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ECONOMIC OUTLOOK UPDATE

QUARTERLY

2Q 2016

ECONOMIC UPDATE AT A GLANCE (2Q 2016 SUMMARY)

The U.S. economy—as indicated by GDP—grew at an annual rate of 1.2% in the second quarter of 2016. This rate was about half of economists' expectations, as GDP was dragged down as businesses reduced their inventories and held off on major business investments. The decline in inventories was the most since the third quarter of 2011. Excluding inventories, GDP rose at a 2.4% rate in the second quarter. Private fixed investment, which includes residential and business spending, dropped 3.2% in the second quarter, the largest decline in seven years. Total government spending declined in the second quarter, with federal nondefense spending being the only subcategory that rose. Consumers were resilient in the second quarter, with consumer spending growing at its fastest pace in the past six quarters, driving the second-quarter GDP into positive territory. The trade deficit narrowed and contributed somewhat to the second-quarter growth in GDP.

Data analyzed by the Conference Board continue to indicate moderating economic growth through the end of 2016. Further, the weaknesses among the leading indicators have become somewhat more widespread than the strengths in recent months. However, the report noted that the economy still appears resilient enough to weather volatility in the financial markets and a moderating outlook in the labor markets.

After weak growth in May, job creation surged in June, rising by 287,000 new jobs. This marked the strongest month for jobs since October 2015 and was far greater than economists' forecast. Job growth so far this year has average 172,000 jobs per month, which is well above the pace the White House Council of Economic Advisers has stated is necessary to maintain a low and stable unemployment rate. The unemployment rate crept up 0.2 percentage point in June, though some of the rise was attributed to more workers entering the workforce, as the labor-force participation rate also edged up.

While job growth rose significantly in June, wage growth only improved modestly. Average hourly earnings for all private-sector employees increased only two cents in June. Regardless, the White House Council of Economic Advisers drew attention to the fact that nominal hourly earnings for all private-sector workers have increased 2.6% over the past 12 months while consumer prices have risen just 1.0%. It found that nominal hourly wages have generally been rising faster than inflation since mid-2012, translating into real wage gains for American workers.

The Federal Open Market Committee made the decision to maintain the target range for the federal funds rate at 0.25% to 0.5%. In making its decision to leave the target for the federal funds rate unchanged, the FOMC stated that it wishes to maintain an accommodative policy in order to further support improvement in labor market conditions and a return to 2.0% inflation, which has been running low due to past declines in energy prices.

Readings for consumer confidence were mixed in June. The Consumer Confidence Index rose to an eight-month high, while the Consumer Sentiment Index retreated slightly. The Consumer Confidence report found Americans becoming more optimistic about the economy. The Consumer Confidence report found that consumers' impression of current situations reached its second-highest reading since September 2007, and their optimism toward their short-term outlook was the highest in five months. On the other hand, the Consumer Sentiment report found that Americans had greater concerns about prospects for the economy. The survey found that consumers do not anticipate there will be a recession but have increasingly come to expect that the pace of economic growth will slow in the next year.

Business-owner optimism improved for middle-market businesses but was not significantly better for small businesses. The Small Business Optimism Index edged up slightly, but the National Federation of Independent Business called the increase "negligible." The component that improved the most was the one that measures whether business owners believe the economy will improve. Regardless, more owners believe the economic conditions will worsen rather than improve, with a net -9.0% of owners expecting improved conditions. The 2Q 2016 Wells Fargo/Gallup Small Business Index moved down, marking the fourth decline in the past five quarters. The report found that, while business owners remain cautious, small-business optimism over the past year has been higher than at any point since 2008. The RSM U.S. Middle Market Business Index increased and indicated that the U.S. middle market is expanding. The results also indicated that the middle market is outperforming large corporations, which have more broad exposure to the global economy.

Growth in the manufacturing sector, as measured by the Institute for Supply Management's manufacturing index, rose in June. The index showed that the manufacturing sector expanded for the fourth consecutive month, following five months of contraction. Industrial production also advanced in June, with the component that measures manufacturing advancing 0.4% in June and 0.4% over the past 12 months.

The services sector continued to expand in June, as measured by the Supply Management's services index, and the pace of expansion quickened. The comments from respondents were mostly positive about business conditions and the economy. The report also found that there was a strong rebound from the "cooling-off" that occurred in May.

Most of the major stock indexes recorded gains in the second quarter, though there was some volatility toward the end June as a result of Britain's vote to exit the European Union. Performance among the sectors within the S&P 500 varied. A partial rebound in oil prices helped the

About the Analysis in this Report

A well-prepared business valuation contains a thorough and relevant economic section. Revenue Ruling 59-60 requires consideration of "the economic outlook in general and the condition and outlook of the specific industry in particular." An understanding of the economic outlook is fundamental to developing reasonable expectations about a subject company's future prospects. In any business valuation, the general economic outlook as of the appraisal date should be considered, since the national economic outlook is often the basis of how investors perceive alternative investment opportunities at any given time. Appraisers and analysts should integrate the information presented in the Economic Outlook Update with their valuation assignment and discuss how the economic information impacts their valuation assumptions and conclusions.

In this analysis, we examine the general economic climate that existed at the end of the second quarter of 2016. This summary provides an overview of some selected economic factors that prevailed at that time as well as a discussion of the factors that are crucial over an extended time period. Topics addressed include general economic conditions, gross domestic product, consumer prices and inflation rates, energy prices, interest rates, unemployment, consumer spending, the stock and bond markets, construction, manufacturing, real estate markets, and the future economic outlook.

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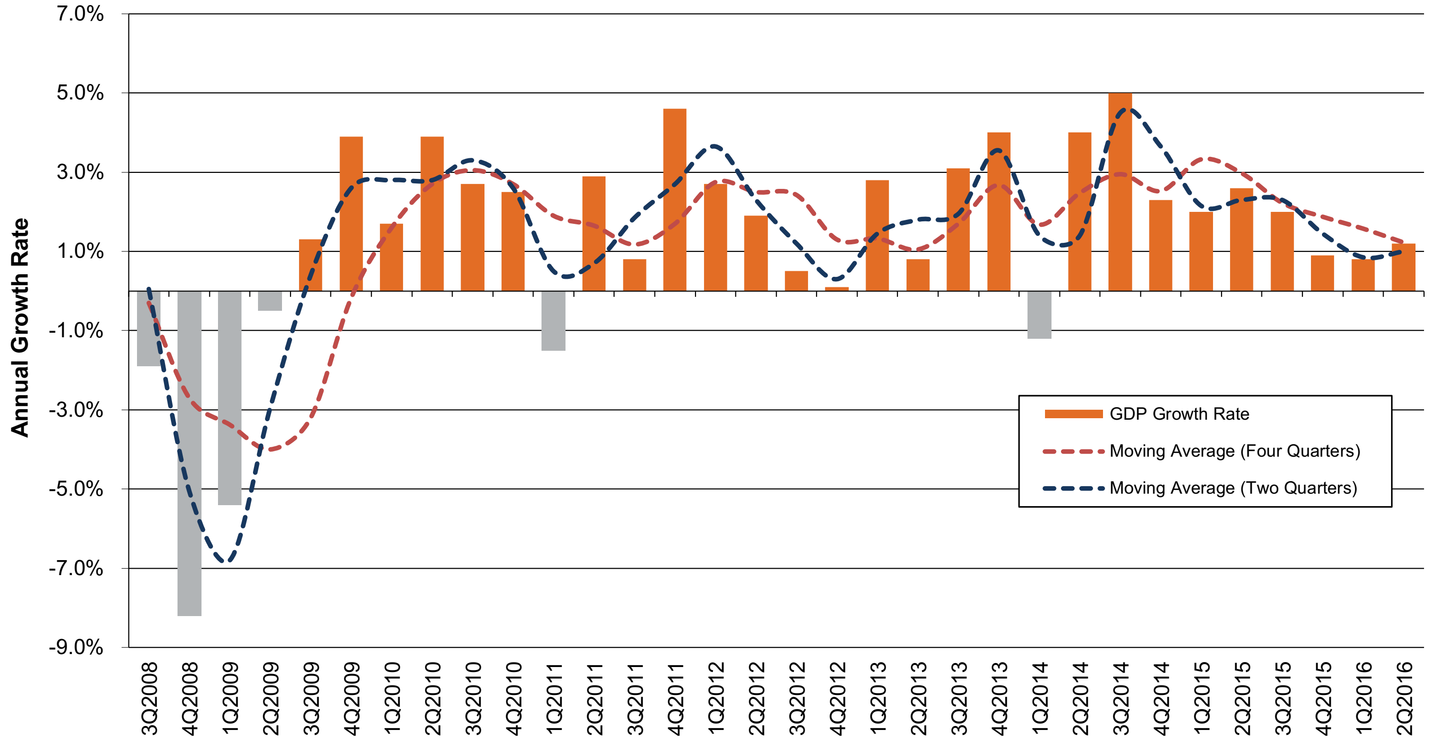
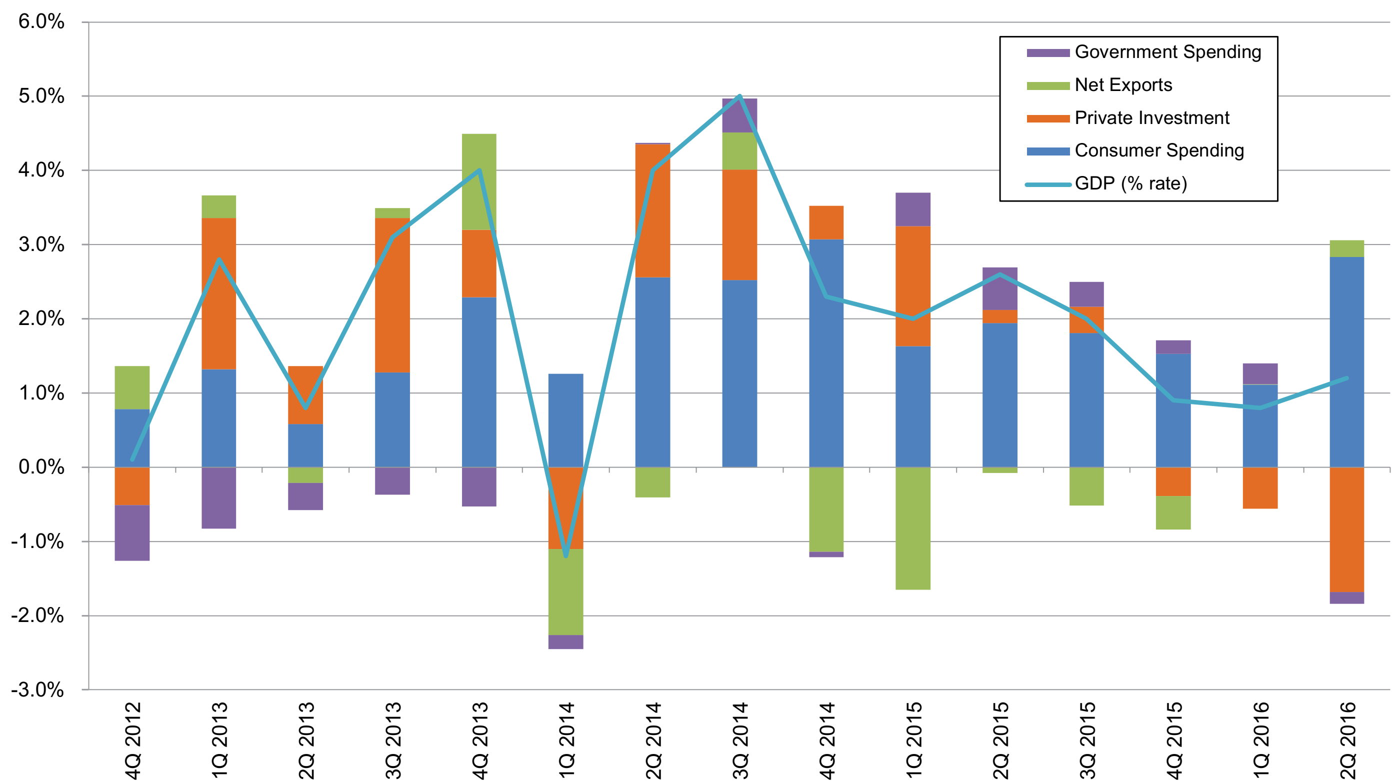
EXHIBIT 1A: Real Gross Domestic Product and Moving Averages



Source of data: U.S. Department of Commerce.
Note: Figures are seasonally adjusted at annual rates. As the U.S. Department of Commerce issues revised data, some historically reported figures may change.

EXHIBIT 1B: GDP Components—Contribution to GDP Rate



energy sector gain nearly 12.0%, while the information technology and consumer discretionary segments recorded losses for the period.

Amid concerns over Britain's exit from the European Union, yields on intermediate- and long-term U.S. Treasury yields retreated as investors sought out haven debt, causing prices to rise. Britain's exit also caused yields in Japan, Germany, Switzerland, the U.K., Sweden, and Denmark to all reach record lows. This drove investors into U.S. Treasuries, which were offering more attractive yields at the time, sending U.S. yields down to near record lows.

Housing starts and building permits both rose in June, though they remained below their levels from a year ago due to decreased activity in the multifamily home sector. Existing-home sales continued their upward trajectory in June, rising for the fourth consecutive month to their highest annual pace since February 2007. Home prices continued to climb in June, rising for the 52nd consecutive month to their highest prices on record.

The National Association of Realtors Confidence Index for current conditions improved but was unchanged for single-family homes and townhouses, though it improved slightly for condos. Regardless, it was up for all three

EXHIBIT 2A: Historical Economic Data 2004-2015 and Forecasts 2016-2026

	HISTORICAL DATA												CONSENSUS FORECASTS**						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022-2026
Real GDP*	3.8	3.3	2.7	1.8	-0.3	-2.8	2.5	1.6	2.2	1.7	2.4	2.6	1.9	2.3	2.3	2.2	2.2	2.2	2.2
Industrial production*	2.6	3.3	2.2	2.5	-3.6	-11.5	5.5	2.9	2.8	1.9	2.9	0.3	-0.4	2.3	2.5	2.4	2.5	2.4	2.3
Consumer spending*	3.8	3.5	3.0	2.2	-0.3	-1.6	1.9	2.3	1.5	1.5	2.9	3.2	2.7	2.5	2.5	2.3	2.3	2.3	2.3
Real disposable personal income*	3.6	1.5	4.0	2.1	1.5	-0.4	1.0	2.5	3.2	-1.4	2.7	3.5	3.0	2.4	2.6	2.5	2.3	2.2	2.3
Business investment*	5.2	7.0	7.1	5.9	-0.7	-15.6	2.5	7.7	9.0	3.5	6.0	2.1	-0.5	3.6	3.9	3.8	3.7	3.8	3.6
Nominal pretax corp. profits*	21.5	15.1	11.4	-7.1	-16.0	8.4	25.0	4.0	10.0	1.7	5.9	-3.0	-2.9	3.0	3.6	4.1	3.4	3.6	3.9
Total government spending*	1.6	0.6	1.5	1.6	2.8	3.2	0.1	-3.0	-1.9	-2.9	-0.9	1.8	1.2	1.0	NA	NA	NA	NA	NA
Consumer price inflation*	2.7	3.4	3.2	2.8	3.8	-0.4	1.6	3.2	2.1	1.5	1.6	0.1	1.3	2.3	2.3	2.3	2.3	2.3	2.3
3-month Treasury bill rate	1.40	3.22	4.85	4.48	1.40	0.15	0.14	0.05	0.09	0.06	0.03	0.1	0.7	1.6	2.5	2.8	2.9	3.0	3.1
10-year Treasury bond yield	4.27	4.29	4.80	4.63	3.66	3.26	3.22	2.78	1.80	2.35	2.54	2.1	2.2	2.8	3.5	3.7	3.8	3.9	4.1
Unemployment rate	5.5	5.1	4.6	4.6	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.8	4.5	NA	NA	NA	NA	NA
Housing starts (millions)	1.956	2.068	1.801	1.355	0.906	0.554	0.587	0.609	0.781	0.925	1.003	1.112	1.190	1.340	NA	NA	NA	NA	NA

Source of historical data: U.S. Department of Commerce, U.S. Department of Labor, U.S. Census Bureau and The Federal Reserve Board.
Source of forecasts: *Consensus Forecasts - USA*, June 2016.
Notes:

*Numbers are based on percent change from preceding period.

Historic consumer price inflation, unemployment rate, 3-month Treasury rate, and 10-year Treasury yield are the annual averages.

**Forecast numbers are based on percent change from preceding period (excludes unemployment rate, housing starts, 3-month Treasury rate, and 10-year Treasury yield). Consumer price inflation information is annual averages. The 2016 through 2021 forecasts for the 3-month Treasury rate and 10-year Treasury yield are for the end of each period. Forecasts for 2022-2026 signify the average for that period.

Consumer spending, also known as personal consumption expenditures, includes spending on services, durable, and nondurable goods. Business investment is also referred to as nonresidential fixed investment. Total government spending includes federal, state, and local government spending.

Every month, Consensus Economics surveys a panel of 30 prominent United States economic and financial forecasters for their predictions on a range of variables including future growth, inflation, current account and budget balances, and interest rates.

housing types compared to a year ago. Builder confidence, as measured by the National Association of Home Builders/Wells Fargo Housing Market Index, improved in June and remained at a level indicating homebuilders continue to be positive about the housing market.

The National Association of Realtors' most recent Commercial Real Estate Market Survey, analyzing the first quarter of 2016, found that commercial real estate investments continued to keep a positive pace. The report found that 58.0% of Realtors closed a commercial sale and sales volumes rose 8.5% from the same period one year ago. The members surveyed were positive about the general direction of business opportunities.

1. GROSS DOMESTIC PRODUCT

The Bureau of Economic Analysis (BEA) reported that the nation's economy—as indicated by GDP—grew at an annual rate of 1.2% in the second quarter of 2016. This was the quickest pace in the past three quarters, but half of what economists had expected. A Bloomberg survey of economists found the median expectation for GDP to be an advance of 2.5%. The second-quarter BEA report found that companies reduced their inventories and were

EXHIBIT 2B: Historical Energy Data 2005-2015 and Forecasts 2016-2017

	HISTORICAL DATA											EIA FORECASTS		% CHANGE	
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2016	2017
Brent crude oil spot price*	54.60	65.18	72.49	96.94	61.75	79.64	111.33	111.65	108.56	98.89	52.32	43.73	52.15	-16.4%	19.3%
West Texas intermediate crude oil price*	56.65	66.06	72.34	99.67	61.96	79.50	94.90	94.08	97.98	93.17	48.67	43.57	52.15	-10.5%	19.7%
Heating oil retail price**	219.5	247.3	266.4	350.9	252.4	297.1	365.7	378.6	378.3	371.4	264.9	216.4	263.5	-18.3%	21.8%
Gasoline regular grade retail price**	227.1	257.6	280.6	325.7	234.9	278.1	352.6	362.7	350.6	336.4	242.8	211.8	227.9	-12.8%	7.6%
Electricity residential retail price***	9.43	10.40	10.65	11.26	11.51	11.54	11.72	11.88	12.13	12.52	12.67	12.64	13	-0.2%	2.8%
Electricity commerical retail price***	8.72	9.46	9.65	10.26	10.16	10.19	10.23	10.09	10.26	10.74	10.59	10.55	10.81	-0.4%	2.5%
Electricity industrial retail price***	5.57	6.16	6.39	6.96	6.83	6.77	6.82	6.67	6.89	7.10	6.90	6.77	6.91	-1.9%	2.1%
Natural gas Henry Hub spot price****	8.81	6.74	6.98	8.86	3.95	4.39	4.00	2.75	3.73	4.39	2.63	2.36	2.95	-10.3%	25.0%
Airline Ticket Price Index	236.6	247.3	251.7	282.0	258.0	278.2	304.0	305.0	312.7	307.7	292.2	294.3	306.6	0.7%	4.2%
Producer Price Index: Petroleum	1.65	1.93	2.14	2.72	1.76	2.25	2.99	3.07	2.95	2.78	1.76	1.47	1.69	-16.5%	15.0%
Producer Price Index: all commodities	1.57	1.65	1.73	1.90	1.73	1.85	2.01	2.02	2.03	2.05	1.90	1.86	1.94	-2.1%	4.3%

Source of historical and forecast data: U.S. Energy Information Administration.
Notes:
*Dollars per barrel
**Cents per gallon, U.S. average
***Cents per kilowatthour, U.S. average
****Dollars per million Btu

reluctant to make major investments. GDP is the total market value of goods and services produced in the U.S. economy and is generally considered the most comprehensive measure of economic growth.

Final sales of domestic product rose in the second quarter, increasing at a rate of 2.4%, up from 1.2% in the first quarter. Final sales of domestic product are GDP minus the influence of private inventory investment, which tends to be volatile from quarter to quarter. Final sales to domestic purchasers, or GDP excluding trade and inventories, grew to a rate of 2.1% in the second quarter from a rate of 1.2% in the first.

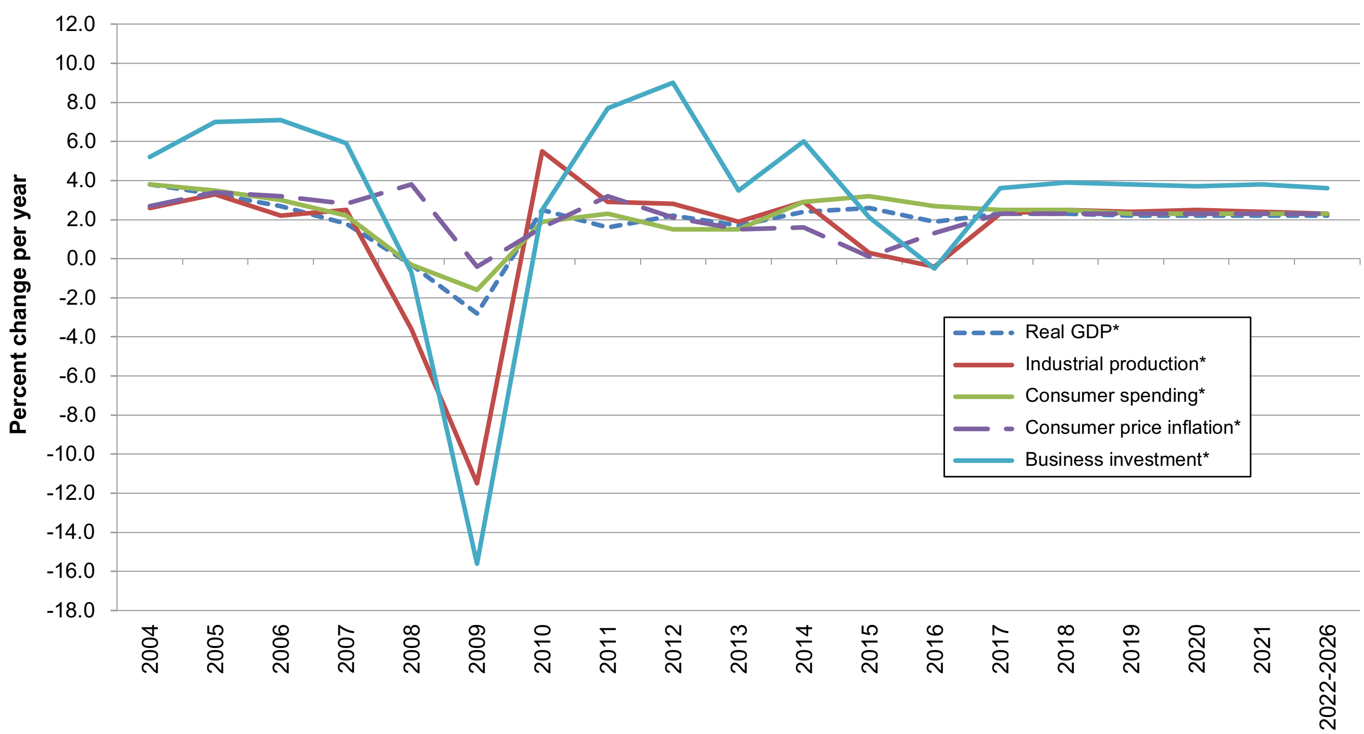
The increase in GDP in the second quarter was the result of positive contributions from consumer spending and exports and was offset by negative contributions from private inventory investment, business investment, residential fixed investment, and state and local government spending. Imports, which are a subtraction in the calculation of GDP, decreased. The acceleration in the second-quarter GDP was the result of an acceleration in consumer spending and an upturn in exports.

(See Exhibits 1A, 1B, 2A, and 4 for historic and forecasted GDP figures.)

1.1 CONSUMER SPENDING

Consumer spending grew at a rate of 4.2% during the second quarter of 2016, the quickest pace of spending in the past six quarters. Consumer spending, also referred to as "personal consumption," accounts for approximately 70% of the U.S. GDP.

EXHIBIT 3: Key Economic Variables Actual 2004-2015 and Forecast 2016-2026



Source of historical data: U.S. Department of Commerce, U.S. Department of Labor and The Federal Reserve Board.
Source of forecasts: Consensus Forecasts.
*Numbers are based on percent change from preceding period. Consumer price inflation information is annual averages.

EXHIBIT 4: Economic Indicators Historical Data

	MONTHLY DATA											
	7/15	8/15	9/15	10/15	11/15	12/15	1/16	2/16	3/16	4/16	5/16	6/16
Real GDP			2.0			0.9			0.8			1.2
Consumer Spending			2.7			2.3			1.6			4.2
Business investment			3.9			-3.3			-3.4			-2.2
Total government spending			1.9			1.0			1.6			-0.9
Exports			-2.8			-2.7			-0.7			1.4
Imports			1.1			0.7			-0.6			-0.4
CPI (one-month % change)	0.1	0.0	-0.1	0.2	0.1	-0.1	0.0	-0.2	0.1	0.4	0.2	0.2
Unemployment rate	5.3	5.1	5.1	5.0	5.0	5.0	4.9	4.9	5.0	5.0	4.7	4.9
PMI	51.9	51.0	50.0	49.4	48.4	48.0	48.2	49.5	51.8	50.8	51.3	53.2
NMI	59.6	58.3	56.7	58.3	56.6	55.8	53.5	53.4	54.5	55.7	52.9	56.5
HMI	60.0	61.0	61.0	65.0	62.0	60.0	61.0	58.0	58.0	58.0	58.0	60.0
Housing starts (millions)	1.147	1.132	1.189	1.073	1.171	1.160	1.128	1.213	1.113	1.155	1.135	1.189
Building permits (millions)	1.142	1.166	1.129	1.175	1.286	1.201	1.188	1.162	1.077	1.130	1.136	1.153

Notes: Real GDP and subcomponents data only available on a quarterly basis and therefore, are quarterly figures. GDP and its subcomponents, along with housing starts and building permits, are seasonally adjusted at annual rates. PMI is the Institute of Supply Management's Manufacturing Index—any reading above 50.0% suggests growth in the manufacturing economy, whereas a reading below 50.0% indicates contraction. NMI is the Institute of Supply Management's Non-Manufacturing Index, which measures the strength of the services sector—any reading above 50.0% suggests growth, whereas a reading below 50.0% indicates contraction. HMI is the National Association of Home Builders/Wells Fargo Housing Market Index—any reading over 50 indicates that more builders view sales conditions as good than poor.

	QUARTERLY DATA											
	3Q 12	4Q 12	1Q 13	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14	3Q 14	4Q 14	1Q 15	2Q 15
Real GDP	0.5	0.1	2.8	0.8	3.1	4.0	-1.2	4.0	5.0	2.3	2.0	2.6
Consumer Spending	1.1	1.1	1.9	0.8	1.9	3.4	1.9	3.8	3.7	4.6	2.4	2.9
Business investment	-2.1	3.7	5.2	2.5	2.1	9.5	7.0	6.1	8.3	-1.1	1.3	1.6
Total government spending	-1.2	-3.8	-4.3	-2.0	-2.0	-2.8	-1.0	0.1	2.5	-0.4	2.6	3.2
Exports	2.0	-0.5	4.0	5.0	3.1	11.8	-2.7	8.7	2.1	4.5	-5.8	2.9
Imports	0.6	-3.8	1.3	5.3	1.7	1.6	4.9	9.9	-1.2	11.2	5.6	2.9
CPI (3-month % change)	1.1	0.1	0.5	0.0	0.6	0.5	0.4	0.5	0.2	-0.4	-0.3	0.7
Unemployment rate	7.8	7.9	7.5	7.5	7.2	6.7	6.6	6.1	5.9	5.6	5.5	5.3
PMI	51.8	49.8	52.5	52.3	55.4	55.9	55.1	55.3	55.8	54.9	52.3	53.1
NMI	54.7	56	55.1	54.1	53.8	53.4	53.9	56.7	57.9	56.9	56.9	56.2
HMI	40.0	47.0	44.0	51.0	57.0	57.0	46.0	49.0	59.0	58.0	52.0	60.0
Housing starts (millions)	0.847	0.976	0.999	0.852	0.860	1.010	0.963	0.927	1.026	1.080	0.954	1.211
Building permits (millions)	0.921	0.938	0.932	0.951	1.015	1.013	1.061	1.033	1.053	1.077	1.038	1.337

Notes: Unemployment rate, housing starts, building permits, PMI, NMI, and HMI are readings from the last month of the quarter. GDP and its subcomponents, along with housing starts and building permits, are seasonally adjusted at annual rates.

	YEARLY DATA											
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Real GDP	3.8	3.3	2.7	1.8	-0.3	-2.8	2.5	1.6	2.2	1.7	2.4	2.6
Consumer Spending	3.8	3.5	3.0	2.2	-0.3	-1.6	1.9	2.3	1.5	1.5	2.9	3.2
Business investment	5.2	7.0	7.1	5.9	-0.7	-15.6	2.5	7.7	9.0	3.5	6.0	2.1
Total government spending	1.6	0.6	1.5	1.6	2.8	3.2	0.1	-3.0	-1.9	-2.9	-0.9	1.8
Exports	9.8	6.3	9.0	9.3	5.7	-8.8	11.9	6.9	3.4	3.5	4.3	0.1
Imports	11.4	6.3	6.3	2.5	-2.6	-13.7	12.7	5.5	2.2	1.1	4.4	4.6
Consumer Price Index	2.7	3.4	3.2	2.8	3.8	-0.4	1.6	3.2	2.1	1.5	1.6	0.1
Unemployment rate	5.5	5.1	4.6	4.6	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.3
Housing starts (millions)	1.956	2.068	1.801	1.355	0.906	0.554	0.587	0.609	0.781	0.925	1.003	1.112
Building permits (millions)	2.070	2.155	1.838	1.398	0.905	0.583	0.605	0.624	0.830	0.991	1.052	1.183

Notes: Yearly Consumer Price Index rates and yearly unemployment rates are the annual average rates.

Personal consumption includes spending on services and durable and nondurable goods. Government spending includes federal, state, and local government spending. As the government issues revised data, some historical reported figures may have changed.

Source of data: U.S. Department of Commerce, U.S. Department of Labor, U.S. Census Bureau, The Federal Reserve Board, the Institute of Supply Management, and the National Association of Home Builders.

The second quarter's growth in consumer spending contributed 2.83 percentage points to the second-quarter GDP, greater than its 1.11-percentage-point contribution in the previous quarter.

(See Exhibits 2A and 4 for historic and forecasted consumer spending figures.)

Consumer spending on durable goods—items meant to last three years or more, such as computers, cars, and machinery—rose at a rate of 8.4% in the second quarter. This was a sharp reversal from the first-quarter rate, when durable goods spending fell 0.6%. Consumer spending on nondurable goods—items such as food and gasoline—increased at a rate of 6.0% in the second quarter, an acceleration from the 2.1% rate in the prior quarter. Among the nondurable goods categories, spending in the second quarter rose significantly on food and beverage grocery items.

Service expenditures grew at a rate of 3.0% in the second quarter of 2016, up from the 1.9% rate in the prior quarter. The increase in spending on household services occurred most notably on housing and utilities and on healthcare.

American spending rose more than expected in June, exceeding even the highest forecast in the Bloomberg survey. The retail sales report found that U.S. sales were broad-based across the retail categories, rising a collective 0.6% in June. The median forecast of economists surveyed by Bloomberg called for a 0.1% gain in June. Retail sales are now up 2.7% from one year ago, as well as up 2.6% for the period from April 2016 to June 2016 compared with the same period in 2015.

The retail sales report showed that the sales gains occurred in 11 of the 13 major categories. Sales rose 3.9% at home improvement and supply stores. The nonstore retailer category, which includes online merchants, saw sales gains of 1.1%. Receipts at gas stations rose 1.2%, but the data are not adjusted for prices, so higher fuel costs can boost gas station receipts.

Sales at auto dealers fell 0.1% in June, after declining 0.5% in the prior month. Excluding purchases of automobiles, retail sales rose 0.7% in June.

Core retail sales rose 0.5% in June and have increased 4.1% over the past year. The core retail sales figure excludes sales of automobiles, gasoline, building materials, and food services and corresponds most closely with the consumer-spending component of gross domestic product.

(See Exhibit 5 for total retail and food service sales figures.)

1.2 GOVERNMENT SPENDING

Total government spending declined at a rate of 0.9% in the second quarter of 2016, with federal nondefense spending being the only subcategory that rose. The second-quarter rate marked the first decline in government spending for the past six quarters. The second-quarter decrease in government spending subtracted 0.16 percentage point to the GDP rate.

(See Exhibits 2A and 4 for historic and forecasted government spending figures.)

Federal government spending fell at a rate of 0.2% in the second quarter, the second consecutive quarterly decline. Federal government spending subtracted 0.02 percentage point from the second-quarter GDP rate.

National defense spending declined at a 3.0% rate in the second quarter of 2016. This was the sixth decline in defense spending in the past seven quarters.

EXHIBIT 5A: Total U.S. Retail Sales—Past 24 Months

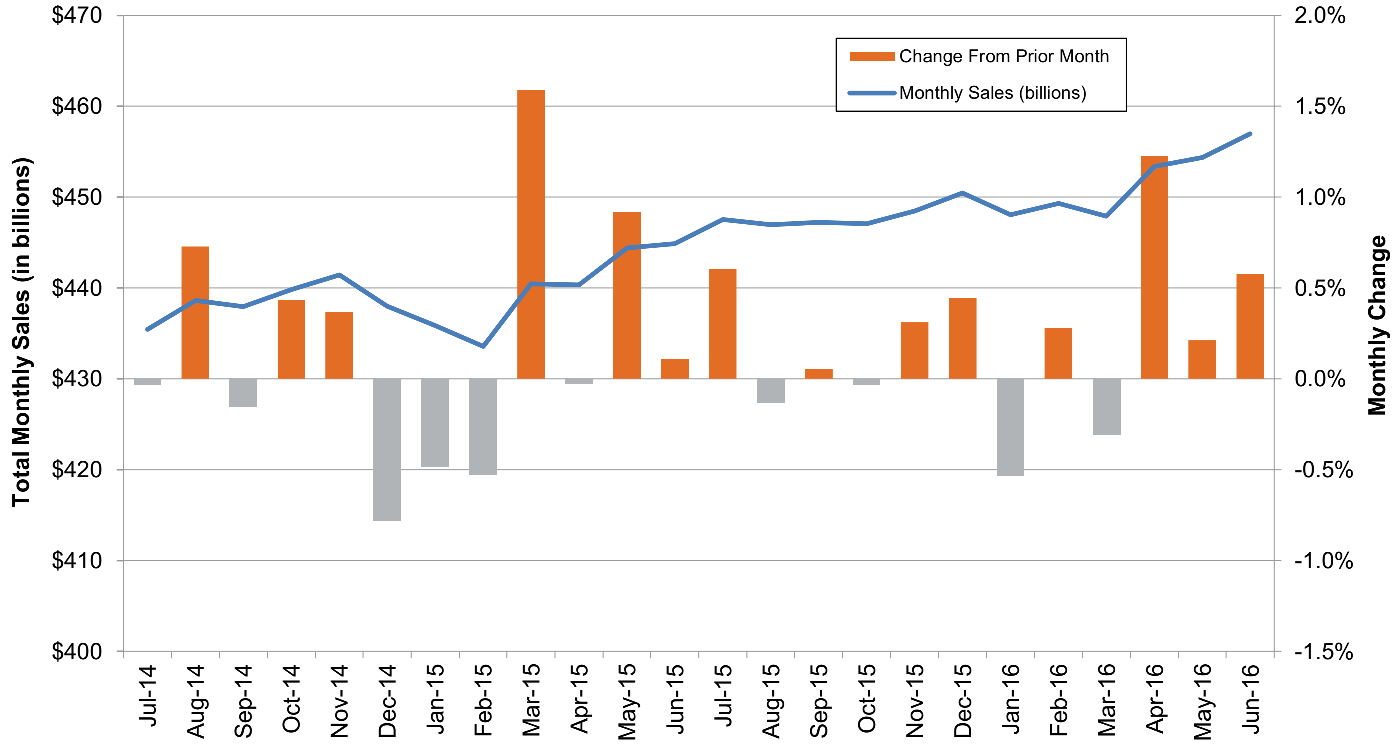
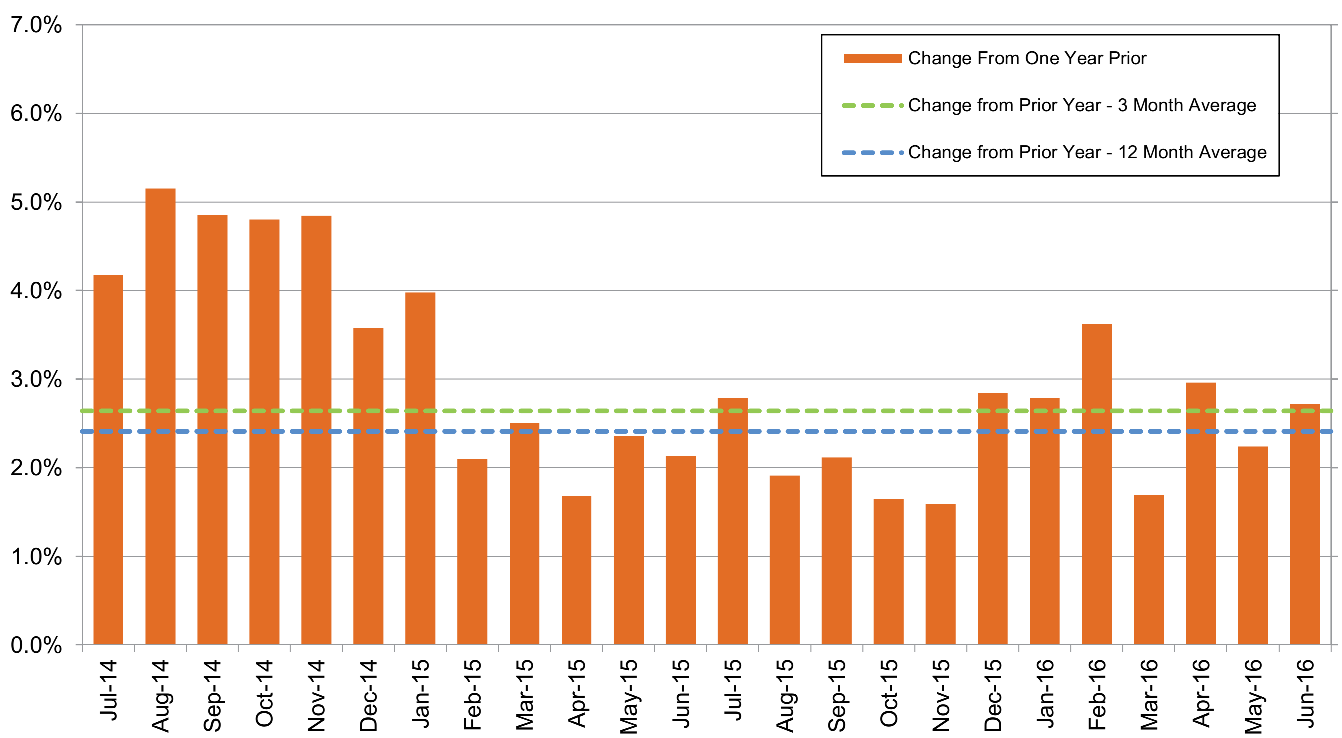


EXHIBIT 5B: Total U.S. Retail Sales Change From One Year Prior—Past 24 Months With Averages



Source of data: U.S. Department of Commerce.
Notes: Monthly retail and food services sale are seasonally adjusted.

EXHIBIT 5C: Total Retail Sales—Monthly Change Since 2008

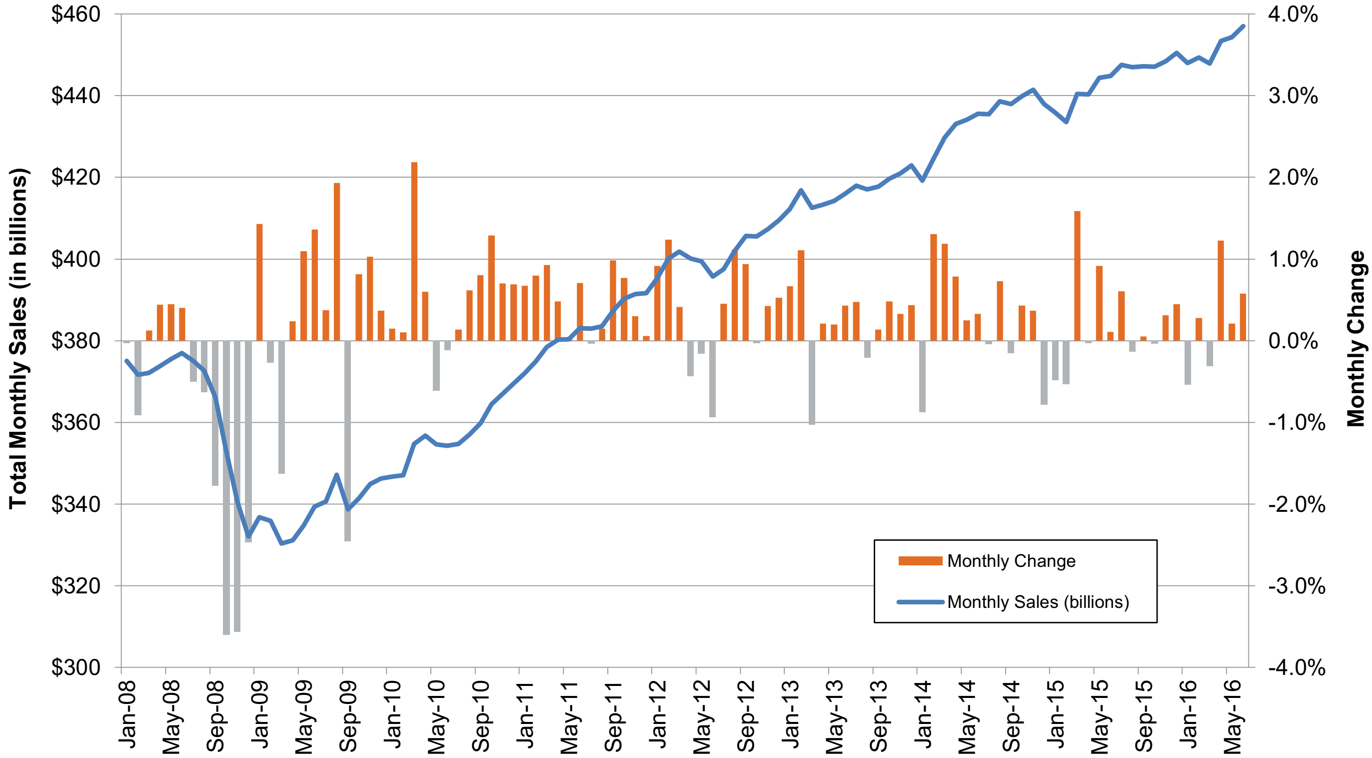
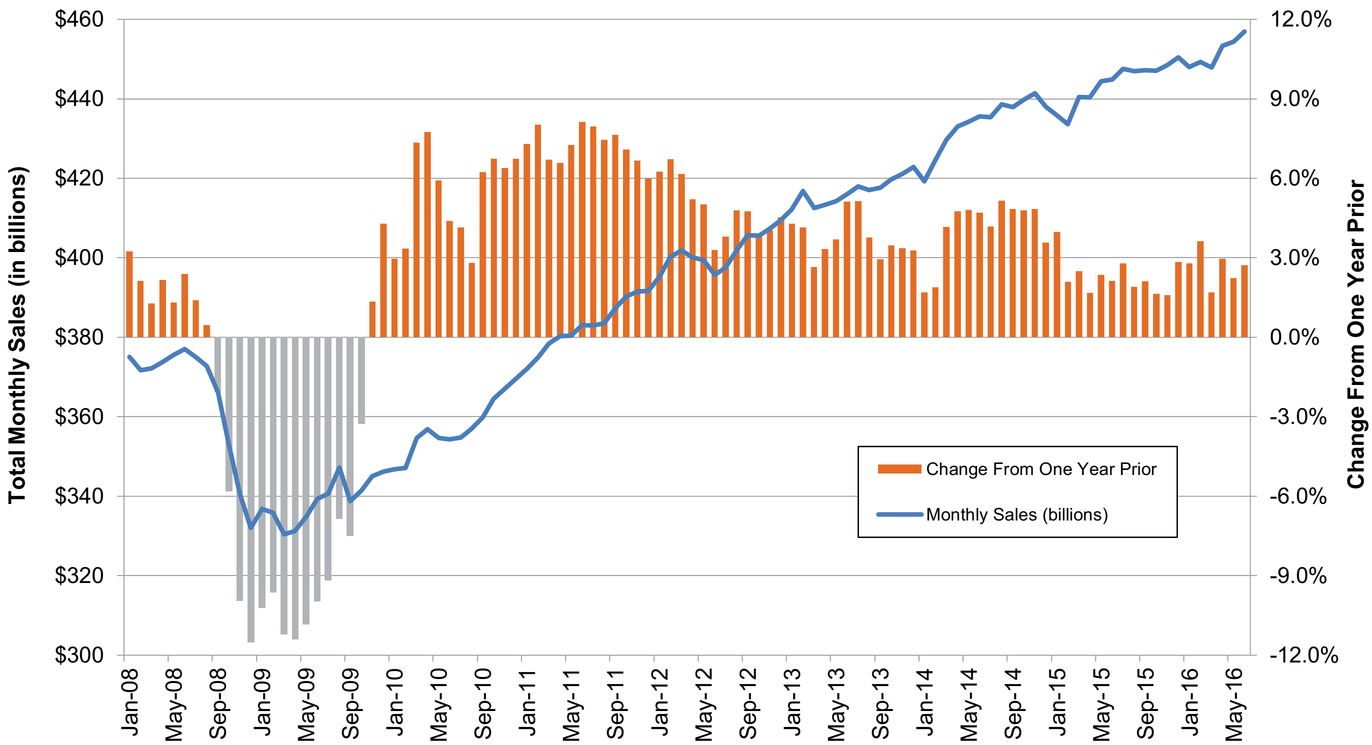


EXHIBIT 5D: Total Retail Sales—Percent Change From One Year Prior Since 2008



Source of data: U.S. Department of Commerce.
Notes: Monthly retail and food services sale are seasonally adjusted.

Federal nondefense spending grew at a rate of 3.9% in the second quarter, an acceleration from the 0.9% rate in the prior quarter.

State and local government spending fell at a rate of 1.3% in the second quarter after rising at a rate of 3.5% in the first quarter. The drop in state and local government spending subtracted 0.14 percentage point to the second-quarter GDP rate.

1.3 FIXED INVESTMENT

Business investment, also referred to as "nonresidential fixed investment," fell at a rate of 2.2% in the second quarter of 2016. This was the third consecutive decline in business investment and stemmed from declines in business spending on equipment and structures during the second quarter. The drop in business investment subtracted 0.28 percentage point from the second-quarter GDP.

(See Exhibits 2A and 4 for historic and forecasted business spending figures.)

Business spending on structures fell at an annual rate of 7.9% in the second quarter, its fifth decline in the past six quarters (in the one quarter where spending on structures rose, the rate was only 0.1%). Business spending on equipment declined at a rate of 3.5% in the second quarter, its third straight decline. On the other hand, business spending on intellectual property products rose for the 12th consecutive quarter, increasing at a rate of 3.5% in the second quarter. Spending on research and development and software accounted for the gain.

Residential fixed investment, often considered a proxy for the housing market, fell for the first time in nine quarters, dropping at a rate of 6.1% in the second quarter. The second-quarter retreat in residential fixed investment deducted 0.24 percentage point from the second-quarter GDP.

1.4 BUSINESS INVENTORIES

Businesses' inventory investments fell $8.1 billion in the second quarter of 2016. This was the largest decline in inventories since the third quarter of 2011. Inventories rose $40.7 billion in the first quarter. The second-quarter decline in business inventory investments subtracted 1.16 percentage points from GDP. Excluding inventories, GDP rose at a 2.4% rate in the second quarter.

1.5 EXPORTS AND IMPORTS

The GDP report showed that America's trade deficit narrowed in the second quarter due to an increase in exports and a decline in imports. Exports rose at a rate of 1.4% in the second quarter of 2016, after falling at a rate of 0.7% in the prior quarter. Exported goods increased at a rate of 2.7% in the second quarter, but exported services decreased at a rate of 0.9%.

Imports, which are a subtraction in the calculation of GDP, retreated at a 0.4% rate in the second quarter after declining at a rate of 0.6% in the previous quarter. Imported goods moved down at a rate of 0.9% in the second quarter, while imported services advanced at a rate of 2.1%.

Net exports (the value of exports minus the value of imports) added 0.23 percentage point to the second-quarter GDP, after adding only 0.01 point in the prior quarter.

(See Exhibit 4 for historic export and import figures.)

2. CONSUMER PRICES AND INFLATION RATES

According to the Bureau of Economic Analysis, the price index for gross domestic purchases rose 2.0% in the second quarter of 2016, a notable increase from the 0.2% rise in the previous quarter. The price index for gross domestic purchases measures prices paid by U.S. residents. Excluding food and energy prices, the price index for gross domestic purchases rose 1.7% in the second quarter, compared with an increase of 2.1% in the previous quarter.

Consumer prices rose in June, as rising energy costs offset a decline in food prices. The Consumer Price Index (CPI) increased 0.2% in June, on a seasonally adjusted basis, and rose 1.0% over the past 12 months. CPI is a measure of a basket of products and services—including housing, electricity, food, and transportation—and is used as a measure of inflation. CPI is comprised of three main indexes: the food index, the energy index, and the all items less food and energy index (also known as "Core CPI"). Core CPI is a measure of inflation that excludes volatile food and energy costs.

The index for food fell 0.1% in June but was up 0.3% over the past 12 months. The index for food at home fell 0.3% in June, with four of the six major grocery store food groups declining. The index for meats, poultry, fish, and eggs fell 0.7% in June, its 10th consecutive decline. The index for food away from home increased 0.2% in June.

The index for energy rose 1.3% in June. June was the fourth consecutive month the energy index rose, but the index's components were mixed. The gas index continued to rise, increasing 3.3% in June. The fuel oil index also rose 3.3% in June. Both the gas index and fuel oil index have increased for four consecutive months. The indexes for electricity and natural gas declined 0.4% and 0.5% in June, respectively. The energy index has declined 9.4% over the past year, with all of its major components falling over that 12-month period.

Core CPI increased 0.2% in June, after also rising 0.2% in the prior month. Core CPI has risen 2.3% over the past 12 months.

(See Exhibits 2A, 4, and 6 for historic and forecasted CPI figures.)

The Producer Price Index (PPI) rose 0.5% in June, on a seasonally adjusted basis, and was up 0.3% over the past 12 months. PPI is a gauge of inflation in the manufacturing process that can be a precursor to inflation in consumer prices. PPI for final demand is comprised of two main indexes: final demand services and final demand goods.

The index for final demand goods advanced 0.8% in June, the largest increase since May 2015. More than 75% of the June increase in the final demand goods index came from prices for final demand energy, which climbed 4.1%. The main contributor to the rise was increasing gas prices, which rose 9.9%.

The index for final demand services moved up 0.4% in June, the index's third consecutive increase. The increase was broad-based among the index's components and was led by prices for services related to securities brokerage and dealing, which rose 7.7%.

The index for final demand goods less volatile food and energy was unchanged in June, on a seasonally adjusted basis, after increasing 0.3% in the prior month. The index for final demand goods less food and energy was up 0.5% from its level one year ago.

(See Exhibit 6 for historic PPI figures.)

EXHIBIT 6A: U.S. Consumer Price Index—Past 24 Months

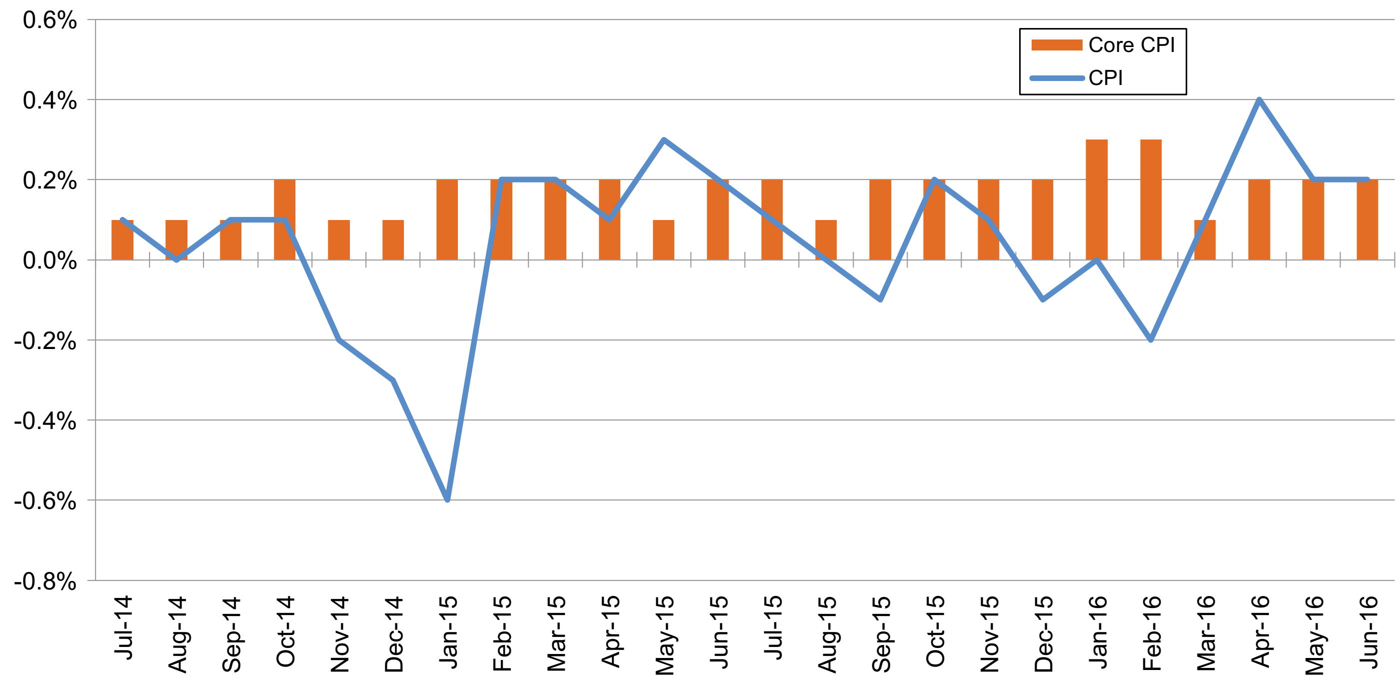
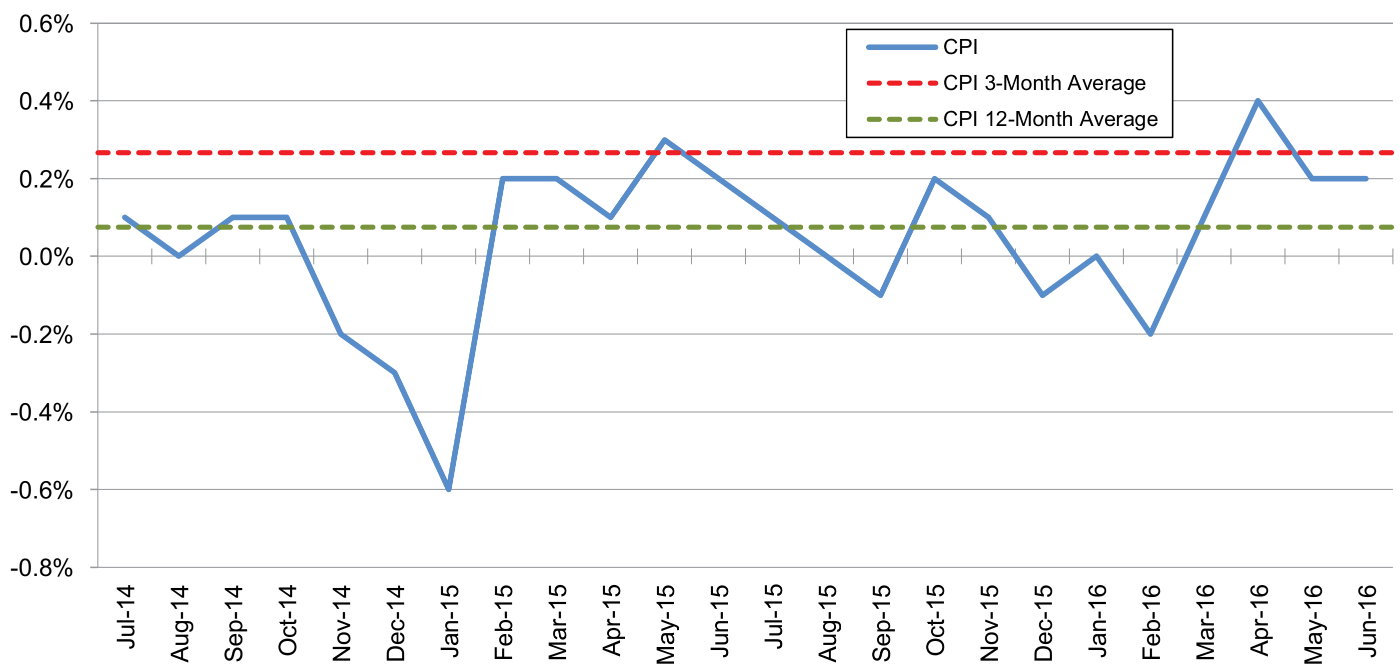


EXHIBIT 6B: U.S. Consumer Price Index—Past 24 Months With Averages



Source of data: U.S. Department of Labor.
Note: Data are seasonally adjusted change from the prior month. Core CPI is the All Items Less Food and Energy Index. Core PPI is the Final Demand Goods Less Foods and Energy Index.

EXHIBIT 6C: U.S. Producer Price Index—Past 24 Months

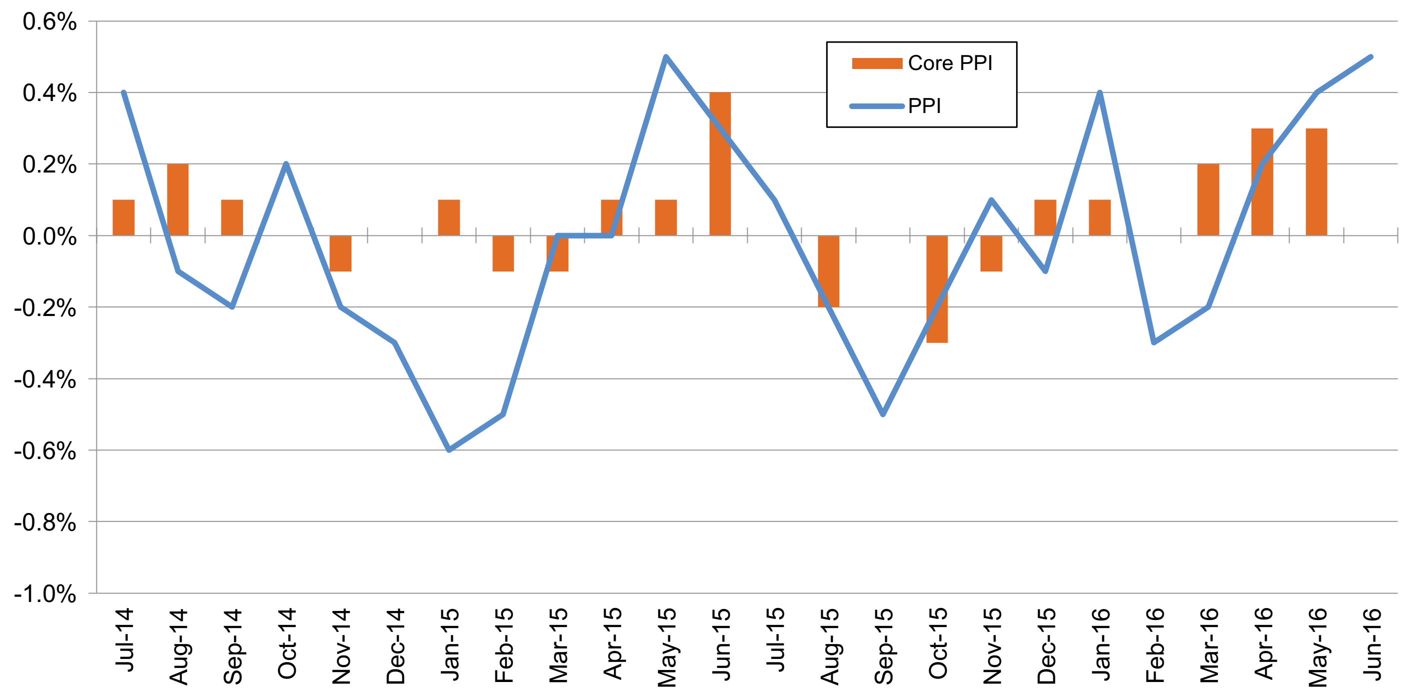
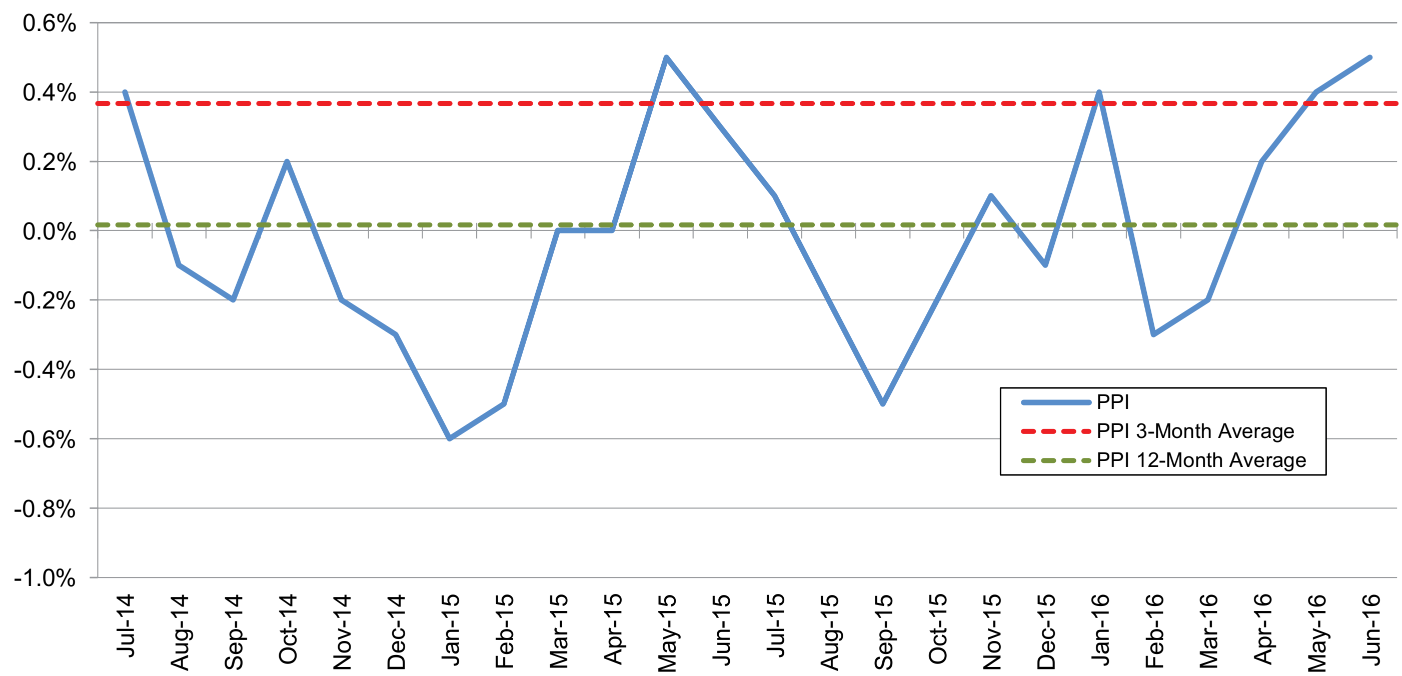


EXHIBIT 6D: U.S. Producer Price Index—Past 24 Months With Averages



Source of data: U.S. Department of Labor.
Note: Data are seasonally adjusted change from the prior month. Core CPI is the All Items Less Food and Energy Index. Core PPI is the Final Demand Goods Less Foods and Energy Index.

3. ENERGY PRICES

The Energy Information Administration (EIA) reported that the spot price for a barrel of West Texas Intermediate (WTI) crude oil was $48.27 at the end of the second quarter of 2016. This was up from $36.94 per barrel at the end of the first quarter but below the price of $59.48 per barrel from a year ago.

The regular retail gas price (conventional areas) was $2.25 per gallon at the end of the second quarter, above the price of $1.98 per gallon at the end of the previous quarter but down from one year ago when the price was $2.71 per gallon.

The Henry Hub natural gas spot price was $2.94 per million Btu (MMBtu) at the end of the second quarter, up from $1.98 per MMBtu at the end of the previous quarter and above the price of $2.80 per MMBtu from one year ago.

(See Exhibit 2B for historic and forecasted energy price figures.)

4. INTEREST RATES

The Federal Open Market Committee (FOMC) met twice during the second quarter of 2016, issuing a statement from each meeting. In both meetings this quarter, the FOMC made the decision to maintain the target range for the federal funds rate at 0.25% to 0.5%. The federal funds rate is the interest rate at which a commercial bank lends immediately available funds in balances at the Federal Reserve to another commercial bank. The FOMC establishes a target rate and expands or contracts the money supply with the aim that the federal funds rate, a market rate, will approximate the target rate.

In making its decision to leave the target for the federal funds rate unchanged, the FOMC stated that it wishes to maintain an accommodative policy in order to further support improvement in labor market conditions and a return to 2.0% inflation, which has been running low due to past declines in energy prices.

The FOMC stated that it would continue to assess a wide range of information in determining the timing and size of future adjustments to the federal funds rate, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The statement also noted that, based on the Committee's expectations of economic conditions, the federal funds rate will only rise in gradual increases and will likely remain low for some time.

The statements from the FOMC found that the pace of improvement in the labor market conditions had slowed as of mid-June. While the unemployment rate had declined, job gains diminished. It also noted that household spending has continued to strengthen and the housing sector has continued to improve. Further, it found that the drag from net exports appears to have lessened, though business fixed investment has been soft.

To maintain accommodative financial conditions, the FOMC maintained its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities. The Committee anticipated that it would continue this policy until the federal funds rate normalizes to its longer-run level.

During the second quarter of 2016, the Board of Governors of the Federal Reserve left the discount rate unchanged, at 1.00%. The discount rate is the interest rate a commercial bank is charged to borrow funds, typically for a short period, directly from a Federal Reserve Bank. The board of directors of each Reserve Bank establishes the discount rate every 14 days, subject to the approval of the Board of Governors.

5. UNEMPLOYMENT AND PERSONAL INCOME

After weak job growth of 11,000 jobs in May, June saw job creation surge by 287,000 new jobs. June was the strongest month for jobs since October 2015 and far greater than the median expectation of 180,000 new jobs in a Bloomberg survey of economists. A small portion of the June increase in job growth was due to the end of a strike of 35,100 workers in the telecommunications industry, which had temporarily lowered the job figures in May. The White House Council of Economic Advisers noted that the economy has now added 14.8 million jobs over 76 straight months, extending the longest streak on record. Job growth has averaged 172,000 jobs a month so far to date in 2016, well above the pace the Council believes is needed to maintain a low and stable unemployment rate.

Leisure and hospitality added 59,000 jobs in June, after showing little change in May. Healthcare and social assistance saw 58,000 new jobs in June, while the information industry saw an increase of 44,000 new jobs. Employment in professional and business service rose by 38,000 jobs, while retail trade added 30,000. Employment in financial activities rose by only 16,000 jobs in June but has increased by 163,000 new jobs so far in 2016. Employment in mining continued to decline and has now lost 211,000 jobs since its peak in 2014. Employment in the other major industries, including construction, manufacturing, wholesale trade, transportation and warehousing, and government, showed little or no change in June.

The unemployment rate (also known as the U3 unemployment rate) rose 0.2 percentage point in June to 4.9%, though more people entered the workforce in June. The U3 unemployment rate is the official unemployment rate per the International Labour Organization definition and occurs when people who have actively looked for work within the past four weeks are still without jobs.

The report found that the labor-force participation rate edged up 0.1 percentage point in June, rising to 62.7%. The employment-population ratio, which is the share of the working-age population with a job, ticked down 0.1 percentage point in June to 59.6%. The number of long-term unemployed (those jobless for 27 weeks or more) was little changed in June at 2.0 million, or 25.8% of the unemployed.

The broadest measure of labor underutilization, the U6 unemployment rate, moved down 0.1 percentage point in June to a seasonally adjusted 9.6%. U6 unemployment is broader than U3 and includes "marginally attached workers" and people who are looking for and want full-time work but have settled for part-time employment. Marginally attached workers are people who are not actively looking for work but who have indicated that they want a job and have looked for work (without success) sometime in the past 12 months. This class also includes "discouraged workers," those who have completely given up on finding a job because they feel that they would be unable to find one.

If the economy added 204,000 jobs a month, which is the average monthly rate of job creation for the past 12 months, then the Hamilton Project calculates that it will take until April 2017 to close the "jobs gap" left by the recession. According to the Hamilton Project, the U.S. had a jobs gap of 1.4 million jobs as of June 2016. The jobs gap is the number of jobs that the U.S. economy needs to create to return to prerecession employment levels while also absorbing the people who enter the labor force each month. The Hamilton Project was launched in 2006 as an economic policy initiative at the Brookings Institution. The Hamilton Project is guided by an advisory council of academics, business leaders, and former public policymakers.

(See Exhibits 2A, 4, and 7 for historic and forecasted unemployment figures.)

EXHIBIT 7A: U.S. Employment—Past 24 Months

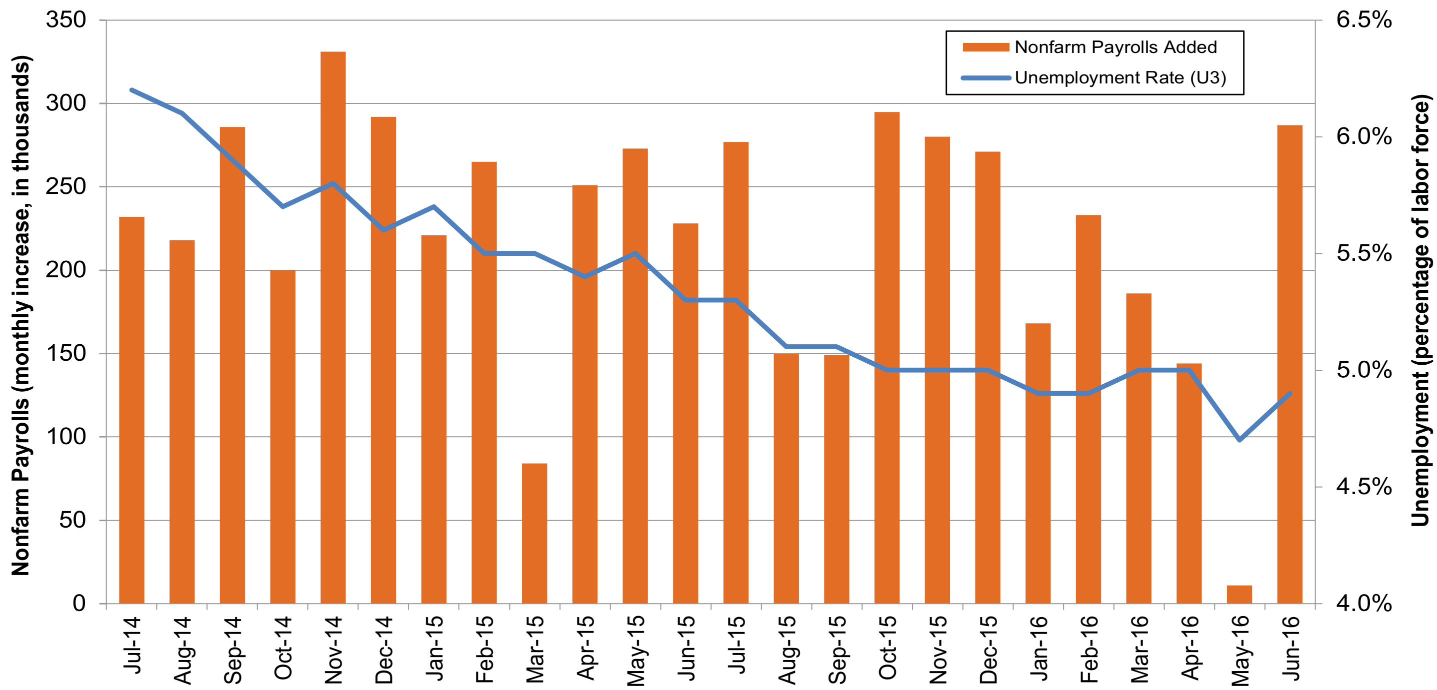
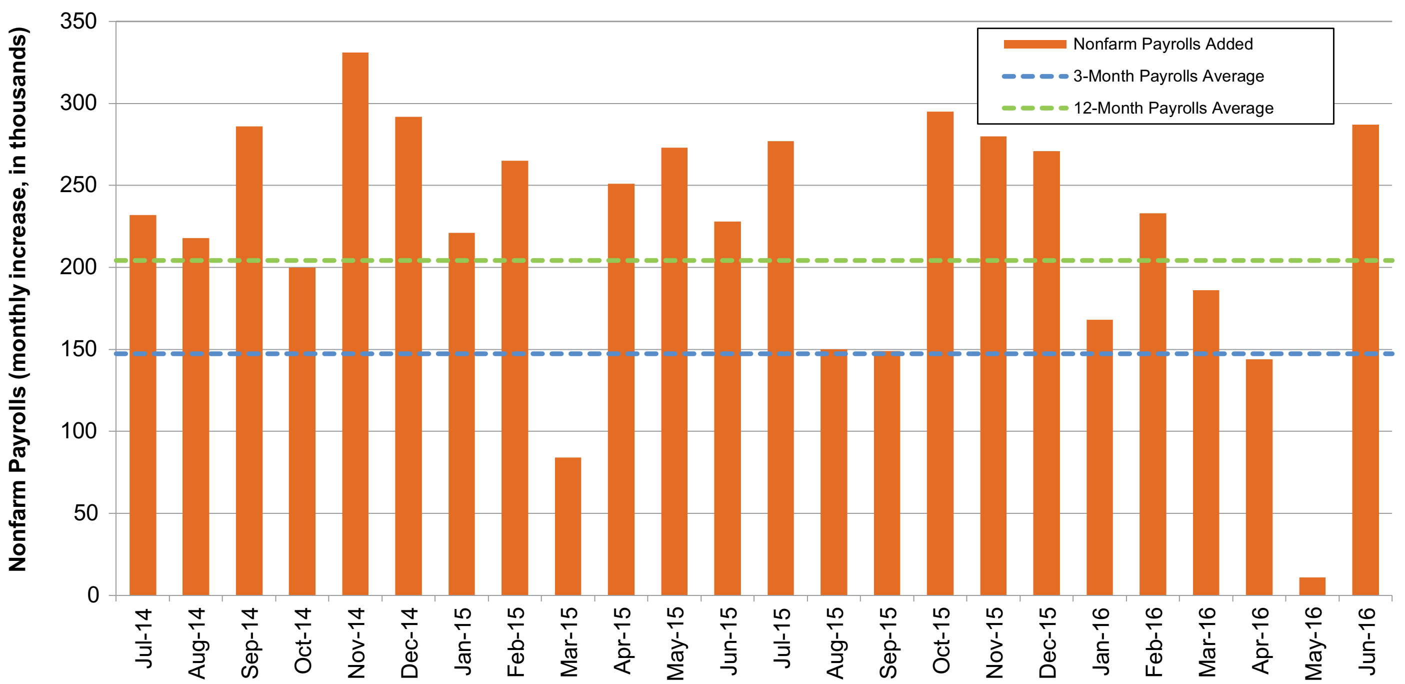


EXHIBIT 7B: U.S. Employment—Past 24 Months With Averages



Source of data: U.S. Department of Labor.
Notes: U3 is the official unemployment rate per the International Labour Organization definition and occurs when people are without jobs and they have actively looked for work within the past four weeks. U6 unemployment is broader than U3 to include “marginally attached workers” and people who are looking for and want full-time work but have to settle on part-time employment. “Marginally attached workers” are people who are not actively looking for work, but who have indicated that they want a job and have looked for work (without success) sometime in the past 12 months. This class also includes “discouraged workers” who have completely given up on finding a job because they feel that they just won’t find one.

EXHIBIT 7C: U.S. Employment—Since 2008

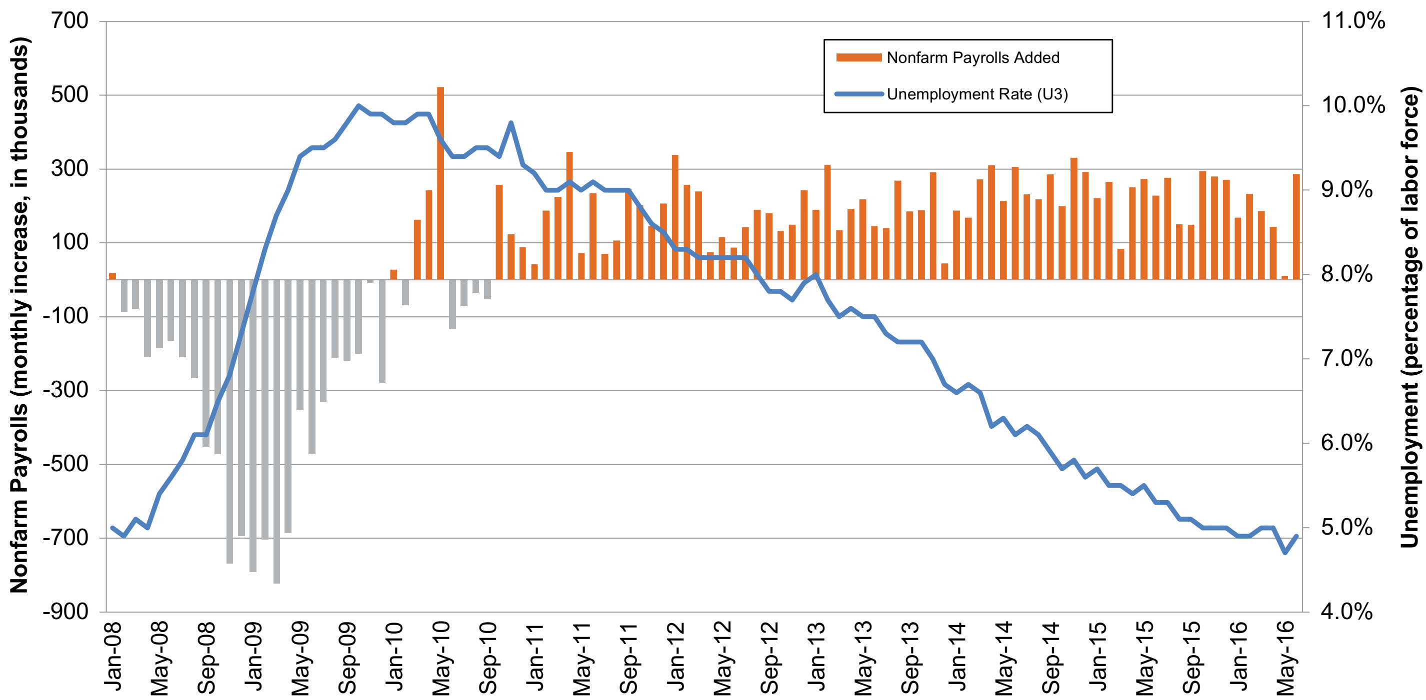
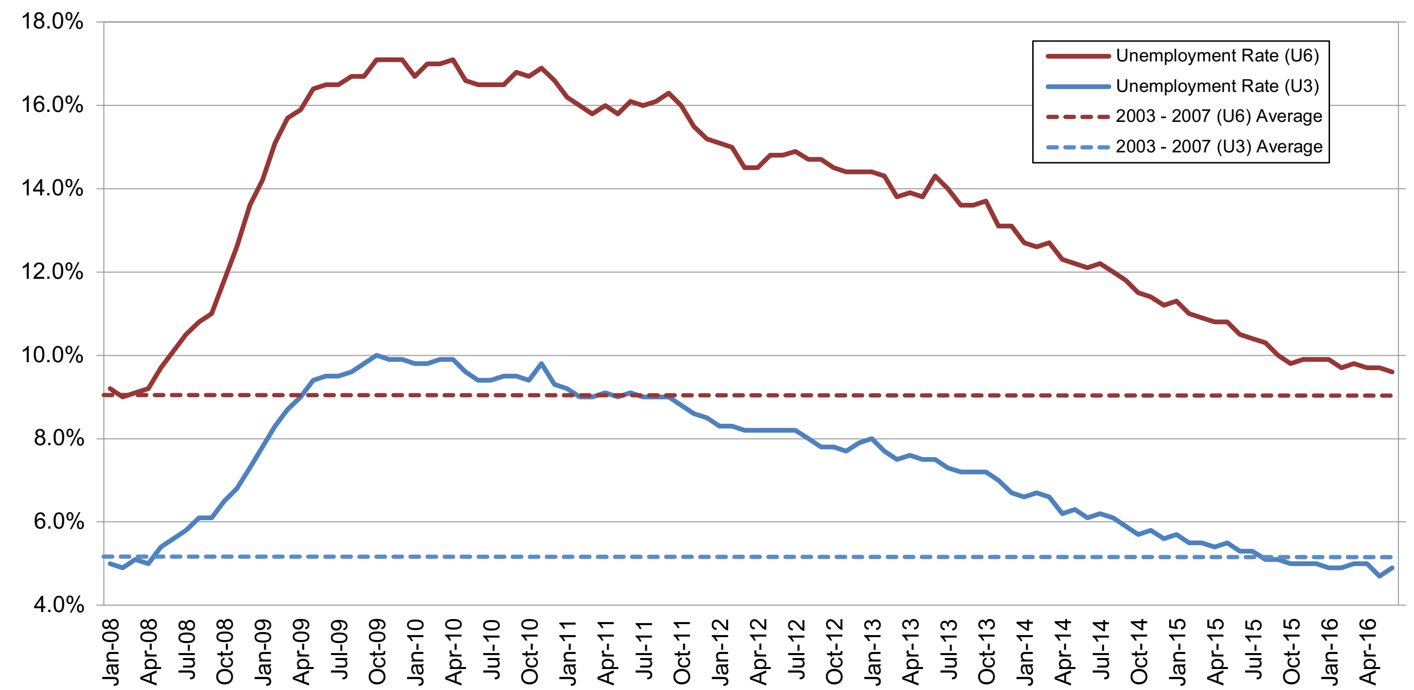


EXHIBIT 7D: U3 Unemployment Compared With U6 Unemployment—Since 2008



Source of data: U.S. Department of Labor.

Notes: U3 is the official unemployment rate per the International Labour Organization definition and occurs when people are without jobs and they have actively looked for work within the past four weeks. U6 unemployment is broader than U3 to include "marginally attached workers" and people who are looking for and want full-time work but have to settle on part-time employment. "Marginally attached workers" are people who are not actively looking for work, but who have indicated that they want a job and have looked for work (without success) sometime in the past 12 months. This class also includes "discouraged workers" who have completely given up on finding a job because they feel that they just won't find one.

While job growth rose significantly in June, wage growth only improved modestly. Average hourly earnings for all private-sector employees increased two cents in June to $25.61. Average hourly earnings for all private-sector employees were up 65 cents, or 2.6% (tied for the fastest 12-month pace since the start of the recovery), over the past 12 months. Average hourly earnings have now grown at a 2.8% annual rate so far in 2016. Average hourly earnings for private-sector production and nonsupervisory employees rose by four cents in June to $21.51. Over the last 12 months, average hourly earnings for private-sector production and nonsupervisory employees have increased 51 cents, or 2.4%.

The White House Council of Economic Advisers drew attention to the fact that nominal hourly earnings for all private-sector workers have increased 2.6% over the past 12 months while consumer prices have risen just 1.0%. It found that nominal hourly wages have generally been rising faster than inflation since mid-2012, translating into real wage gains for American workers.

The average workweek for all private workers was unchanged in June at 34.4 hours for the fifth consecutive month and little changed from the 34.5-hour workweek a year ago. The manufacturing workweek and manufacturing overtime both remained unchanged in June at 40.7 hours and 3.2 hours, respectively. The average workweek for production and nonsupervisory employees was unchanged, at 33.6 hours.

The Bureau of Economic Analysis reported that current-dollar personal income increased $111.4 billion in the second quarter of 2016, following an increase of $52.8 billion in the first. The BEA found that the acceleration in personal income primarily reflected upturns in wages and salaries, personal dividend income, and farm proprietors' income, that was offset by slowdowns in personal current transfer receipts.

Disposable personal income increased $106.3 billion (+3.1%) in the second quarter, compared with an increase of $83.4 billion (+2.5%) in the first. Real disposable personal income rose 1.2% in the second quarter, compared with an increase of 2.2% in the first.

Personal saving—disposable personal income less personal outlays—was $763.1 billion in the second quarter, down from $847.8 billion in the first. The personal saving rate—saving as a percentage of disposable personal income—was 5.5% in the second quarter, a retreat from 6.1% in the previous quarter.

6. INDEX OF LEADING INDICATORS

The Conference Board's Leading Economic Index (LEI) moved up in June, advancing 0.3 point to a reading of 123.7. The June rise erased May's 0.2-point decline. The data showed that the primary drivers in the June increase were improvements in initial claims for unemployment insurance, building permits, and the index's financial indicators. The report noted that LEI continues to point to moderating economic growth through the end of 2016, though the economy still appears resilient enough to weather volatility in the financial markets and a moderating outlook in the labor markets.

LEI's annualized growth rate for the six months ending June 2016 was 0.6%, about the same pace as in the second half of 2015. However, the weaknesses among the leading indicators have remained slightly more widespread than the strengths over the most recent six-month period.

In June, eight of the 10 components that comprise LEI rose. The positive contributors, beginning with the largest contributor, were average weekly initial claims for unemployment insurance, the interest rate spread, the Leading

Credit Index, building permits, stock prices, the ISM new orders index, manufacturers' new orders for nondefense capital goods excluding aircraft, and manufacturers' new orders for consumer goods and materials. The only negative contributor in June was average weekly manufacturing hours, while average consumer expectations for business conditions remained unchanged.

The LEI is a leading American economic indicator intended to forecast future activity. The Conference Board, a nongovernmental organization, calculates the index from the values of 10 key variables. The 10 components of the LEI include:

- Average weekly hours, manufacturing;
- Average weekly initial claims for unemployment insurance;
- Manufacturers' new orders, consumer goods and materials;
- Institute for Supply Management's Index of New Orders;
- Manufacturers' new orders, nondefense capital goods excluding aircraft orders;
- Building permits, new private housing units;
- Stock prices, 500 common stocks;
- Leading Credit Index;
- Interest rate spread, 10-year Treasury bonds less federal funds; and
- Average consumer expectations for business conditions.

7. CONSUMER CONFIDENCE

Consumer confidence rose in June to an eight-month high, primarily due to Americans becoming more optimistic about the economy. The Conference Board reported that its Consumer Confidence Index rose to 98.0 in June, a 5.6-point improvement. The June reading was well above the expected reading of 93.5 from a Bloomberg survey of economists.

Consumers' impression of current situations strengthened in June, with the Present Situation Index climbing 5.1 points to 118.3. This represented the second-strongest reading for current conditions since September 2007. The share of Americans who felt business conditions were good improved to 26.9% in June from 26.1% in May, while those who believed business conditions were bad fell to 17.7% from 21.4%. Consumers' assessment of the labor market was mixed. While fewer respondents claimed jobs were "plentiful," fewer also claimed that jobs were "hard to get."

Consumers were also more optimistic about the short-term outlook. The Expectations Index increased 6.0 points to 84.5, its highest reading in the past five months. The share of Americans who thought that business conditions would improve over the next six months rose to 16.8%, an eight-month high. The percentage of consumers who believed there would be more jobs available in six months rose to 14.2%, also an eight-month high. Further, the proportion of consumers expecting their incomes to increase improved to 18.2% from 16.5%.

The Conference Board also found that consumers' buying plans deteriorated somewhat, with fewer Americans expecting to purchase autos, homes, and appliances.

The Consumer Confidence Index is an indicator designed to measure the degree of optimism about the state of the economy that consumers are expressing through their savings and spending. A month-on-month decreasing trend in the Consumer Confidence Index suggests consumers have a negative outlook on their ability to secure and retain good jobs, whereas a rising trend in consumer confidence indicates improvements in consumer buying patterns. Opinions on current conditions make up 40% of the index (the Present Situation Index), while expectations of future conditions comprise the remaining 60% (the Expectations Index).

Consumer sentiment retreated slightly in June, as Americans had greater concerns about prospects for the economy. The Thomson Reuters/University of Michigan's Consumer Sentiment Index slipped 1.2 points to end June with a reading of 93.5. The survey found that consumers do not anticipate there will be a recession but have increasingly come to expect that the pace of economic growth will slow in the next year. Overall, the data indicated that consumer spending would rise 2.5% in 2016 and 2.7% in 2017.

The Current Conditions Index improved 0.9 point in June to 110.8, while the Index of Consumer Expectations fell 2.5 points to 82.4.

Of those surveyed, 49.0% reported that their finances improved, which was the highest level in the last decade. Consumers expected only modest income gains of 1.6% over the next year, but their expectations of incomes after adjusting for inflation were the most positive since January 2007.

While households remained upbeat about their current financial situations, they expected the economy to cool off, leading to slower employment gains in the year ahead and an increased jobless rate. The survey attributed a portion of this fear to Britain's decision to leave the European Union and the economic impact that exit will have.

Consumers' buying plans improved for vehicles, especially among higher-income and middle-age groups due to low interest rates on credit purchases. Home selling conditions improved, benefited by higher home prices, but home buying conditions became slightly less favorable due to the home price gains. Low mortgage rates, however, did contribute positively to home buying conditions.

The Thomson Reuters/University of Michigan's Survey of Consumers is a rotating panel survey based on a nationally representative sample that gives each household in the contiguous U.S. an equal probability of being selected. Interviews are conducted by telephone throughout the month. The Index of Consumer Sentiment is composed of the Expectations Index and the Current Conditions Index and is intended to gauge how consumers feel the economic environment will change. The survey's Index of Consumer Expectations is an official component of the U.S. Leading Economic Index.

(See Exhibit 8 for consumer confidence and consumer sentiment figures.)

8. BUSINESS OPTIMISM

Business-owner optimism was little changed in June. The National Federation of Independent Business's (NFIB) Small Business Optimism Index moved up 0.7 point to 94.5, with NFIB deeming the rise a "negligible increase." The June reading remained below the 42-year average of 98.0.

Four of the 10 Small Business Optimism Index components posted a gain, in what NFIB described as "showing no real enthusiasm for making capital outlays, increasing inventories, or expanding." The report did note that small-business optimism did not decrease, which is good, but small businesses remained in maintenance mode and have experienced little growth.

The component that improved the most was the one that measures whether business owners believe the economy will improve, which rose 4.0 percentage points. Regardless, more owners believe economic conditions will worsen rather than improve, with a net -9.0% of owners expecting improved conditions.

The components that measure job openings and capital spending plans rose 2.0 points and 3.0 points, respectively. NFIB found that the increases brought the components to high readings during the current "expansion," though they both remained historically low for a growth period.

The net percentage of all owners reporting higher nominal sales in the past three months compared to the prior three months rose 4.0 percentage points. While this was an improvement, it remained negative, at a net -4.0% of owners experiencing increased sales. Overall, though, the report noted that the trends have been improving. The seasonally adjusted net percentage of business owners expecting higher real sales in the next three to six months rose 1.0 percentage point to 2.0% of all owners expecting sales gains.

The Small Business Optimism Index is compiled from a survey of the NFIB's 350,000 members that it conducts each month. NFIB, founded in 1943, began conducting its survey quarterly in 1974, transitioning to a monthly survey in 1986. The index is a composite of 10 seasonally adjusted components based on questions about the following: plans to increase employment, plans to make capital outlays, plans to increase inventories, whether members expect the economy to improve, whether they expect real sales will be higher, current inventory, current job opening, expected credit conditions, whether now is a good time to expand, and earnings trend. Analysts watch the index because small businesses are responsible for the majority of new job creation and the NFIB focuses on this sector of the economy.

The 2Q 2016 Wells Fargo/Gallup Small Business Index, which was reported in May, moved down, marking the fourth decline in the past five quarters. The index shed 3.0 points to a level of 64.0. The April reading matched the reading from one year ago. The report found that a majority of small business owners say the issues most important to them are not being addressed in the presidential campaign, and, as a result, business-owner optimism remains in a holding pattern. While business owners remain cautious, small-business optimism over the past year has been higher than at any point since 2008.

The Wells Fargo/Gallup Small Business Index report noted that business owners' estimates of cash flow, which had improved last quarter, have now settled back to levels typical of the last two quarters of 2015. The other components that make up the overall Wells Fargo/Gallup Small Business Index—which include financial situation, company revenue, capital spending, hiring, and ease of obtaining credit—experienced only minor changes in the second-quarter survey.

Since August 2003, the Wells Fargo/Gallup Small Business Index has surveyed small-business owners on current and future perceptions of their business's financial situation. The Small Business Index is published once a quarter. The Small Business Index consists of owners' ratings of their business's current situation and their expectations for the next 12 months, measured in terms of their overall financial situation, revenue, cash flow, capital spending, number of jobs, and ease of obtaining credit. Prior to the recession and financial crisis of 2008-2009, Small

Business Index scores were generally in triple digits. The Small Business Index reached its peak of 114.0 in December 2006 and hit its low point of -28.0 in July 2010.

The RSM U.S. Middle Market Business Index (MMBI) improved 3.2 points in the second quarter of 2016 to a reading of 119.8. The reading indicated that the U.S. middle market is expanding. The MMBI report found that business conditions for the middle market improved strongly from the first quarter. The report also noted that the components that measure current and future expectations for earnings were positive, which is in stark contrast with conditions in the corporate sector where those companies have more broad exposure to the global economy. The results, RSM said, demonstrate that the middle market continues to outperform large corporations. The report also noted that the data indicated a stable economy in the second half of the year for middle-market businesses.

The RSM U.S. Middle Market Business Index is based on quarterly survey data collected by RSM U.S. LLP and Nielsen N.V. and is developed in partnership with Moody's Analytics. The MMBI survey and data began in the first quarter of 2015, and the survey panel consists of 700 middle-market executives. An MMBI reading above 100 generally indicates that the middle market is expanding, and a reading below 100 generally indicates that the middle market is contracting.

(See Exhibit 8 for business optimism figures.)

9. STOCK MARKETS AND VOLATILITY

Most of the major stock indexes recorded gains in the second quarter, though the market experienced some volatility toward the end of June as a result of Britain's vote to exit the European Union. Performance among the sectors within the S&P 500 varied. T. Rowe Price found that a partial rebound in oil prices helped the energy sector gain nearly 12.0%, while the information technology and consumer discretionary segments recorded losses for the quarter.

The Dow Jones Industrial Average (Dow) saw a 1.4% price return in the second quarter. Including dividends, the Dow's total return was 2.1% in the second quarter. So far this year, the Dow has had a total return of 4.3%. The Dow is an index of 30 of the largest and most widely held public companies in the U.S. and is considered the most-watched index in the world.

The Nasdaq Composite Index, consisting mainly of high-tech stocks, fell 0.6% in the second quarter and is down 3.3% year-to-date.

The S&P 500 increased 1.9% in the second quarter. Including dividends, the S&P 500's total return was 2.5% in the second quarter and 3.8% during the first six months of 2016. The S&P 500 consists of a representative sample of 500 leading companies of the U.S. economy and is one of the most commonly used benchmarks for the overall U.S. stock market.

The S&P MidCap 400 index improved 3.6% in the second quarter. The total return for the S&P MidCap 400 was 4.0% in the second quarter and 8.0% so far this year. The S&P MidCap 400, which is distinct from the large-cap S&P 500, measures the performance of midsized companies and is the most widely followed midcap index.

The Russell 2000 Index advanced 3.4% this quarter. The total return for the Russell 2000 was 3.8% in the second quarter and 2.2% year-to-date. The Russell 2000 Index serves as a benchmark for small-cap stocks in the U.S. stock market.

EXHIBIT 8A: Consumer Confidence and Small Business Optimism—One Year

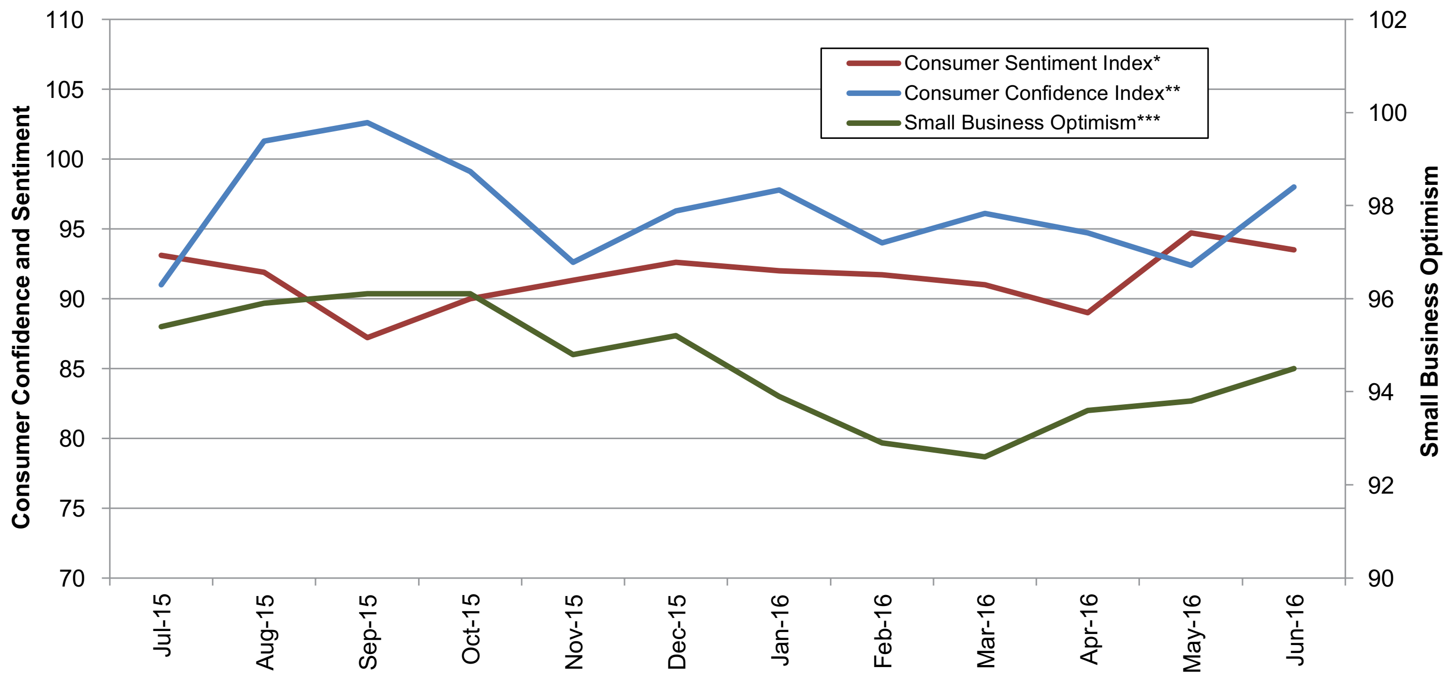
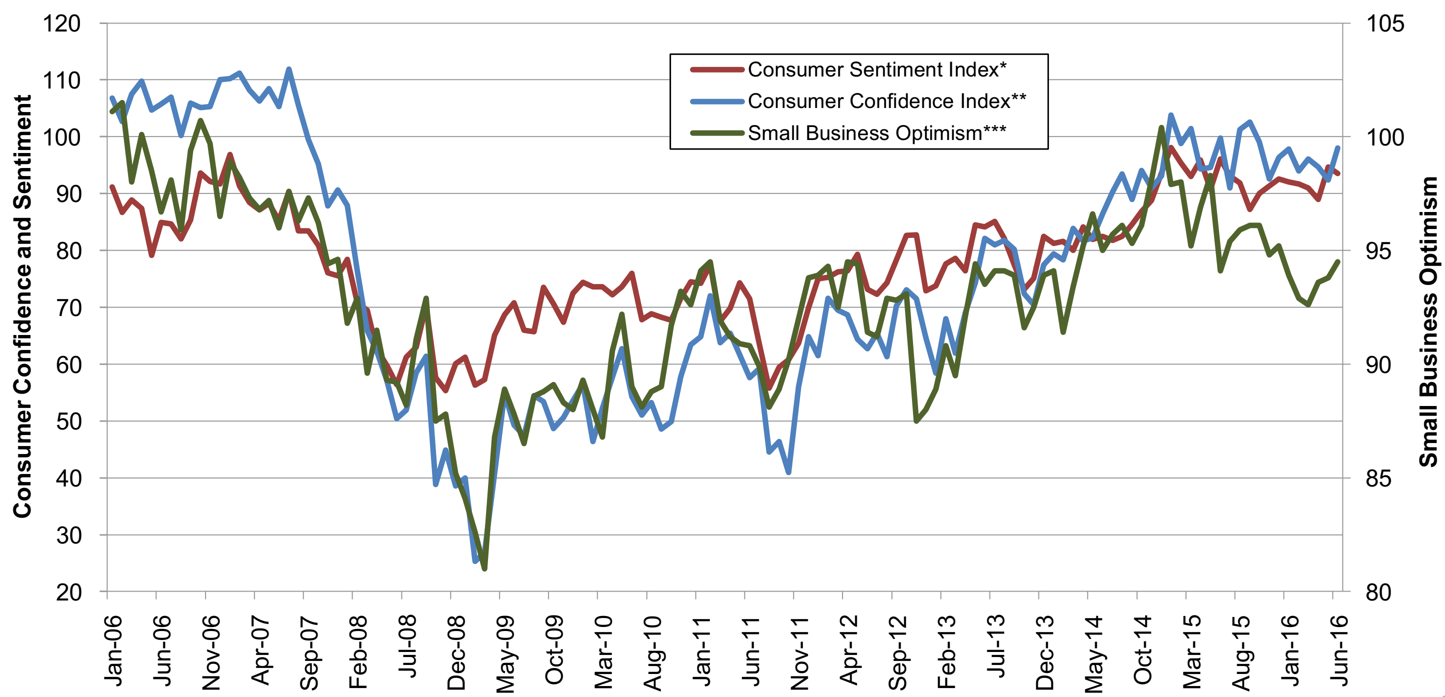


EXHIBIT 8B: Consumer Confidence and Small Business Optimism—Since 2006



Source of data: The Conference Board, Thomson Reuters/University of Michigan, National Federation of Independent Business.
Notes:
* Thomson Reuters/University of Michigan Index of Consumer Sentiment
** The Conference Board Consumer Confidence Index®
*** National Federation of Independent Business Small Business Optimism Index
**** Wells Fargo/Gallup Small Business Index

EXHIBIT 8C: Small Business Index—Prior 12 Quarters

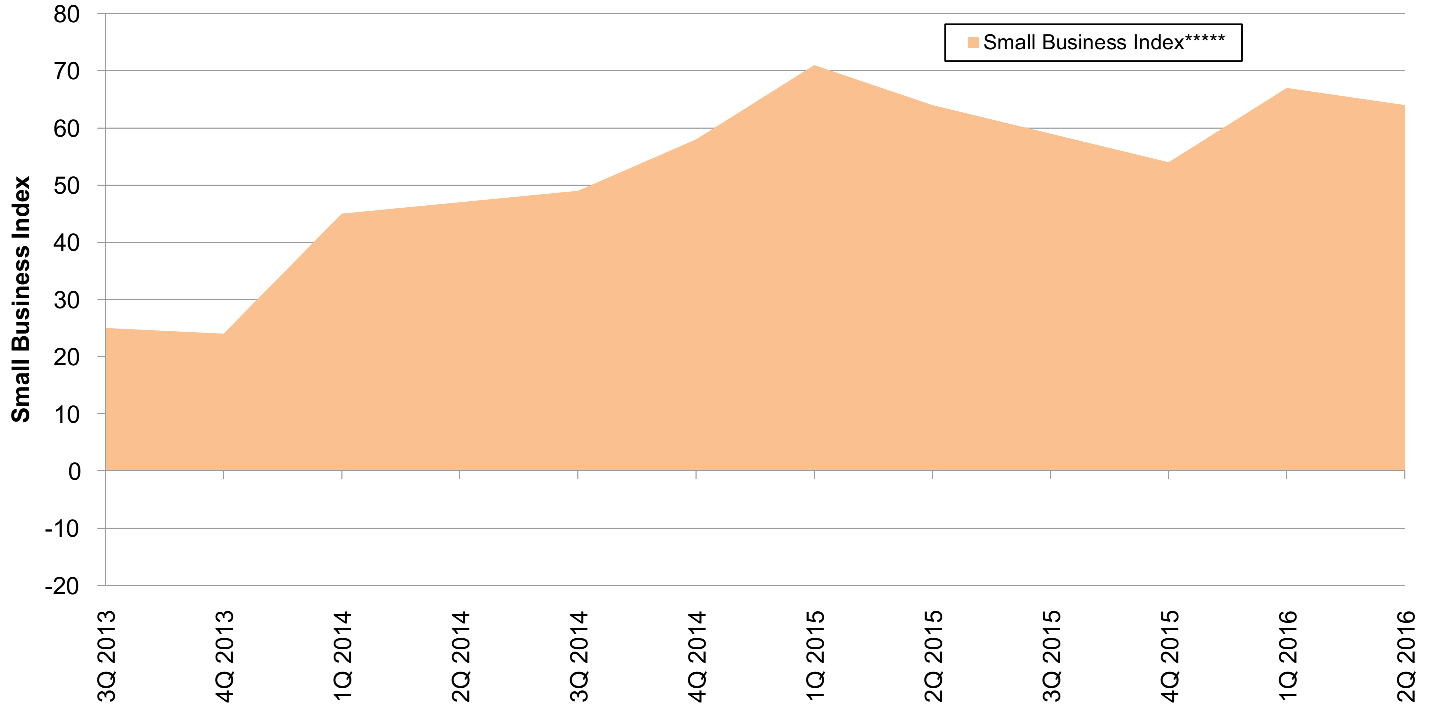
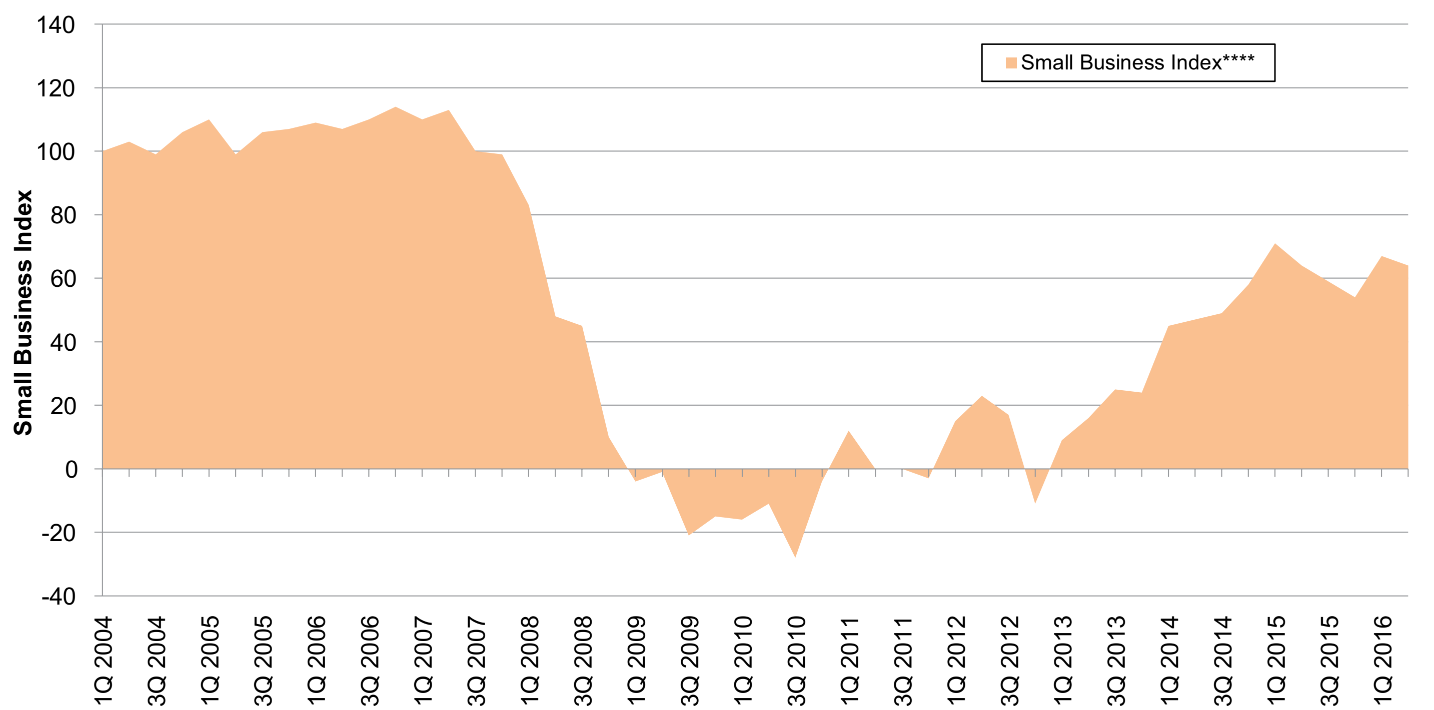


EXHIBIT 8D: Small Business Index—Since 2004



Source of data: The Conference Board, Thomson Reuters/University of Michigan, National Federation of Independent Business.
Notes:
* Thomson Reuters/University of Michigan Index of Consumer Sentiment
** The Conference Board Consumer Confidence Index®
*** National Federation of Independent Business Small Business Optimism Index
**** Wells Fargo/Gallup Small Business Index

(See Exhibit 9 for stock price figures.)

While there was some elevated volatility toward the end of the quarter, average market volatility eased in the second quarter. The Chicago Board Options Exchange Volatility Index (VIX)—a popular volatility measure—averaged 15.7 in the second quarter, down from an average of 20.5 in the first quarter. The high VIX reading for the second quarter was comparable to that in the first, 25.8 compared with 28.1.

The VIX represents the implied volatility of 30-day options on the Standard & Poor's 500 stocks and has been termed by analysts and investors as the "fear gauge." Accordingly, the VIX represents the expected volatility of the market, as represented by the S&P 500. Stock market professionals use the VIX to gauge investor sentiment. Values greater than 30 are generally associated with a large amount of volatility as a result of investor fear or uncertainty, while values below 20 generally correspond to less stressful, even complacent, times in the markets.

(See Exhibit 9 for VIX figures.)

10. BOND MARKETS

Amid concerns over Britain's exit from the European Union, yields on intermediate- and long-term U.S. Treasury yields retreated as investors sought out haven debt, causing prices to rise. Britain's exit also caused yields in Japan, Germany, Switzerland, the U.K., Sweden, and Denmark to all reach record lows. T. Rowe Price found that this drove investors into U.S. Treasuries, which were offering more attractive yields at the time, sending U.S. yields down to near record lows.

The 30-day T-bill rate was at 0.20% at the end of the second quarter of 2016, unchanged from the yield at the start of the quarter. The five-year Treasury ended the second quarter with a yield of 1.01%, down from a yield of 1.24% at the beginning of the quarter.

The 10-year Treasury bond yield fell from 1.79% at the beginning of the second quarter to 1.49% at the end of June. The 20-year Treasury bond yield retreated from 2.20% at the start of the second quarter to 1.86% at the end.

Moody's seasoned Aaa and Baa corporate bonds ended the second quarter with yields of 3.39% and 4.41%, respectively, compared with yields of 3.72% and 4.89% at the beginning.

The prime lending rate remained at 3.50% during the second quarter. The discount window (primary credit) also held steady in the second quarter, remaining at 1.00%.

(See Exhibits 2A, 10, 11, and 12 for historic and forecasted Treasury, bond, and federal funds rate figures.)

11. CONSTRUCTION

Housing starts rose in June, though they have declined over the past 12 months due to a significant drop in multifamily starts. Privately owned housing starts were at a seasonally adjusted annual rate of 1,189,000 in June, up 4.8% from May but 2.0% below their level from one year ago. The construction of single-family homes increased 4.4% in June and was up 13.4% from one year ago. The construction of multifamily homes advanced 1.6% in June but was down 23.6% from its level one year ago. The multifamily home sector, which consists of buildings with five units or more, tends to be more volatile than the single-family home sector.

EXHIBIT 9: Stock Market Historical Data

	QUARTERLY PRICE RETURNS											
(%)	3Q 13	4Q 13	1Q 14	2Q 14	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15	4Q 15	1Q 16	2Q 16
DJIA	1.5	9.6	-0.7	2.2	1.3	4.6	-0.3	-0.9	-7.6	7.0	1.5	1.4
Nasdaq Composite	10.8	10.7	0.5	5	1.9	5.4	3.5	1.8	-7.4	8.4	-2.7	-0.6
S&P 500	4.7	9.9	1.3	4.7	0.6	4.4	0.4	-0.2	-6.9	6.5	0.8	1.9
S&P MidCap 400	7.2	7.9	2.7	3.9	-4.3	5.9	4.9	-1.4	-8.9	2.2	3.3	3.6
Russell 2000	9.9	8.4	0.8	1.7	-7.7	9.4	4	0.1	-12.2	3.2	-1.9	3.4

	YEARLY PRICE RETURNS									FORECAST*	
(%)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
DJIA	6.4	-33.8	18.8	11.0	5.5	7.3	26.5	7.5	-2.2		
Nasdaq Composite	9.8	-40.5	43.9	16.9	-1.8	15.9	38.3	13.4	5.7		
S&P 500	3.5	-38.5	23.5	12.8	0.0	13.4	29.6	11.4	-0.7	4.7	2.9
S&P MidCap 400	6.7	-37.3	35.0	24.9	-3.1	16.1	31.6	8.2	-3.7		
Russell 2000	-2.7	-34.8	25.2	25.3	-5.5	14.6	37.0	3.5	-5.7		

	MONTHLY DATA											
	7/15	8/15	9/15	10/15	11/15	12/15	1/16	2/16	3/16	4/16	5/16	6/16
DJIA	17,689.9	16,528.0	16,284.7	17,663.5	17,719.9	17,425.0	16,466.3	16,516.5	17,685.1	17,773.6	17,787.2	17,930.0
Nasdaq Composite	5,128.3	4,776.5	4,620.2	5,053.8	5,108.7	5,007.4	4,614.0	4,558.0	4,869.9	4,775.4	4,948.1	4,842.7
S&P 500	2,103.8	1,972.2	1,920.0	2,079.4	2,080.4	2,043.9	1,940.2	1,932.2	2,059.7	2,065.3	2,097.0	2,098.9
S&P MidCap 400	1,502.9	1,416.8	1,368.9	1,444.8	1,461.8	1,398.6	1,317.7	1,334.2	1,445.2	1,461.7	1,493.1	1,496.5
Russell 2000	1,238.7	1,159.5	1,100.7	1,161.9	1,198.1	1,135.9	1,035.4	1,033.9	1,114.0	1,130.9	1,154.8	1,151.9
VIX**	20.0	40.7	31.4	22.5	20.1	24.4	27.6	28.1	18.7	16.3	16.3	25.8

	QUARTERLY DATA											
	3Q 12	4Q 12	1Q 13	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14	3Q 14	4Q 14	1Q 15	2Q 15
DJIA	13,437.13	13,104.14	14,578.54	14,909.60	15,129.67	16,576.66	16,457.66	16,826.60	17,042.90	17,823.07	17,776.12	17,619.51
Nasdaq Composite	3,116.23	3,019.51	3,267.52	3,403.25	3,771.48	4,176.59	4,198.99	4,408.18	4,493.39	4,736.05	4,900.88	4,986.87
S&P 500	1,440.67	1,426.19	1,569.19	1,606.28	1,681.55	1,848.36	1,872.34	1,960.23	1,972.29	2,058.90	2,067.89	2,063.11
S&P MidCap 400	989.02	1,020.43	1,153.68	1,160.82	1,243.85	1,342.53	1,378.50	1,432.94	1,370.97	1,452.44	1,524.03	1,502.17
Russell 2000	837.45	849.35	951.54	977.48	1,073.79	1,163.64	1,173.04	1,192.96	1,101.68	1,204.70	1,252.77	1,253.95
VIX**	20.47	21.79	18.99	20.49	17.01	20.34	21.44	12.65	17.03	25.30	22.40	18.85

	YEARLY DATA										FORECAST*	
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
DJIA	12,463.15	13,264.82	8,776.39	10,428.05	11,577.51	12,217.56	13,104.14	16,576.66	17,823.07	17,425.03		
Nasdaq Composite	2,415.29	2,652.28	1,577.03	2,269.15	2,652.87	2,605.15	3,019.51	4,176.59	4,736.05	5,007.41		
S&P 500	1,418.30	1,468.36	903.25	1,115.10	1,257.64	1,257.60	1,426.19	1,848.36	2,058.90	2,043.94	2,140.00	2,201.00
S&P MidCap 400	804.37	858.20	538.28	726.67	907.25	879.16	1,020.43	1,342.53	1,452.44	1,398.58		
Russell 2000	787.66	766.03	499.45	625.39	783.65	740.92	849.35	1,163.64	1204.7	1,135.89		
VIX**	23.81	31.09	80.86	56.65	45.79	48.00	26.66	20.49	23.60	40.74		

Source of data: Yahoo! Finance
Index Tickers: ^DJI, ^IXIC, ^GSPC, ^MID, ^RUT, ^VIX
Notes: Quotes are closing prices on the last day of trade for the month.
*Source: The Livingston Survey, June 2016
**VIX values reported are the highest value of the respective time period. VIX is a popular volatility measure; higher values correspond to greater volatility.

EXHIBIT 10: Bond Market Historical Data

	PERIODIC DATA								
	4/16			5/16			6/16		
(%)	BM	MM	EM	BM	MM	EM	BM	MM	EM
30-day Treasury Bill[1]	0.20	0.19	0.16	0.11	0.21	0.27	0.27	0.23	0.20
5-year Treasury Note[1]	1.24	1.22	1.28	1.32	1.26	1.37	1.39	1.10	1.01
10-year Treasury Bond[1]	1.79	1.76	1.83	1.88	1.75	1.84	1.85	1.60	1.49
20-year Treasury Bond[1]	2.20	2.14	2.26	2.31	2.18	2.23	2.22	1.99	1.86
Prime lending rate	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Federal funds rate	0.37	0.37	0.30	0.37	0.37	0.29	0.37	0.37	0.30
Discount window primary credit rate	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Corporate Bonds Moody's Seasoned Aaa[4]	3.72	3.59	3.63	3.68	3.62	3.63	3.63	3.43	3.39
Corporate Bonds Moody's Seasoned Baa[4]	4.89	4.75	4.69	4.74	4.65	4.68	4.67	4.50	4.41

Notes: BM=beginning of month, MM = mid-month, EM = end of month

	MONTHLY DATA								
(%)	7/15	8/15	9/15	10/15	11/15	12/15	1/16	2/16	3/16
30-day Treasury Bill[1]	0.03	0.04	0.01	0.01	0.07	0.17	0.23	0.26	0.25
5-year Treasury Note[1]	1.63	1.54	1.49	1.39	1.67	1.70	1.52	1.22	1.38
10-year Treasury Bond[1]	2.32	2.17	2.17	2.07	2.26	2.24	2.09	1.78	1.89
20-year Treasury Bond[1]	2.77	2.55	2.62	2.50	2.69	2.61	2.49	2.20	2.28
Prime lending rate[2]	3.25	3.25	3.25	3.25	3.25	3.37	3.50	3.50	3.50
Federal funds rate[2]	0.13	0.14	0.14	0.12	0.12	0.24	0.34	0.38	0.36
Discount window primary credit rate[2]	0.75	0.75	0.75	0.75	0.75	0.87	1.00	1.00	1.00
Corporate Bonds Moody's Seasoned Aaa[4]	4.15	4.04	4.07	3.95	4.06	3.97	4.00	3.96	3.82
Corporate Bonds Moody's Seasoned Baa[4]	5.20	5.19	5.34	5.34	5.46	5.46	5.45	5.34	5.13

	YEARLY DATA								
(%)	2007	2008	2009	2010	2011	2012	2013	2014	2015
30-day Treasury Bill[1]	4.41	1.29	0.10	0.11	0.04	0.07	0.05	0.03	0.04
5-year Treasury Note[1]	4.43	2.80	2.20	1.93	1.52	0.76	1.17	1.64	1.53
10-year Treasury Bond[1]	4.63	3.66	3.26	3.22	2.78	1.80	2.35	2.54	2.14
20-year Treasury Bond[1]	4.91	4.36	4.11	4.03	3.62	2.54	3.12	3.07	2.55
Prime lending rate[3]	8.05	5.09	3.25	3.25	3.25	3.25	3.25	3.25	3.26
Federal funds rate[3]	5.02	1.92	0.16	0.18	0.10	0.14	0.11	0.09	0.13
Discount window primary credit rate[3]	5.86	2.39	0.50	0.72	0.75	0.75	0.75	0.75	0.76
Corporate Bonds Moody's Seasoned Aaa[4]	5.56	5.63	5.31	4.94	4.64	3.67	4.23	4.16	3.89
Corporate Bonds Moody's Seasoned Baa[4]	6.48	7.44	7.29	6.04	5.66	4.94	5.10	4.85	5.00

Source of data: The Federal Reserve Board.

Notes: (1) Yields on actively traded non-inflation-indexed issues adjusted to constant maturities (2) Monthly figures are averages of each calendar day in the month (3) Annualized figures use a 360-day year or bank interest (4) Average yield to maturity on selected long-term bonds

EXHIBIT 11: Treasury Historical Data

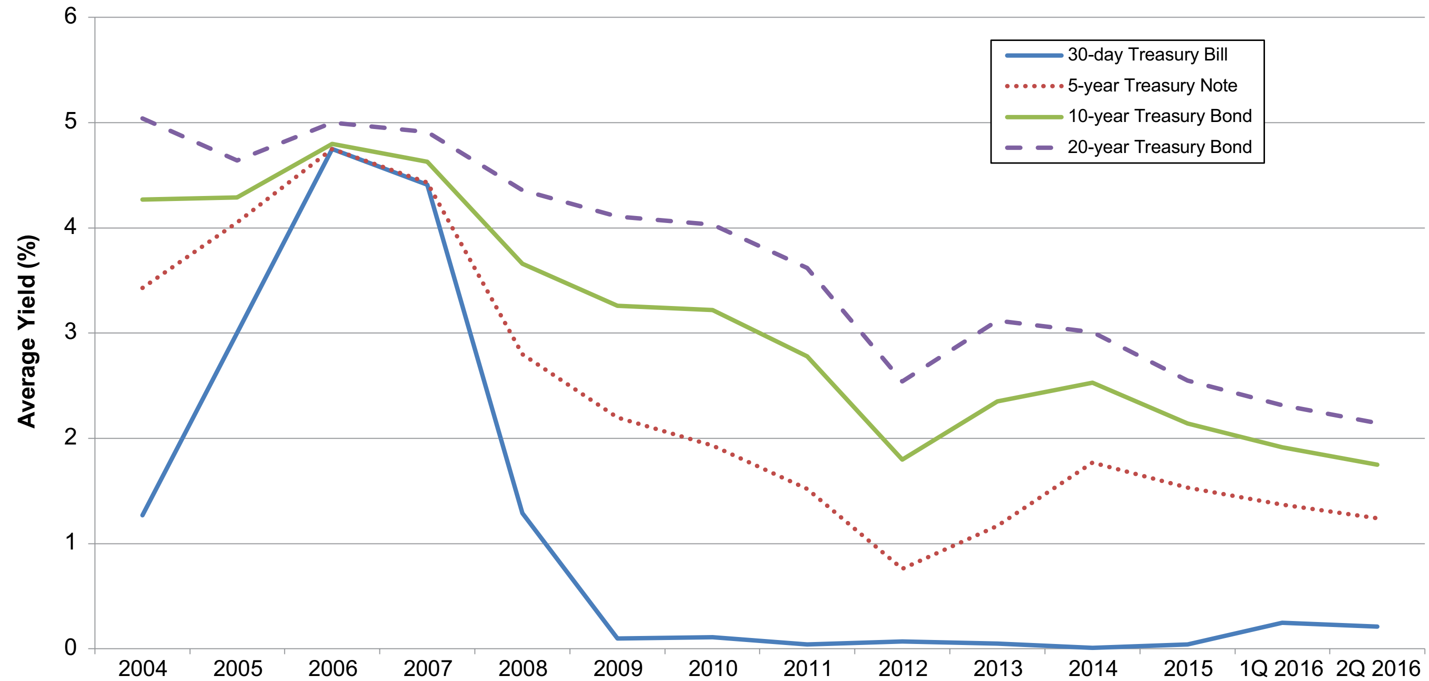
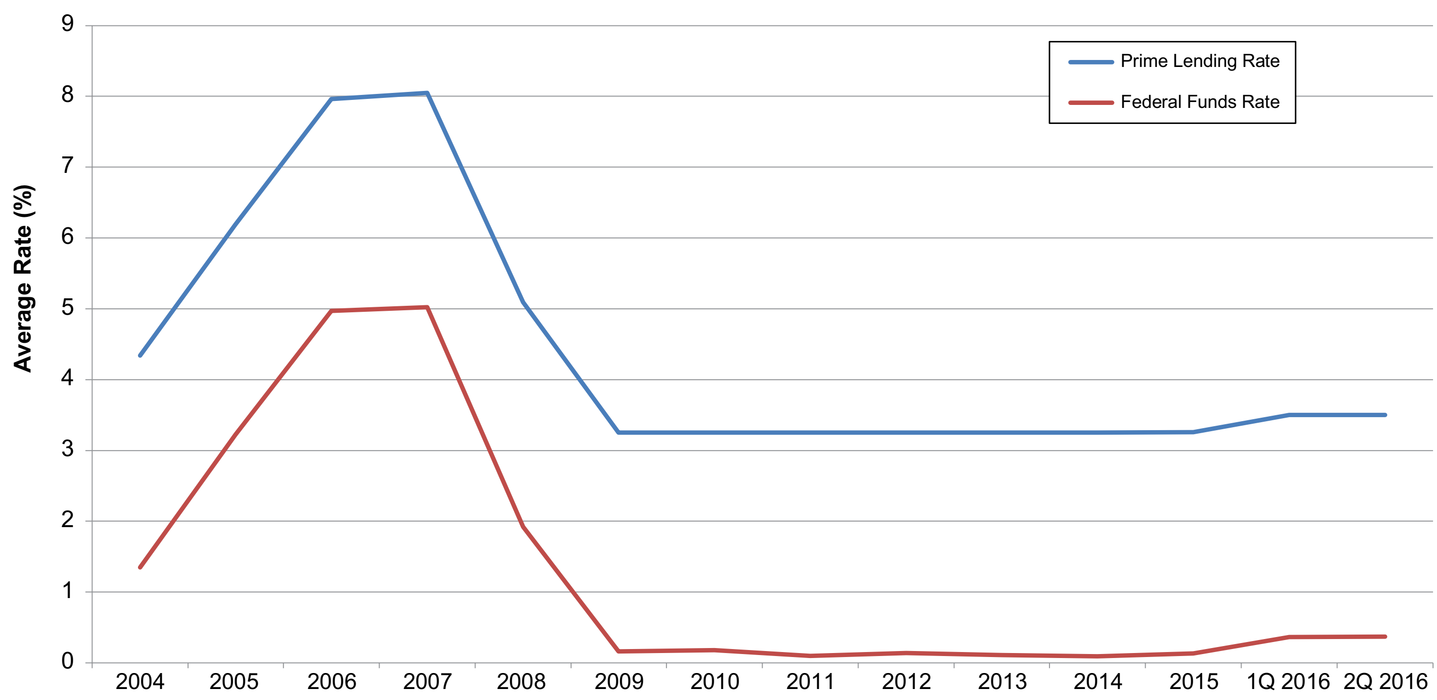


EXHIBIT 12: Prime Lending and Federal Funds Historical Data



(See Exhibits 2 and 4 for historic and forecasted housing starts figures.)

Building permits advanced in June but remained down over the year due to a large decrease in multifamily permits. Building permit authorizations for privately owned housing units, considered a good leading indicator of demand for new homes, were at a seasonally adjusted rate of 1,153,000 in June. This was 1.5% above the rate in May but 13.6% below the rate from one year ago. Building permits for single-family housing units increased 1.0% in June and were up 5.1% from one year ago. Building permits for multifamily housing units rose 1.9% in June but remained down 35.8% from one year ago.

(See Exhibit 4 for building permit authorization figures.)

The U.S. Census Bureau reported that overall spending on construction was at a seasonally adjusted annual rate of $1,133.5 billion in June. This figure was 0.6% below the May rate of $1,140.9 billion but 0.3% above the $1,130.5 billion rate from one year ago. Overall construction spending amounted to $539.8 billion in the first six months of 2016, 6.2% above the $508.1 billion spent during the first six months of 2015.

Spending on all private construction was at a seasonally adjusted annual rate of $851.0 billion in June, 0.6% below the May rate of $856.6 billion but 2.5% above the rate from one year ago. Private residential construction spending was at a seasonally adjusted annual rate of $445.8 billion in June, virtually unchanged from the rate of $445.9 billion in May, but 2.6% above the rate from one year ago. Private nonresidential construction was at a seasonally adjusted annual rate of $405.2 billion in June, down 1.3% from the May rate of $410.7 billion but 2.5% above the rate from a year ago.

The total amount spent on private construction was $409.4 billion during the first six months of 2016, up 7.8% from the amount spent during that same period in 2015. Spending on residential construction was $214.0 billion in the first six months of 2016, 7.7% greater than the amount spent during that same period in 2015. Spending on nonresidential private construction was $195.4 billion in the first half of 2016, 7.9% above the amount spent during the first half of 2015.

The seasonally adjusted annual rate of total public construction spending was $282.5 billion in June, a 0.6% decrease from the May rate of $284.3 billion and 6.0% below the rate from a year ago. Educational construction was at a seasonally adjusted annual rate of $67.5 billion in June, 0.5% below the May rate of $67.8 billion and 4.8% below the rate from a year ago. Highway and street construction was at a seasonally adjusted annual rate of $88.0 billion in June, 1.4% below the May rate of $89.2 billion and 5.8% below the rate from one year ago.

The total amount spent on public construction was $130.4 billion in the first six months of 2016, up 1.5% from the amount spent during that period in 2015. Spending on educational construction was $32.2 billion during the first half of 2016, 5.9% above the amount spent during that period in 2015. Spending on highway and street construction was $36.9 billion in the first half of 2016, up 3.9% from the amount spent during the first half of 2015.

12. MANUFACTURING

The Federal Reserve reported that total industrial production advanced 0.6% in June but remained down 0.7% over the past 12 months. For the second quarter as a whole, industrial production fell at an annual rate of 1.0%. Industrial production has increased in only two of the past five months. Industrial production is an output measure of the industrial sector of the economy. The industrial sector includes manufacturing, mining, and utilities, with manufacturing accounting for approximately 75% of total industrial production.

Manufacturing rose 0.4% in June and was up 0.4% from a year ago. The production of durable goods jumped 0.9% in June, while the production of nondurable goods edged down 0.1%. Despite June's advance, manufacturing output declined at an annual rate of 1.0% in the second quarter, reversing its small gain in the first quarter. Durable goods manufacturing rose at an annual rate of 0.5% in the second quarter, but a 2.4% drop in the manufacturing of nondurable goods dragged the second-quarter total manufacturing figure down.

The output of utilities rose 2.4% in June, which was the result of warmer-than-normal June weather that increased demand for air conditioning. Utilities output was up 0.5% from a year ago. The output of utilities climbed at a rate of 12.9% in the second quarter.

The mining index moved up 0.2% in June, the second increase in the past nine months, though it remained down 10.5% from a year ago. In June, an increase in the index for oil well drilling and servicing and a large rise in the index for coal more than offset declines in oil and gas extraction and in nonmetallic mineral mining. Mining output fell at a rate of 15.9% in the second quarter.

(See Exhibit 1 for historical and forecasted industrial production figures.)

Industrial capacity utilization increased 0.5 percentage point in June to 75.4%. Capacity utilization is the percentage of production capacity manufacturers actually use. The June capacity utilization rate remains 0.6 percentage point above its level from a year ago but 4.6 percentage points below its long-run average between 1972 and 2015.

The U.S. Census Bureau announced that new orders for manufactured durable goods decreased $9.3 billion (-4.0%) in June to $219.8 billion. June's decline in new orders followed a 2.8% drop in May and a 3.2% increase in April. Excluding defense, new orders fell 3.9% in June after dropping 1.6% in May. Excluding the volatile transportation orders, new orders dropped only 0.5% in June after falling 0.4% in May. Orders for transportation equipment slumped 10.5% in June after falling 7.1% in May and rising 8.5% in April. New orders for nondefense capital goods excluding volatile aircraft orders—an indicator of business spending strength—sunk 11.3% in June after falling 1.6% in May.

The manufacturing sector continued to expand in June for the fourth consecutive month following five months of contraction. The Institute for Supply Management (ISM) reported that its manufacturing index (PMI) rose 1.9 percentage points in June to a reading of 53.2%. PMI is an indicator of the economic health of the manufacturing sector and is based on data compiled from purchasing and supply executives nationwide.

A reading above 50% indicates that the manufacturing economy is generally expanding; a reading below 50% indicates that it is generally contracting. A PMI in excess of 43.2%, over a period of time, generally indicates an expansion of the overall economy. Therefore, the June PMI indicates the fourth consecutive month of expansion and growth in the overall economy for the 85th consecutive month.

Of the 18 manufacturing sectors surveyed in June, 13 reported growth. The report stated that, based on the past relationship between PMI and the overall economy, if the average PMI for January and June (50.8%) were annualized, it would correspond to a 2.4% increase in real GDP annually. If PMI for June were annualized (53.2%), it would correspond to a 3.2% increase in GDP annually.

The component for new orders rose 1.3 percentage points in June to 57.0%. The reading indicated that new orders grew for the sixth straight month. A New Orders Index above 52.1%, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders.

The component for production increased 2.1 percentage points in June, improving to 54.7%. The component indicated that new orders grew for the sixth straight month. An index above 51.1%, over time, is generally consistent with an increase in the Federal Reserve Board's industrial production figures.

The manufacturing employment component rose 1.2 percentage points in June to a reading of 50.4% and indicated a growth in manufacturing employment following sixth straight months of contraction. An Employment Index above 50.6%, over time, is generally consistent with an increase in the Bureau of Labor Statistics' data on manufacturing employment.

The index that tracks inventory increased 3.5 percentage points in June to 48.5% but indicated raw materials inventories contracted for the 12th consecutive month. An Inventories Index greater than 42.9%, over time, is generally consistent with expansion in the Bureau of Economic Analysis's figures on overall manufacturing inventories.

The component that measures prices fell 3.0 percentage points in June to 60.5%, indicating an increase in raw materials for the fourth consecutive month. In June, 27.0% of respondents reported paying higher prices, 6.0% reported paying lower prices, and 67.0% reported paying the same prices. A Prices Index above 49.7%, over time, is generally consistent with an increase in the Bureau of Labor Statistics' Index of Manufacturers Prices.

(See Exhibits 4 and 13 for historical PMI figures.)

13. SERVICES

The services sector continued to expand in June, and the pace of expansion quickened. The ISM reported that its Non-Manufacturing Index (NMI) rose 3.6 percentage points in June to 56.5%. NMI measures the strength of the services sector and is based on data compiled from purchasing and supply executives nationwide.

A reading above 50% indicates that the services sector of the economy is generally expanding, whereas a reading below 50% indicates that the services sector is generally contracting. An NMI in excess of 48.7%, over a period of time, generally indicates an expansion in the overall economy. Therefore, the June NMI indicates an expansion in the services sector for the 77th consecutive month and growth in the overall economy for the 83rd consecutive month.

Of the 18 nonmanufacturing sectors surveyed in June, 15 reported growth. The comments from respondents were mostly positive about business conditions and the economy. The report also found that there was a strong rebound from the "cooling-off" that occurred in May. The report noted that, based on the past relationship between the NMI and the overall economy, if NMI for June were annualized (56.5%), it would correspond to a 3.0% increase in GDP on an annualized basis.

The component that measures business activity climbed 4.4 percentage points in June to 59.5% and indicated that business activity grew for the 83rd consecutive month. The new orders component of the index rose 5.7 percentage points to 59.9%, signaling growth in new orders for the 83rd consecutive month. The employment component rose 3.0 percentage points, improving to 52.7% and indicating employment in the services sector grew in June after a month of contraction.

(See Exhibits 4 and 13 for historical NMI figures.)

EXHIBIT13A: Manufacturing, Services, and Housing Indicators—Past 24 Months

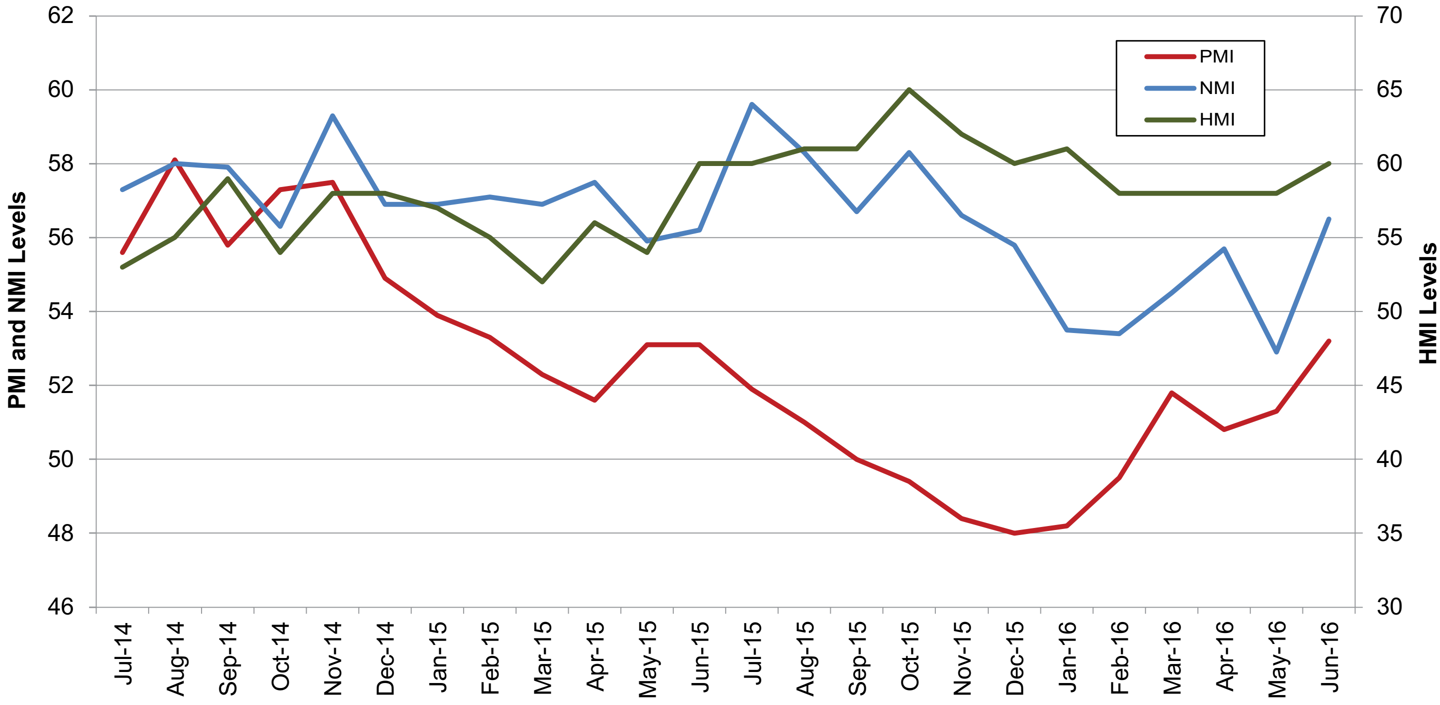
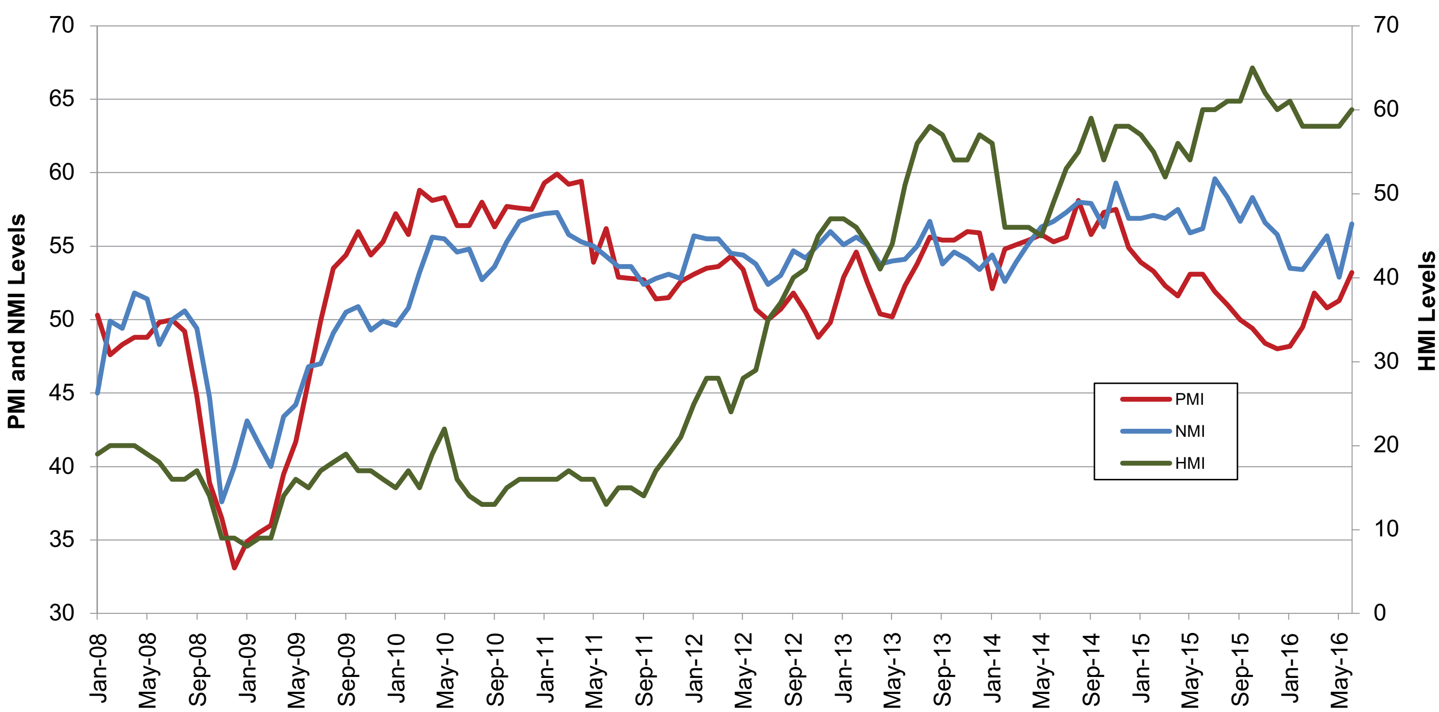


EXHIBIT 13B: Manufacturing, Services, and Housing Indicators—Since 2008



Source of data: Institute for Supply Management and the National Association of Home Builders.
Notes: PMI is the Institute of Supply Management's Manufacturing Index—any reading above 50.0% suggests growth in the manufacturing economy, whereas a reading below 50.0% indicates contraction. NMI is the Institute of Supply Management's Non-Manufacturing Index, which measures the strength of the services sector—any reading above 50.0% suggests growth, whereas a reading below 50.0% indicates contraction. HMI is the National Association of Home Builders/Wells Fargo Housing Market Index—any reading over 50 indicates that more builders view sales conditions as good than poor.

14. REAL ESTATE

NATIONAL ASSOCIATION OF HOME BUILDERS

Builder confidence improved in June and remained at a level indicating homebuilders continue to be positive about the housing market. The National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) increased 2.0 points to a reading of 60.0 in June, its highest reading since January 2016. The report noted that the data indicated that the housing market should continue to move forward in the second half of 2016. HMI has now been above the 50.0-point benchmark for 24 consecutive months. An HMI reading above 50.0 indicates that more builders view sales conditions as good, rather than poor.

All three of the HMI components posted gains in June. The component that measures sales expectations in the next six months increased 5.0 points to 70.0. The components that gauge current sales conditions rose 1.0 point to 64.0, while the component that measures buyer traffic increased 3.0 points to 47.0.

The HMI three-month moving average for the West rose 1.0 point to 68.0, while the South increased 2.0 points to 61.0. Meanwhile, the Northeast shed 2.0 points to a reading of 39.0, and the Midwest fell 1.0 point, declining to 57.0.

(See Exhibit 13 for historical HMI figures.)

NATIONAL ASSOCIATION OF REALTORS

Existing-home sales continued their upward trajectory in June, rising for the fourth consecutive month. First-time buyers boosted the sales figures in June, with the share of new buyers being the greatest in nearly four years, while sales to investors fell to their lowest share since July 2009. Among the major regions, only the Northeast saw a decline in sales.

Existing-home sales rose 1.1% in June to an annual pace of 5.57 million sales from 5.51 million in May. Sales remain 3.0% above their levels from a year ago and are at their highest annual pace since February 2007 (5.79 million). Existing-home sales are completed transactions that include single-family houses, townhomes, condominiums, and co-ops.

Home sales in the Northeast declined 1.3% in June but are up 5.6% from one year ago. Sales in the Midwest climbed 3.8% in June and are up 4.7% above their level from a year ago. Sales in the South were unchanged in June but remained up 3.2% from one year ago. Sales in the West increased 1.7% but were down 0.8% from a year ago.

The national median existing-home price for all housing types was $247,700 in June, up 4.8% from a year ago and the highest price on record. This marked the 52nd consecutive month of year-over-year price gains. In June, home prices in the Northeast moved up 1.4% from one year ago, while prices in the Midwest climbed 3.8%. Home prices in the South rose 5.5%, while prices in the West jumped 7.2% over the last 12 months.

Distressed home sales comprised 6.0% of all home sales in June, unchanged from May and below 8.0% from a year ago. Distressed homes include foreclosures and short sales, which are generally sold at deep discounts. In June, 4.0% of home sales were foreclosures and 2.0% were short sales. June foreclosures sold for an average discount of 11.0% below market value, and short sales sold at an average discount of 18.0%.

The median time on the market for all homes sold in June was 34 days, up from 32 days in the previous month. The median time on the market for short sales in June was 156 days, while foreclosures sold in 49 days and nondistressed homes sold in 30 days. In June, 48.0% of all homes on the market sold in less than a month.

Total housing inventory retreated 0.9% in June to 2.12 million existing homes available for sale. Housing inventory is down 5.8% from one year ago. Unsold inventory was at a 4.6-month supply in June, down from 4.7 months in May.

NAR reported that, according to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage edged down to 3.57% in June from 3.60% in May. Mortgage rates have now fallen for four consecutive months, and the June rate was the lowest since May 2013 (3.54%). The average 30-year rate for 2015 was 3.85%.

NAR's Realtors Confidence Index (RCI) for current conditions was mostly unchanged in June. The RCI for single-family houses remained unchanged in June at a reading of 74.0 and was up 1.0 point over the past 12 months (strong = 100; moderate = 50; weak = 0). The RCI for townhouses was unchanged in June at 55.0 but was up 2.0 points from a year ago. The index for condos rose 1.0 point this month to 52.0 and was 4.0 points above its level from a year ago. The RCI is a key indicator of housing market strength based on a monthly survey of over 50,000 real estate practitioners.

Pending home sales were little changed in June, rising only slightly as supply and affordability constraints prevented a larger rise in activity from low interest rates. The pending home sales report found that increases in the Northeast and Midwest were offset by declines in the South and West. NAR's Pending Home Sales Index (PHSI), a forward-looking indicator based on contract signings, crept up 0.2 points in June to a reading of 111.0. The index was also 1.0 points above its level from a year ago but is noticeably down from this year's peak level of 115.0 in April.

The PHSI in the Northeast rose 3.2 points in June to 96.0 and is now 1.7 points above its level from one year ago. The Midwest index increased 0.8 point in June to 112.8 and was 1.6 points above its level from a year ago. The South index slipped 0.6 point in June to a reading of 125.9 but was 1.8 points above its level from a year ago. The West index moved down 1.3 points in June to 101.3 and was 1.8 points below its reading from one year ago.

The PHSI is an indicator for the housing sector, based on pending sales of existing homes. A sale is listed as pending when the contract has been signed but the transaction has not closed, though the sale usually is finalized within one or two months of signing. There is a closer relationship between annual index changes (from the same month a year earlier) and year-ago changes in sales performance than with month-to-month comparisons. An index of 100 is equal to the average level of contract activity during 2001, which was the first year to be examined, as well as the first of five consecutive record years for existing-home sales.

NAR's most recent Commercial Real Estate Market Survey, analyzing the first quarter of 2016, found that commercial real estate investments continued to keep a positive pace. The report found that 58.0% of Realtors closed a commercial sale, and sales volumes totaled $51.6 billion, up 8.5% from the same period one year ago.

A shortage of inventory remained the No. 1 concern among respondents, and limited inventory pushed price growth upward. Commercial properties traded at average prices 5.1% higher in the first quarter, and the average transaction price was $1.4 million.

Average capitalization rates declined slightly across all property types, averaging 7.2% in the first quarter compared with 7.8% in the prior quarter. This rate was 57 basis points lower on a yearly basis. Apartments posted the lowest cap rate, at 6.9%, followed by office and retail properties, which both had cap rates of 7.3%. Hotels saw an average cap rate of 7.1% in the first quarter, and industrial spaces posted a cap rate of 7.4%.

NAR members were positive about the general direction of business opportunities, which is a broad market indicator tracked by NAR. Business opportunities rose 5.2% in the first quarter. This was greater than the 3.0% increase in the fourth quarter.

Leasing volume rose 1.3% in the first quarter, and leasing rates advanced 1.9%. Tenant demand was the greatest in the 5,000-square-foot-or-less space, accounting for 80.0% of all leased properties. Lease terms remained consistent, with 36-month and 60-month leases accounting for 59.0% of the market.

Office vacancies fell 174 basis points from a year ago to reach 13.4%. Industrial availability saw a yearly decrease of 23 basis points, bringing the rate to 11.1%. Retail vacancies declined 122 basis points over the past 12 months, to 12.5%. Hotel properties remained the highest, with vacancy rates of 15.7%, while apartments were the lowest, at 6.2%. Lease concessions declined 3.9% in the first quarter.

(See Exhibit 14 for forecasted figures from NAR.)

EXHIBIT 14: National Association of Realtors® Market Forecast

	Q3 2016	Q4 2016	2016	2017
Housing measures (thousands)				
Housing starts	1,245	1,284	1,214	1,307
Single-family	832	840	809	901
Multifamily	413	444	405	397
Home sales				
Total existing homes	5,603	5,382	5,443	5,580
New homes	545	564	551	606
Home prices (median)				
Existing homes	$238.2	$230.4	$232.5	$239.9
New homes	$312.1	$314.9	$307.0	$311.7
Mortgage Rates				
30-year fixed rate	3.6%	3.7%	3.7%	4.2%
5/1-year hybrid adjustable	3.0%	3.1%	3.0%	3.4%

Source of data: National Association of Realtors®
Notes:
Figures are in thousands, except for rates. Quarterly housing starts and home sales are seasonally adjusted at annual rate. Total existing home sales include single-family homes, condos, and co-ops.

HOMEOWNERSHIP RATES, HOMEOWNER VACANCY RATES, AND RENTAL VACANCY RATES

The U.S. Census Bureau found that the homeownership rate was 62.9% in the second quarter of 2016, down from a rate of 63.5% in the first quarter and below the 63.4% rate from one year ago. The national vacancy rate for rental housing was 6.7% in the second quarter of 2016, down from 7.0% in the first quarter. Rental vacancy is down slightly from this time one year ago, when the rate was 6.8%. The national vacancy rate for homeowners was 1.7% in the second quarter, unchanged from the previous quarter but down slightly from 1.8% a year ago.

MORTGAGE BANKERS ASSOCIATION

The Mortgage Bankers Association (MBA) finance commentary report stated that the association continues to forecast an increase in single-family housing starts because inventory is still low and household demand continues to strengthen, driven by a strong labor market. The MBA also expects that multifamily starts will increase as well but believes it will likely not be too far above the 400,000-unit mark, which is only slightly lower than the historical average for multifamily starts. It also found that purchase applications have been declining on a week-to-week basis but remain solidly above levels seen in 2014 and 2015. Further, refinance applications have not been as high as what was seen in February this year, but there have still been occasional surges whenever rates fall.

(See Exhibit 15 for forecasted figures from MBA.)

NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS

Investment returns for properties, as measured by the National Association of Real Estate Investment Trusts (NAREIT), were mostly positive in May and June, though timber saw back-to-back monthly declines and lodging/resorts lost the most ground in May. April was a mixed month for returns, with six of the all equity REITs components declining. The largest decline in April came from self-storage, which fell 10.7%.

(See Exhibit 16 for more REIT return figures from NAREIT.)

EXHIBIT 15: Mortgage Bankers Association® Market Forecast

	Q3 2016	Q4 2016	2016	2017	2018
Housing measures (thousands)					
Housing starts	1,200	1,210	1,183	1,265	1,355
Single-family	790	800	790	860	955
Multifamily	410	410	393	405	400
Home sales					
Total existing homes	5,544	5,609	5,490	5,759	5,890
New homes	595	613	579	650	694
Home prices (median)					
Existing homes	$229.6	$225.1	$224.7	$227.1	$224.1
New homes	$294.0	$295.2	$294.1	$291.7	$292.4
Interest Rates					
30-year fixed rate mortgage	3.6%	3.8%	3.7%	4.2%	4.7%
10-Year Treasury yield	1.6%	1.9%	1.8%	2.3%	2.8%

Source of data: Mortgage Bankers Association®.
Notes:
Figures are in thousands, except for rates. Quarterly housing starts and home sales are seasonally adjusted at annual rate.
Total existing home sales include single-family homes, condos, and co-ops.

EXHIBIT 16: REIT Returns Historical Data

	MONTHLY DATA											
(%)	**7/15**	**8/15**	**9/15**	**10/15**	**11/15**	**12/15**	**1/16**	**2/16**	**3/16**	**4/16**	**5/16**	**6/16**
All Equity REITs*	5.0	-5.8	2.1	6.5	-0.2	1.3	-3.5	-0.4	10.2	-1.8	2.3	6.9
Industrial**	8.7	-7.1	4.0	9.3	1.1	-0.2	-6.1	0.1	13.3	1.1	6.0	7.6
Office**	4.2	-8.7	3.8	7.4	0.7	-0.9	-8.2	-2.6	12.2	2.8	0.5	5.0
Retail**	7.2	-5.4	2.9	9.1	-3.8	3.0	0.2	0.6	7.4	-2.6	-0.2	10.4
Residential**	6.4	-4.7	5.4	2.0	3.3	2.9	-4.9	-1.5	10.5	-6.3	4.1	3.5
Diversified**	3.3	-7.1	1.5	8.1	-2.0	-0.1	-8.4	0.1	10.5	-0.1	3.4	5.2
Lodging/Resorts**	-0.7	-7.5	-6.0	5.9	-1.7	-6.1	-9.7	7.6	9.1	-5.4	-2.8	5.7
Health Care**	5.9	-6.6	3.6	-1.6	-1.2	5.5	-4.4	-1.4	10.2	0.3	2.3	9.2
Self Storage**	11.5	-1.9	6.2	6.7	4.6	4.7	2.7	-3.6	12.0	-10.7	4.9	0.5
Timber**	-1.8	-7.5	-0.7	6.3	13.5	-6.6	-13.2	1.5	19.6	3.5	-1.2	-3.3
Infrastructure**	1.3	-1.4	-4.5	12.8	-1.6	-0.7	-1.5	-1.2	7.2	2.0	2.6	10.2
Mortgage REITs	3.0	-3.5	-2.4	-0.2	0.9	-1.8	-5.3	2.7	7.2	1.7	4.3	3.5
Home Financing	3.7	-3.5	-2.3	-0.7	0.8	-1.8	-4.1	5.4	6.2	1.6	4.2	4.9
Commercial Financing	1.0	-3.6	-2.6	1.5	1.3	-1.9	-8.5	-5.2	10.1	2.1	4.6	-0.5

	YEARLY DATA											
(%)	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
All Equity REITs*	31.6	12.2	35.1	-15.7	-37.7	28.0	28.0	8.3	19.7	2.9	28.0	2.8
Industrial**	34.1	15.4	28.9	0.4	-67.5	12.2	18.9	-5.2	31.3	7.4	21.0	2.6
Office**	23.3	13.1	45.2	-19.0	-41.1	35.5	18.4	-0.8	14.2	5.6	25.9	0.3
Retail**	40.2	11.8	29.0	-15.8	-48.4	27.2	33.4	12.2	26.7	1.9	27.6	4.6
Residential**	32.7	13.7	38.9	-25.2	-24.9	30.8	46.0	15.4	6.9	-5.4	40.0	17.1
Diversified**	32.4	9.9	38.0	-22.3	-28.2	17.0	23.8	2.8	12.2	4.3	27.2	-0.5
Lodging/Resorts**	32.7	9.8	28.2	-22.4	-59.7	67.2	42.8	-14.3	12.5	27.2	32.5	-24.4
Health Care**	21.0	1.8	44.5	2.1	-12.0	24.6	19.2	13.6	20.4	-7.1	33.3	-7.2
Self Storage**	29.7	26.5	40.9	-24.8	5.0	8.4	29.3	35.2	19.9	9.5	31.4	40.6
Timber**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7.7	37.0	7.9	8.6	-7.0
Infrastructure**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	29.9	4.8	20.2	3.7
Mortgage REITs	18.4	-23.2	19.3	-42.3	-31.3	24.6	22.6	-2.4	19.9	-2.0	17.9	-8.9
Home Financing	24.9	-26.0	14.8	-38.2	-20.0	28.2	21.0	-0.9	16.4	-12.7	19.4	-9.8
Commercial Financing	7.5	-16.1	30.3	-48.8	-74.8	-41.0	42.0	-11.3	43.0	41.8	14.5	-6.0

Source of data: National Association of Real Estate Investment Trusts (NAREIT).
Notes:
* FTSE NAREIT All Equity REIT Index. Does not include Mortgage REITS.
** Components of the FTSE NAREIT All Equity REIT Index.

NATIONAL COUNCIL OF REAL ESTATE INVESTMENT FIDUCIARIES

Property index returns, as measured by the National Council of Real Estate Investment Fiduciaries (NCREIF), were positive in the second quarter. Of the property-type indexes, industrial had the best returns, followed by retail. Of the regional indexes, the West outperformed the others for the fifth straight month.

The NCREIF Property Index (NPI) is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors—the great majority being pension funds. As such, all properties are held in a fiduciary environment.

(See Exhibit 17 for more property index returns from NCREIF.)

EXHIBIT 17: Property Index Returns Historical Data

	QUARTERLY DATA											
(%)	3Q 13	4Q 13	1Q 14	2Q 14	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15	4Q 15	1Q 16	2Q 16
National*	2.6	2.5	2.7	2.9	2.6	3.0	3.6	3.1	3.1	2.9	2.2	2.0
East region*	2.1	2.3	2.1	2.3	2.2	2.5	3.0	2.9	2.6	2.3	1.7	1.7
West region*	2.8	2.7	3.1	3.4	3.0	3.5	3.8	3.4	3.6	3.6	2.8	2.5
South region*	3.0	2.8	3.4	3.2	2.8	3.2	4.2	3.1	3.1	3.0	2.2	1.8
Midwest region*	2.7	2.1	2.6	2.8	2.6	3.0	3.4	3.0	2.9	2.4	2.1	2.0
Hotel*	2.1	2.3	0.8	2.6	2.9	4.3	2.5	3.5	3.5	3.0	1.2	1.5
Apartment*	2.5	2.5	2.2	2.4	2.5	2.8	2.9	3.0	2.9	2.7	1.9	1.9
Retail*	2.7	2.7	4.3	3.2	2.3	2.7	4.9	3.0	3.1	3.5	3.0	2.2
Industrial*	3.1	2.9	2.8	3.3	2.9	3.9	3.5	3.8	3.7	3.2	3.0	2.9
Office*	2.4	2.3	2.2	2.9	2.8	3.1	3.3	3.1	3.0	2.6	1.7	1.7

Source of data: National Council of Real Estate Investment Fiduciaries (NCREIF).
Notes:
* NCREIF Property Index.
The NCREIF Property Index is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors, the great majority being pension funds. As such, all properties are held in a fiduciary environment.

15. ECONOMIC OUTLOOK

Consensus Economics Inc., publisher of *Consensus Forecasts—USA*, reports that the consensus of U.S. forecasters is that real GDP will increase at a seasonally adjusted annual rate of 2.4% in the third quarter of 2016 and 2.5% in the fourth quarter. Every month, Consensus Economics surveys a panel of 30 prominent U.S. economic and financial forecasters for their predictions on a range of variables, including future growth, inflation, current account and budget balances, and interest rates. The forecasters expect GDP to grow 1.9% in 2016, 2.3% in 2017, and 2.3% in 2018.

They forecast consumer spending will increase at a rate of 2.8% in the third quarter of 2016 and 2.6% in the fourth quarter. They expect consumer spending to increase 2.7% in 2016 and 2.5% in 2017.

These forecasters believe unemployment will average 4.8% in the third quarter of 2016 before ticking down to 4.7% in the fourth quarter. They believe unemployment will average 4.8% in 2016 and 4.5% in 2017.

The forecasters believe the three-month Treasury bill rate will be 0.5% at the end of the third quarter of 2016 and 0.7% at the end of the fourth quarter. They forecast the three-month Treasury bill rate will rise to 1.6% at the end of 2017. They forecast the 10-year Treasury bond yield will be 2.0% at the end of the third quarter of 2016 and 2.2% at the end of the fourth quarter. They believe the 10-year Treasury bond yield will move up to 2.8% at the end of 2017.

They also believe consumer prices will rise at a rate of 2.5% in the third quarter of 2016 and 2.3% in the fourth quarter. They expect consumer prices to increase 1.3% in 2016 before rising to 2.3% in 2017. They expect producer prices to increase at a rate of 2.1% in the third quarter of 2016 before increasing at a rate of 2.4% in the fourth quarter. The forecasters anticipate producer prices will fall 0.8% in 2016 before rising 2.2% in 2017.

The forecasters in the survey believe real disposable personal income will rise at a rate of 2.2% in the third quarter of 2016 and 2.5% in the fourth quarter. They believe real disposable personal income will increase 3.0% in 2016 and 2.4% in 2017.

The forecasters expect industrial production to increase at a rate of 1.5% in the third quarter of 2016 before picking up to a rate of 2.3% in the fourth quarter. They forecast industrial production will decrease 0.4% in 2016 before rising 2.3% in 2017.

Nominal pretax corporate profits are expected to decline 2.9% in 2016 before rising 3.0% in 2017, according to the forecasters. The forecasters project housing starts will be 1,190,000 in 2016 and 1,340,000 in 2017.

The most recent release of The Livingston Survey (the Survey) predicts slightly lower growth for the second half of 2016 than had been predicted in its prior survey. The Survey, conducted by the Federal Reserve Bank of Philadelphia, is the oldest continuous survey of economists' expectations. It summarizes the forecasts of economists from industry, government, banking, and academia. The participants project real GDP to grow at an annual rate of 2.4% in the second half of 2016 and 2.1% in the first half of 2017. They believe GDP will grow 2.2% annually over the next 10 years.

The Survey forecasted the unemployment rate to be 4.7% in December 2016 and remain at 4.7% into June 2017.

The forecasters in the Survey expect consumer price inflation (CPI) to be 1.3% in 2016 and 2.1% in 2017. The Survey expects CPI to average 2.3% over the next 10 years. The Survey expects producer price inflation (PPI) to be -1.4% in 2016 and 2.3% in 2017.

The Survey predicts the interest rate on three-month Treasury bills will be 0.75% at the end of December 2016. From there, the forecasters predict that the rate will increase to 1.12% in June 2017 and 1.55% in December 2017. They predict the interest rate on 10-year Treasury bonds will reach 2.25% at the end of December 2016. According to the Survey, the rate will then rise to 2.45% in June 2017 and to 2.60% in December 2017.

The forecasters from the Survey have decreased their previous projections for future S&P 500 values. They expect the S&P 500 will sit at 2,140.0 by the end of December 2016, 2,167.8 at the end of June 2017, and 2,200.6 at the end of December 2017.

The Energy Information Administration predicts that the West Texas Intermediate crude oil spot price will average approximately $43.57 per barrel in 2016 before rising to $52.15 per barrel in 2017, compared with $48.67 per barrel in 2015. The EIA expects retail prices for regular-grade gas to average $2.12 per gallon in 2016 before increasing to $2.28 per gallon in 2017, compared with $2.43 per gallon in 2015.

The Energy Information Administration believes the Henry Hub natural gas spot price will average $2.36 per million Btu (MMBtu) in 2016 and $2.95 per MMBtu in 2017, compared with $2.63 per MMBtu in 2015. The cost of coal delivered to electric generating plants, which averaged $2.23 per MMBtu in 2015, is expected to average $2.19 per MMBtu in 2016 and $2.24 per MMBtu in 2017. Residential electric prices, which averaged 12.67 cents per kilowatt-hour (kWh) in 2015, are expected to average 12.64 cents per kWh in 2016 then rise to 13.00 cents per kWh in 2017. The airline ticket price index, which averaged 292.2 in 2015, is expected to move up to 294.3 in 2016, then increase to 306.6 in 2017.

The National Association of Realtors' Realtors Confidence Index for future conditions moved down slightly for single-family homes and townhomes in June but remained above year-ago levels. The RCI for the outlook of single-family homes edged down 1.0 point in June to 76.0 but remained up 1.0 point from one year ago (strong = 100; moderate = 50; weak = 0). The RCI for the outlook for townhomes slipped 1.0 point in June to a reading of 56.0 but was up 3.0 points from a year ago. The RCI for the outlook of condos was unchanged this month at 52.0 and was 3.0 points above its reading from a year ago. The RCI is a key indicator of housing market strength based on a monthly survey of over 50,000 real estate practitioners. Practitioners are asked about their expectations for home sales, prices, and market conditions.

NAR believes existing-home sales will be 5.443 million (+3.7%) in 2016 and 5.580 million (+2.5%) in 2017. It believes new single-family home sales will be 551,000 (+10.0%) in 2016, before increasing to 606,000 (+10.0%) in 2017. NAR believes the median existing-home price will be $232,500 (+4.5%) in 2016, before increasing to $239,900 (+3.2%) in 2017. NAR believes the median new-home price will increase to $307,000 (+3.6%) in 2016, before rising to $311,700 (+1.5%) in 2017. It expects housing starts to increase to 1,214,000 (+9.2%) in 2016, then to 1,307,000 (+7.7%) in 2017. NAR believes the 30-year fixed mortgage rate will average 3.7% in 2016, before rising to 4.2% in 2017, and the 5-1 hybrid adjustable rate mortgage will average 3.0% in 2016 and 3.4% in 2017.

The most recent three-year outlook from the Urban Land Institute (ULI) and Ernst & Young (EY) found that real estate economists and analysts believe the economy will continue to expand between 2016 and 2018, though at a slower pace than in the prior two years. The *ULI/EY Real Estate Consensus Forecast,* a semiannual publication, is based on a survey of 48 of the industry's top economists and analysts representing 36 of the country's leading real estate investment, advisory, and research firms and organizations. The forecast for each indicator is the median forecast from the 48 survey respondents. The key findings from the *Real Estate Consensus Forecast* include:

- Commercial property transaction volume is projected to decline for the next three years to $525 billion in 2016, $500 billion in 2017, and $475 billion in 2018. Despite the decline, these volumes remain surpassed only by those in 2007 and in 2015.
- Issuance of commercial mortgage-backed securities (CMBS) is expected to decline in 2016 to $85 billion and then return to $100 billion in both 2017 and 2018.
- Commercial real estate prices are projected to grow but at subdued and slowing rates over the next three years, at 5.0% in 2016, 2.7% in 2017, and 3.0% in 2018. This is all below the long-term average growth rate of 5.8%.
- Institutional real estate assets are expected to provide total returns of 8.1% in 2016 before moderating to 7.2% in 2017 and 7.1% in 2018. Among the various property types, industrial and office are expected to have the strongest returns in 2016, followed by apartments and retail. For 2018, it expects there will be little variation among the property types.
- Vacancy rates are expected to continue to improve modestly for office and retail properties for each year during 2016 through 2018. Industrial availability rates and hotel occupancy rates are forecasted to improve modestly in 2016 and then slightly reverse direction in 2017 and 2018. Apartment vacancy rates are also expected to rise over the next three years.
- Commercial property rents are projected to increase for the four major property types in 2016, ranging from 2.0% for retail up to 4.0% for office and 4.5% for industrial. Rent increases in 2018 in these four types will range from 1.7% for retail to 3.0% for office. Hotel revenue per available room (RevPAR) is expected to rise 4.6% in 2016 and 3.0% in 2018.
- Single-family housing starts are forecast to increase from 714,600 units in 2015 to 900,000 units in 2018, remaining below the 20-year annual average.

The *Real Estate Consensus Forecast* findings for each commercial property type are:

- *Apartments:* Vacancy rates are expected to increase slightly over the next three years, rising to 4.9% in 2016, 5.2% in 2017, and 5.4% in 2018. Apartment rental rate growth is expected to moderate in 2016 and 2017 to 3.6% and 3.0%, respectively, but remain above the 20-year average growth rate of 2.8%. Rent growth is projected to dip to 2.4% in 2018, below the long-term average. Compared to six months ago, the forecasted vacancy rates for 2016 and 2017 are slightly higher, and the forecasted rental rate changes are about the same.
- *Industrial/warehouse:* Availability rates are expected to continue to decline in 2016, with year-end vacancy rates declining to 9.2%. From there, rates are forecast to creep up in 2017 and 2018 but remain below the long-term average. Survey respondents predicted healthy, but moderating, rental rate growth, with increases of 4.5% in 2016, 3.0% in 2017, and 2.7% in 2018. These forecasts are all above the 20-year average growth rate. The forecasts for industrial/warehouse availability rates and rental growth rates in 2016 and 2017 are all more optimistic than the forecast from six months ago.

- *Office:* Vacancy rate forecasts for 2016 and 2017 call for continued declines to 12.6% and 12.3%, respectively. Vacancy rates are expected to plateau in 2018 at 12.3%. Office rental rates are forecast to grow at 4.0% in 2016 (as they did in 2015) and then moderate to 3.5% in 2017 and 3.0% in 2018. Regardless, the forecasts for all rates remain above the 20-year average. The forecasts for rental rate growth in 2016 remain the same, while the forecast for 2017 is less optimistic than it was six months ago.

- *Retail:* The forecast anticipates retail availability rates will continue to move down, declining to 10.9% by 2016 and 10.7% by 2017. Availability rates are expected to plateau at 10.7% in 2018. All these rates remain above the 20-year average. Regarding retail rental rates, the forecast expects further growth at a rate that exceeds the 20-year average for the first time in eight years: 2.0% in both 2016 and 2017, and 1.7% in 2018. Compared to the survey from six months ago, the forecasts of availability rates and rental rate growth for 2016 and 2017 are less optimistic.

- *Hotel:* The forecasters expect occupancy rates to remain strong over the next three years, with some minor fluctuations. The respondents forecast occupancy rates will be at 65.8% in 2016, 65.5% in 2017, and 65.2% in 2018. Following six years of above-average hotel revenue per available room (RevPAR), RevPAR growth is predicted to begin moderating over the next three years, remaining above the long-term average in 2016, at 4.6%, but slipping below the long-term average to 3.0% by 2018. Compared to the forecast from six months ago, the current 2016 and 2017 forecasts for occupancy rates are slightly more optimistic, while RevPAR forecasts are more pessimistic.

The forecasters in the *ULI/EY Real Estate Consensus Forecast* expect housing starts will increase to 800,000 in 2016, 850,000 in 2017, and 900,000 in 2018 but still remain below the 20-year average. They forecast that the average price for existing homes in the U.S. will moderate to 5.0% in 2016, 4.3% in 2017, and 3.9% in 2018. Compared with the prior survey, forecasts for housing starts in 2016 and 2017 are less optimistic; forecasts for existing housing prices increases are more optimistic.

(See Exhibits 2A, 2B, 3, 14, and 15 for more forecasted figures.)

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