

ON THE ECONOMIC, BUSINESS AND POLITICAL CLIMATE

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***AARMR
28th Annual Regulatory Conference
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San Antonio, TX***



Expansion Getting Tired?

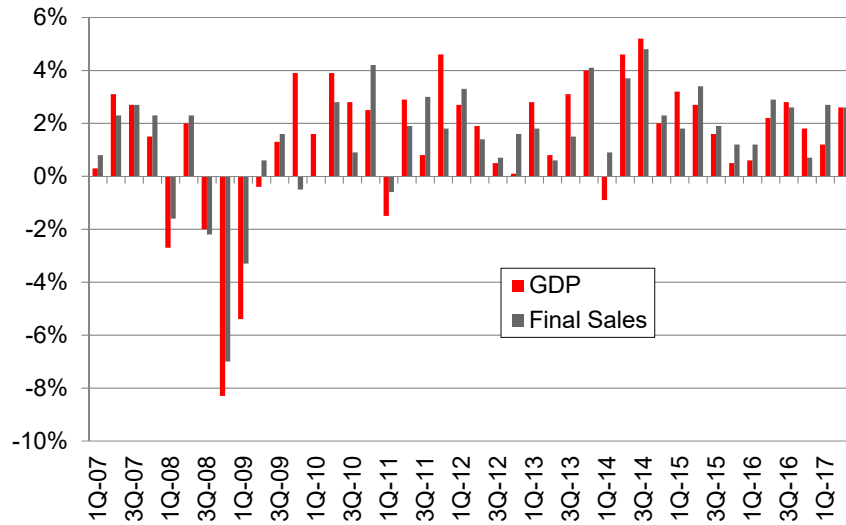
(Source: National Bureau Economic Research)

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
???			97
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)

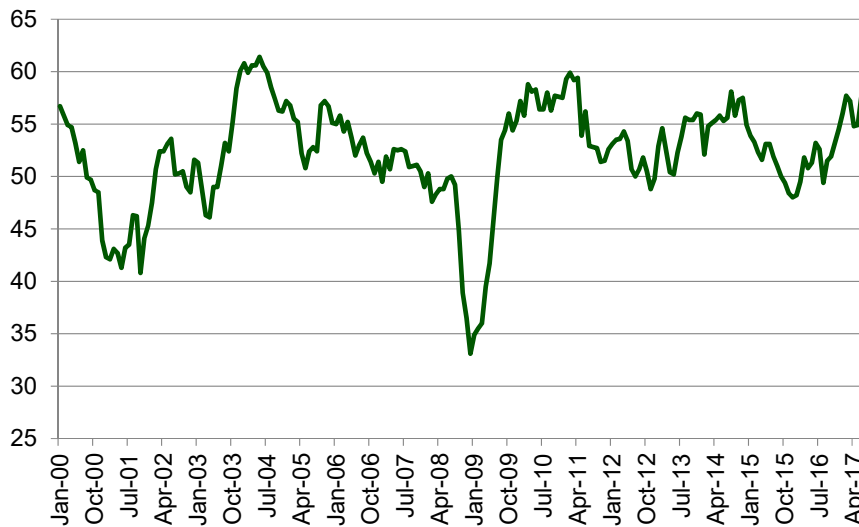
	GDP =	Consumption	Gross Investment	Net Exports	Government
2015: Q4	0.5%	1.80%	-1.08%	-0.28%	0.05%
2016: Q1	0.6%	1.23%	-0.68%	-0.28%	0.32%
2016: Q2	2.2%	2.57%	-0.45%	0.28%	-0.16%
2016: Q3	2.8%	1.92%	0.40%	0.36%	0.09%
2016: Q4	1.8%	1.99%	1.34%	-1.61%	0.03%
2017: Q1	1.2%	1.32%	-0.20%	0.22%	-0.11%
2017: Q2	2.6%	1.93%	0.34%	0.18%	0.12%

	Gross Investment =	Nonresidential	Residential	Inventory
2015: Q4	-1.08%	-0.67%	0.26%	-0.68%
2016: Q1	-0.68%	-0.52%	0.47%	-0.64%
2016: Q2	-0.45%	0.41%	-0.18%	-0.67%
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	0.34%	0.64%	-0.27%	-0.02%

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ISM's "PMI"

(Source: Institute of Supply Management)



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Foreign Exchange: Trading Partners

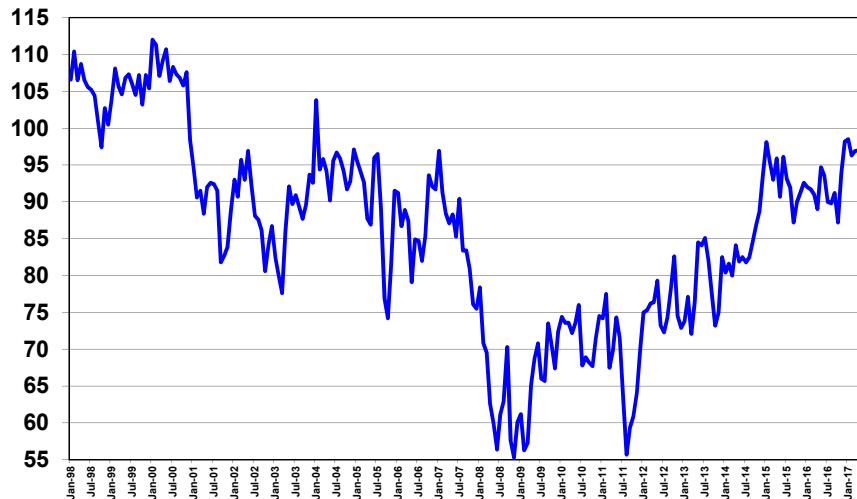
(Source: Board of Governors of the Federal Reserve System)



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Consumer Sentiment

(source: University of Michigan, Survey Research Center)



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Comments from Curtin

Normally, the implication would be that consumers expected Trump's election to have a positive economic impact. That is not the case since the gain represents the result of an unprecedented partisan divergence, with Democrats expecting recession and Republicans expecting robust growth.

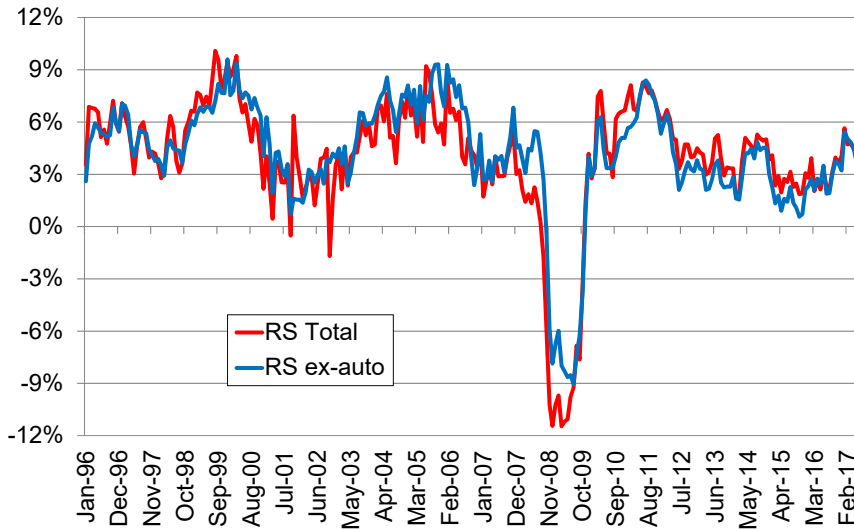
Indeed, the difference between these two parties is nearly identical to the difference between the all-time peak and trough values in the Expectations Index - 64.6 versus 64.4. While the expectations of Democrats and Republicans largely offset each other, the overall gain in the Expectations Index was due to self-identified Independents, who were much closer to the optimism of the Republicans than the pessimism of the Democrats.

(Note: the February Expectations Index was 55.5 among Democrats, 120.1 among Republicans, and 89.2 among Independents.)

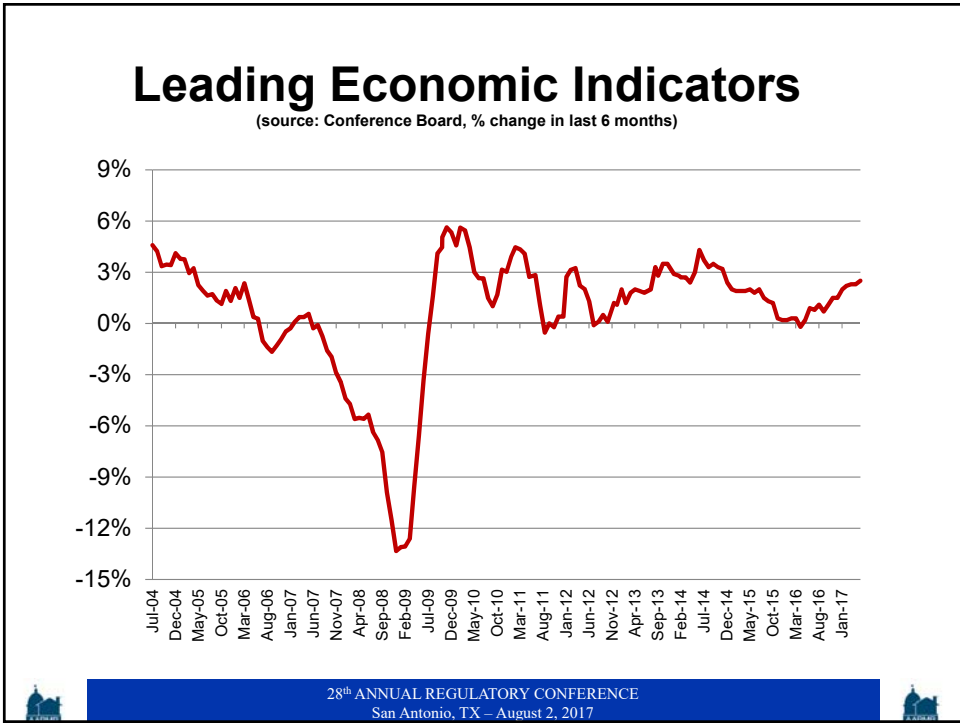
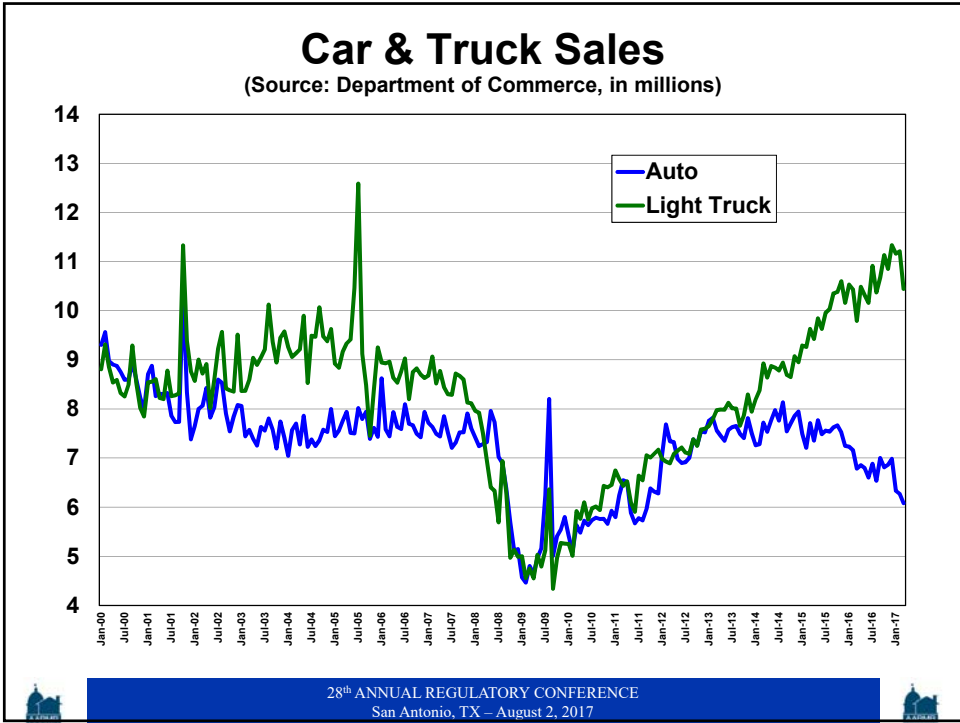
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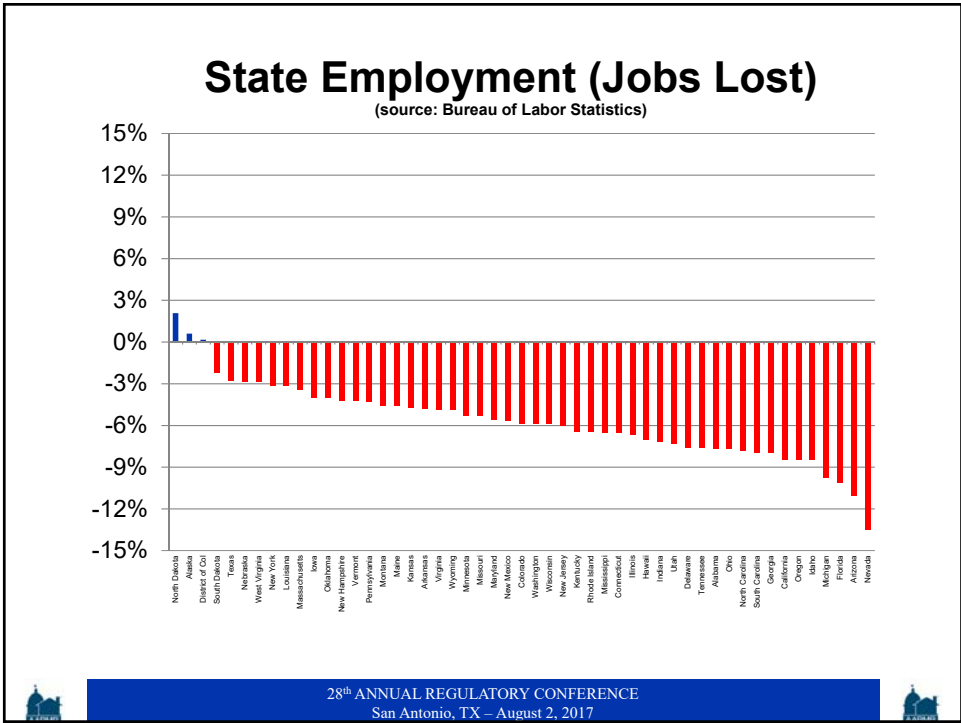
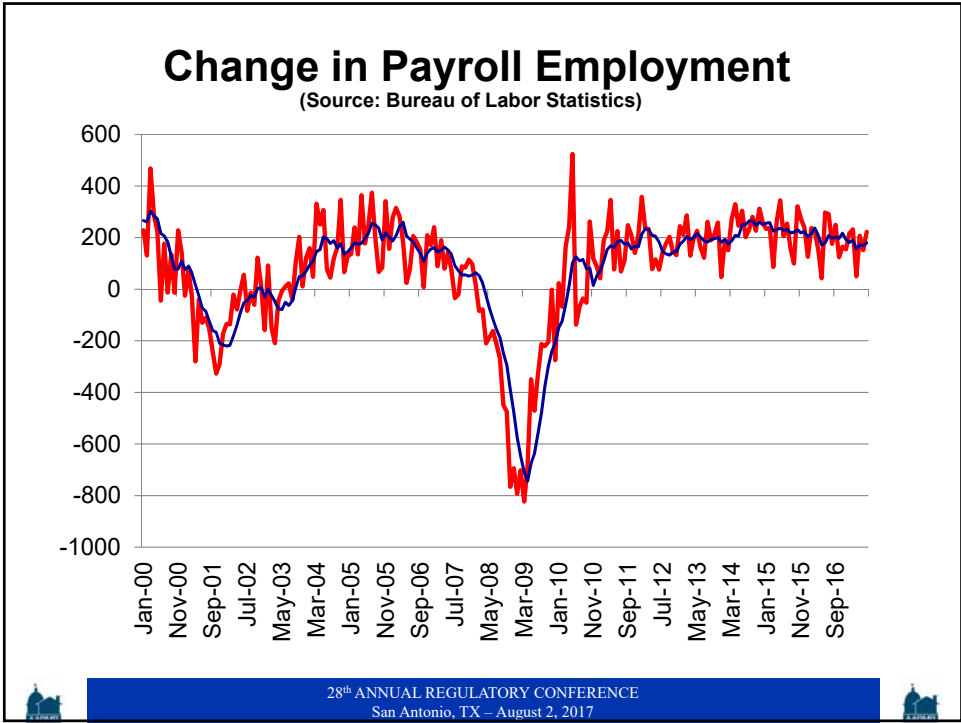
Retail Sales

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



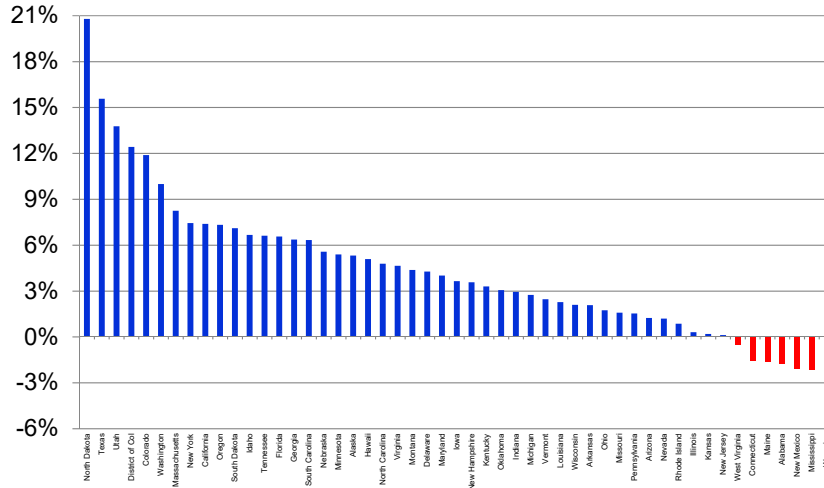
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State Employment (Net Change)

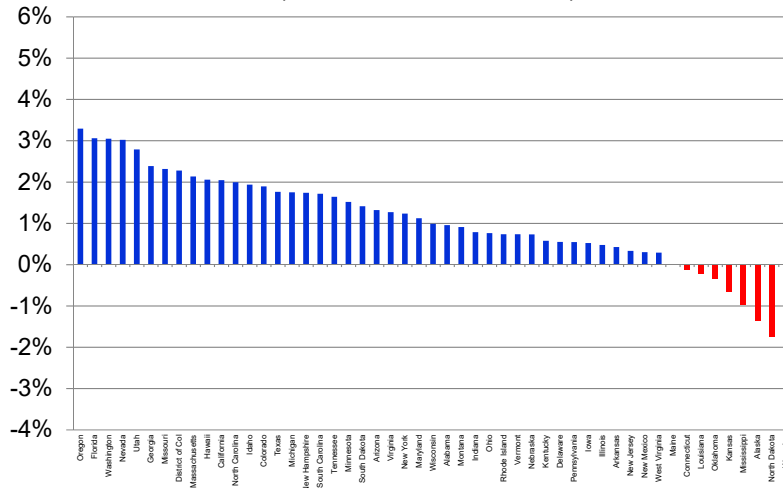
(source: Bureau of Labor Statistics)



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State Employment (L12M)

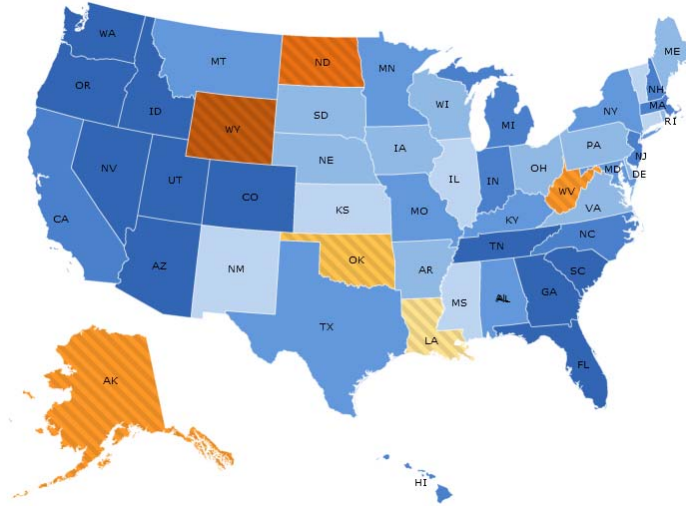
(source: Bureau of Labor Statistics)



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Impact of Energy on Employment

(source: BLS)



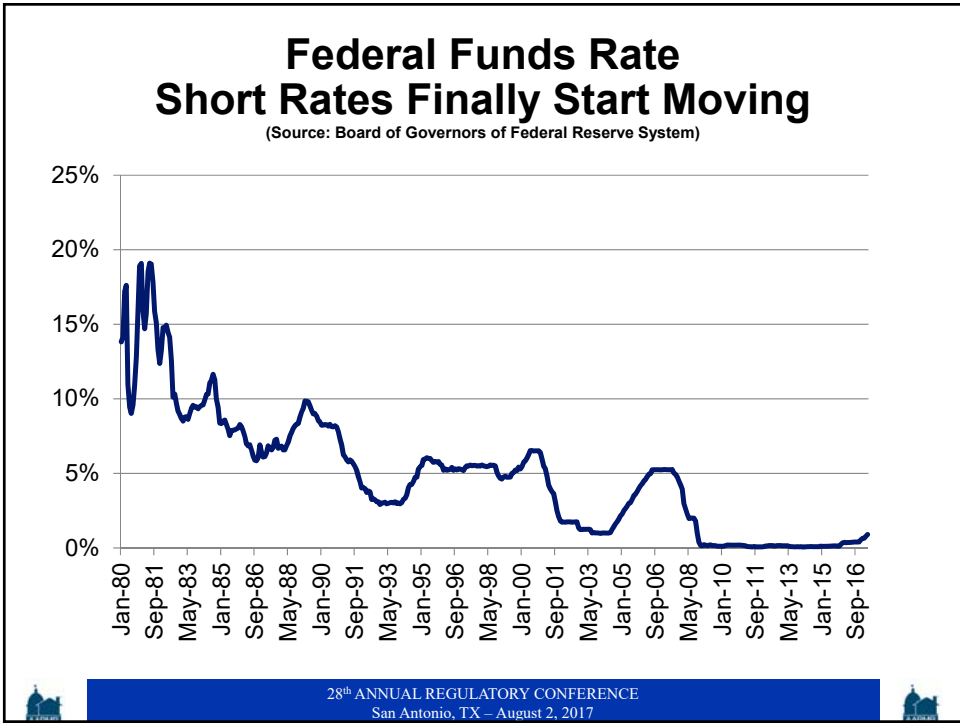
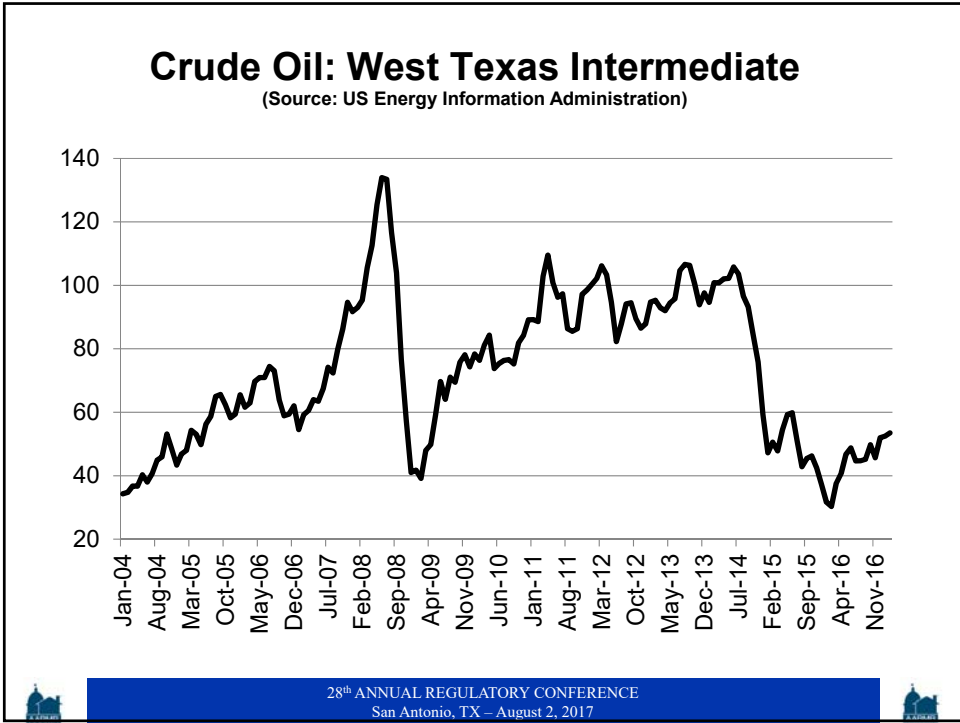
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Prices: Still talk of Deflation/Inflation?

(source: Bureau of Labor Statistics)

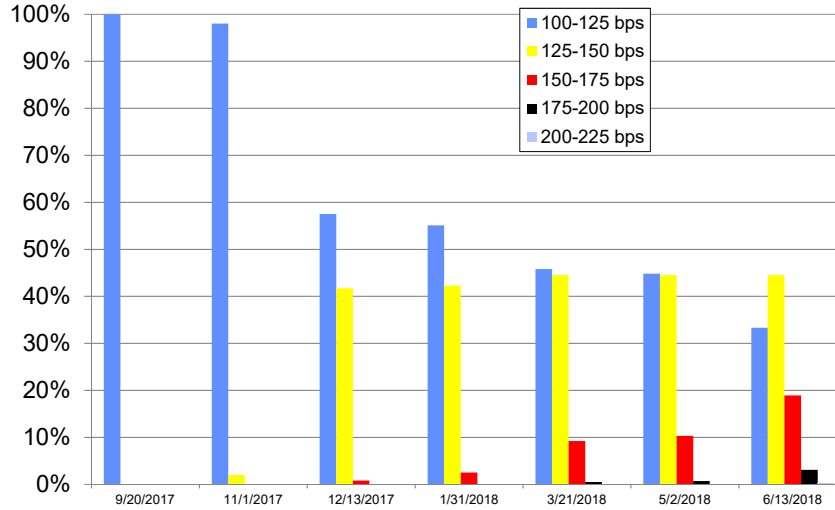
- CPI was up by flat in June after having been down 0.1% and up by 0.2% in May and April.
- Core CPI rose 0.1% in June – after rising by 0.1% and each of two previous months.
- Overall CPI up 1.6% over last 12 months. Core up 1.7% over same period.
- Energy component was down 1.6% last month and up by 2.3% over the last 12 months

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Market's FFR Outlook

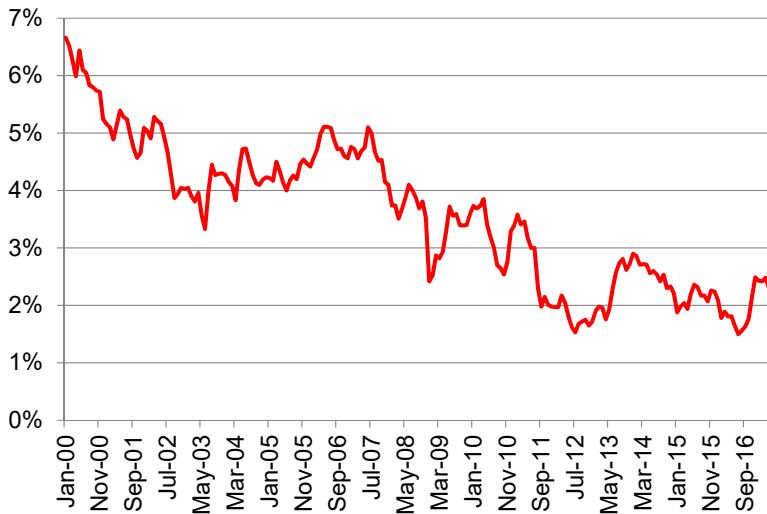
(Source: CME Group)



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10-Year Treasury Bonds

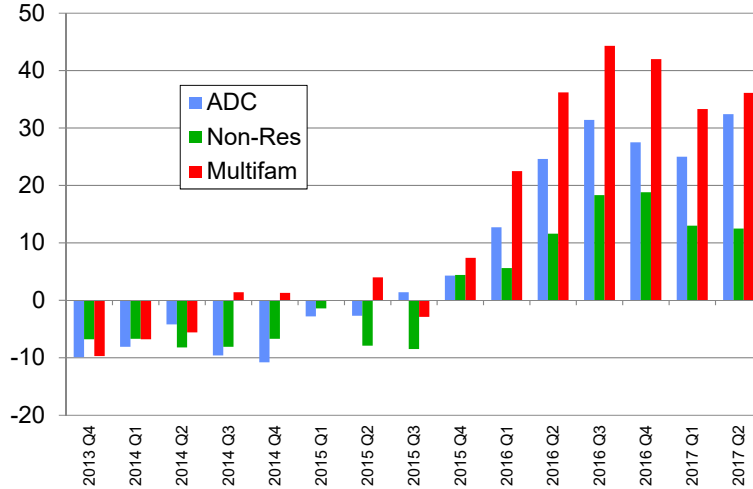
(Source: Board of Governors of Federal Reserve System)



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CRE Loan Standards: Net Tightening

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

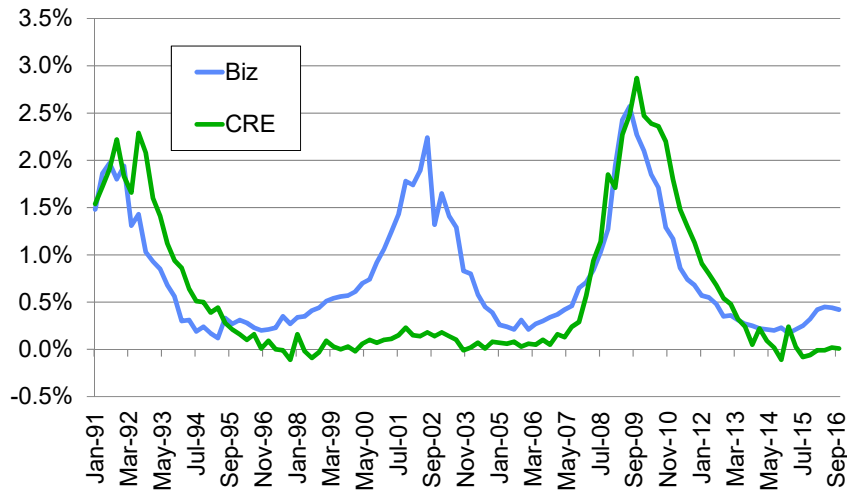


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Charge Off Rates at Commercial Banks

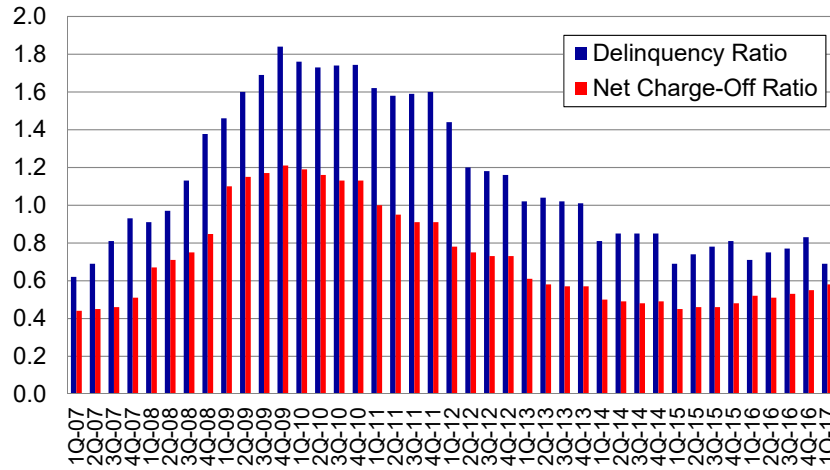
(source: Board of Governors of the Federal Reserve System)



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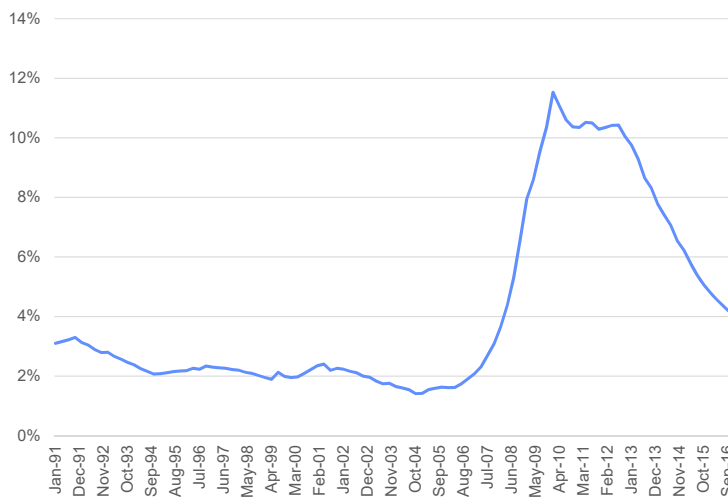


Credit Unions: Credit Quality



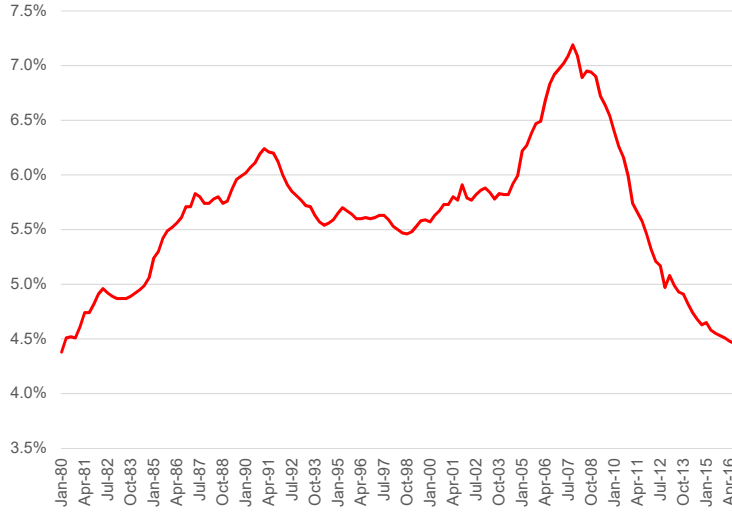
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Delinquency Rate on SF



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Mortgage as % of Disposable Income



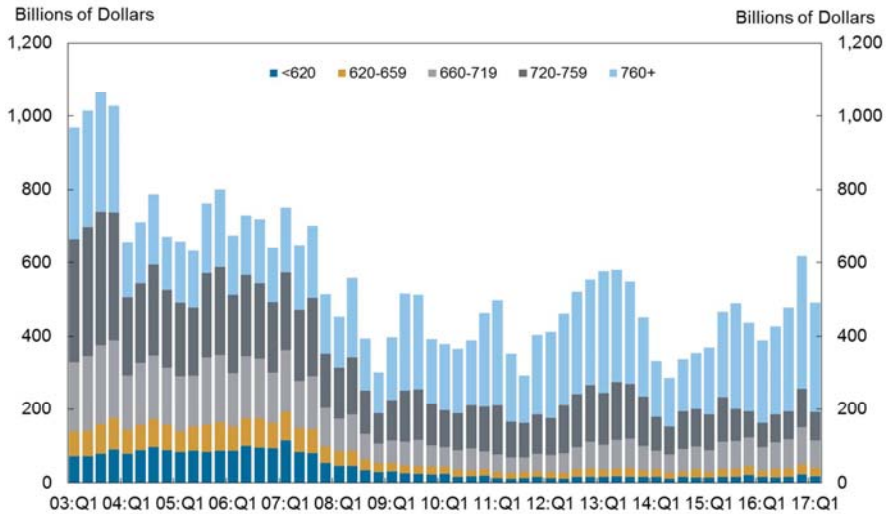
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Payment per \$1000 on 30 Year



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Mortgage Originations by Credit Score*



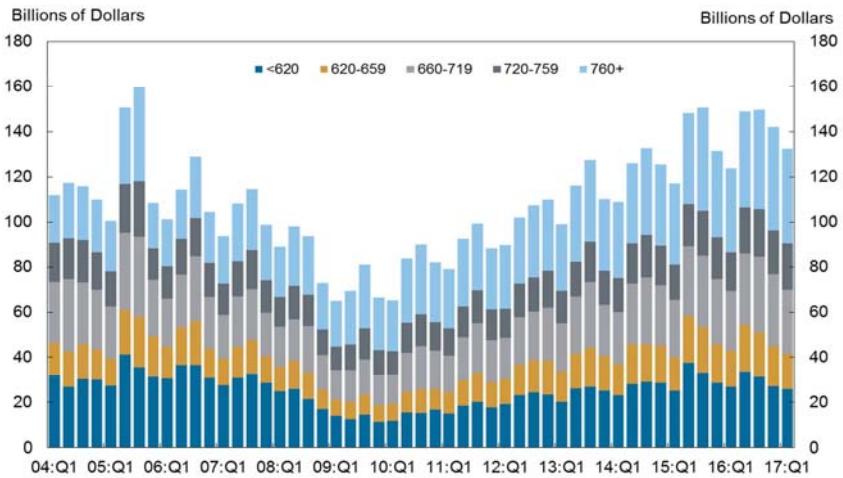
Source: New York Fed Consumer Credit Panel/Equifax
 * Credit Score is Equifax Riskscore 3.0



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Auto Loan Originations by Credit Score*



Source: New York Fed Consumer Credit Panel/Equifax
 * Credit Score is Equifax Riskscore 3.0

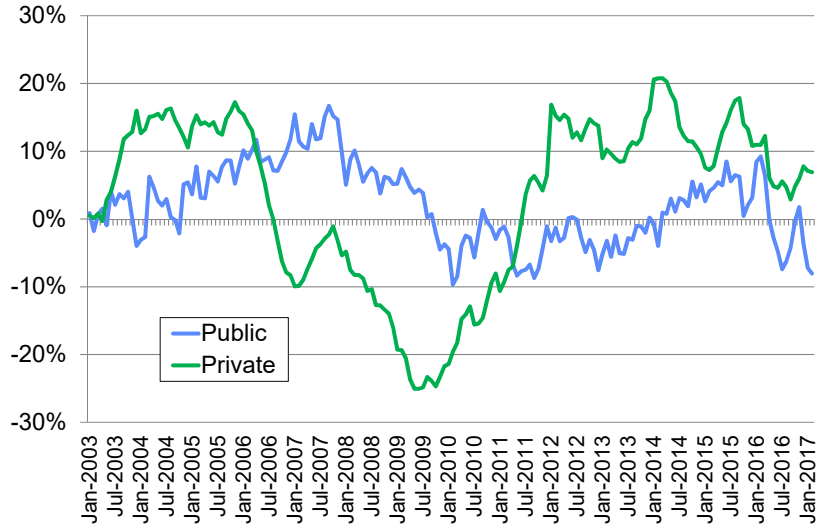


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Construction Spending: By Source

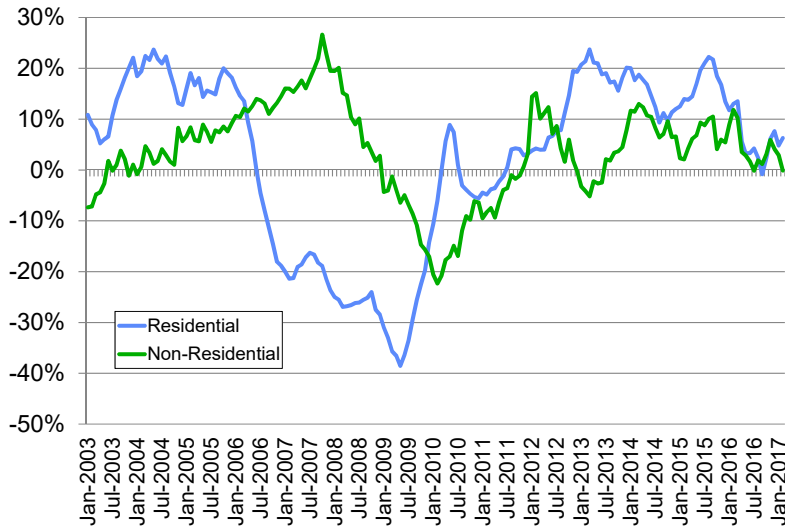
(source: U.S. Bureau of the Census)



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Construction Spending: By Sector

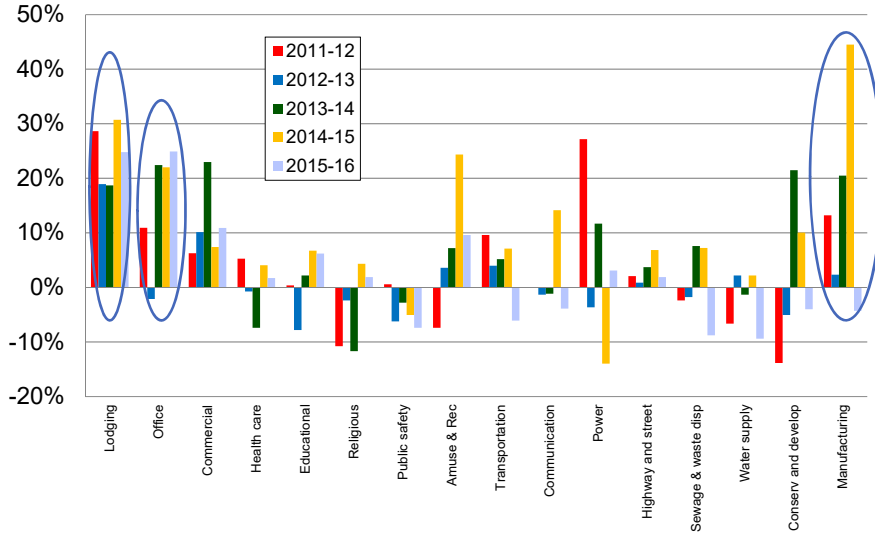
(Source: U.S. Bureau of Census)



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Non-Residential Construction

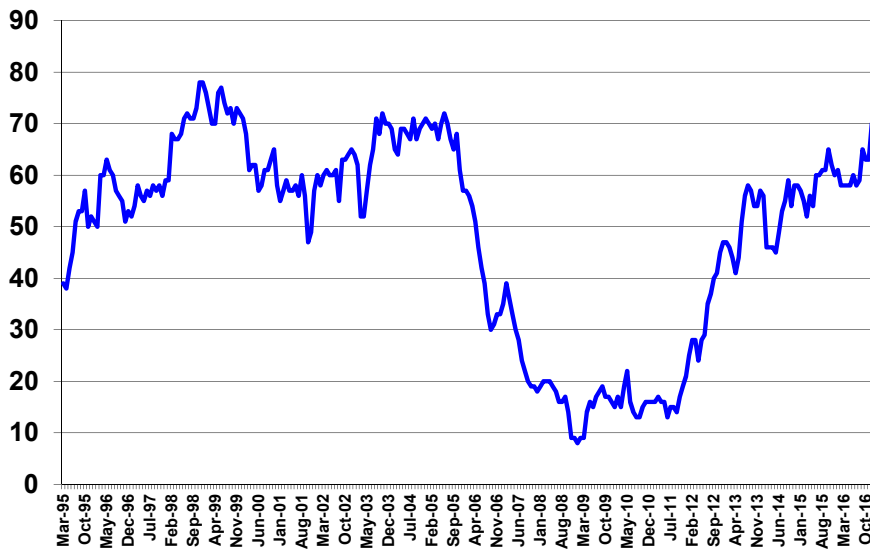
(Source: U.S. Bureau of Census)



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NAHB Housing Market Index

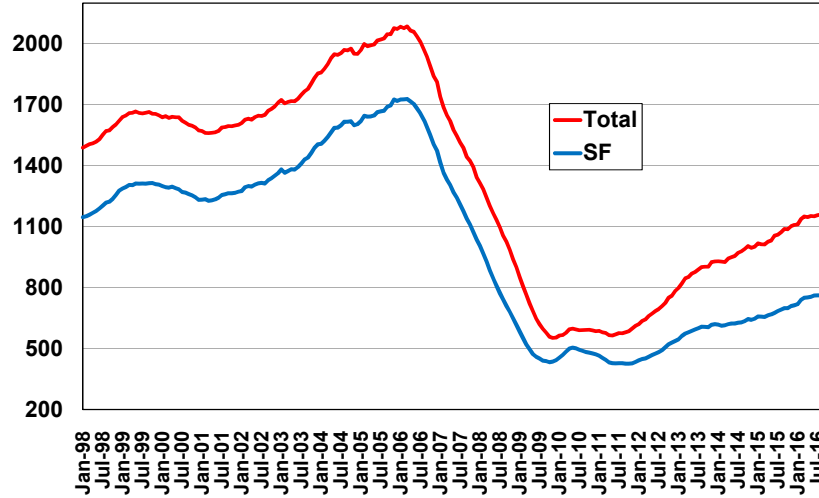
(Source: National Association of Home Builders)



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US Housing Permits: SF and Total

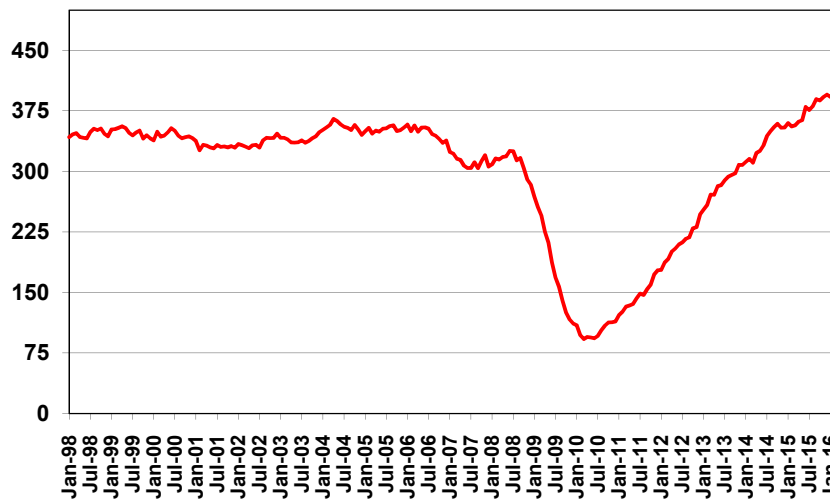
(source: U.S. Bureau of Census)



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US Housing Permits: Multi-family

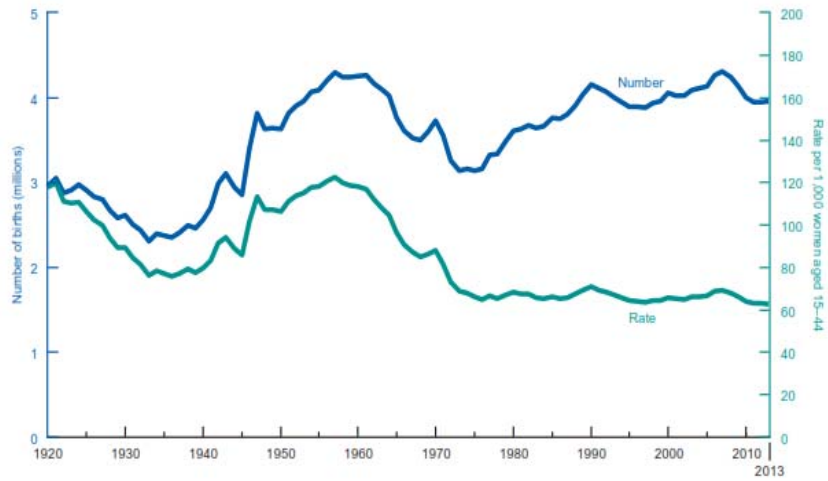
(Source: U.S. Bureau of Census)



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The Demographics: Boom & Bust

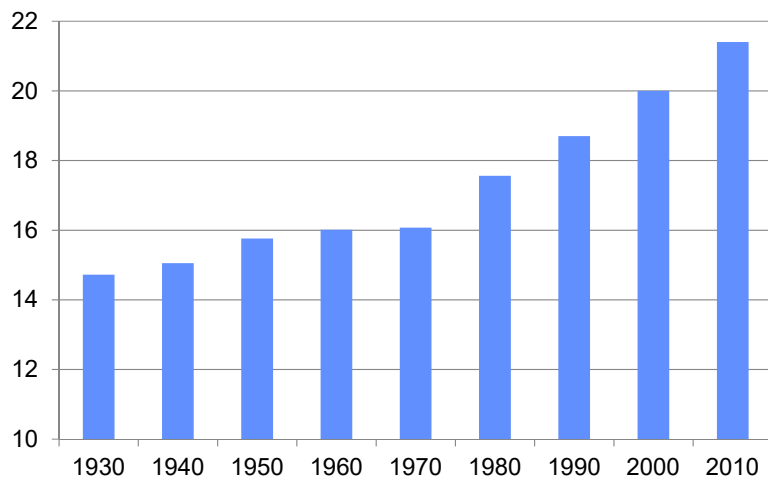
(Source: CDC, US Bureau of Census)



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The Demographics: Life Expectancy at 60

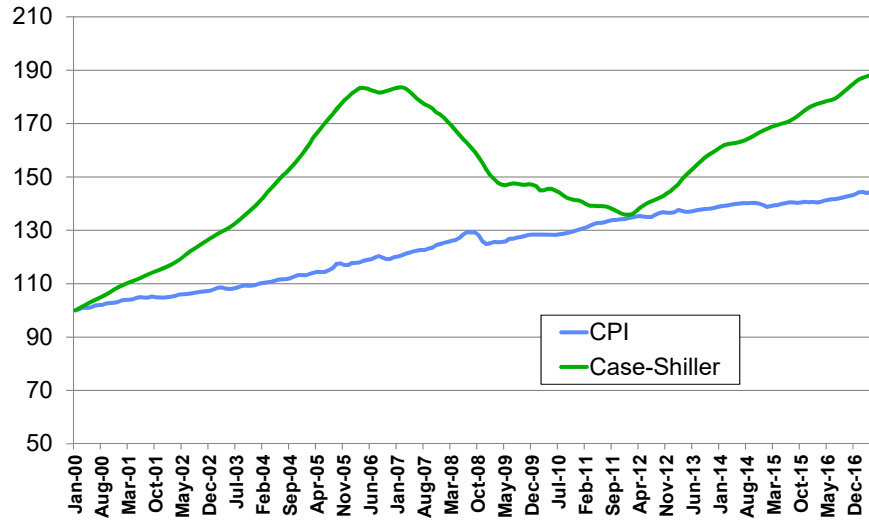
(Source: CDC, US Bureau of Census)



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Home Prices & CPI

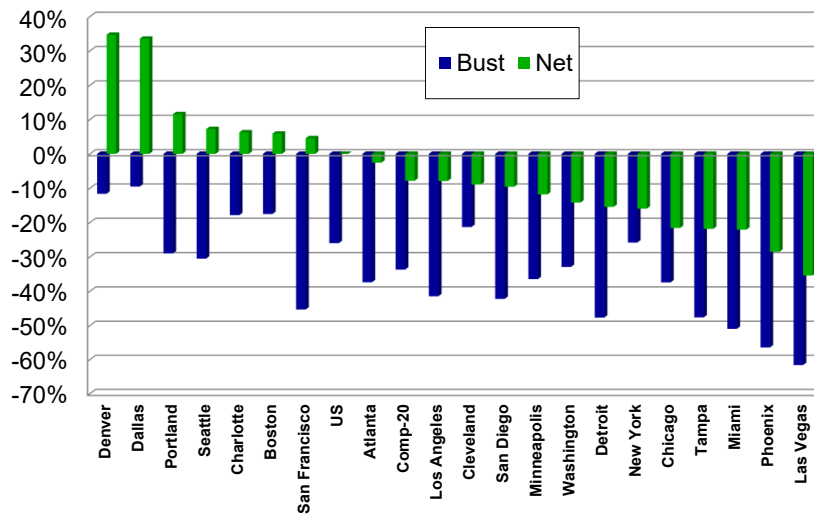
(Source: S&P Case-Shiller & Bureau of Labor Statistics)



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CS/S&P Home Price Index

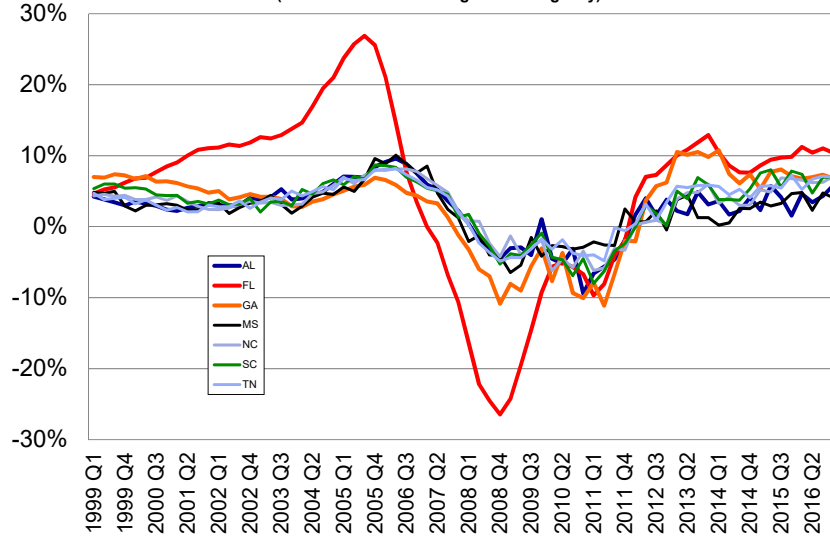
(Source: S&P Case Shiller)



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Home Prices: SE Region

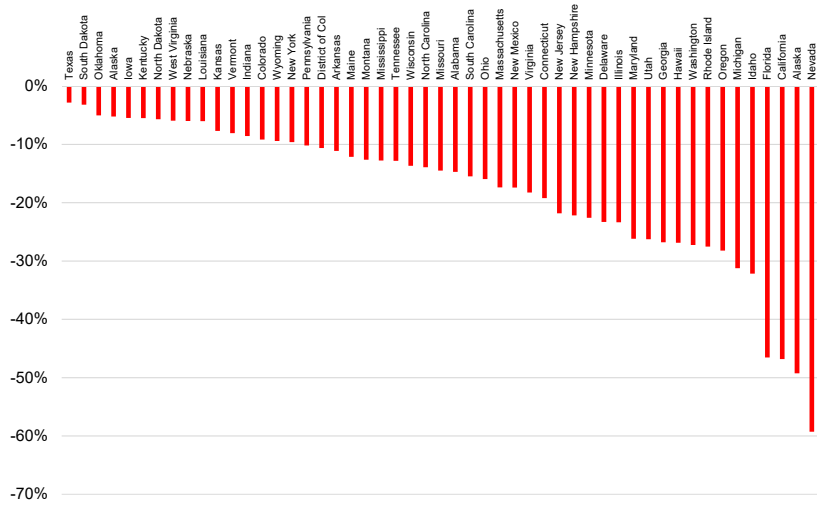
(source: Federal Housing Finance Agency)



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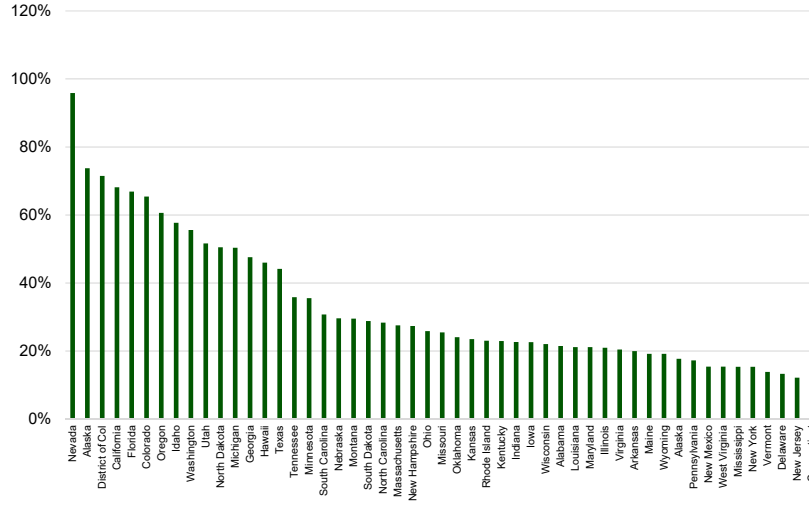
House Prices: Loss



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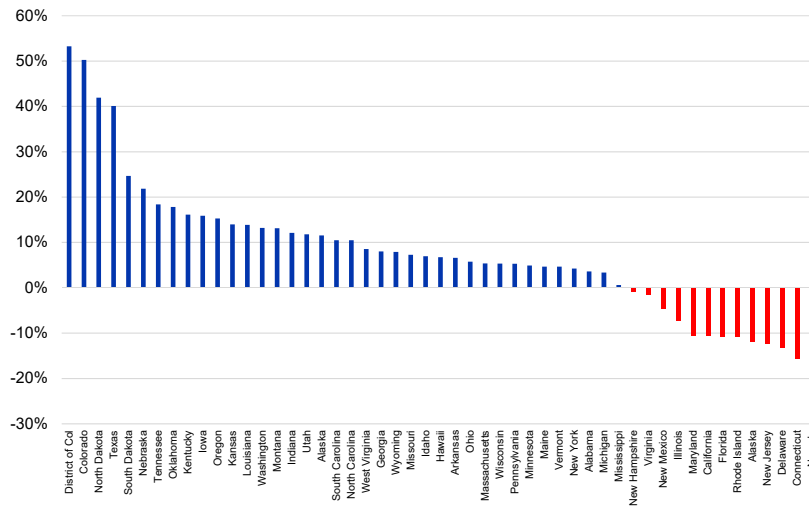


House Prices: Recovery



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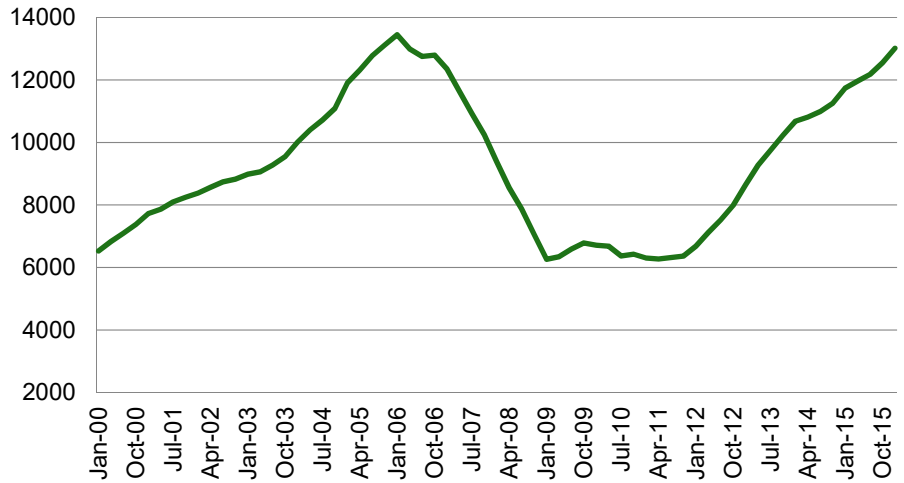
House Prices: Net



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Household RE Equity

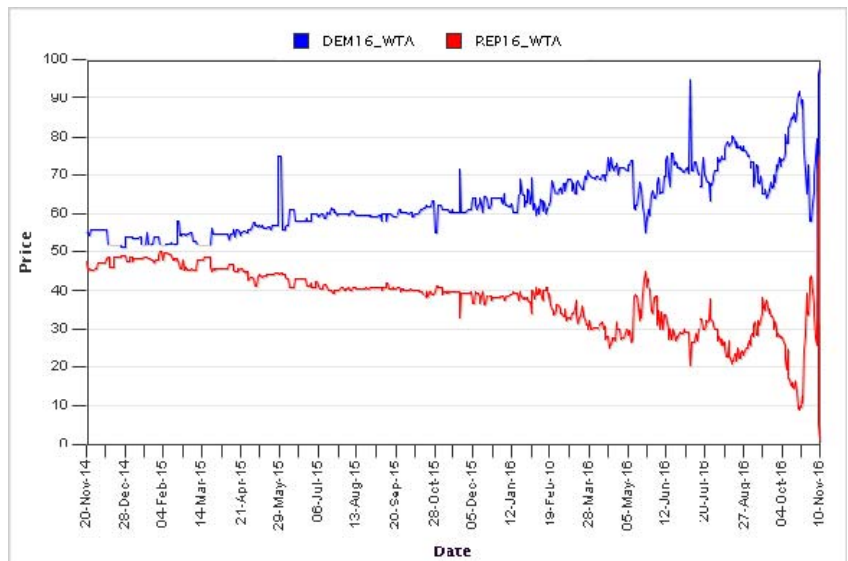
(Source: Board of Governors of Federal Reserve System)



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Election 2016: What Did Everyone Miss?

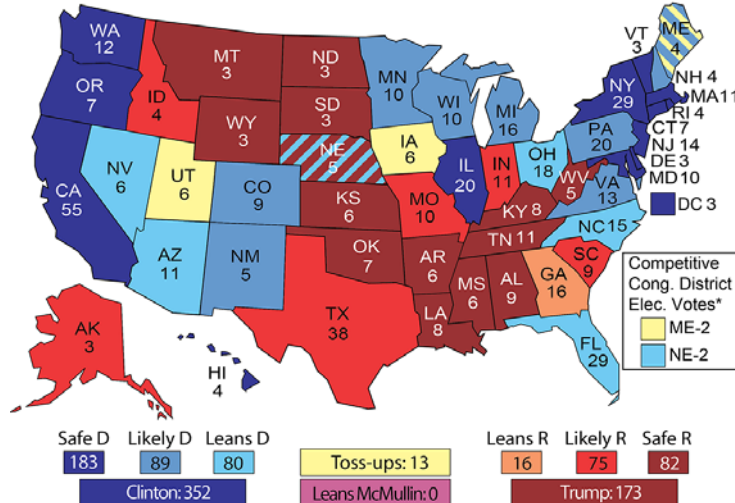
(Source: Iowa Electronic Markets)



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Election 2016: What Did Everyone Miss?

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*Note: The other congressional district electoral votes in Maine and Nebraska are rated as follows -- ME-1 is Safe Democratic and both NE-1 and NE-3 are Safe Republican.

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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 (somewhat), Keystone, Dodd-Frank, EPA, NLRB
 - **Now in Play:** Tax Reform, Infrastructure
 - **Always was in Play:** SCOTUS.
 - **Out of Play:** Student debt?
 - **New Play:** Revising Trade
 - » Bilateral vs Multilateral
 - » Lumber deals and tariffs
- **States:**
 - Tax Reform Initiatives in other States
 - Recent gains in manufacturing facilities due to “reshoring”
 - Film Industry continues recent gains in GA
 - SE states domination biz location ranking, but not exclusive
- **Local:**
 - RE valuation and revenues rising, fiscal distress moderating

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