

ON THE ECONOMIC, BUSINESS AND POLITICAL CLIMATE

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2018 Annual Conference
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San Antonio, TX***

Expansion Getting Tired?

(Source: National Bureau Economic Research)

Peak	Trough	Contraction	Expansion
February 1945(I)	October 1945 (IV)	8	80
November 1948(IV)	October 1949 (IV)	11	37
July 1953(II)	May 1954 (II)	10	45
August 1957(III)	April 1958 (II)	8	39
April 1960(II)	February 1961 (I)	10	24
December 1969(IV)	November 1970 (IV)	11	106
November 1973(IV)	March 1975 (I)	16	36
January 1980(I)	July 1980 (III)	6	58
July 1981(III)	November 1982 (IV)	16	12
July 1990(III)	March 1991(I)	8	92
March 2001(I)	November 2001 (IV)	8	120
December 2007 (IV)	June 2009 (II)	18	73
???			106
Average, all cycles:			
1945-2009 (11 cycles)		11.1	58.4

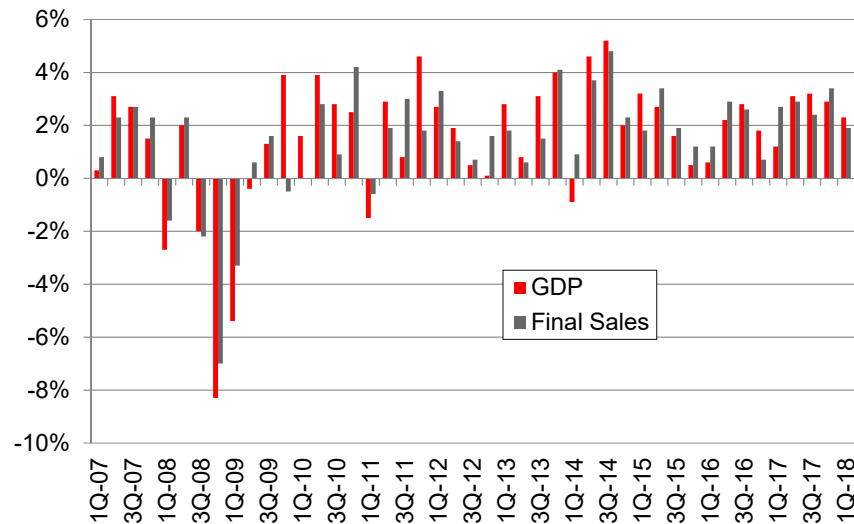


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GDP vs. Final Sales

(Source: Bureau of Economic Analysis)



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Contributions To GDP Growth

(Source: Bureau of Economic Analysis)

	GDP =	Consumption	Gross Investment	Net Exports	Government
2016: Q3	2.8%	1.92%	0.40%	0.36%	0.09%
2016: Q4	1.8%	1.99%	1.34%	-1.61%	0.03%
2017: Q1	1.2%	1.32%	-0.20%	0.22%	-0.11%
2017: Q2	3.1%	2.28%	0.64%	0.21%	-0.03%
2017: Q3	3.2%	1.49%	1.19%	0.36%	0.12%
2017: Q4	2.9%	2.75%	0.78%	-1.16%	0.51%
2018: Q1	2.3%	0.73%	1.19%	0.20%	0.20%

	Gross Investment =	Nonresidential	Residential	Inventory
2016: Q3	0.40%	0.42%	-0.18%	0.16%
2016: Q4	1.34%	0.02%	0.26%	1.06%
2017: Q1	-0.20%	0.86%	0.41%	-1.46%
2017: Q2	0.64%	0.82%	-0.30%	0.12%
2017: Q3	1.19%	0.58%	-0.21%	0.79%
2017: Q4	0.78%	0.84%	0.46%	-0.53%
2018: Q1	1.19%	0.76%	0.00%	0.43%

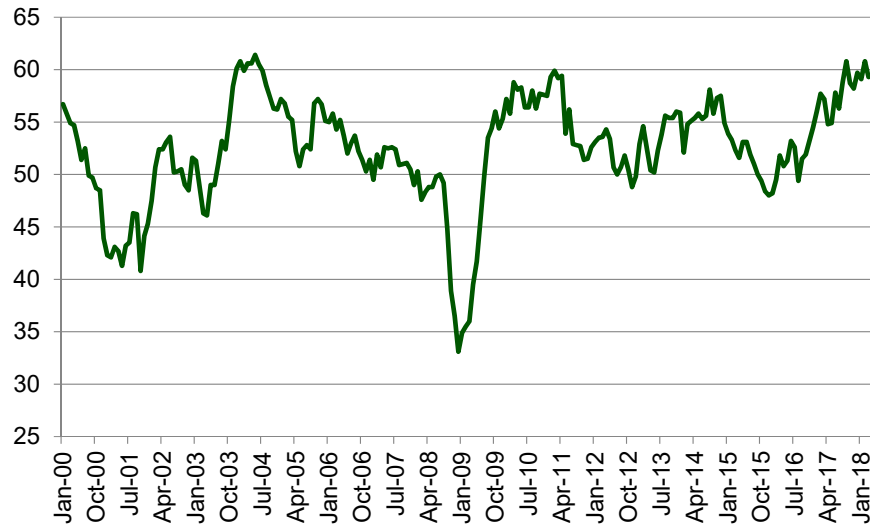


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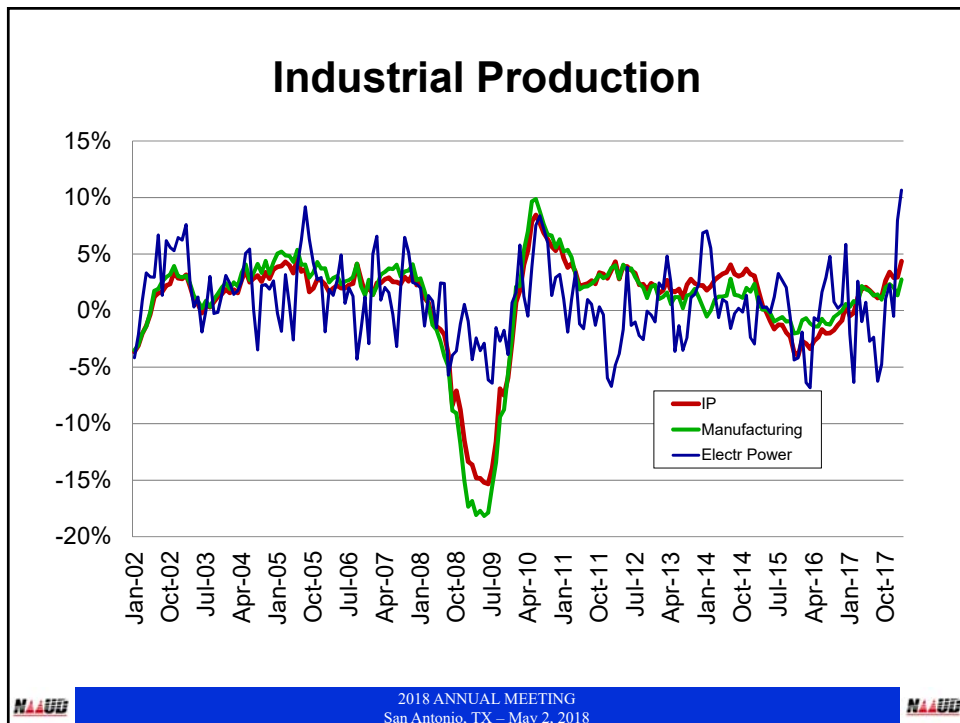
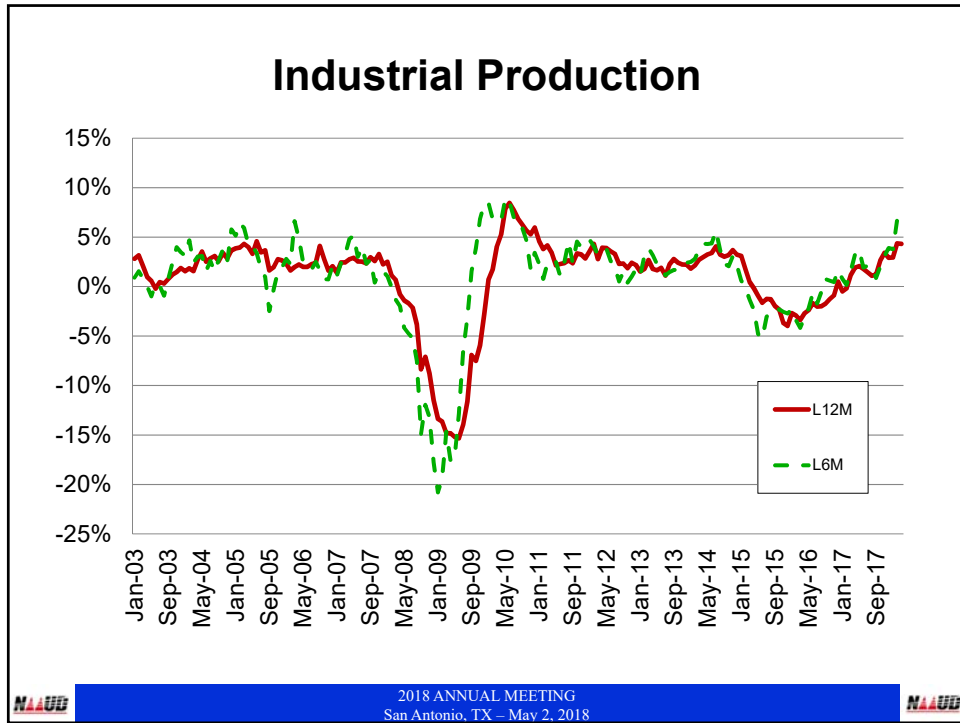
ISM's "PMI"

(Source: Institute of Supply Management)



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Foreign Exchange: Trading Partners

(Source: Board of Governors of the Federal Reserve System)

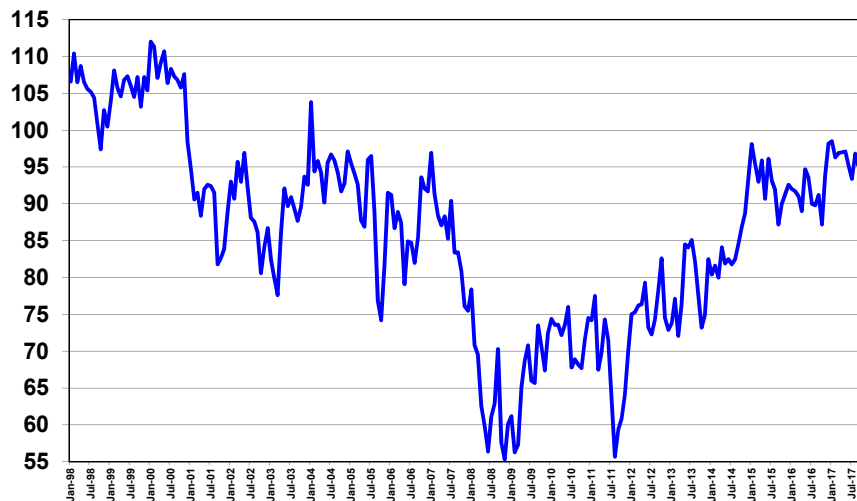


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Consumer Sentiment

(source: University of Michigan, Survey Research Center)



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Comments from Curtin

(source: Richard Curtin, Director of Survey of Consumers, February 2017)

“the gain represents the result of an unprecedented partisan divergence, with Democrats expecting recession and Republicans expecting robust growth”

“overall gain in the Expectations Index was due to self-identified Independents, who were much closer to the optimism of the Republicans than the pessimism of the Democrats”

“the February Expectations Index was 55.5 among Democrats, 120.1 among Republicans, and 89.2 among Independents”

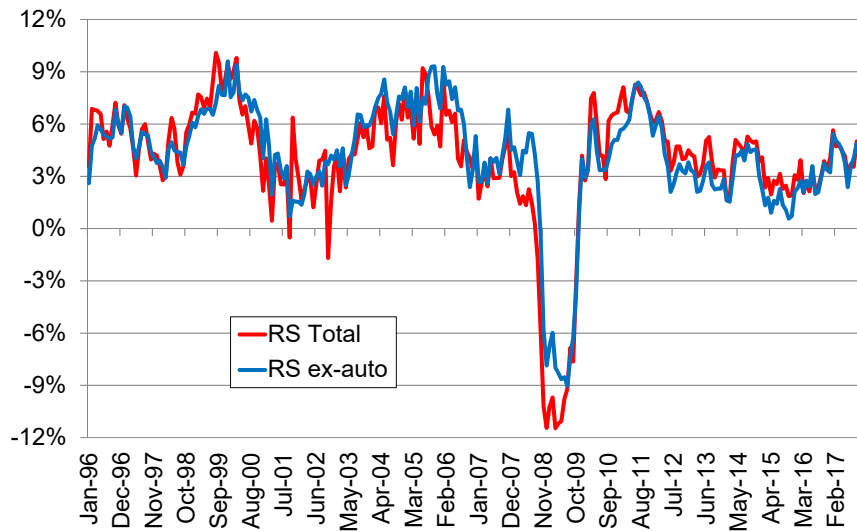


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Retail Sales

(source: U.S. Bureau of the Census, annual rate of growth)

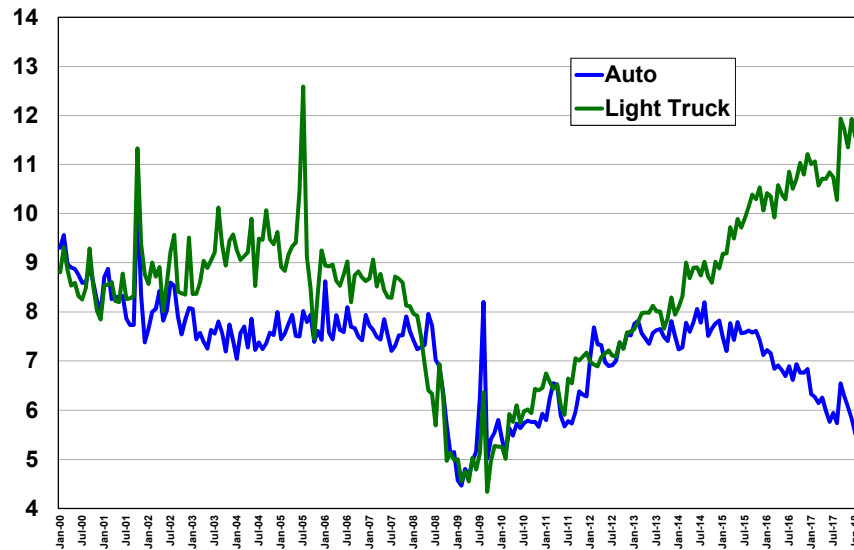


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Auto & Light Truck Sales – H&I Effect

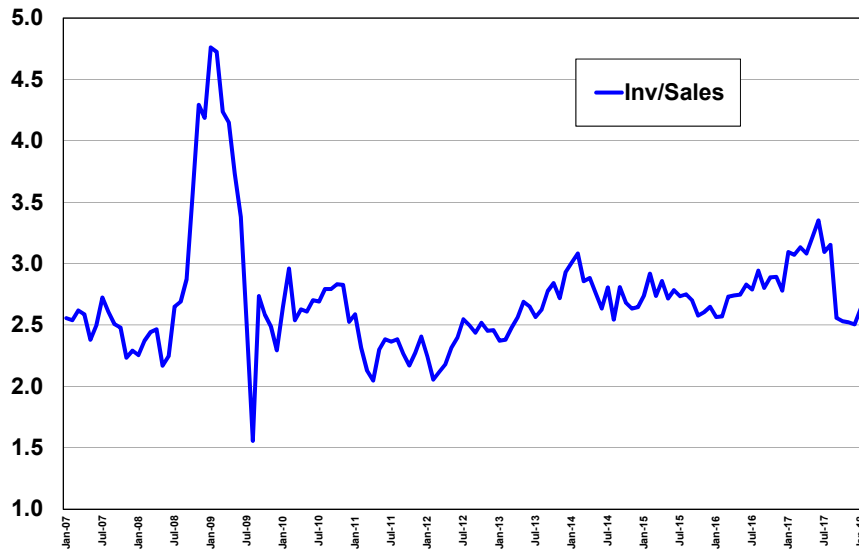
(Source: Department of Commerce, in millions)



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Auto Inventory

(Source: Department of Commerce)



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Leading Economic Indicators

(source: Conference Board, % change in last 6 months)

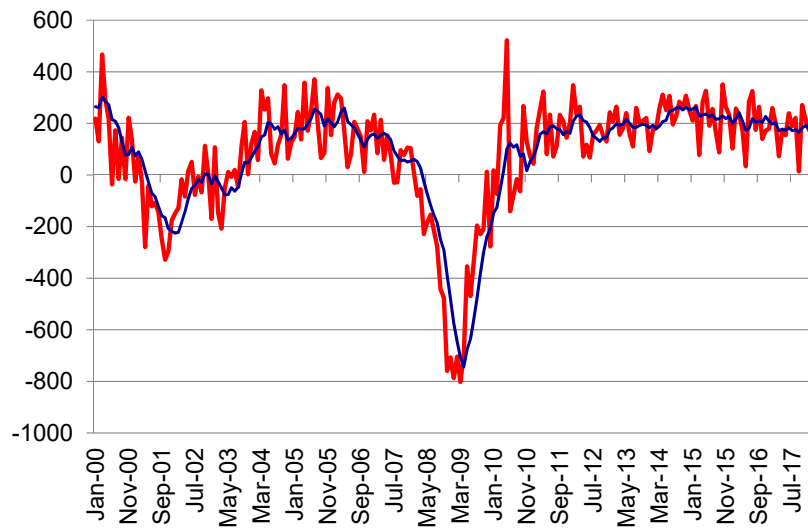


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Change in Payroll Employment

(Source: Bureau of Labor Statistics)

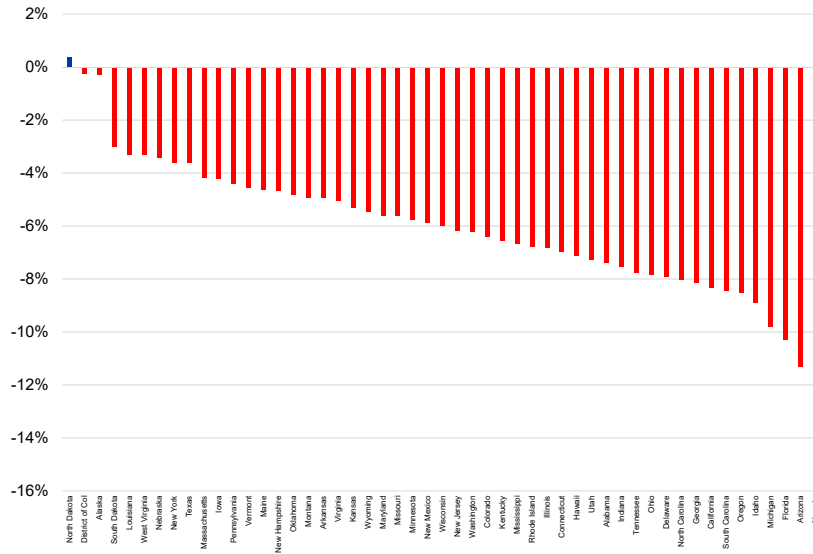


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State Employment (Job Loss)

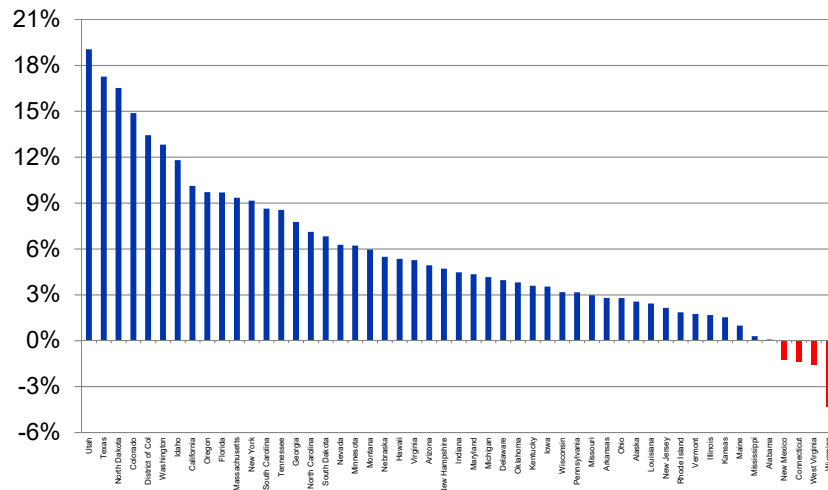
(source: Bureau of Labor Statistics)



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State Employment (Net Change)

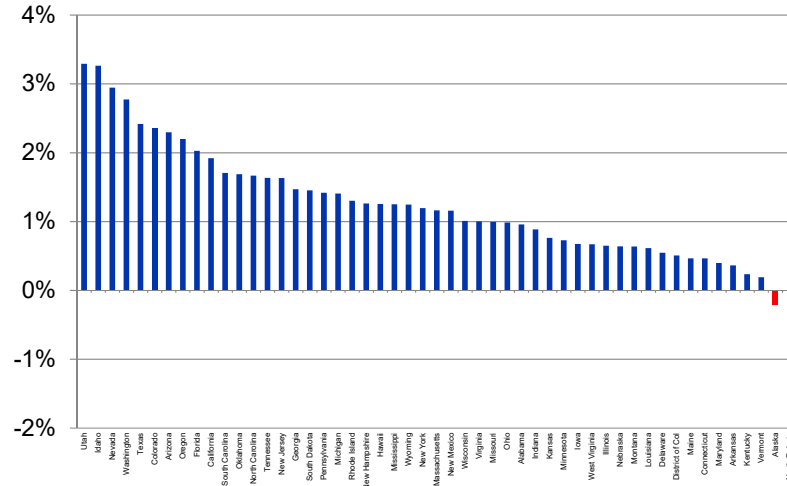
(source: Bureau of Labor Statistics)



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State Employment (L12M)

(source: Bureau of Labor Statistics)

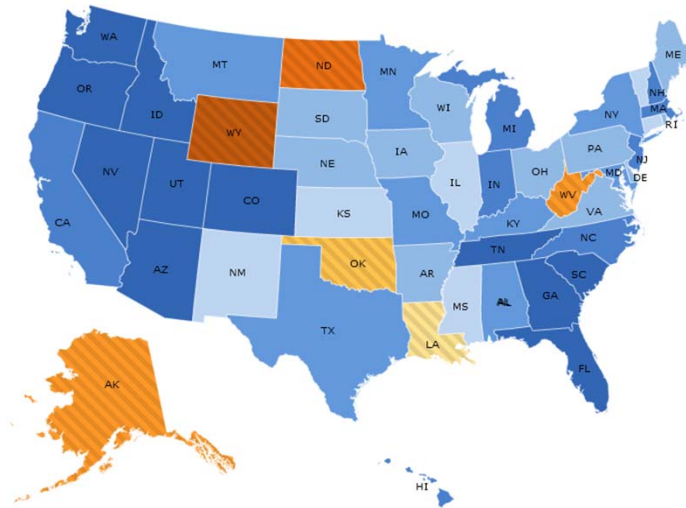


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Impact of Energy on Employment

(source: BLS)

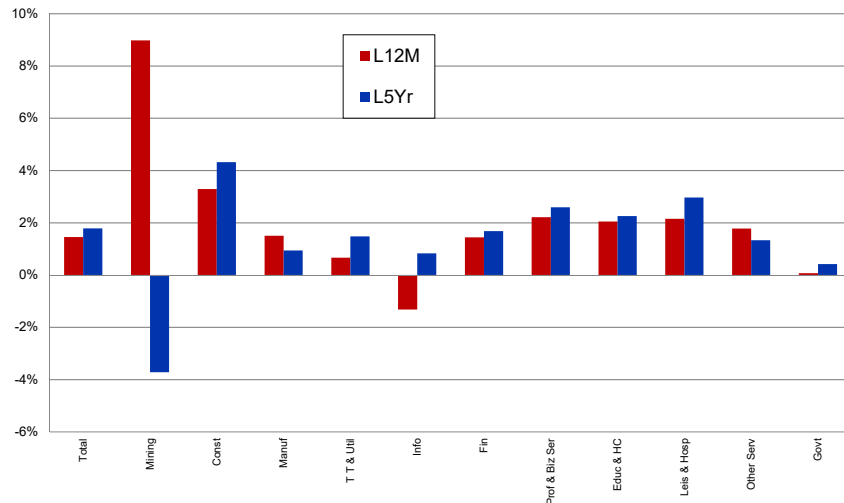


2017 STRATEGIC RETREAT
Hilton Head Island, SC – July 28, 2017



US Employment Shift by Sector

(Source: Bureau of Labor Statistics)



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Prices: Still talk of Deflation/Inflation?

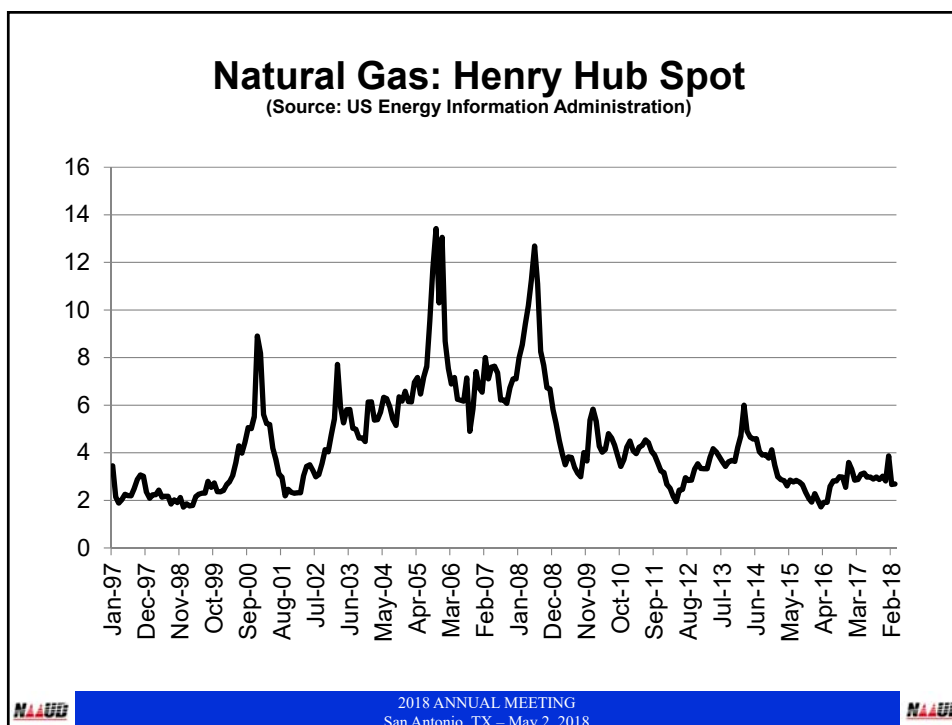
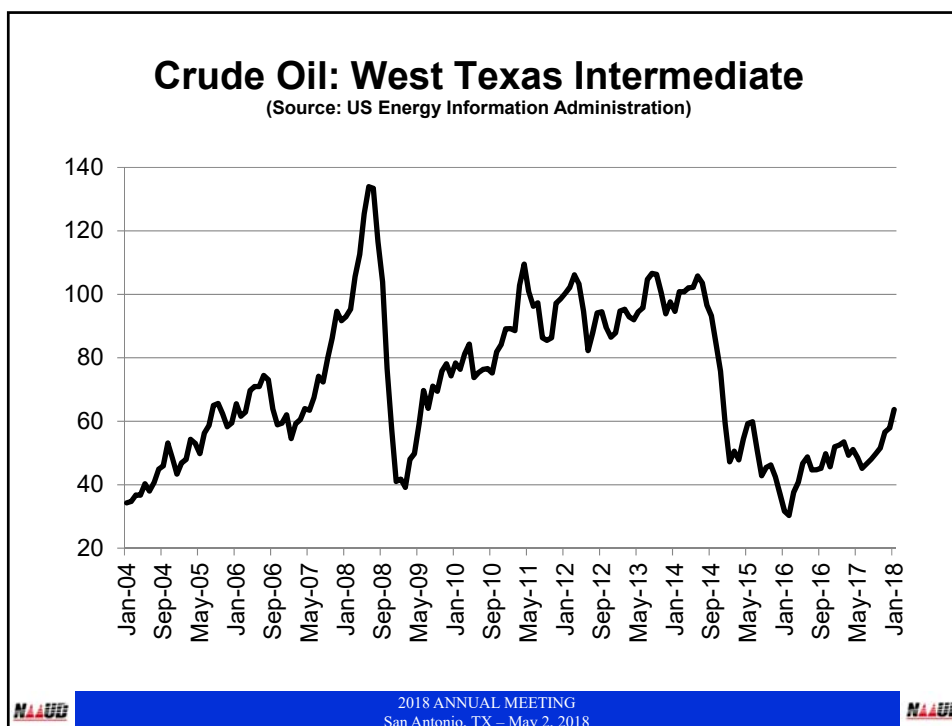
(source: Bureau of Labor Statistics)

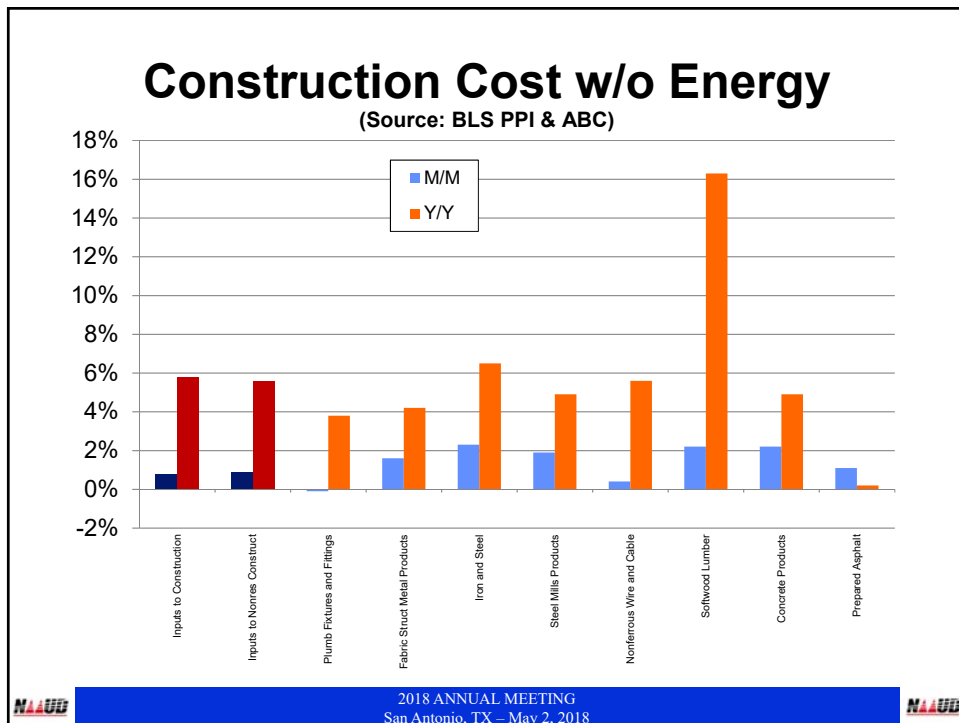
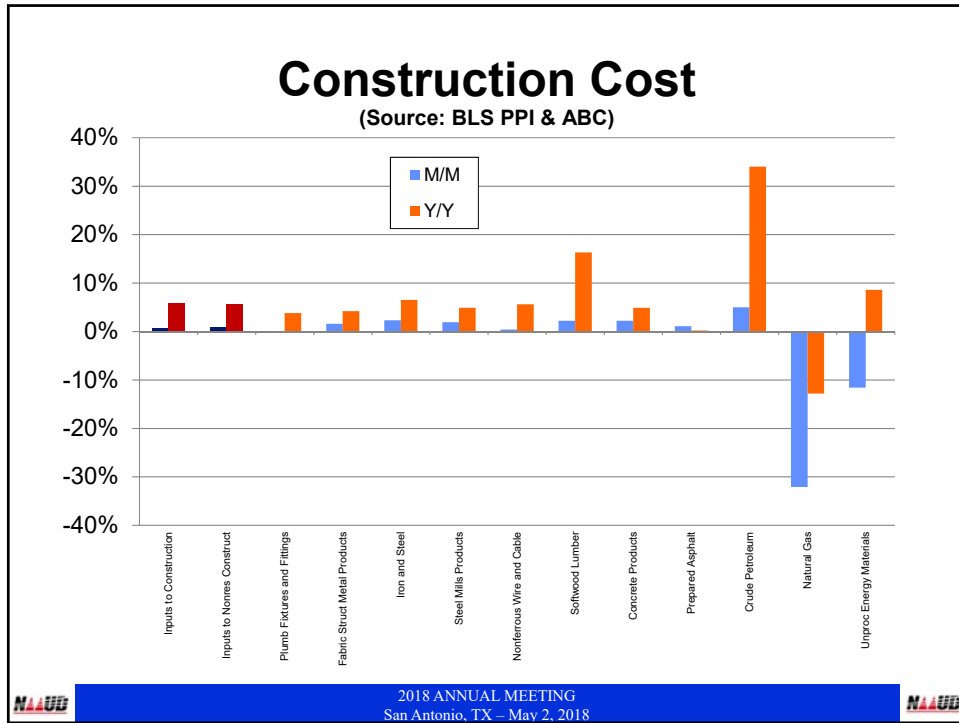
- **CPI fell by 0.1% in March after having been up by 0.2% and 0.25% in February and January.**
- **Core CPI rose 0.2% in March – after rising by 0.2% and 0.3% in two previous months.**
- **Overall CPI up 2.4% over last 12 months. Core up 2.1% over same period.**
- **Energy component was down 2.8% last month and up by 7.0% over the last 12 months**



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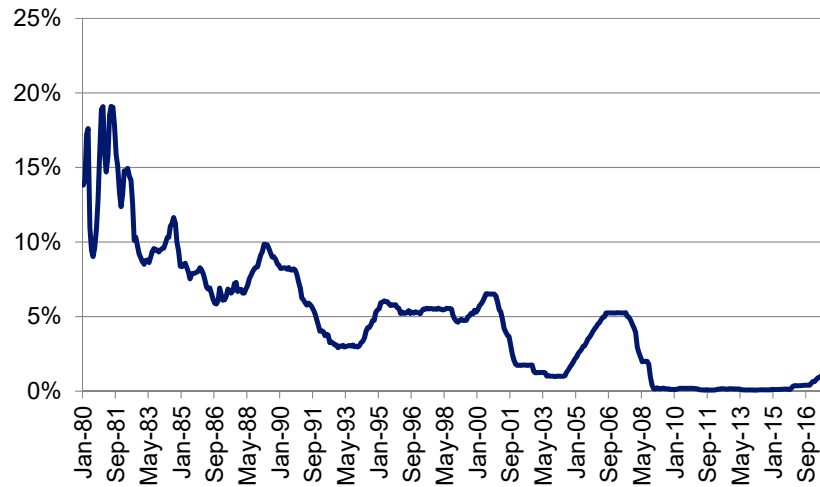






Federal Funds Rate Short Rates Finally Start Moving

(Source: Board of Governors of Federal Reserve System)

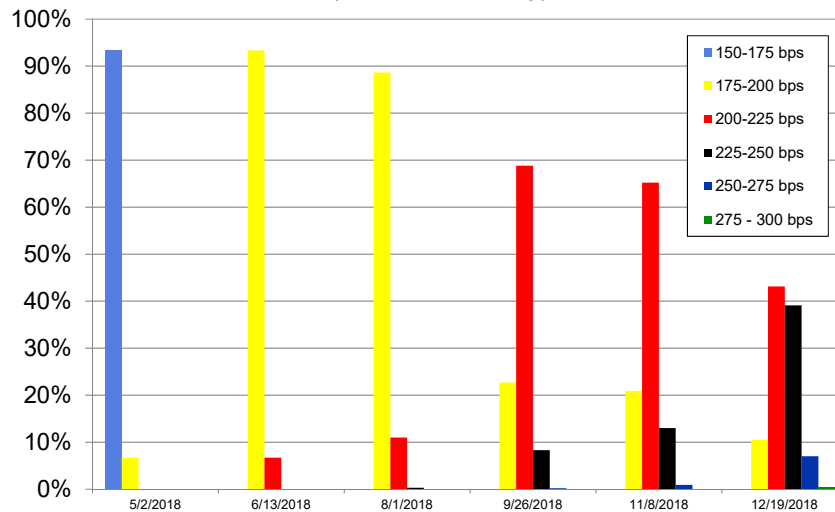


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Market's FFR Outlook

(Source: CME Group)

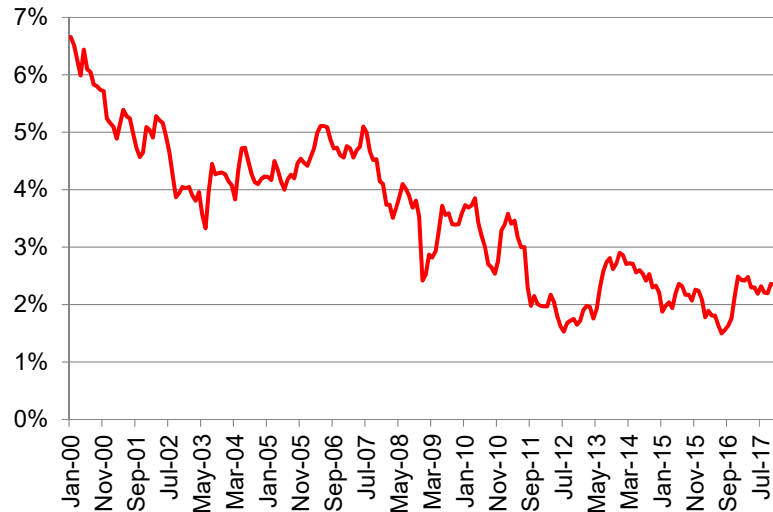


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10-Year Treasury Bonds

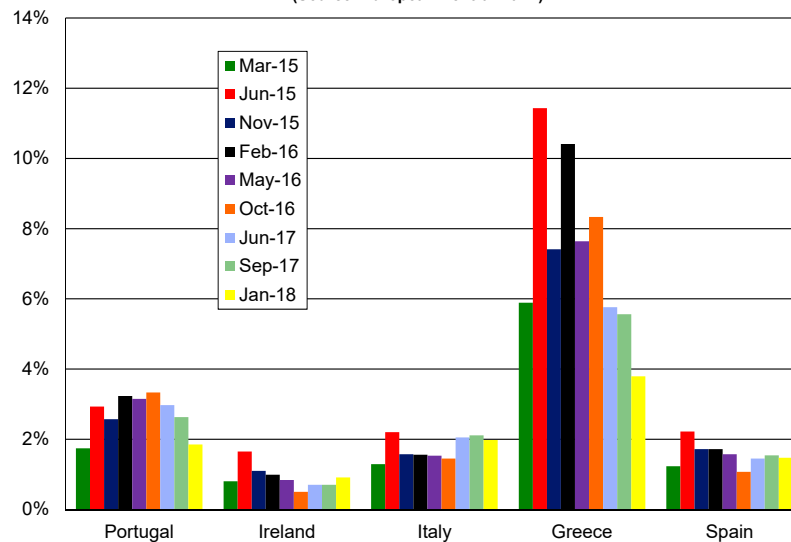
(Source: Board of Governors of Federal Reserve System)



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“PIIGS Revisited”

(Source: European Central Bank)



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Large Scale Asset Purchases

(source: Federal Reserve System)

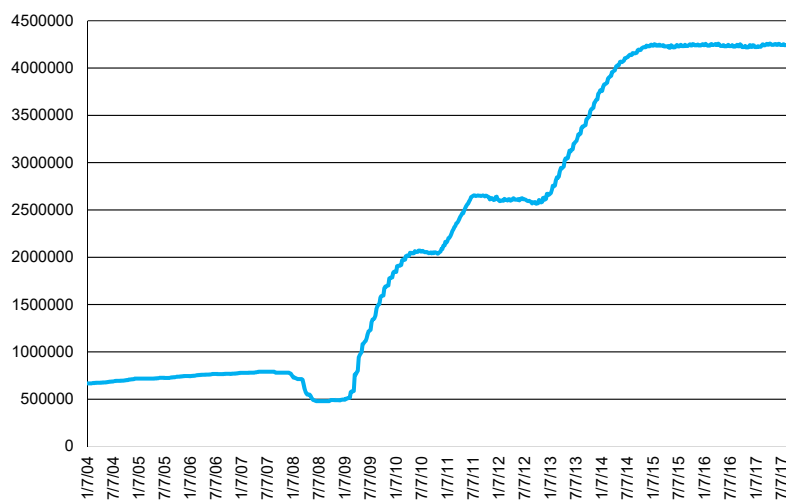
- **QE1 (March 2009)**
 - \$1.25 T in MBS
 - \$200B in Agencies
 - \$300M in Treasuries
- **QE2 (November 2010)**
 - \$600B in Treasuries
- **Operation Twist**
 - Swapped \$667B in longs for shorts
- **QE3 (September 2012)**
 - \$85B/month agency MBS & Treasuries
 - Taper begins December 2012



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Fed: Securities Held Outright

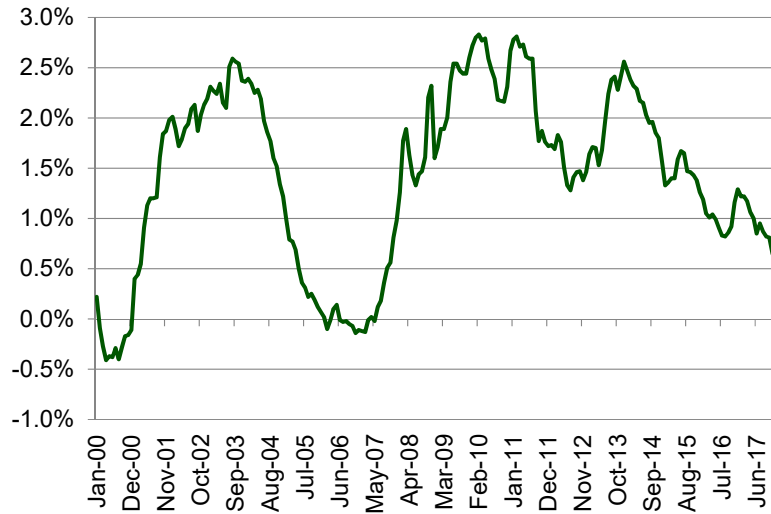


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2-10 Treasury Spread

(Source: Board of Governors of Federal Reserve System)

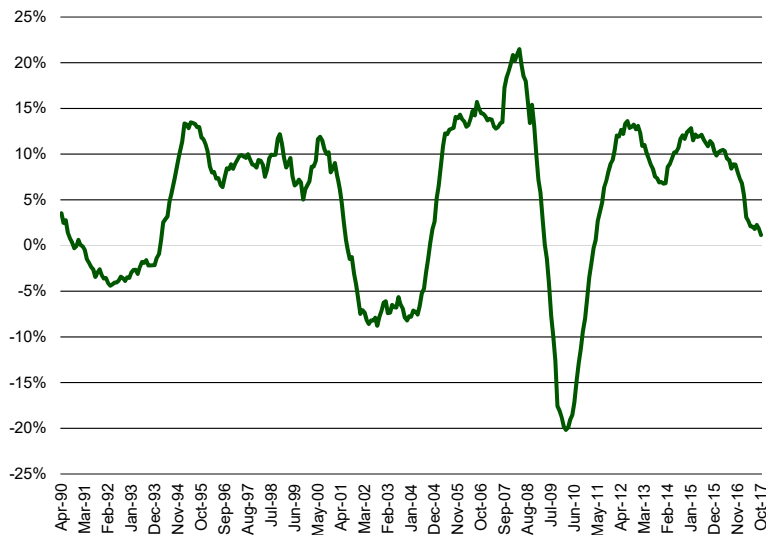


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C & I Loan Growth

(growth rate L12M)

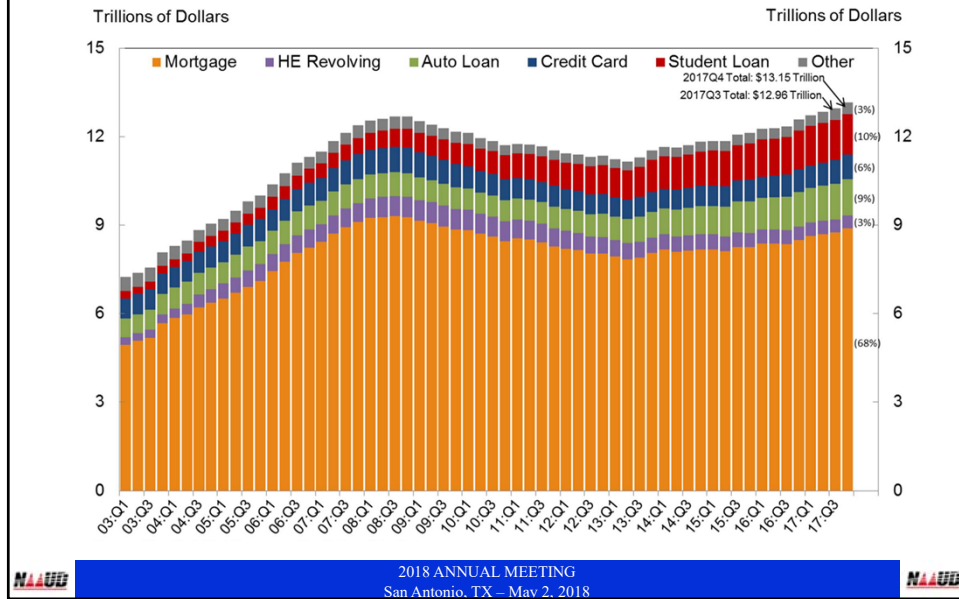


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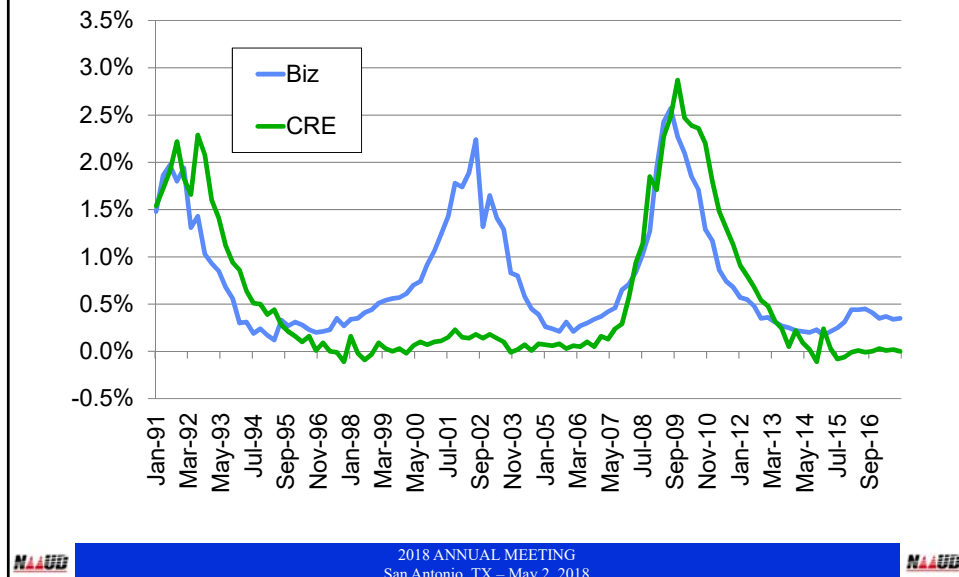
Debt Balance and Mix

(source: Federal Reserve Bank of New York Credit Panel/Equifax)



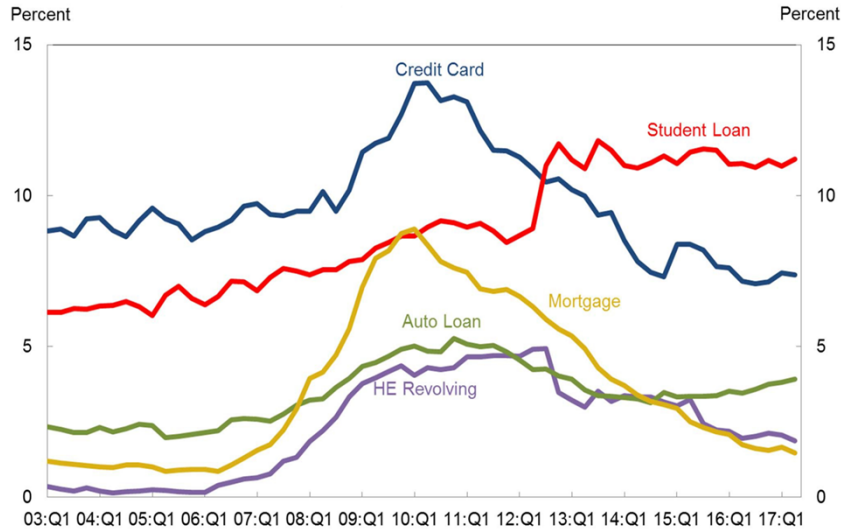
Charge Off Rates at Commercial Banks

(source: Board of Governors of the Federal Reserve System)



90+ Days Delinquent by Loan Type

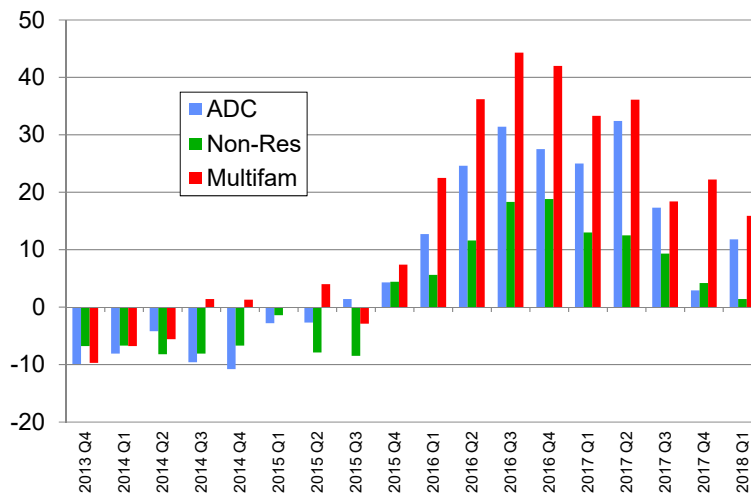
(source: Federal Reserve Bank of New York Credit Panel/Equifax)



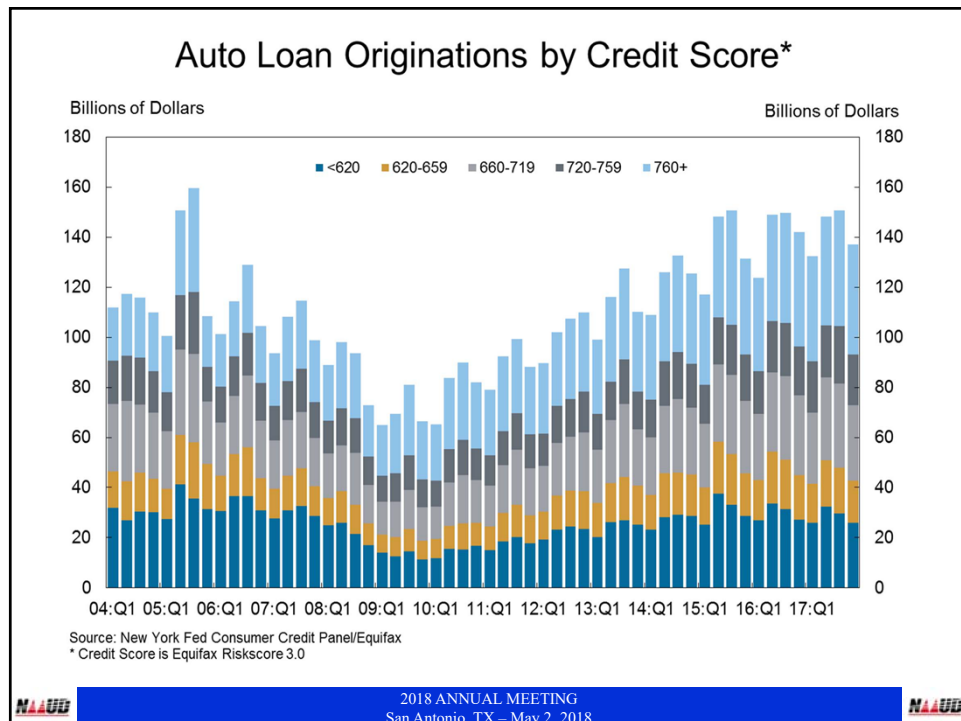
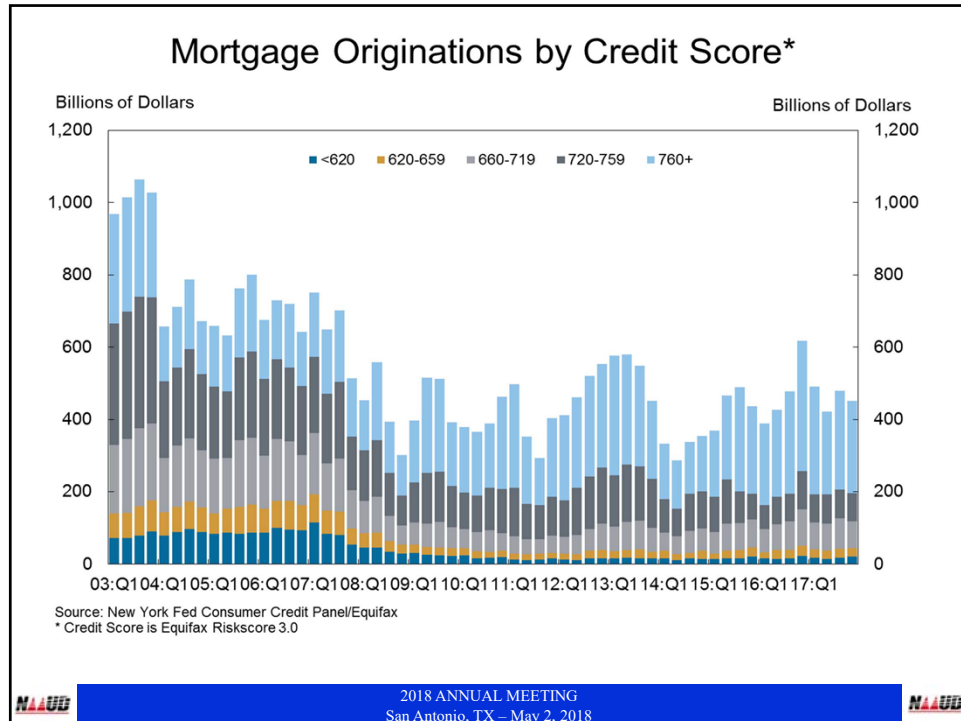
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CRE Loan Standards: Net Tightening

(Source: Federal Reserve System, Senior Officers Lending Survey)

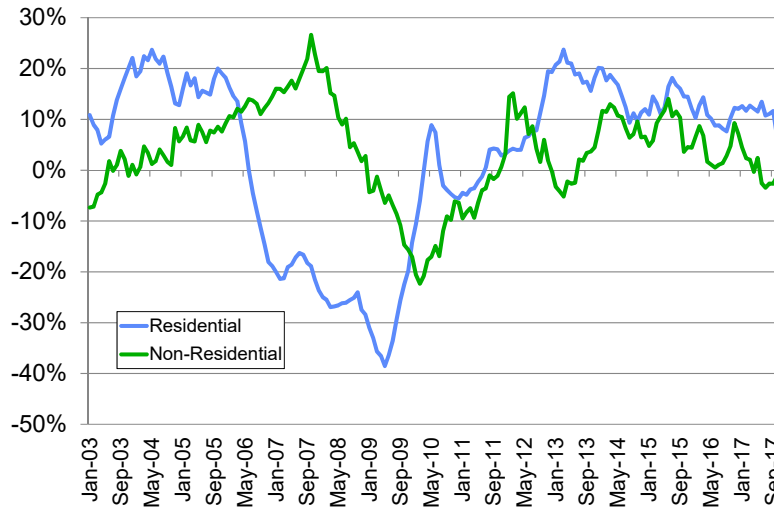


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Construction Spending: By Sector

(Source: U.S. Bureau of Census)

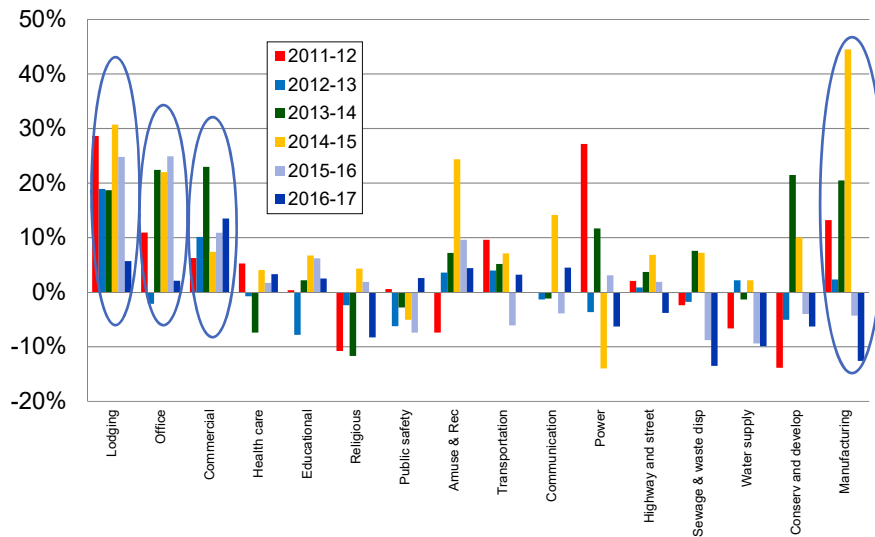


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Non-Residential Construction

(Source: U.S. Bureau of Census)

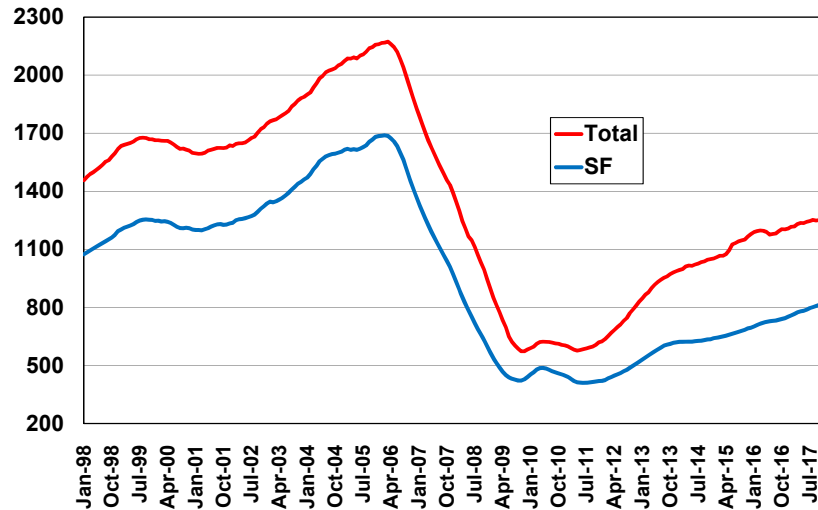


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US Housing Permits: SF and Total

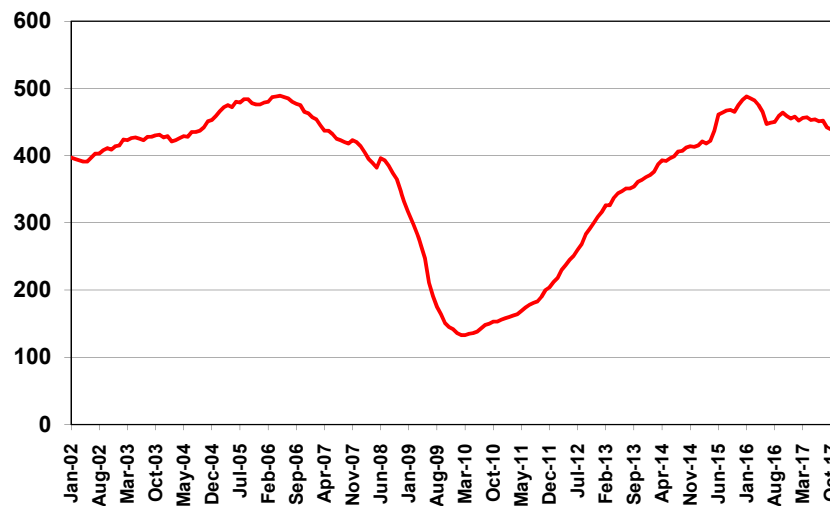
(source: U.S. Bureau of Census)



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US Housing Permits: Multi-family

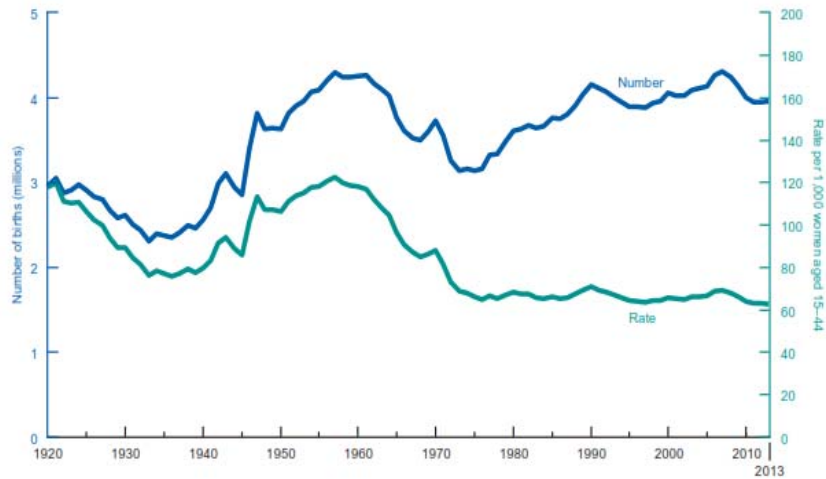
(Source: U.S. Bureau of Census)



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The Demographics: Boom & Bust

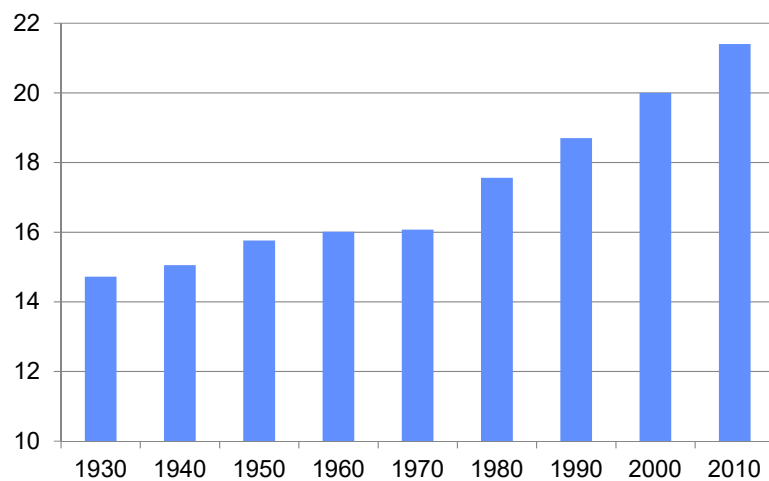
(Source: CDC, US Bureau of Census)



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The Demographics: Life Expectancy at 60

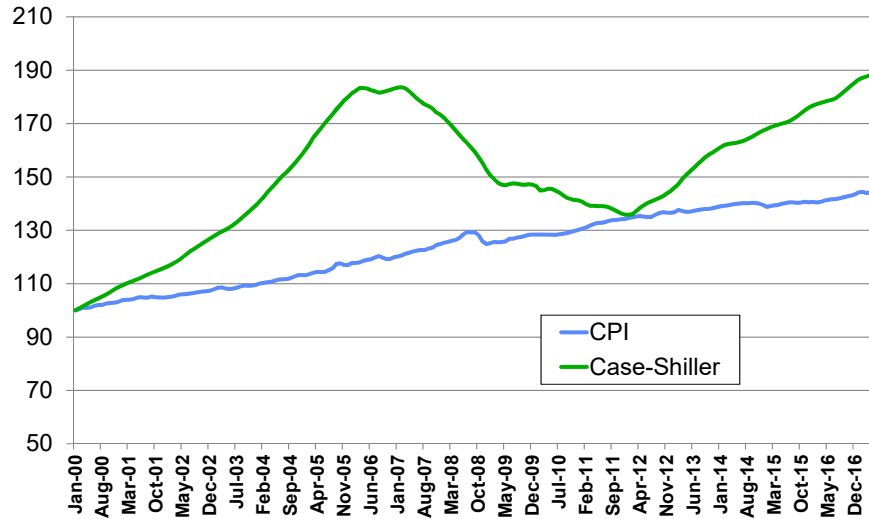
(Source: CDC, US Bureau of Census)



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Home Prices & CPI

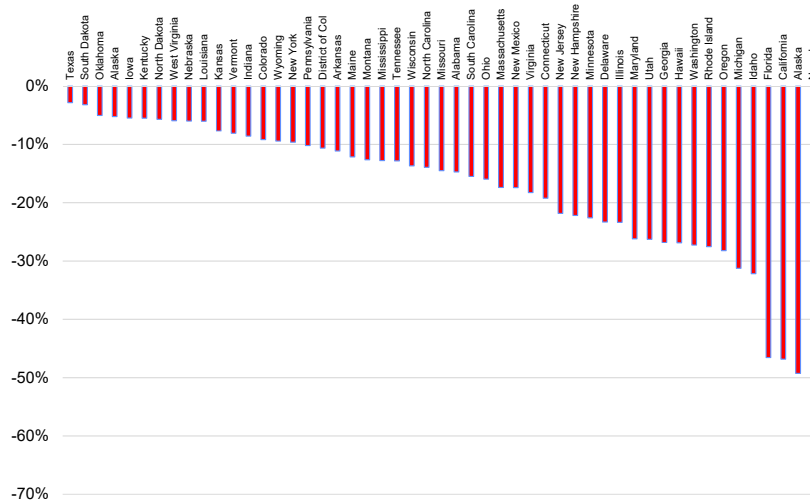
(Source: S&P Case-Shiller & Bureau of Labor Statistics)



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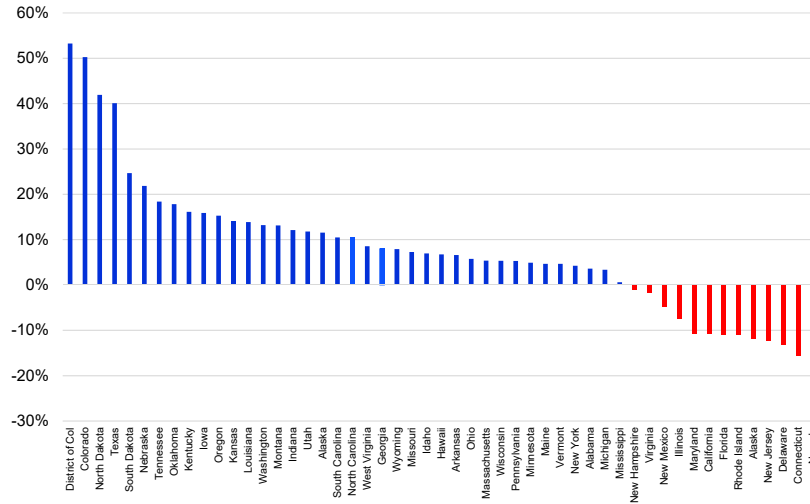
House Prices: Loss



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House Prices: Net

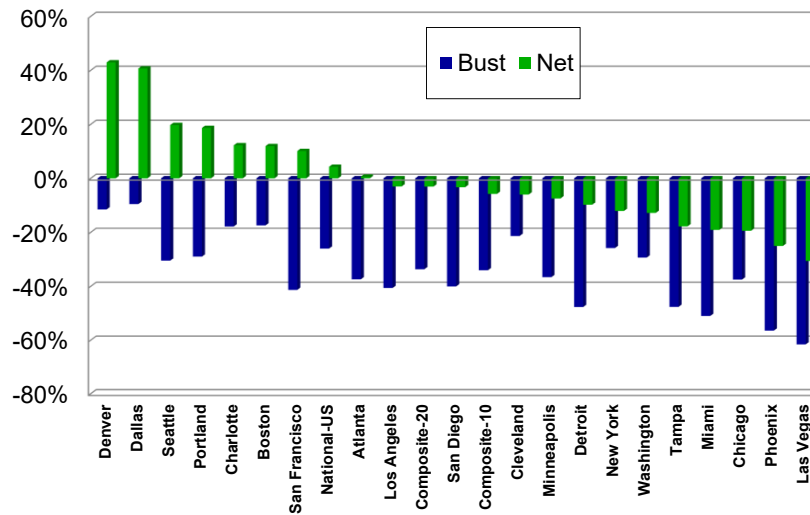


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CS/S&P Home Price Index

(Source: S&P Case Shiller)

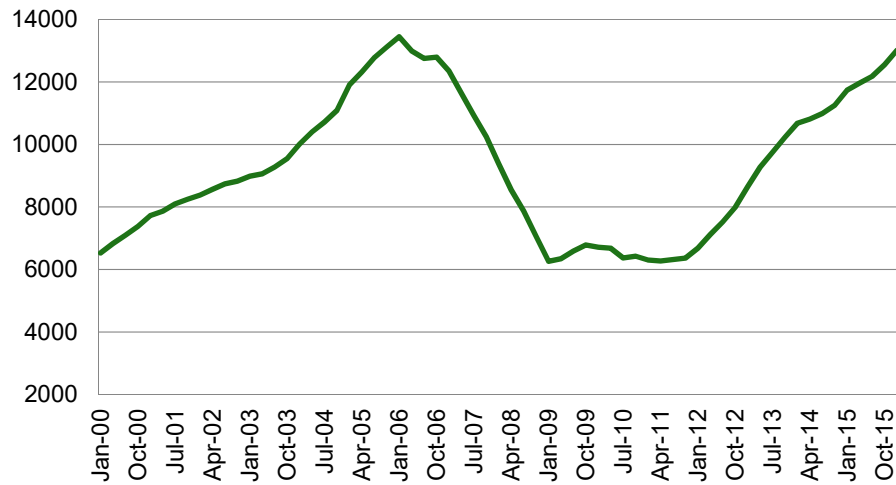


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Household RE Equity

(Source: Board of Governors of Federal Reserve System)

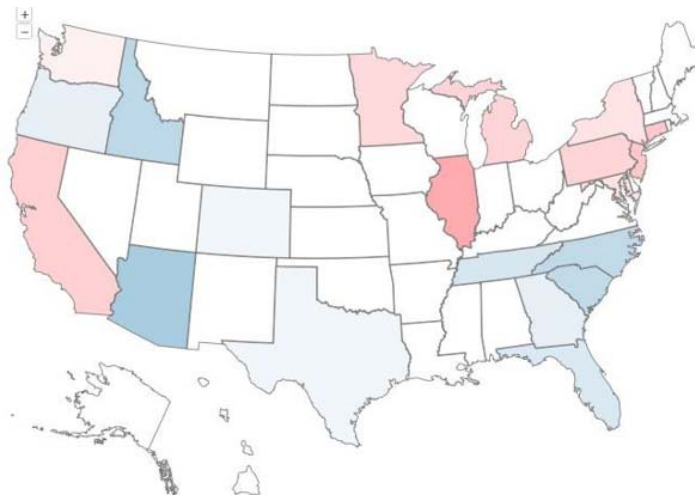


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2017 Migration

(source: NAMS Report)



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Tax Reform: Some Headlines

- Corporate tax rates cut 35% to 21% - changes value of loss carry forwards, but lower cost of capital
- Preferential treatment for pass-through.
- Individual rate lowered in some brackets.
- Standard deduction increase, but exemption disappear and limits on SALT and other preferred items will more than offset for some.
- AMT fillers reduced.
- Global taxation reduces inversion and encourages repatriation.
- ACA individual mandate disappears.



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Currents Issues in Fiscal Affairs

- Federal:
 - Government default avoided in 2011, 2013 & 2015 – where from here?
 - **Back in Play:** Affordable Care Act (Mandate gone), Keystone, Dodd-Frank, EPA, NLRB
 - **Now in Play:** Tax Reform (done for now), Infrastructure
 - **Always was in Play:** SCOTUS.
 - **New Play:** Revising Trade
 - » Bilateral vs Multilateral
 - » Lumber deals and tariffs
 - Does the Deficit Matter?
- States:
 - Tax Reform Initiatives in other States – does SALT matter?
 - Recent gains in manufacturing facilities due to “reshoring”
 - SE states domination biz location ranking, but not exclusive.
 - Amazon HQ2 – changes the way we compete?
- Local:
 - RE valuation and revenues rising, fiscal distress moderating

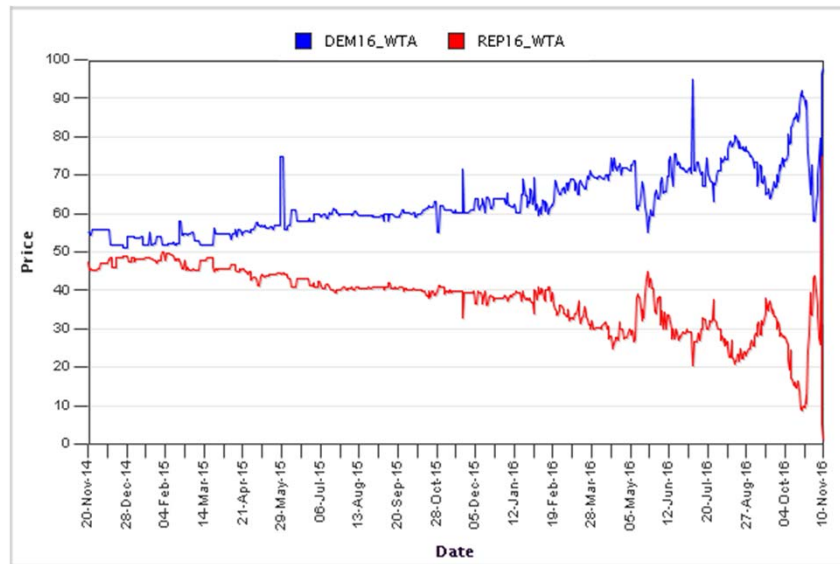


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Election 2016: What Did Everyone Miss?

(Source: Iowa Electronic Markets)



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