ON THE ECONOMIC, BUSINESS AND POLITICAL CLIMATE

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Expansion Getting Tired?
(Source: National Bureau Economic Research)

Trough                  Peak                  Months
October 1945 (IV)       November 1948(IV)  37
October 1949 (IV)       July 1953(II)       45
May 1954 (II)           August 1957(III)    39
April 1958 (II)         April 1960(II)      24
February 1961 (I)       December 1969(IV)   106
November 1970 (IV)      November 1973(IV)   36
March 1975 (I)          January 1980(I)     58
July 1980 (III)         July 1981(III)      12
November 1982 (IV)      July 1990(III)      92
March 1991(I)           March 2001(I)       120
November 2001 (IV)      December 2007 (IV)  73
June 2009 (II)          ???                     122

Average Expansion, Post WWII 58.4

Contributions To GDP Growth
(Source: Bureau of Economic Analysis)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>Consumption</th>
<th>Gross Investment</th>
<th>Net Exports</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017: Q3</td>
<td>3.2%</td>
<td>1.61%</td>
<td>1.25%</td>
<td>0.35%</td>
<td>-0.02%</td>
</tr>
<tr>
<td>2017: Q4</td>
<td>3.5%</td>
<td>3.12%</td>
<td>0.80%</td>
<td>-0.80%</td>
<td>0.42%</td>
</tr>
<tr>
<td>2018: Q1</td>
<td>2.5%</td>
<td>1.15%</td>
<td>1.07%</td>
<td>0.00%</td>
<td>0.33%</td>
</tr>
<tr>
<td>2018: Q2</td>
<td>3.5%</td>
<td>2.7%</td>
<td>-0.30%</td>
<td>0.67%</td>
<td>0.44%</td>
</tr>
<tr>
<td>2018: Q3</td>
<td>2.9%</td>
<td>2.34%</td>
<td>2.27%</td>
<td>-2.05%</td>
<td>0.36%</td>
</tr>
<tr>
<td>2018: Q4</td>
<td>1.1%</td>
<td>0.97%</td>
<td>0.53%</td>
<td>-0.35%</td>
<td>-0.07%</td>
</tr>
<tr>
<td>2019: Q1</td>
<td>3.1%</td>
<td>0.78%</td>
<td>1.09%</td>
<td>0.73%</td>
<td>0.5%</td>
</tr>
<tr>
<td>2019: Q2</td>
<td>2.1%</td>
<td>2.85%</td>
<td>-1.00%</td>
<td>-0.65%</td>
<td>0.85%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Investment =</th>
<th>Nonresidential</th>
<th>Residential</th>
<th>Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017: Q3</td>
<td>1.25%</td>
<td>0.32%</td>
<td>-0.08%</td>
<td>1.00%</td>
</tr>
<tr>
<td>2017: Q4</td>
<td>0.80%</td>
<td>1.08%</td>
<td>0.37%</td>
<td>-0.64%</td>
</tr>
<tr>
<td>2018: Q1</td>
<td>1.07%</td>
<td>1.15%</td>
<td>-0.21%</td>
<td>0.13%</td>
</tr>
<tr>
<td>2018: Q2</td>
<td>-0.30%</td>
<td>1.04%</td>
<td>-0.15%</td>
<td>-1.20%</td>
</tr>
<tr>
<td>2018: Q3</td>
<td>2.27%</td>
<td>0.29%</td>
<td>-0.16%</td>
<td>2.14%</td>
</tr>
<tr>
<td>2018: Q4</td>
<td>0.53%</td>
<td>0.64%</td>
<td>-0.18%</td>
<td>0.07%</td>
</tr>
<tr>
<td>2019: Q1</td>
<td>1.09%</td>
<td>0.60%</td>
<td>-0.04%</td>
<td>0.53%</td>
</tr>
<tr>
<td>2019: Q2</td>
<td>-1.00%</td>
<td>-0.08%</td>
<td>-0.06%</td>
<td>-0.86%</td>
</tr>
</tbody>
</table>
ISM’s “PMI”
(Source: Institute of Supply Management)

Industrial Production
(Source: Federal Reserve BOG)
Basis of Tariffs

- Section 232: certain circumstances allows the president to impose tariffs based on the recommendation from the Secretary of Commerce if "an article is being imported into the United States in such quantities or under such circumstances as to threaten or impair the national security.

- Section 301: designed to eliminate unfair foreign trade practices that adversely affect U.S. trade and investment in both goods and services.

Consumer Sentiment
(source: University of Michigan, Survey Research Center)
Retail Sales
(source: U.S. Bureau of the Census, annual rate of growth)

Auto & Light Truck Sales
(Source: Department of Commerce, in millions)
Corporate Profits
(with CCA & Inventory adjustment)
(source: U.S. Bureau of the Census, annual rate of growth)

Leading Economic Indicators
(source: Conference Board, % change in last 6 months)
Change in Payroll Employment
(Source: Bureau of Labor Statistics)

State Employment (Net Change)
(source: Bureau of Labor Statistics)
Prices:
Still talk of Deflation/Inflation?
(source: Bureau of Labor Statistics)

- CPI was up 0.1% in June – after being up 0.1% and 0.3% in May and April.
- Core CPI up 0.3% in June – after rising by 0.1% in previous three months.
- Overall CPI up 1.6% over last 12 months. Core up 2.1% over same period.
- Energy component down by 3.4% over the last 12 months.

Crude Oil: West Texas Intermediate
(Source: US Energy Information Administration)
Natural Gas: Henry Hub
(Source: US Energy Information Administration)

Construction Cost w/o Energy
(Source: BLS PPI & ABC)
Federal Funds Rate
9 Short Rate Hikes Later
(Source: Board of Governors of Federal Reserve System)

Real Federal Funds Rate:
FFR less 6 month core PCE
(Source: Board of Governors of Federal Reserve System)
Market’s FFR Outlook
(Source: CME Group)

Market’s FFR Outlook: 6 Months Ago
(Source: CME Group)
Comments on LIBOR/SOFR

- LIBOR fading away?
- SOFE is secured, based on actual transactions.
- Transitions on exiting contract will be challenging.
- Derivatives have longest exposure

10-Year Treasury Bonds
(Source: Board of Governors of Federal Reserve System)
**“PIIGS Revisited”**
(Source: European Central Bank)

![Graph](image)

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
CRE Loan Standards: Net Tightening
(Source: Federal Reserve System, Senior Officers Lending Survey)
Total Debt Balance and Composition
(source: Federal Reserve Bank of New York Credit Panel/Equifax)

Mortgage Origination by Score
(source: Federal Reserve Bank of New York Credit Panel/Equifax)
90+ Days Delinquent by Loan Type
(source: Federal Reserve Bank of New York Credit Panel/Equifax)

Charge Off Rates at Banks
(source: Board of Governors of the Federal Reserve System)

Biz
CRE
Credit Unions: Credit Quality

Construction Spending: By Sector
(Source: U.S. Bureau of Census)
Non-Residential Construction
(Source: U.S. Bureau of Census)

US Housing Permits: SF and Total
(source: U.S. Bureau of Census)
US Housing Permits: Multi-family
(Source: U.S. Bureau of Census)

Home Prices & CPI
House Prices: Net

House Prices: L3Yr
Household RE Equity
(Source: Board of Governors of Federal Reserve System)

The Demographics: Boom & Bust
(Source: CDC, US Bureau of Census)
2018 Migration
(source: NAMS Report)

Currents Issues in Fiscal Affairs

- Federal:
  - Shutdown – longest, done for now
  - 2017-18’s Biggest Play: Tax Reform – but 2.0 unlikely
  - Still in Play: Keystone, Dodd-Frank, EPA, NLRB
  - Next in Play: Infrastructure
  - Always in Play: SCOTUS
  - Ongoing Play: Revising Trade
    - Bilateral vs Multilateral, Lumber deals and tariffs

- States:
  - Tax Reform Initiatives in other States slow, but SALT consideration weigh in
  - Recent gains in manufacturing facilities due to “reshoring”
  - SE states domination biz location ranking, but not exclusive.

- Local:
  - RE valuation rising = tax revenues, fiscal distress moderating