ON THE ECONOMIC, BUSINESS AND POLITICAL CLIMATE

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NAAUD
2018 Annual Conference
May 2, 2018
San Antonio, TX
Expansion Getting Tired?
(Source: National Bureau Economic Research)

<table>
<thead>
<tr>
<th>Peak</th>
<th>Trough</th>
<th>Contraction</th>
<th>Expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 1945 (I)</td>
<td>October 1945 (IV)</td>
<td>8</td>
<td>80</td>
</tr>
<tr>
<td>November 1948 (IV)</td>
<td>October 1949 (IV)</td>
<td>11</td>
<td>37</td>
</tr>
<tr>
<td>July 1953 (II)</td>
<td>May 1954 (II)</td>
<td>10</td>
<td>45</td>
</tr>
<tr>
<td>August 1957 (III)</td>
<td>April 1958 (II)</td>
<td>8</td>
<td>39</td>
</tr>
<tr>
<td>April 1960 (II)</td>
<td>February 1961 (I)</td>
<td>10</td>
<td>24</td>
</tr>
<tr>
<td>December 1969 (IV)</td>
<td>November 1970 (IV)</td>
<td>11</td>
<td>106</td>
</tr>
<tr>
<td>November 1973 (IV)</td>
<td>March 1975 (I)</td>
<td>16</td>
<td>36</td>
</tr>
<tr>
<td>January 1980 (I)</td>
<td>July 1980 (III)</td>
<td>6</td>
<td>58</td>
</tr>
<tr>
<td>July 1981 (III)</td>
<td>November 1982 (IV)</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>July 1990 (III)</td>
<td>March 1991 (I)</td>
<td>8</td>
<td>92</td>
</tr>
<tr>
<td>March 2001 (I)</td>
<td>November 2001 (IV)</td>
<td>8</td>
<td>120</td>
</tr>
<tr>
<td>December 2007 (IV)</td>
<td>June 2009 (II)</td>
<td>18</td>
<td>73</td>
</tr>
<tr>
<td>???</td>
<td></td>
<td></td>
<td>106</td>
</tr>
</tbody>
</table>

Average, all cycles:
1945-2009 (11 cycles) 11.1 58.4

GDP vs. Final Sales
(Source: Bureau of Economic Analysis)

GDP vs. Final Sales

2018 ANNUAL MEETING
San Antonio, TX – May 2, 2018
## Contributions To GDP Growth

(Source: Bureau of Economic Analysis)

<table>
<thead>
<tr>
<th>Year</th>
<th>Quarter</th>
<th>GDP</th>
<th>Consumption</th>
<th>Gross Investment</th>
<th>Net Exports</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>Q3</td>
<td>2.8%</td>
<td>1.92%</td>
<td>0.40%</td>
<td>0.36%</td>
<td>0.09%</td>
</tr>
<tr>
<td>2016</td>
<td>Q4</td>
<td>1.8%</td>
<td>1.99%</td>
<td>1.34%</td>
<td>-1.61%</td>
<td>0.03%</td>
</tr>
<tr>
<td>2017</td>
<td>Q1</td>
<td>1.2%</td>
<td>1.32%</td>
<td>-0.20%</td>
<td>0.22%</td>
<td>-0.11%</td>
</tr>
<tr>
<td>2017</td>
<td>Q2</td>
<td>3.1%</td>
<td>2.28%</td>
<td>0.64%</td>
<td>0.21%</td>
<td>-0.03%</td>
</tr>
<tr>
<td>2017</td>
<td>Q3</td>
<td>3.2%</td>
<td>1.49%</td>
<td>1.19%</td>
<td>0.36%</td>
<td>0.12%</td>
</tr>
<tr>
<td>2017</td>
<td>Q4</td>
<td>2.9%</td>
<td>2.75%</td>
<td>0.78%</td>
<td>-1.16%</td>
<td>0.51%</td>
</tr>
<tr>
<td>2018</td>
<td>Q1</td>
<td>2.3%</td>
<td>0.73%</td>
<td>1.19%</td>
<td>0.20%</td>
<td>0.02%</td>
</tr>
</tbody>
</table>

## Contributions To GDP Growth Breakdown

GDP = Consumption + Gross Investment + Net Exports + Government

<table>
<thead>
<tr>
<th>Year</th>
<th>Quarter</th>
<th>Gross Investment =</th>
<th>Nonresidential</th>
<th>Residential</th>
<th>Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>Q3</td>
<td>0.40%</td>
<td>0.42%</td>
<td>-0.18%</td>
<td>0.16%</td>
</tr>
<tr>
<td>2016</td>
<td>Q4</td>
<td>1.34%</td>
<td>0.02%</td>
<td>0.26%</td>
<td>1.06%</td>
</tr>
<tr>
<td>2017</td>
<td>Q1</td>
<td>-0.20%</td>
<td>0.86%</td>
<td>0.41%</td>
<td>-1.46%</td>
</tr>
<tr>
<td>2017</td>
<td>Q2</td>
<td>0.64%</td>
<td>0.82%</td>
<td>-0.30%</td>
<td>0.12%</td>
</tr>
<tr>
<td>2017</td>
<td>Q3</td>
<td>1.19%</td>
<td>0.58%</td>
<td>-0.21%</td>
<td>0.79%</td>
</tr>
<tr>
<td>2017</td>
<td>Q4</td>
<td>0.78%</td>
<td>0.84%</td>
<td>0.46%</td>
<td>-0.53%</td>
</tr>
<tr>
<td>2018</td>
<td>Q1</td>
<td>1.19%</td>
<td>0.76%</td>
<td>0.00%</td>
<td>0.43%</td>
</tr>
</tbody>
</table>
Industrial Production

-25%  -20%  -15%  -10%  -5%  0%  5%  10%  15%

Jan-03 Sep-03 May-04 Jan-05 Sep-05 May-06 Jan-07 Sep-07 May-08 Jan-09 Sep-09 May-10 Jan-11 Sep-11 May-12 Jan-13 Sep-13 May-14 Jan-15 Sep-15 May-16 Jan-17 Sep-17

L12M
L6M

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San Antonio, TX – May 2, 2018

Industrial Production

-20% -15% -10% -5%  0%  5%  10%  15%


IP
Manufacturing
Electr Power
Foreign Exchange: Trading Partners
(Source: Board of Governors of the Federal Reserve System)

Consumer Sentiment
(source: University of Michigan, Survey Research Center)
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”

Retail Sales
(source: U.S. Bureau of the Census, annual rate of growth)
State Employment (Job Loss)
(source: Bureau of Labor Statistics)

-16%
-14%
-12%
-10%
-8%
-6%
-4%
-2%
0%
2%

North Dakota
District of Columbia
Alaska
South Dakota
Louisiana
West Virginia
Nebraska
New York
Texas
Massachusetts
Iowa
Pennsylvania
Vermont
Maine
New Hampshire
Oklahoma
Montana
Arkansas
Virginia
Kansas
Wyoming
Maryland
Missouri
Minnesota
New Mexico
Wisconsin
New Jersey
Washington
Colorado
Kentucky
Mississippi
Rhode Island
Illinois
Connecticut
Hawaii
Utah
Alabama
Indiana
Tennessee
Ohio
Delaware
North Carolina
Georgia
California
South Carolina
Oregon
Idaho
Michigan
Florida
Arizona
Nevada

State Employment (Net Change)
(source: Bureau of Labor Statistics)

-6%
-3%
0%
3%
6%
9%
12%
15%
18%
21%

Utah
Texas
North Dakota
Colorado
District of Columbia
Washington
Idaho
California
Oregon
Florida
Massachusetts
New York
South Carolina
Tennessee
Georgia
North Carolina
South Dakota
Nevada
Minnesota
Montana
Nebraska
Hawaii
Virginia
Arizona
New Hampshire
Indiana
Maryland
Michigan
Delaware
Oklahoma
Kentucky
Iowa
Wisconsin
Pennsylvania
Missouri
Arkansas
Ohio
Alaska
Louisiana
New Jersey
Rhode Island
Vermont
Illinois
Kansas
Maine
Mississippi
Alabama
New Mexico
Connecticut
West Virginia
Wyoming

State Employment (L12M)
(source: Bureau of Labor Statistics)

Impact of Energy on Employment
(source: BLS)
**US Employment Shift by Sector**
(Source: Bureau of Labor Statistics)

-6%
-4%
-2%
0%
2%
4%
6%
8%
10%

<table>
<thead>
<tr>
<th>Sector</th>
<th>L12M</th>
<th>L5Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>0%</td>
<td>-5%</td>
</tr>
<tr>
<td>Mining</td>
<td>-6%</td>
<td>-6%</td>
</tr>
<tr>
<td>Const</td>
<td>-4%</td>
<td>-4%</td>
</tr>
<tr>
<td>Manuf</td>
<td>-2%</td>
<td>-2%</td>
</tr>
<tr>
<td>Trans &amp; Util</td>
<td>0%</td>
<td>-2%</td>
</tr>
<tr>
<td>Info</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Fin</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Prof &amp; Biz Ser</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Educ &amp; HC</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Leis &amp; Hosp</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Other Serv</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Govt</td>
<td>-2%</td>
<td>-2%</td>
</tr>
</tbody>
</table>

**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
Crude Oil: West Texas Intermediate
(Source: US Energy Information Administration)

Natural Gas: Henry Hub Spot
(Source: US Energy Information Administration)
Federal Funds Rate
Short Rates Finally Start Moving
(Source: Board of Governors of Federal Reserve System)

Market’s FFR Outlook
(Source: CME Group)
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

Fed: Securities Held Outright
2-10 Treasury Spread
(Source: Board of Governors of Federal Reserve System)

C & I Loan Growth
(growth rate L12M)
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)

CRE Loan Standards: Net Tightening
(Source: Federal Reserve System, Senior Officers Lending Survey)
The Demographics: Boom & Bust
(Source: CDC, US Bureau of Census)

The Demographics: Life Expectancy at 60
(Source: CDC, US Bureau of Census)
Home Prices & CPI

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

2000
4000
6000
8000
10000
12000
14000

Jan-00 Oct-00 Jul-01 Apr-02 Jan-03 Oct-03 Jul-04 Apr-05 Jan-06 Oct-06 Jul-07 Apr-08 Jan-09 Oct-09 Jul-10 Apr-11 Jan-12 Oct-12 Jul-13 Apr-14 Jan-15 Oct-15

2017 Migration
(source: NAMS Report)
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.

Currents Issues in Fiscal Affairs

- Federal:
  - 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
Election 2016: What Did Everyone Miss?
(Source: Iowa Electronic Markets)

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