar-2023	CPI Ex Food and Energy	Feb	0.4%	0.4%	0.4%
15-Mar-2023	PPI Final Demand	Feb	0.3%	0.3%	0.7%
15-Mar-2023	PPI Ex Food and Energy MoM	Feb	0.4%	0.4%	0.5%
15-Mar-2023	Empire Manufacturing	Mar	-9.0	-7.9	-5.8
15-Mar-2023	Retail Sales Advance MoM	Feb	-0.5%	0.3%	3.0%
15-Mar-2023	Retail sales Ex Auto MoM	Feb	0.7%	-0.1%	2.3%
15-Mar-2023	Business Inventories	Jan	0.1%	0.0%	0.3%
15-Mar-2023	NAHB Housing Market Index	Mar	40	41	42
16-Mar-2023	Initial Jobless Claims	Mar 4	200k	NA	211k
16-Mar-2023	Import Price Index MoM	Feb	-0.2%	-0.2%	-0.2%
16-Mar-2023	Housing Starts	Feb	1330k	1312k	1309k
16-Mar-2023	Building Permits	Feb	1350k	1345k	1339k
16-Mar-2023	Philadelphia Fed Business Outlook	Mar	-20.0	-15.0	-24.3
17-Mar-2023	Industrial Production MoM	Feb	0.2%	0.4%	0.0%
17-Mar-2023	Capacity Utilization	Feb	78.4%	78.5%	78.3%
17-Mar-2023	Leading Index	Feb	-0.4%	-0.2%	-0.3%
17-Mar-2023	U. of Mich. Sentiment	Mar P	65.0	67.0	67.0

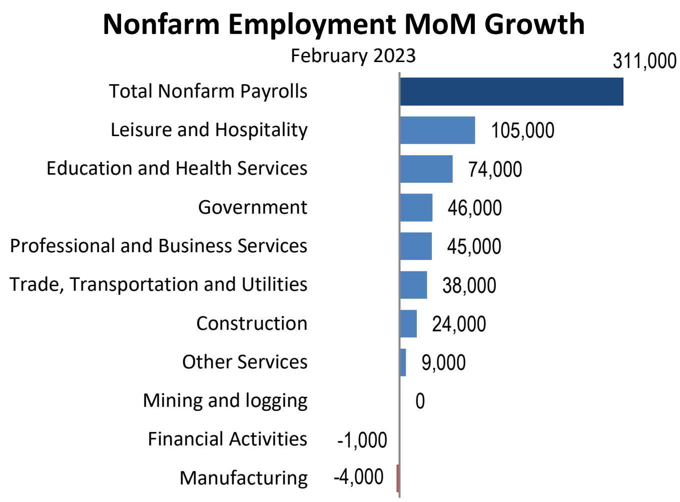
February's U.S. Jobs Report Had Something For Everyone

It was another solid U.S. Employment Report from the BLS for February, but probably not strong enough to single-handedly prompt the Fed to raise the Fed Funds rate at a faster 50 basis point clip at their upcoming March 22nd FOMC Meeting. However, we still have the hurdles of the February CPI and PPI reports next week, so the door remains open by at least a crack to a possible 50 basis point move at the March Meeting.

If our CPI and PPI inflation forecasts prove correct, we expect to see some modest deceleration in headline price inflation in the month of February, so on balance, we expect the FOMC will remain on its more measured 25 basis point rate hike course when all is said and done. After the March hike, we expect the Fed to hike 25 basis points again at the May and the June FOMC Meetings before pausing at a target level of 5.375%.

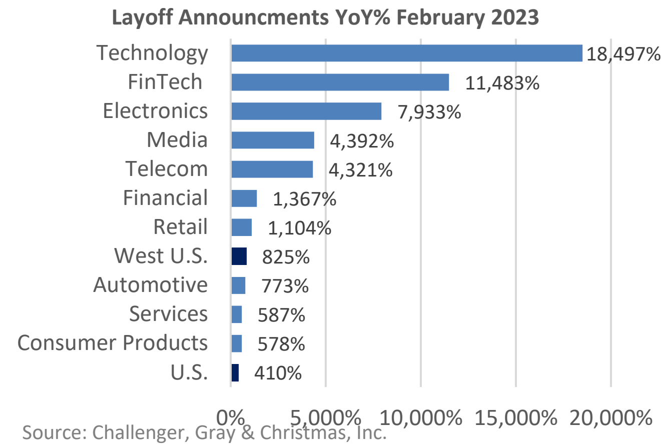
The U.S. economy created another 311k net new jobs in February, following a downwardly revised 504k jobs in January. Since the beginning of the year, nonfarm payrolls have expanded by a robust 804k job, bringing the average monthly job creation over the last three months to a sizzling and unsustainable 351k per month. While this pace of monthly job creation is likely still much too strong for the Fed's liking, at least the direction of travel moved in the Fed's preferred direction last month. Job growth decelerated from January's blistering pace in nearly all major job categories, expect for retail and wholesale trade, which saw a modest acceleration in job growth compared to January. A handful of sectors even saw net job losses in February, including information (-25k), transportation (-22k), manufacturing (-4k), and financial services (-1k). This could be a preliminary sign of more recessionary jobs patterns ahead.

February Job Growth Still Beat Expectations



Source: Bureau of Labor Statistics, Bank of the West Economics

Layoffs Are On The Rise



Source: Challenger, Gray & Christmas, Inc.

Even so, the sectors losing net jobs remain a drop in the bucket compared to the net job gains coming from most of the service sector. Private service sector job growth added a whopping 245k of the 311k jobs created last month, or 79 percent of all net new jobs. Leisure and hospitality added a solid (+105k) jobs, while education and health care, government, and professional and business services added 74k, 46k, and 45k respectively.

Most sectors have now recreated hundreds of thousands more jobs than all the jobs lost at the start of the pandemic, except for leisure and hospitality, government, other services, and mining and logging. Leisure and hospitality still has the most ground to make up, still falling short of pre-pandemic employment levels by around 400k jobs.

However, labor market conditions do appear to be softening around the edges. Layoff announcements have surged from a year ago, especially in technology, fintech, electronics, media, telecom, and financial services, according to Challenger, Gray, and Christmas. Granted we are coming from historically low levels from last year, but these sectors are the ones you would expect to see shedding jobs early in an economic downturn driven by rising interest rates. These layoff announcements have not yet made it into the initial jobless claim data or employment numbers released this morning, so we can expect further softening of labor market indicators ahead.

More signs of labor market softening came from the Household Employment survey. The Fed will breathe a sigh of relief as the unemployment rate increased to 3.6% from 3.4% in January. The labor force participation rate has been rising since the beginning of the year, increasing to 62.5% from 62.3% in December. It appears the combination of strong job growth and high inflation is attracting more folks into the labor market. The U.S. labor force surged by 1.285 million people over the last two months. If sustained, this welcome increase in labor supply will help to rebalance labor supply and labor demand, and cool rapidly rising wage inflation.

On that last point, average hourly earnings growth slowed to 0.2% in February, below consensus forecasts, bringing the 3-month average of hourly earnings growth down to 4.3% on an annualized basis - a much better trend than the 4.6% year-on-year growth rate. Moreover, average weekly hours fell back to 34.5 from 34.7 in January, helping to keep average weekly earnings growth for February unchanged and the year-on-year gain in weekly earnings to a more manageable 4.0%.

In short, despite the strong headline gain in nonfarm jobs again last month, there is actually quite a bit for the Federal Reserve to like about the February Employment Report. The sharp uptick in the U.S. unemployment rate and continued slowing of average hourly and weekly earnings likely will give the doves on the FOMC the ammunition they need to keep the pace of Fed tightening on a more measured 25 basis point path at least for now. There really was something for everyone in the February jobs report.

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	2.7	0.5	-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	1.4	2.0	-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	3.3	3.2	-5.3	-1.0	-0.7	0.9	1.0	1.1	1.2	6.4	3.8	0.9	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	14.9	13.6	12.8	13.0	13.3	13.8	14.0	14.1	15.0	13.7	13.6	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	155.1	154.5	154.3	154.5	154.8	155.1	155.5	146.3	152.6	154.8	154.9
Unemployment rate	3.8	3.6	3.6	3.6	3.5	3.8	4.2	4.6	4.7	4.6	4.6	4.5	5.4	3.7	4.0	4.6
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	116.1	115.2	113.5	112.9	112.9	113.1	113.3	104.6	115.3	115.0	113.0
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	4.78	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	4.45	4.76	5.03	5.05	5.06	4.75	4.56	4.37	0.26	2.99	4.82	4.69
Treasury-5 Year Notes (yield)	1.83	2.96	3.23	4.00	3.85	4.18	4.55	4.60	4.64	4.43	4.24	4.09	0.84	3.00	4.30	4.35
Treasury-10 Year Notes (yield)	1.95	2.93	3.10	3.83	3.69	4.03	4.43	4.46	4.54	4.32	4.14	4.01	1.45	2.95	4.15	4.25
Treasury-30 Year Notes (yield)	2.26	3.06	3.26	3.90	3.79	4.13	4.53	4.56	4.64	4.42	4.24	4.11	2.06	3.12	4.25	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	4.49	5.01	5.28	5.28	5.19	4.78	4.44	4.19	0.04	1.63	5.02	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	6.19	6.68	7.10	7.16	7.21	6.97	6.74	6.51	2.96	5.33	6.78	6.86
BAA Corporate (yield)	3.97	5.02	5.35	5.98	5.59	5.98	6.53	6.61	6.69	6.57	6.44	6.36	3.39	5.08	6.18	6.52

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