

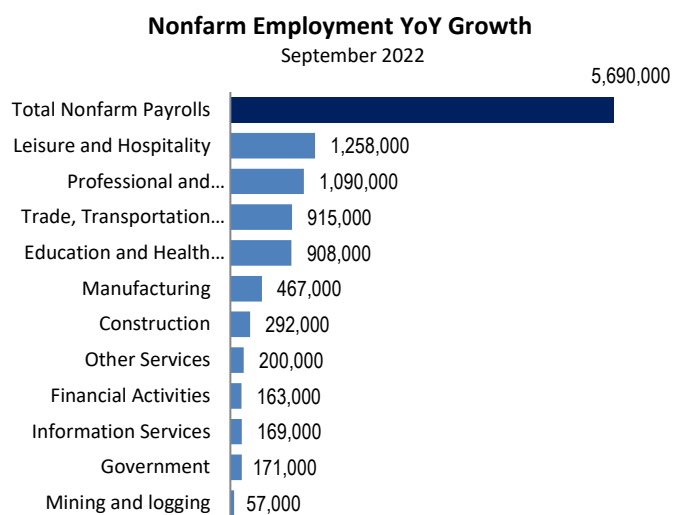
Date	Indicator	For	Estimate	Consensus*	Previous Period
11-Oct-2022	NFIB Small Business Optimism	Sep	91.3	91.8	91.8
12-Oct-2022	PPI Final Demand MoM	Sep	0.2%	0.2%	-0.1%
12-Oct-2022	PPI Ex Food and Energy MoM	Sep	0.3%	0.3%	0.4%
12-Oct-2022	FOMC Meeting Minutes	Sep 21	NA	NA	NA
13-Oct-2022	CPI MoM	Sep	0.2%	0.2%	0.1%
13-Oct-2022	CPI Ex Food and Energy MoM	Sep	0.4%	0.4%	0.6%
13-Oct-2022	Initial Jobless Claims	Oct 8	235k	NA	219k
14-Oct-2022	Retail Sales Advance MoM	Sep	0.2%	0.2%	0.3%
14-Oct-2022	Retail Sales Ex Auto MoM	Sep	-0.2%	-0.1%	-0.3%
14-Oct-2022	Import Price Index MoM	Sep	-1.1%	-1.1%	-1.0%
14-Oct-2022	Business Inventories MoM	Aug	0.9%	0.9%	0.6%
14-Oct-2022	U. of Mich. Sentiment	Oct P	58.4	58.8	58.6

## Labor Market Was Still “Too Hot” in September

If the goal is to bring down inflation as swiftly as possible, today’s Employment Report for September showed the Federal Reserve they have a lot more work to do. Employment growth moderated to 263k jobs in September, down from 315k in August and an upwardly revised 537k in July, but that was still a touch stronger than the consensus forecast looking for 255k jobs and our forecast of 225k jobs. So far this year, monthly job growth has averaged a scorching hot 420k jobs a month, only a modest deceleration from last year’s 562k a month pace.

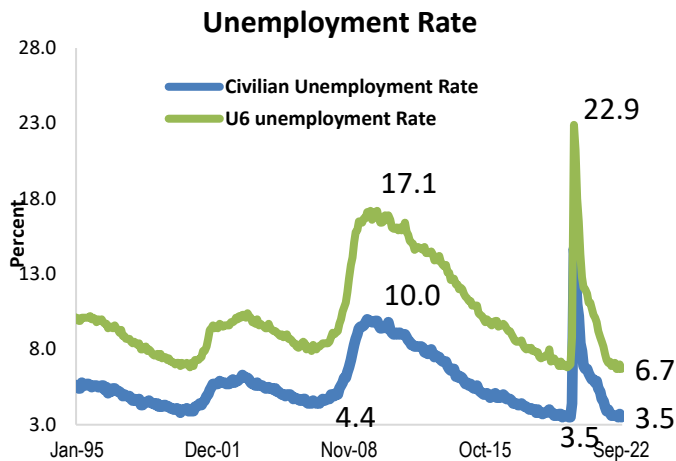
To underline the point, the U.S. unemployment rate unexpectedly declined back to the July pandemic low of 3.5% from 3.7% in August. Not the direction the Fed is hoping to move the U.S. unemployment rate. In fact some FOMC members believe a non-accelerating inflation rate of unemployment or NAIRU may be somewhat higher than 4.0% today and may be as high as a 4.4% unemployment rate. In other words, just to stop inflation from accelerating the Fed may need to push the U.S. unemployment rate up nearly 1.0 percentage point above where it is today – equivalent to the destruction of around 1.4 million net jobs. Clearly, the U.S. labor market is not yet on that path and it will take more rate hikes from the Fed to ensure that path begins to materialize.

## U.S. Labor Market Has Rarely Been This Strong



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

**Low Unemployment Threatens To Keep Inflation High**



Source: U.S. Bureau of Labor Statistics

Why the urgency to weaken the labor market? Wasn't the Fed recently trying to create jobs and strengthen the labor market during this pandemic? The reason, of course, is the severity and duration of the current inflation problem. The longer it takes for inflation to moderate, the more likely workers and employers will need to factor in that inflation into their wage negotiations and contracts and pricing decisions, ensuring a more prolonged inflationary problem, similar to the one the United States and the Federal Reserve faced in the closing years of the 1970's and early 1980's.

Average hourly earnings growth, while moderating a bit from recent peaks, is still running uncomfortably high (at 5.0% y-o-y) as employers continue to struggle with labor supply issues in many industries. Above average wage growth could keep a floor under consumer inflation, making it harder for the Fed to push inflation below 4.0% or 5.0%.

**High Nominal Wage Growth Keeps Inflation In Play**



Source: US. Bureau of Labor Statistics

The pool of available labor is virtually unchanged since June. In fact the labor force participation rate slipped a bit to 62.3% in September from 62.4% in August, and the employment population ratio was unchanged at 60.1%. The labor market participation rate has been trading water since it hit its post-pandemic peak in March. We obviously can't rely on a surge of folks entering the labor force to help relieve the current labor market imbalance. Better to face some mild economic and labor market pain today to avoid much more devastating outcomes down the road. Nobody wants to see another lost decade of stagnant growth and high inflation.

Looking at September job gains by industry this was another solid report. Goods producing industries such as manufacturing (+22k) and construction (+19k) continued to add net new jobs at a pace similar to previous months. Leisure and hospitality added a robust 83k jobs as food service and drinking establishments added 60k jobs. Health care added another 60k jobs as well and professional and business services had a strong showing adding another 46k jobs last month. There were a couple sectors that are starting to show modest net job losses. Retail trade and financial services lost 1k and 8k net jobs respectively, while government shed 25k jobs.

In short, economic and labor market resilience continues in the United States despite the mounting monetary and financial headwinds. It is far too early to see a Fed pivot away from further rate hikes given the current economic and inflationary environment. Fed funds futures are currently placing a 91% probability of another 75 basis point rate hike from the Fed in November and 100% plus probability of another 50 basis point hike in December in the wake of today's jobs report.

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Key Economic and Interest Rate Forecasts

Economic Data	History								Forecast				Yr/Yr % chg or Annual Avg.			
	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	7.1	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	13.2	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	5.5	4.0	3.9	3.6	3.0	2.5	1.2	4.7	8.0	4.2
"Core" CPI* (percent)	1.4	7.8	5.3	5.6	6.5	6.6	6.3	4.8	4.2	3.7	3.0	2.5	1.7	3.6	6.2	4.4
PPI (finished goods)* (percent)	13.7	11.6	12.9	13.7	18.3	22.3	-2.3	-1.3	2.0	1.6	1.7	1.8	-1.3	8.9	13.0	1.8
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	92	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.

Financial Data	History								Forecast				Annual Average			
	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							3,218	4,273		
Dow Jones Industrial Average	31,551	34,121	34,916	35,517	34,679	32,688							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	0.22	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