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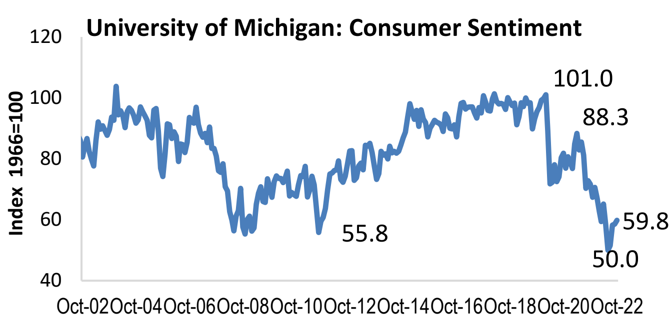
Date	Indicator	For	Estimate	Consensus*	Previous Period
17-Oct-2022	Empire Manufacturing	Oct	-8.0	-1.0	-1.5
18-Oct-2022	Industrial Production MoM	Sep	0.1%	-0.1%	-0.2%
18-Oct-2022	Capacity Utilization	Sep	79.9%	79.8%	80.0%
18-Oct-2022	NAHB Housing Market Index	Oct	43	44	46
19-Oct-2022	Building Permits	Sep	1520k	1550k	1542k
19-Oct-2022	Housing Starts	Sep	1475k	1488k	1575k
19-Oct-2022	U.S. Federal Reserve Releases Beige Book	Sep			
20-Oct-2022	Initial Jobless Claims	Oct 15	235k	NA	228k
20-Oct-2022	Philadelphia Fed Business Outlook	Oct	-12.0	-4.5	-9.9
20-Oct-2022	Existing Home Sales	Sep	4.72m	4.70m	4.80m
20-Oct-2022	Leading Index	Sep	-0.3%	-0.3%	-0.3%

Retail Sales Stagnant On Higher Inflation Rising Rates

Fears of an imminent U.S. recession subsided a bit with this week's economic data. The NFIB Small Business Optimism index unexpectedly improved to 92.1 in September from 91.8 in August. A high percentage of small businesses are still able to pass along higher prices to their customers, and future sales expectations for small businesses improved a bit last month. Also, a solid 23% of small businesses continue to plan to hire more workers.

Taking a peak into what October may have in store, the University of Michigan's preliminary Consumer Sentiment Index for October exceeded analysts' forecasts, improving to 59.8 from 58.6 in September. Consumers' view of current conditions improved visibly from a month ago with a higher percentages of consumers seeing now as a good time to buy a major household appliance or vehicle, though expectations about the future continue to deteriorate.

Consumer Sentiment Has Improved Since June

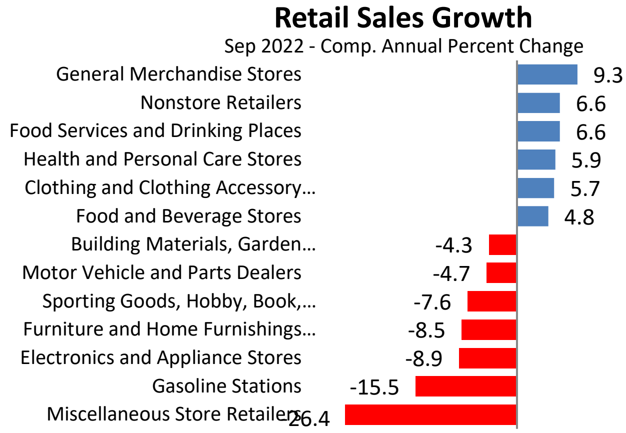


Source: Thomson Reuters/Univ. Of Michigan

These two surveys offer some tantalizing hints about the health and the state of mind of the consumer in the face of unrelenting inflation and tight labor markets, but the September Retail Sales report, released this morning, provides even better insights into consumer goods spending. Nominal retail sales stagnated on higher inflation and rising interest rates in September and spending momentum has been on a down trend over the last several months, but retail sales have not yet buckled under the pressure like they would at the start of an outright recession. Over the past three months nominal retail sales have increased at a 2.6% pace, down from 5.5% in August and a whopping 17.0% annualized pace back in April. In inflation adjusted terms, real retail sales declined 4.5% annualized last month and are now flat from a year ago.

Still the fingerprints of high inflation and rising interest rates are growing more visible in consumer spending patterns and how they chose to allocate their dwindling spending power. Consumers scaled-back their spending on electronics, furniture, motor vehicles, and building materials as financing costs rose and they focused more of their spending on necessities like food, health care, and clothing. A softening labor market, rising interest rates, and declining real income growth are expected to only further add to consumer headwinds in the months ahead.

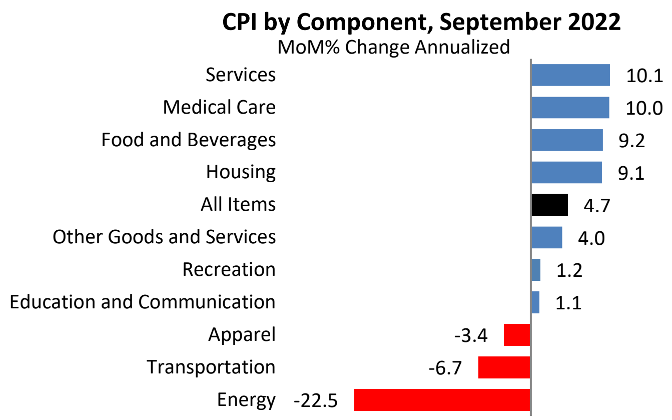
Consumers Scale-Back on Cars, Furniture, and Electronics



Souce: US. Bureau of the Census

The number one problem for U.S. consumers and the Federal Reserve is high and intractable U.S. inflation. The September CPI report was unequivocally disappointing. Rapid 10% annualized price increases for services, owners' equivalent rent, food, medical care, and airfare last month more than wiped out the benefits of declining prices for gasoline and used cars. Housing is a huge chunk of the problem today, comprising a hulking 42% of the overall index.

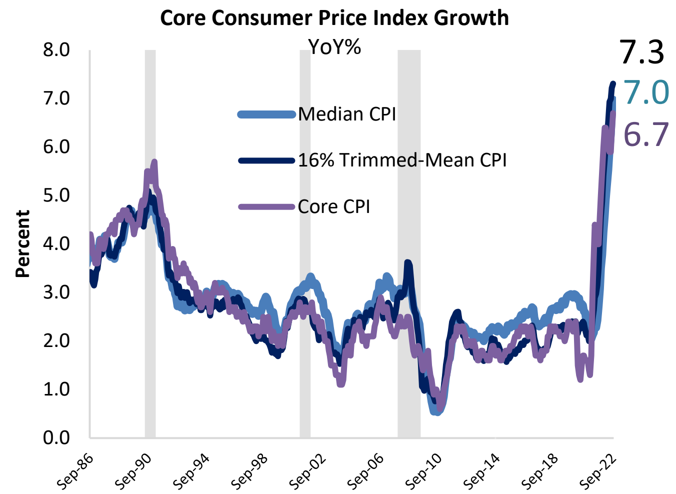
Double Digit Price Inflation Still Widespread



Source: Bureau of Labor Statistics

The Core CPI measure that excludes volatile food and energy prices jumped to a new post-pandemic high of 6.6% year-on-year, the second consecutive monthly increase and more than reversing the deceleration seen in this measure from April through July. So high U.S. inflation is now a widespread problem and has spread beyond good sectors to sectors like services, housing and medical care where prices are notoriously sticky and difficult to influence. In short, the Fed rate hikes and quantitative tightening to date have had no visible impact on their goal of bringing core inflation back down to a more manageable 2.0% pace. Bottom-line, the Fed is going to have to do more monetary tightening than they thought just a few months ago and will probably have to push the U.S. economy into recession to get to their ultimate destination of a return to 2.0% inflation.

High and Sticky Core Inflation A Huge Problem



Source: Federal Reserve Bank of Cleveland/FRED

It is little wonder then why Fed funds rate expectations and Treasury bond yields have been on a one way trip higher this week as investors speculate that the Fed will need to raise rates at least as high as the median dot-plot forecast projected in September and may have to go even higher to break the back of inflation.

This week's retail sales and other data raise the prospect that third quarter real GDP will increase somewhat faster than our current forecast of 1.9%, but we maintain our forecast that we will see a major slowdown in economic growth starting in the fourth quarter and likely progressing in the first half of 2023 into at least a mild recession that will materially cool the U.S. labor market and push the unemployment rate higher.

Key Economic and Interest Rate Forecasts

	History						Forecast						Yr/Yr % chg or Annual Avg.			
Economic Data	**2021.1**	**2021.2**	**2021.3**	**2021.4**	**2022.1**	**2022.2**	**2022.3**	**2022.4**	**2023.1**	**2023.2**	**2023.3**	**2023.4**	**2020**	**2021**	**2022**	**2023**
Real GDP*	6.3	7.0	2.7	7.0	-1.6	-0.6	1.9	0.2	-0.3	-1.5	-0.2	0.6	-2.8	5.9	1.7	-0.1
Personal Consumption Expenditures*	10.8	12.1	3.0	3.1	1.3	2.0	1.0	0.8	0.3	-0.8	0.5	1.2	-3.0	8.3	2.6	0.5
Non-residential Fixed Investment*	8.9	9.9	0.6	1.1	7.9	0.1	7.4	1.1	-1.3	-5.3	-0.9	-0.7	-4.9	6.4	3.8	-0.4
Private Housing Starts (000s units)	1,581	1,591	1,569	1,679	1,720	1655	1476	1420	1380	1320	1300	1280	1,395	1,605	1568	1320
Vehicle Sales (mill. Units, annualized)	16.8	16.9	13.3	12.9	14.1	13.3	13.3	13.3	13.0	12.6	12.8	13.0	14.5	15.0	13.5	12.9
Industrial Production*	3.1	6.5	3.5	4.8	4.7	5.3	1.5	0.8	-1.0	-2.6	-0.3	0.5	-7.0	4.9	4.1	-0.1
Nonfarm Payroll Employment (mil.)	143.7	145.2	146.9	148.6	150.4	151.6	152.7	153.0	152.7	152.2	151.7	151.7	142.1	146.1	151.9	152.1
Unemployment rate	6.2	5.9	5.1	4.2	3.8	3.6	3.6	3.7	4.0	4.4	4.7	4.8	8.1	5.4	3.7	4.5
Consumer Price Index* (percent)	4.1	8.2	6.7	7.9	9.2	10.5	5.7	4.2	3.9	3.6	3.0	2.5	1.2	4.7	8.1	4.3
"Core" CPI* (percent)	1.4	7.8	5.3	5.6	6.5	6.6	6.4	5.5	4.5	3.9	3.2	2.7	1.7	3.6	6.2	4.7
PPI (finished goods)* (percent)	13.7	11.6	12.9	13.7	18.3	22.3	-0.6	0.5	2.0	1.6	1.7	1.8	-1.3	8.9	13.3	2.4
Trade Weighted Dollar (Fed AFE)	103.4	102.9	105.0	107.0	108.4	113.7	118.2	121.2	122.3	121.7	121.3	121.1	109.0	104.6	115.4	121.6
Crude Oil Prices -WTI ($ per barrel)	58	66	70	76	91	104	89	87	84	81	77	76	39	67	93	80

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

	History						Forecast						Annual Average			
Financial Data	**2021.1**	**2021.2**	**2021.3**	**2021.4**	**2022.1**	**2022.2**	**2022.3**	**2022.4**	**2023.1**	**2023.2**	**2023.3**	**2023.4**	**2020**	**2021**	**2022**	**2023**
S & P 500	3,866	4,184	4,422	4,602	4,464	4,106	3,980						3,218	4,273		
Dow Jones Industrial Average	31,551	34,121	34,916	35,517	34,679	32,688	31,774						26,891	34,055		
Federal Funds Rate (effective)	0.08	0.07	0.09	0.13	0.21	0.96	2.63	3.79	4.54	4.63	4.63	4.63	0.37	0.09	1.90	4.61
Treasury-3 Month Bills (yield)	0.05	0.03	0.05	0.05	0.31	1.10	2.68	3.64	4.44	4.55	4.55	4.58	0.36	0.04	1.93	4.53
Treasury-2 Year Notes (yield)	0.13	0.17	0.23	0.50	1.46	2.72	3.28	4.22	4.47	4.56	4.57	4.58	0.39	0.26	2.92	4.55
Treasury-5 Year Notes (yield)	0.62	0.84	0.80	1.11	1.83	2.96	3.13	4.00	4.34	4.48	4.49	4.50	0.54	0.84	2.98	4.45
Treasury-10 Year Notes (yield)	1.34	1.59	1.32	1.54	1.95	2.93	3.02	3.77	4.14	4.28	4.29	4.30	0.89	1.45	2.92	4.25
Treasury-30 Year Notes (yield)	2.09	2.26	1.93	1.95	2.26	3.06	3.21	3.72	4.09	4.25	4.31	4.34	1.56	2.06	3.06	4.25
Prime Rate	3.25	3.25	3.25	3.25	3.33	4.08	5.75	6.91	7.66	7.75	7.75	7.75	3.54	3.25	5.02	7.73
SOFR Overnight Rate	0.04	0.02	0.05	0.05	0.09	0.69	2.04	3.55	4.36	4.46	4.48	4.49	0.36	0.04	1.59	4.45
SOFR 3-Mo. CME	0.02	0.05	0.06	0.09	0.34	1.32	2.76	3.84	4.59	4.68	4.68	4.69	NA	0.05	2.07	4.66
Libor 3-Mo. U.S. Dollar	0.20	0.16	0.13	0.16	0.53	1.54	2.92	3.64	4.67	4.76	4.76	4.76	0.65	0.16	2.16	4.74
Mortgage-30 Year (yield)	2.88	3.00	2.87	3.08	3.82	5.27	5.46	6.27	6.54	6.68	6.59	6.55	3.12	2.96	5.21	6.59
BAA Corporate (yield)	3.49	3.55	3.24	3.30	3.97	5.02	5.27	6.07	6.44	6.60	6.61	6.65	3.61	3.39	5.08	6.58

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