BVR
What It's Worth

ECONOMIC OUTLOOK UPDATE

MONTHLY

SEPTEMBER 2019

ECONOMIC UPDATE AT A GLANCE (SEPTEMBER 2019 SUMMARY)

The Leading Economic Index declined 0.1% in September, to 111.9 points, which follows a decline of 0.2% in August. The report noted that the decline was caused by weaknesses in the manufacturing sector and the interest rate spread that were only partially offset by rising stock prices and a positive contribution from the Leading Credit Index. In the six-month period ending September 2019, the LEI increased 0.5% (about a 1.1% annual rate), around the same rate of growth as the previous six months. The LEI indicates that the economy is expected to continue to grow, albeit more slowly, through the end of the year and into 2020.

The Consumer Confidence Index decreased 9.1 points in September, to 125.1. The decline in September was attributed to the rising trade tensions with China and resulted in the largest one-month decline since December 2018. Consumers' assessment of current conditions fell 7.0 points, to 169.0 points, but the expectations component plummeted 10.6 points, to 95.8. The Consumer Sentiment Index improved 3.4 points in September, although the modest rise follows the August decline, which was the largest since December 2012. The report signals that consumers may be poised to offer the expansion less of a boost than in recent quarters despite a still solid job market. At its peak, consumer sentiment levels averaged 105.3 from 1997 to 2000.

The Small Business Optimism index fell 1.3 points, to 101.8, in September. Despite the decline, the survey noted September's figure falls within the top 20% of all readings in the index's 46-year history, shows no sign of a recession, and indicates continued job creation, capital spending, and inventory investment, all consistent with solid, but slower, growth. The Uncertainty Index rose 2.0 points, revisiting high levels of concern. The Wells Fargo/Gallup Small Business Report published its third-quarter survey, which highlighted that small-business owners are as optimistic as ever after continuing to report strong revenues. The survey reached a new record high, after rising 7.0 points, to 136. The key drivers for this quarter's index include:

- *Interest in obtaining credit:* Thirty-three percent of small-business owners said they are planning to apply for new credit products in the next 12 months, which is 7.0 percentage points higher than last quarter;

Economic Summary September 2019

Change from previous month unless otherwise noted

Factor	Improve/ Worsen
Leading Economic Index	↓
Consumer Confidence	↓
Consumer Sentiment	↑
Small Business Optimism	↓
Total Retail Sales	↓
Core Retail Sales	=
Jobs Added	↑
Unemployment Rate	↑
Labor-Force Participation	=
Hourly Earnings	↓
Workweek	=
Manufacturing Sector Index	↓
Services Sector Index	↓
Industrial Production	↓
S&P 500 (Month)	↑
S&P 500 (YTD)	↑
Housing Starts	↓
Building Permits	↓
Housing Market Index	↑
Home Sales	↓
Home Values	↑
Realtor Confidence	↑

Note: The green arrow signifies an improvement, the red arrow signifies a worsening, and the blue equals sign signifies no change.

- *Trade and tariffs:* Eighty-two percent of business owners said they were following news on the subject somewhat or very closely, although 66% didn't think it would affect their businesses; and

- *Attracting new business:* Sixteen percent of small-business owners indicated attracting new business was their top challenge, followed by the availability of products and the ability to improve them, and competition from larger companies and online retailers, both at 10%.

The latest survey findings suggest that small-business owners continue to feel confident about the economy and the future of their businesses. Fifty-eight percent of the survey respondents noted that their revenues increased over the past 12 months, which is up 6.0 percentage points. The Present Situation score of the report increased 2.0 points for the quarter, to 64.0 points, and the Future Expectations score increased 5.0 points from last quarter, to 72.0 points.

Middle-market business sentiment decreased 2.9 points in the third quarter, as the RSM U.S. Middle Market Business Index came in at 129.4 points. The fall in the third quarter marked the fourth decline in the past five months. Middle-market executives attributed the decline to the slowdown in the global economy, the slowdown in the manufacturing sector, and rising trade tensions with China. As a result, 42% of respondents indicated the economy had improved somewhat or substantially over the past quarter, which is down from 47% in the second quarter.

Total retail sales unexpectantly declined by 0.3% in September and came in lower than forecasts for growth of 0.3%, according to Reuters. The report noted that retail sales figures rose in five of the 13 categories, with a rise of 1.3% by clothing and clothing accessories stores leading the way. On a year-over-year basis, retail sales are up 4.1%. Core retail sales were unchanged in September but are up by 4.5% over the past 12 months.

The economy in September added 136,000 jobs, a figure that fell short of forecasts for growth of 145,000 jobs, according to a poll by the Dow Jones. The September report indicated that job growth is slowing as the labor markets near full employment.

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." Understanding 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 September 2019. 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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In a separate report, the Labor Department said initial claims for state unemployment benefits were at 219,000 for the week ending September 28. Following the latest report, the streak stands at 233 consecutive weeks below the 300,000 threshold, a figure that is associated with a strong labor market, which is the longest such stretch since 1970, when the labor market was smaller.

The unemployment rate improved 0.2 percentage point in September, to 3.5%, matching the 50-year low last achieved in December 1969. The U6 unemployment rate improved 0.3 percentage point, to 6.9%, its best rate since December 2000, and 0.1 percentage point off from its all-time low.

Wages fell 1 cent in September, to $28.09. Real average hourly earnings, seasonally adjusted from September 2018 to September 2019, increased 0.79 cents, or 2.9%, which ends the streak at 13 straight months that year-over-year wage gains were at or above 3% and is the lowest annual increase since July 2018.

The manufacturing sector decreased 1.3 percentage points in September, to 47.8%, as measured by the Institute for Supply Management's manufacturing index. The decline in September was the second month the manufacturing economy contracted after previously expanding for 35 consecutive months. Still, the reading indicates the overall economy grew for the 125th consecutive month. A reading above 50% indicates that the manufacturing economy is generally expanding, while a reading below 50% indicates that it is generally contracting. Over the past 12 months, the PMI has averaged a reading of 53.5%.

As measured by the Institute for Supply Management's services index (NMI), the services sector decreased 3.8 percentage points in September, to 52.6%. The September figure represents continued growth in the nonmanufacturing sector for the 116th consecutive month and the overall economy for the 122nd consecutive month. An NMI reading above 50% indicates the nonmanufacturing-sector economy is generally expanding, while a reading below 50% indicates the nonmanufacturing sector is generally contracting. Over the past 12 months, the NMI index has averaged a score of 56.8%.

In September, stocks rebounded from their declines in August. The Dow Jones Industrial Average advanced 2.1%, the S&P 500 Index rose by 1.9%, the Nasdaq Composite decreased by 0.5%, the S&P MidCap 400 rose by 3.1%, and the Russell 2000 advanced by 2.1%. Volatility eased in September when compared to August. The VIX reported a monthly average of 15.6 in September, as the Chicago Board Options Exchange Volatility Index ranged between 13.3 and 21.2.

Consumer prices, as measured by the Consumer Price Index, were flat in September, after rising 0.1% in August. Over the last 12 months, the index is up 1.7%. Chained CPI rose 0.1% in September and is up 1.6% over the past 12 months. Core CPI, which excludes energy and food prices, increased 0.1% in September. Core CPI is up 2.4% over the past 12 months.

Producer prices decreased 0.3% in September, which is the largest monthly decline since January 2019. The 12-month figure increased 1.4% and is the smallest annual gain since November 2016. Core PPI, which excludes highly volatile food and energy prices, decreased 0.1% in September and is up 1.7% over the past 12 months.

Housing starts fell 9.4% in September but are 1.6% above the figures from one year ago. The slump in September follows a surge in August, which resulted in a 12-year high. The adjusted annual rate climbed to 1.256 million units. Declines were seen across all four regions, with the Northeast falling the most, 34.3%. Building permits authorized, which measures how much construction is in the pipeline, fell by 2.7% in September but is 7.7% above the level of a year ago. The adjusted annual rate reported at 1.387 million permits, which is down from the August total, when it reported at the highest level since May 2007. Building permits rose 0.8% for single-family homes and by 7.5% for multifamily homes.

Existing-home sales decreased 2.2% in September. Distressed home sales were 2.0% of sales in September, which is unchanged from August but down 1.0 percentage point from one year ago. In September, the NAHB/Wells Fargo Housing Marking Index rose 1.0 point, to 68.0, and is the highest score since October 2018. The report included an upward revision of 1.0 point to the August score, to 67.0. One of the three HMI components increased in September: The component for current sales conditions rose 2.0 points, to 75.0; the component charting sales expectations in the next six months fell 1.0 point, to 70.0; and the component measuring buyer traffic remained unchanged, at 50.0.

The National Association of Realtors' most recent "Commercial Real Estate Trends and Outlook," which analyzes the third quarter of 2019, found that sales volume rose at a modest pace of 3.0% in the third quarter when compared to one year ago. Realtors and commercial affiliate members reported a modest annual gain of 2.4% in leasing volume.

INDEX OF LEADING INDICATORS

The Conference Board's Leading Economic Index (LEI) declined 0.1% in September, to 111.9 points. The September score came on the heels of a 0.2% decline in August, as the recent trends in the LEI indicate the economy is still expanding, albeit at a slower rate. The strengths among the leading indicators remain more widespread than the weaknesses.

The board's coincident index, designed to reflect current economic conditions, remained unchanged in September, at 106.4, but the lagging index increased 0.1%, to 108.3.

EXHIBIT 1: Historical Economic Data 2005-2018 and Forecasts 2019-2028

															CONSENSUS FORECASTS**					
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024-2028**
Real GDP*	3.3	2.7	1.9	-0.1	-2.5	2.6	1.6	2.2	1.8	2.5	2.9	1.6	2.4	2.9	2.3	1.8	2.1	2.1	2.1	2.1
Industrial production*	3.3	2.2	2.5	-3.6	-11.5	5.5	2.9	2.8	2.0	3.1	-1.0	-2.0	2.3	3.9	0.8	0.7	2.4	2.4	2.4	2.3
Consumer spending*	3.5	3.0	2.2	-0.2	-1.3	1.7	1.9	1.5	1.5	2.9	3.7	2.7	2.6	3.0	2.6	2.2	2.3	2.3	2.3	2.3
Real disposable personal income*	1.5	4.0	2.1	1.5	-0.4	1.0	2.5	3.1	-1.4	4.0	4.1	1.8	2.9	4.0	3.1	2.1	2.2	2.2	2.2	2.3
Business investment*	7.0	7.1	5.9	-0.7	-15.6	2.5	7.7	9.0	3.5	6.9	1.8	0.7	4.4	6.4	2.9	1.9	3.8	3.8	3.8	3.6
Nominal pretax corp. profits*	15.1	11.4	-7.1	-16.0	8.4	25.0	4.0	10.0	1.7	5.4	-2.8	-2.4	-0.3	3.4	0.8	2.8	3.6	3.6	3.6	3.9
Total government spending*	0.6	1.5	1.6	2.8	3.2	0.1	-3.0	-1.9	-2.9	-0.9	1.9	1.8	0.7	1.7	2.1	1.7	NA	NA	NA	NA
Consumer price inflation*	3.4	3.2	2.8	3.8	-0.4	1.6	3.2	2.1	1.5	1.6	0.1	1.3	2.1	2.4	1.8	2.1	2.3	2.3	2.3	2.3
Core PCE*	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.6	1.2	1.6	1.6	2.0	1.7	2.1	NA	NA	NA	NA
3-month Treasury bill rate	3.22	4.85	4.48	1.40	0.15	0.14	0.05	0.09	0.06	0.03	0.2	0.5	1.4	2.4	1.7	1.6	3.0	3.0	3.0	3.1
10-year Treasury bond yield	4.29	4.80	4.63	3.66	3.26	3.22	2.78	1.80	2.35	2.54	2.2	2.45	2.8	2.7	1.7	2.0	3.9	3.9	3.9	4.1
Unemployment rate	5.1	4.6	4.6	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.9	4.4	3.9	3.7	3.7	NA	NA	NA	NA
Housing starts (millions)	2.068	1.801	1.355	0.906	0.554	0.587	0.609	0.781	0.925	1.003	1.112	1.174	1.203	1.260	1.275	1.410	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*, September 2019.

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 2019 through 2023 forecasts for the 3-month Treasury rate and 10-year Treasury yield are for the end of each period. Forecasts for 2024-2028 signify the average for that period.

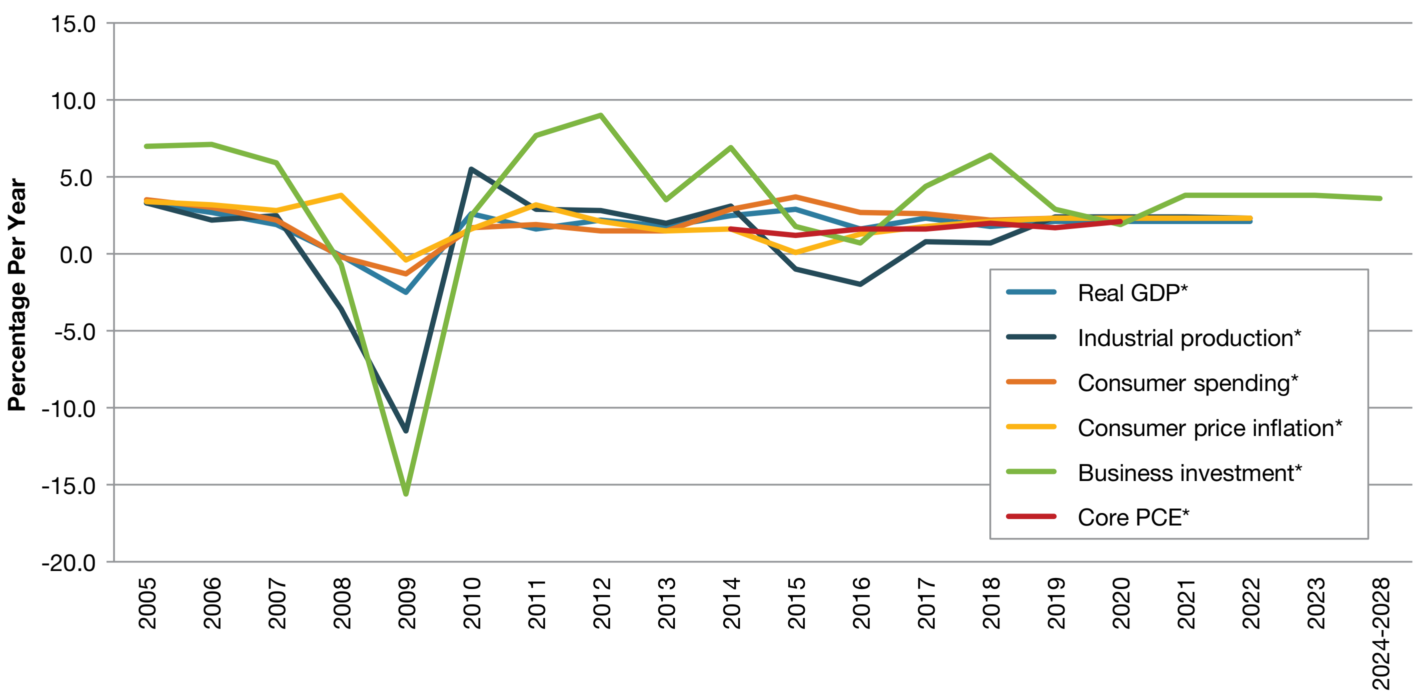
Consumer spending, also known as personal consumption expenditures, includes spending on services, durable, and nondurable goods. Business investment is also referred to as nonresidential fixed investment. Total government spending includes federal, state, and local government spending.

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.

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:

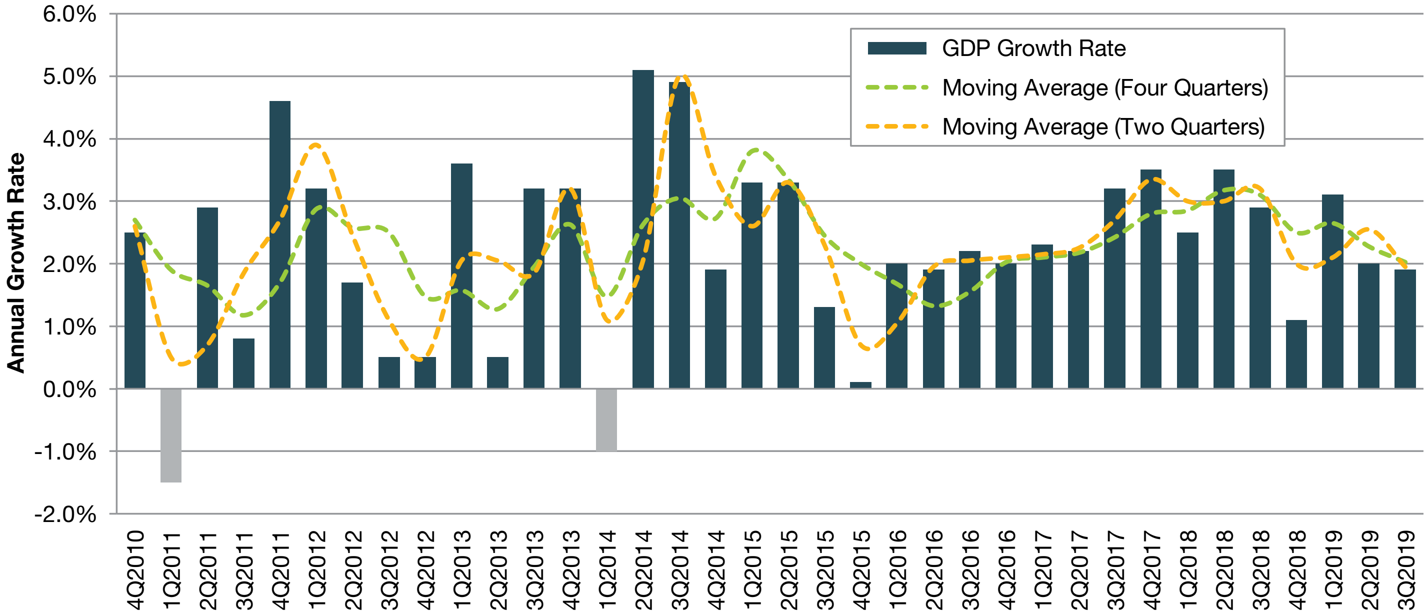
- Average weekly hours, manufacturing;
- Average weekly initial claims for unemployment insurance;
- Manufacturers' new orders, consumer goods and materials;
- Institute for Supply Management's Index of New Orders;
- Manufacturers' new orders, nondefense capital goods excluding aircraft orders;
- Building 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.

EXHIBIT 2: Key Economic Variables Actual 2005-2018 and Forecast 2019-2028



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.

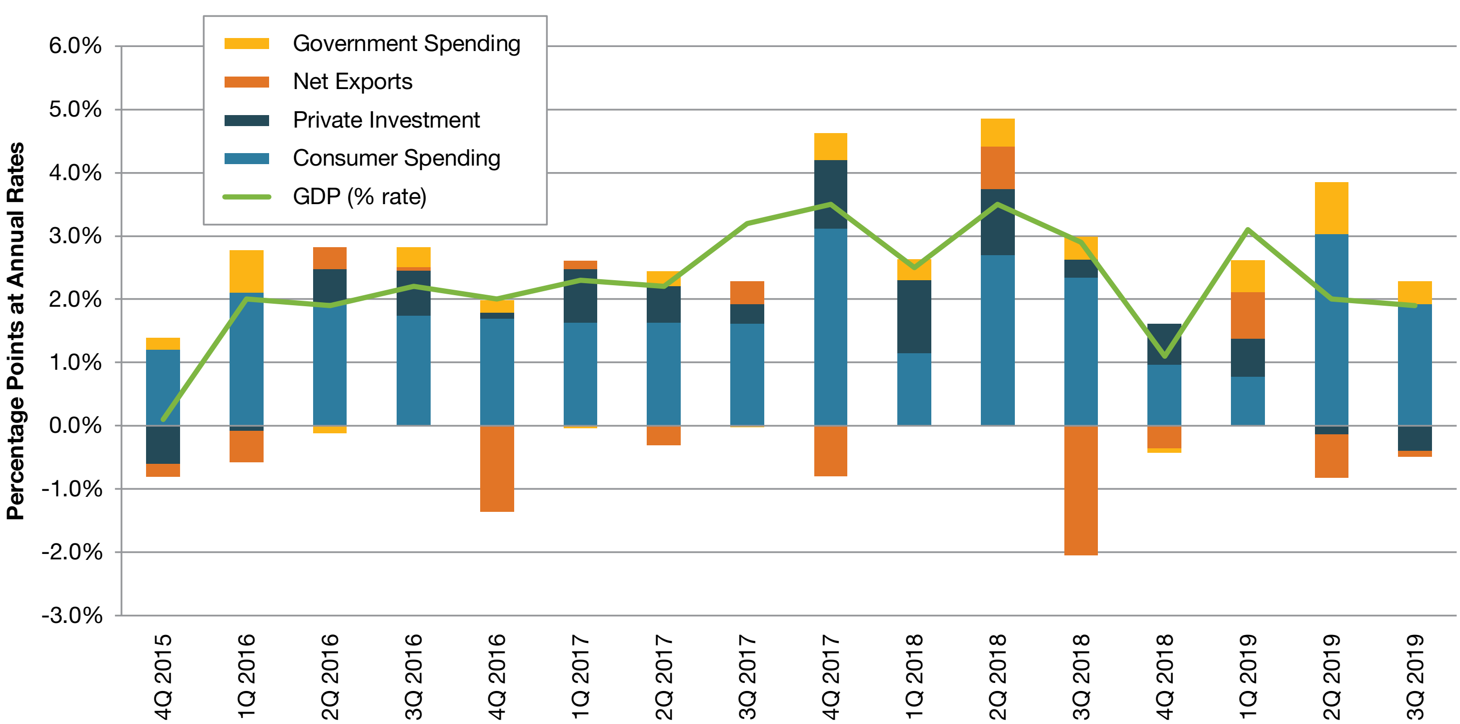
EXHIBIT 3A: Real Gross Domestic Product and Moving Averages



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 3B: GDP Components—Contribution to GDP Rate



CONSUMER CONFIDENCE, CONSUMER SENTIMENT, AND SMALL-BUSINESS OPTIMISM

CONSUMER CONFIDENCE

The Consumer Confidence Index in September posted its largest one month decline since December 2018, falling 9.1 points, to a score of 125.1. The report cited the cause of the decline as the escalation in trade and tariff tensions between the U.S. and China, which appears to have rattled consumers and created a pattern of uncertainty and volatility to the index that has persisted for much of the year. The report further notes that confidence could continue hovering around current levels for months to come, although at some point this continued uncertainty will begin to diminish consumers' confidence in the expansion. Analysts polled by Reuters had forecasted a reading of 133.5.

Consumers' impressions of current economic conditions decreased 7.0 points in September, as the Conference Board's Present Situation Index was at 169.0 points. The index measures consumers' confidence in the present and near-term future economy. The percentage saying business conditions are "good" decreased from 40.9% to 37.3%, and the percentage of those saying business conditions are "bad" increased from 9.9% to 12.7%. Consumers' assessment of the labor market was less favorable in September, as the percentage of consumers stating jobs are "plentiful" decreased from 50.3% to 44.8%, but those claiming jobs are "hard to get" decreased from 12.0% to 11.6%.

Consumers' outlook in the short term declined in September, as the Expectations Index decreased 10.6 points, from 106.4 to 95.8. The survey results showed the percentage of consumers expecting business conditions to improve over the next six months decreasing, from 21.6% to 19.0%, and those expecting business conditions to worsen increasing, from 10.2% to 14.3%. Consumers' outlook for the labor market was less favorable, as the proportion of those expecting more jobs in the months ahead decreased from 19.9% to 17.5%, while those anticipating fewer jobs increased from 13.7% to 15.7%. The percentage of consumers expecting an improvement in their incomes decreased from 24.7% to 19.0%, and the percentage expecting a decrease fell from 6.3% to 5.6%.

The Consumer Confidence Index is an indicator designed to measure the degree of optimism about the state of the economy that consumers express through their savings and spending. A decreasing month-over-month trend in the Consumer Confidence Index suggests that consumers have a negative outlook about 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

The Thomson Reuters/University of Michigan's Consumer Sentiment Index rebounded 3.4 points in September, to 93.2 points. The modest rise in September follows the decline in August that resulted in the largest monthly decline since December 2012. The report noted that confidence remains quite favorable among consumers, but it's starting to show signs of slowly eroding due to the ongoing tariff policies.

The Index of Consumer Expectations increased 3.5 points in September, to 83.4, but is down 7.1 points from one year ago. The Index of Consumer Expectations focuses on three areas: how consumers view prospects for their own financial situation, how they view prospects for the general economy over the near term, and their view of prospects for the economy over the long term.

The Current Economic Conditions component rose 3.2 points in September, to 108.5 points, but is down 6.7 points from one year ago.

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.

SMALL-BUSINESS OPTIMISM

The National Federation of Independent Business' (NFIB) Small Business Optimism Index fell 1.3 points in September, to 101.8 points. Despite the decline, the score remains within the top 20% of all readings in the index's 46-year history. The Small Business Uncertainty Index rose 2.0 points and has risen 6.0 points over the past three months, an indication of a high level of concern.

In September, seven of the 10 components that make up the Small Business Optimism Index worsened and three components remained unchanged.

The component that measures small-business owners' expectations of earnings fell 2.0 percentage points in September, to a net -3.0% reporting quarter-on-quarter profit improvements. Reports of higher worker compensation remained unchanged, at a net 29%, but plans to raise compensation decreased 1.0 percentage point, to a net 18%.

Job creation remained solid in September, although the number of net additions decreased by 0.09 workers, to 0.10 workers per firm. Since February, net job creation has trended down from 0.52 workers. As result, 27% of small-business owners reported that finding qualified labor was their top business problem, which is unchanged from last month and remains at a record high. Fifty-seven percent of owners reported hiring or trying to hire, which is down 7.0 percentage points from August, but 50% of those reported few or no qualified applicants are available.

The component that measures owners' expectations to see higher real sales decreased 1.0 percentage point, to a net 16%, in September. For perspective, the average for the 12 months prior to the 2016 election was 2.0%. A net 2.0% of all owners reported higher nominal sales in the past three months compared to the prior three months, which is down 4.0 percentage points from August's figure and had averaged 8% in the prior six months. The sales and inventories component that measures the net percentage of owners reporting inventory increases decreased 1.0 percentage point, to a net 0.0%. The net percentage of owners viewing current inventory stocks as too low was unchanged, at a net -6.0%, an indication of concern about the size of stocks on hand. The net percentage of owners planning to expand inventory holdings was unchanged, at a net 2.0%.

Fifty-seven percent of small-business owners reported making capital outlays, which is down 2.0 percentage points from August. Of those making expenditures, 38% reported spending on new equipment, 23% acquired vehicles, and 14% improved or expanded facilities. Twenty-seven percent plan capital outlays in the next few months, down one percentage point. Plans to invest were strong in manufacturing, at 34%; professional services, at 33%; and the wholesale trades, at 32%.

The percentage of small-business owners who reported that they raised their average selling prices fell 3.0 percentage points, to a net 8.0%, which is the lowest reading since December 2017. As a comparison, the net percentage of firms raising prices was negative in each of the first three quarters of 2016 and averaged -2.0%. In the fourth quarter of 2016, the net percentage of industries planning price hikes was 2.0%. Fifteen percent plan to raise prices, 13% reported lower selling prices, and 25% reported higher average prices.

The component measuring the credit markets reported a net 2.0% of owners indicated not all their borrowing needs were satisfied, which is 2.0 percentage points lower from August. Thirty percent reported all credit needs met, which is down 1.0 percentage point from August, and 53% explicitly said they were not interested in a loan, which is 1.0 percentage point higher from August. The report noted that credit conditions are about as favorable as they have ever been in the 46-year history of the survey. Four percent of owners reported that loans were harder to get, which is 3.0 percentage points higher than it was August, when it reported at a record low. Thirty percent of all owners reported borrowing regularly, which is down 3.0 percentage points from August. The average rate paid on short maturity loans rose 60 points from August, to 6.7%.

The Small Business Optimism Index is compiled from a survey of the NFIB's 350,000 members that is conducted 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 openings, expected credit conditions, whether now is a good time to expand, and earnings trends. 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 3Q 2019 Wells Fargo/Gallup Small Business Index rose 7.0 points, to 136.0 points, in its June report. The third-quarter survey recorded a new record high, while extending the streak of consecutive quarters higher than 100.0 points to nine.

The third-quarter survey asked small-business owners about the current state of the economy, with 70% of respondents indicating it was good or excellent, an increase of 7.0 percentage points from the prior quarter. Meanwhile, the number of business owners who said the economy is on the right track for them to grow their business in the coming 12 months increased by 10 percentage points, to 61%.

This survey also focused on the interest of small-business owners in obtaining credit. Thirty-three percent indicated they are planning to apply for new credit products such as a business credit card or a line of credit in the next 12 months, which is up 7.0 percentage points from last quarter. In addition, only 3% of business owners cited credit availability as a top challenge. The quarter saw slight dips from the previous quarter in reported ease of obtaining credit in the past 12 months and expectations for the next 12 months.

Small-business owners were also asked about the impact trade and tariffs had on their businesses. When asked how much they think the current trade and tariff situation will directly affect their business, 66% said very little or not at all. When asked how the current situation would affect various business decisions, 76% said their hiring plans would not change even if the cost of goods increases. Similarly, 69% said they would not change their expansion plans even if the policies result in an increased cost of goods. The survey also asked how closely owners followed news about trade and tariff policies; 82% said they were following it somewhat or very closely.

When asked about the top challenges facing small-business owners, 16% of those surveyed said attracting new business. Other top challenges business owners cited included the availability of new products and the ability to improve them, at 10%; online competition, at 10%; retaining quality staff, at 9%, and the challenge of being one's own boss, at 8%.

Fifty-eight percent of small-business owners reported increases in revenues over the past 12 months and 64% said they expect increases in the coming year, with both increasing by 6.0 percentage points. When asked how they would rate the current state of the U.S. economy, 70% said either "good" or "excellent," for an increase of 7.0 percentage points from the second quarter of 2019. Meanwhile, the number of business owners who said the economy is on the right track for them to grow their business in the coming 12 months increased by 10 percentage points, to 61%.

The Present Situation Index (how business owners gauge their perception of the past 12 months) increased 2.0 points, to a reading of 64.0, and the future expectations index (how business owners expect their businesses to perform over the next 12 months) increased 5.0 points, to 72.0. During the third quarter of 2018, the Present Situation Index was at 52.0 and the future expectations index was at 66.0.

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. This 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. Before the recession and financial crisis of 2008-2009, Small Business Index scores were generally in triple digits. The Small Business Index reached a peak of 114.0 in December 2006 and hit a low of -28.0 in July 2010.

MetLife and the U.S. Chamber of Commerce published their third-quarter Small Business Index, which improved 2.0 percentage points. The third-quarter index reading stands at 70.7%, an all-time high. This quarter's rise is largely due to increased optimism in small-business owners' perceptions of their local economies. All other indicators remain largely unchanged at the national level.

In the third quarter of 2019, 58% of small businesses were more optimistic about the U.S. economy, lower by 1.0 percentage point from the prior quarter. Still, the score has continued to achieve positive marks since 2017 lows of 33%.

Fifty-six percent of small-business owners say their local economy is in good health, which is 5.0 percentage points higher from the second-quarter score. Small-business manufacturers were less bullish during the quarter, with 63% feeling positive about the national economy, a decrease of 6.0 percentage points from last quarter.

The report noted some key findings among other demographics, which include:

- Businesses in the South have the most optimistic view of the economy, at 62%, followed by the Midwest, at 59%; the West, at 57%; and the Northeast, at 50%.
- Fifteen percent of small businesses reported increased competition in their local area, which is down from 18% last quarter.
- The positive perception of the national economy by female-owned businesses statistically matches that of male-owned businesses. There is only a one-percentage-point difference between male-owned businesses and female-owned businesses seeing the economy as being good.

- Twenty-two percent of small businesses are reporting more time spent on compliance, which is statistically unchanged from last quarter, at 21%, but down from 25% in the first quarter.

Overall, small-business expectations remained unchanged from the past two quarters. Twenty-nine percent of small businesses plan to increase staff in the next year, a rise of one percentage point from the second quarter. Six percent expect to downsize, which is one percentage point higher than the second quarter. Among industries, 39% in the manufacturing industry had plans to increase staffing levels compared to last quarter.

Demographically, hiring trends show some interesting patterns:

- Millennial small-business owners are by far the most likely to have plans to grow their staff, at 43%, especially when compared to baby boomer or older small-business owners, at 27%;
- Female-owned businesses are slightly more likely than their male counterparts to have plans to increase staff, 30% vs. 28%; and
- Thirty-eight percent of minority-owned small businesses are more likely to have hiring plans than nonminorities, at 27%.

Most small businesses plan to keep investment steady. Expectations to increase investment are statistically unchanged from last quarter, at 26%, compared to 27%. Similar to expectations toward increasing staff, female- and minority-owned small businesses have higher expectations for increasing investments when compared to their respective counterparts.

Service businesses, at 32%, are the most likely sector to have plans to increase investments, and manufacturing is the least, at 23%. Revenue expectations, at 55%, have softened slightly since the second quarter, when they were 57%. Regionally, Western-based small businesses are the most optimistic that they will see growth in future revenue, at 59%, while Midwest small businesses are the least optimistic, at 48%.

Across industry groups, last quarter's renewed optimism among manufacturers has abated, with just 49% versus last quarter's 59% saying they expect revenue to increase. Retailers are also less optimistic this quarter, at 52%, than they were last quarter, at 55%.

The third-quarter survey focused on the hiring of veterans as part of its quarterly spotlight. The survey results showed that 56% of small businesses have participated in some activity relating to veterans, with the most popular form coming through donations.

When considering job vacancies across all sectors, small manufacturers are solidly ahead in hiring veterans, at 63%. Forty-seven percent of small businesses related to the services sector, 44% in retail, and 39% in professional services report hiring veterans. When it comes to intentionally recruiting veterans, just 6% of those in retail report doing so, with the highest numbers reported in manufacturing and professional services, at 12% each.

While the national score reported at 70.7, regional scores were equally strong. The Northeast reported a score of 70.9, supported by improved views of the local economy, as 49% feel their local economy is in good health this quarter, which is up 2.0 percentage points from the prior quarter. Fifty percent of those surveyed in the Northeast believe the U.S. economy is in good health, which is down from 58% in the prior quarter. The survey further noted that 66% say their business health remains strong, 78% are comfortable with cash flow, and 26% have plans for increasing investment.

The Midwest reported a score of 70.4, strengthened by the improving score for the local economy, 51%, which is up 5.0 percentage points from the prior quarter. Fifty-nine percent of those surveyed feel positive about the U.S. economy, which is up 2.0 percentage points from the second quarter, but 62% of Midwest small businesses say their business is in good health, a decline from last quarter's 68%.

The South reported a score of 70.9, as 63% of small-business owners in the South were more bullish about the local economy, which is up 12 percentage points from the second quarter. Sixty-two percent agree the U.S. economy is in good health, which is up 5.0 percentage points from last quarter, and 67% rate their own business's health as good, an increase of 5.0 percentage points from last quarter.

The West reported a score of 70.7, as 56% of small-business owners rate their local economy as good, which is unchanged from last quarter. Fifty-seven percent feel the U.S. economy is in good health, down five percentage points from last quarter, but on par with sentiments from a year ago. Optimism about business health remained at 67%.

The RSM U.S. Middle Market Business Index (MMBI) decreased 2.9 points in the third quarter, to 129.4. Following the August decline, the index has now decreased in four of the past five quarters. The report noted that the slowdown in the global economy, a contracting manufacturing sector, and the impact tariffs have had on businesses caused the decline. Furthermore, while the third-quarter score remains solid, forward-looking indicators denote some risk for middle-market businesses in the months ahead.

The survey noted that 58% of middle-market executives indicated that revenues increased in the third quarter, down from 59% in the prior quarter. Over the next six months, 63% expect revenues to improve further, lower than the 69% reported in the second quarter. Fifty-three percent of middle-market executives noted that net earnings increased in the third quarter, down from 55% in the second quarter, and 64% anticipate further growth in the next 180 days.

The special focus of the third quarter asked about tariffs, with 40% of middle-market businesses noting that tariffs were having a negative impact on their business prior to the escalation of the trade war and the subsequent volatility in the foreign exchange markets that began in the middle of the third quarter. In addition, 26% of executives stated that retaliatory tariffs placed on exported goods were damaging their business. As a result, 51% stated they increased compensation during the quarter and 54% plan to do so this year. However, only 36% said they were willing to pay above-market compensation to retain and attract employees.

The third-quarter survey further asked about policy considerations applicable to the middle market. Cessation of the trade war topped the list, at 39%, followed by investment in infrastructure, at 36%, and making permanent the temporary provisions of the Tax Cuts and Jobs Act, at 33%. Healthcare reform received 29% of the votes, which tied reducing labor costs.

Twenty-two percent of middle-market executives indicated that current economic conditions worsened somewhat, which is up from 19% in the prior quarter, and 42% indicated conditions improved somewhat or substantially, although that decreased from 47% in the second quarter. Forty-six percent of middle-market executives said they expect the economy to improve during the next six months, while 22% expect it to worsen.

The survey asked middle-market executives about their capital expenditure spending, with 44% of respondents noting that they had increased their capital expenditures, up from 39% in the second quarter. The percentage of middle-market executives who noted plans to boost capital expenditures over the next six months decreased from

51% to 49%. Inventory levels remain carefully managed, as some 31% of businesses indicated they intend to increase their inventory levels, while 32% plan to do so over the next six months.

The RSM U.S. Middle Market Business Index is based on quarterly survey data RSM U.S. LLP and Nielsen N.V. collected 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.

EXHIBIT 4A: Consumer Confidence and Small Business Optimism—One Year

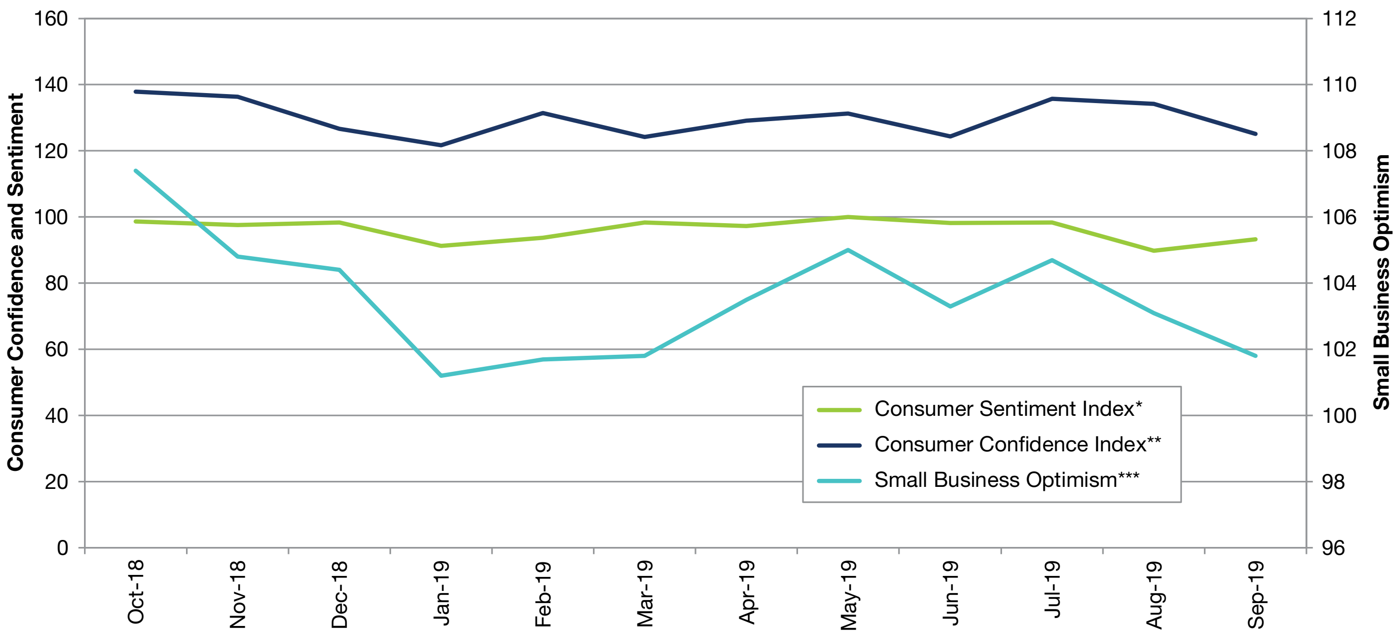
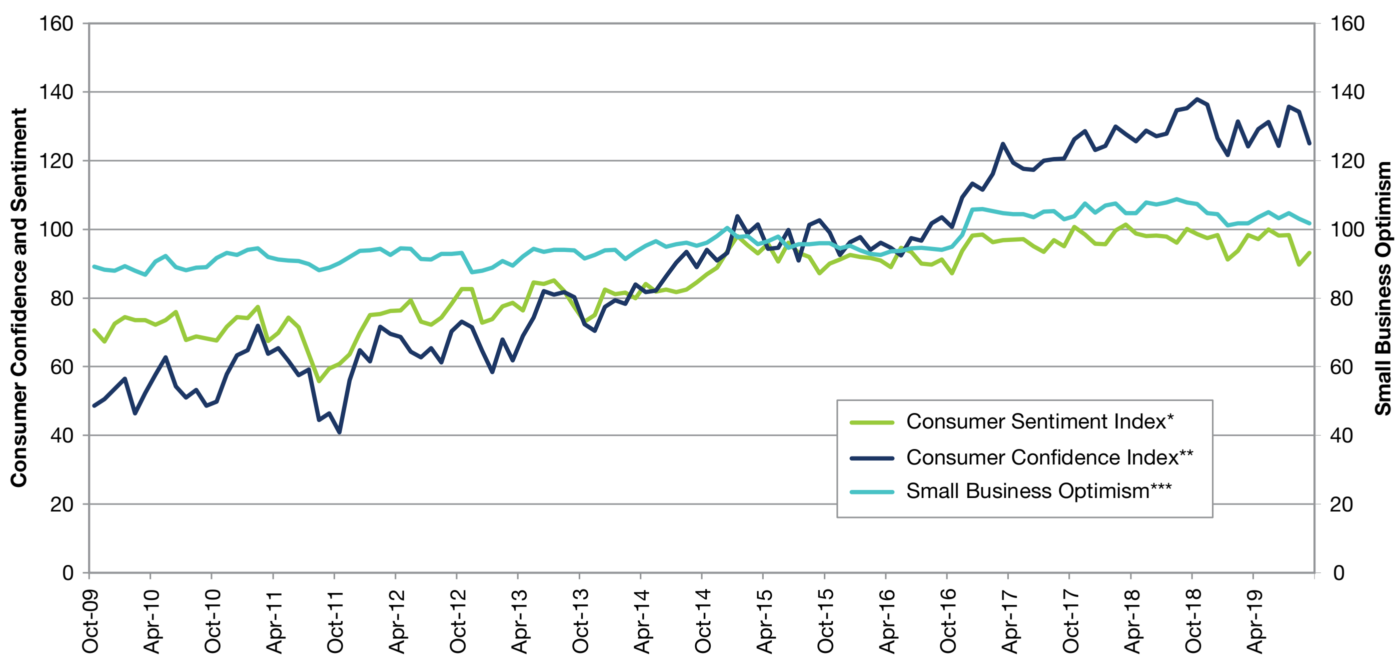


EXHIBIT 4B: Consumer Confidence and Small Business Optimism—10 Years



Sources of data: The Conference Board, Thomson Reuters/University of Michigan, National Federation of Independent Business, Wells Fargo.
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 4C: Small Business Index—Prior 12 Quarters

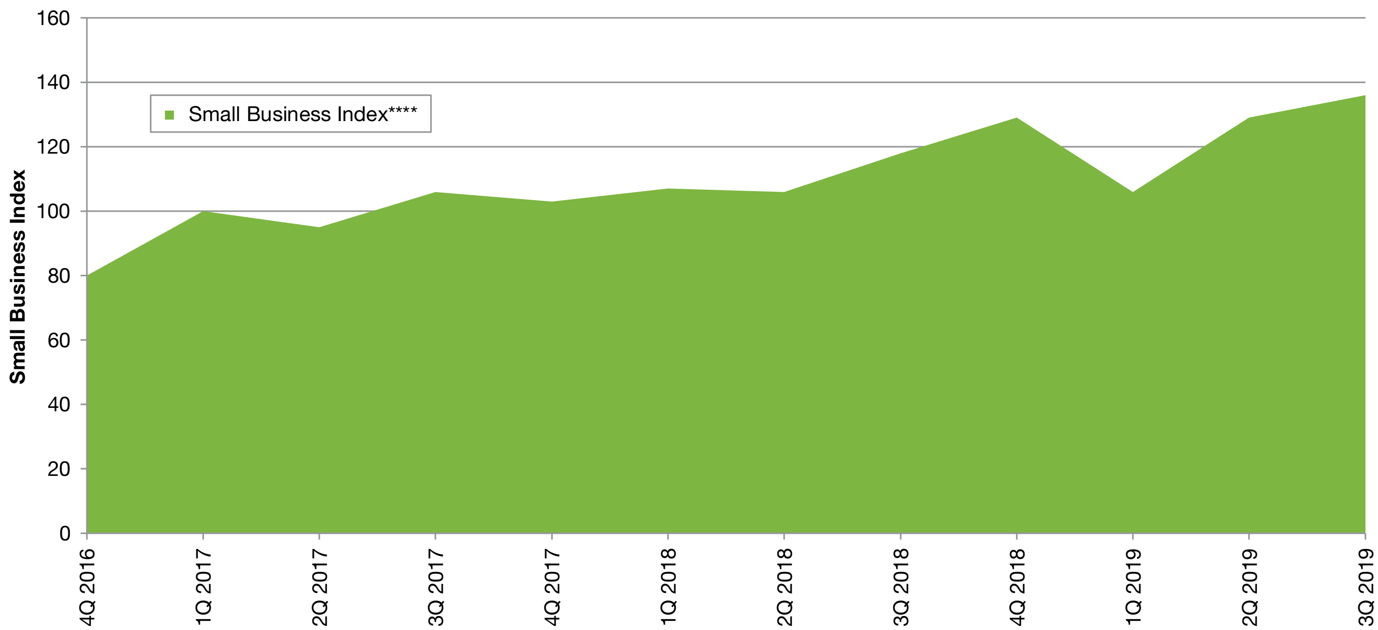
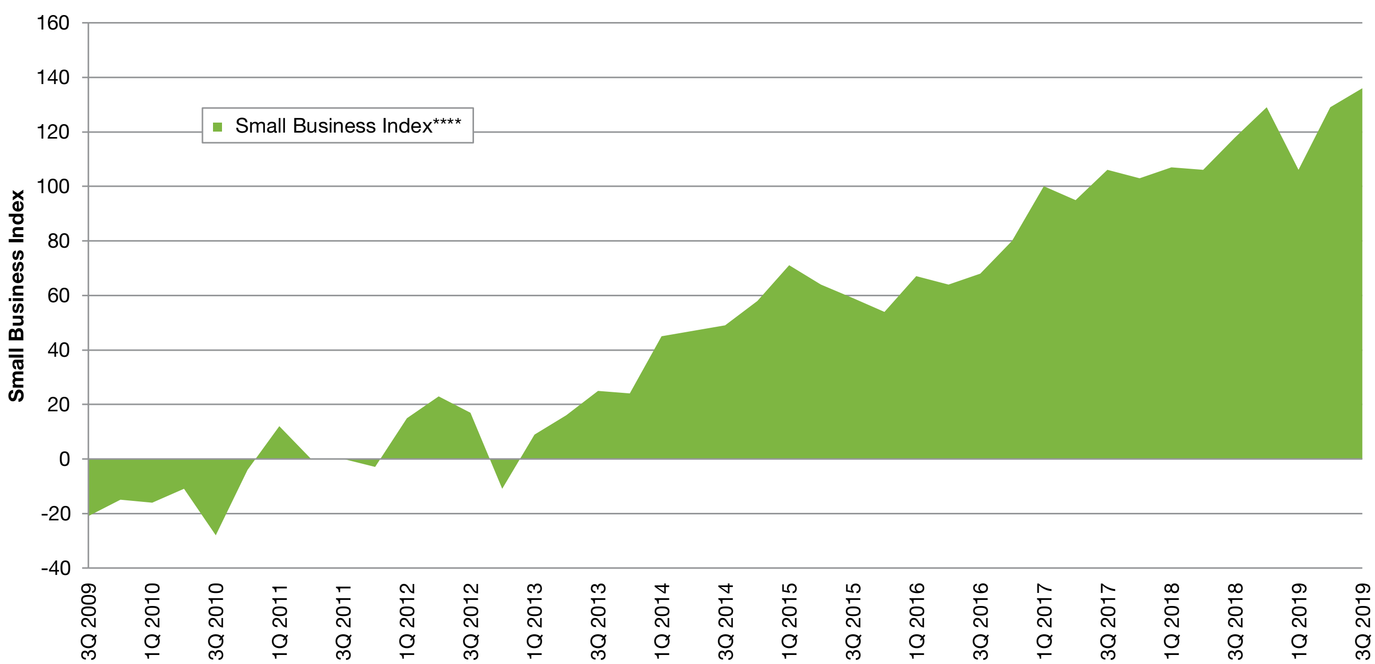


EXHIBIT 4D: Small Business Index—10 Years



Sources of data: The Conference Board, Thomson Reuters/University of Michigan, National Federation of Independent Business, Wells Fargo.
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

U.S. RETAIL AND FOOD SERVICE SALES

RETAIL SALES

U.S. retail and food services sales unexpectedly fell 0.3% in September, after gaining 0.6% in August. The decline in September was the first setback since February, causing concerns that a slowdown in the manufacturing economy is trickling down into the consumer side of the economy. Lower sales were the result of households cutting back their spending on building materials, online purchases, and automobiles. Economists view retail sales as a key economic indicator since consumer spending accounts for nearly two-thirds of the U.S. economy.

The "Advance Monthly Retail Trade Report" highlighted the sluggish sales figures across most retail categories in September, as seven of the 13 major categories saw lower sales. Building material and garden equipment and supplies dealers led the decline, at 1.0%, followed by motor vehicle and parts dealers, at 0.9%, and gasoline stations declined by 0.7%.

Five of the 13 retail sales categories saw improvements, led by sales at clothing and clothing accessories stores, by 1.3%, followed by furniture and home furnishing stores and health and personal care stores, each at 0.6%.

Retail sales figures over the past 12 months increased 4.1%. Sales at nonstore retailers advanced 12.9%, miscellaneous store retailers by 4.9%, and motor vehicle and parts dealers by 5.6%.

Core retail sales remained unchanged in September. 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. Over the past 12 months, core retail sales have grown 4.5%.

EXHIBIT 5A: Total Retail Sales—Past 24 Months

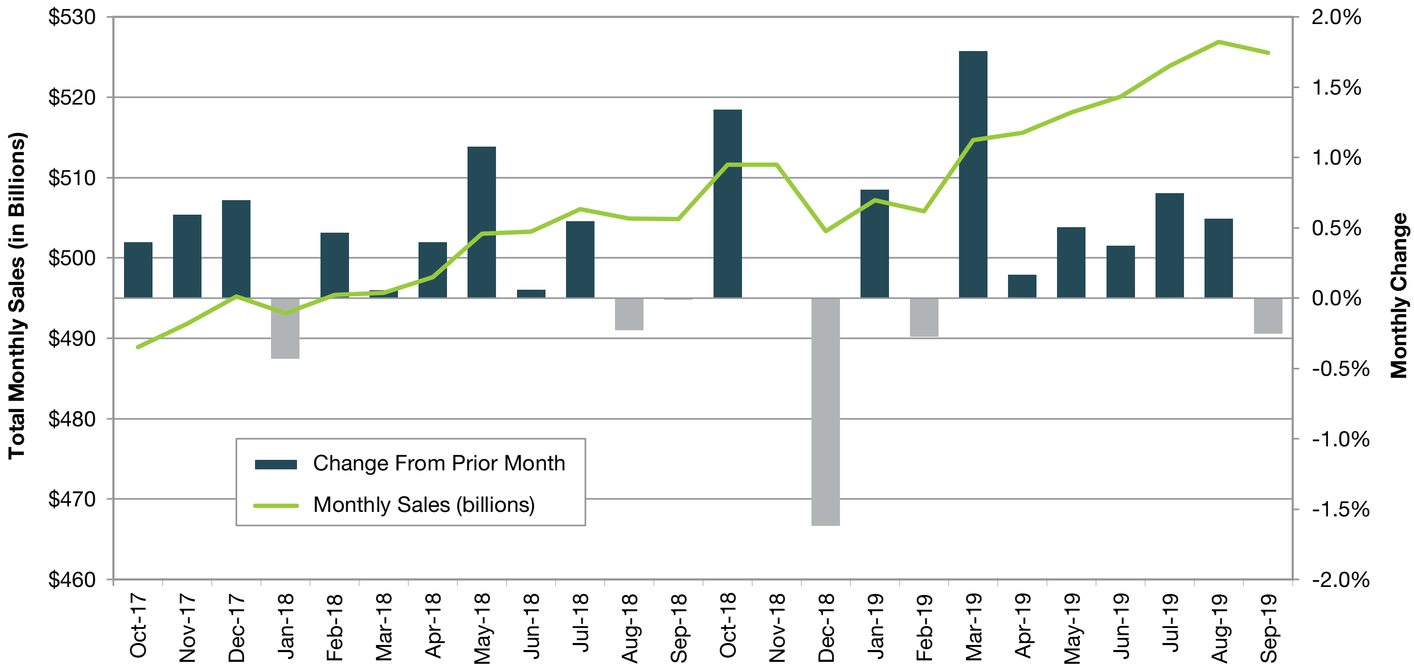
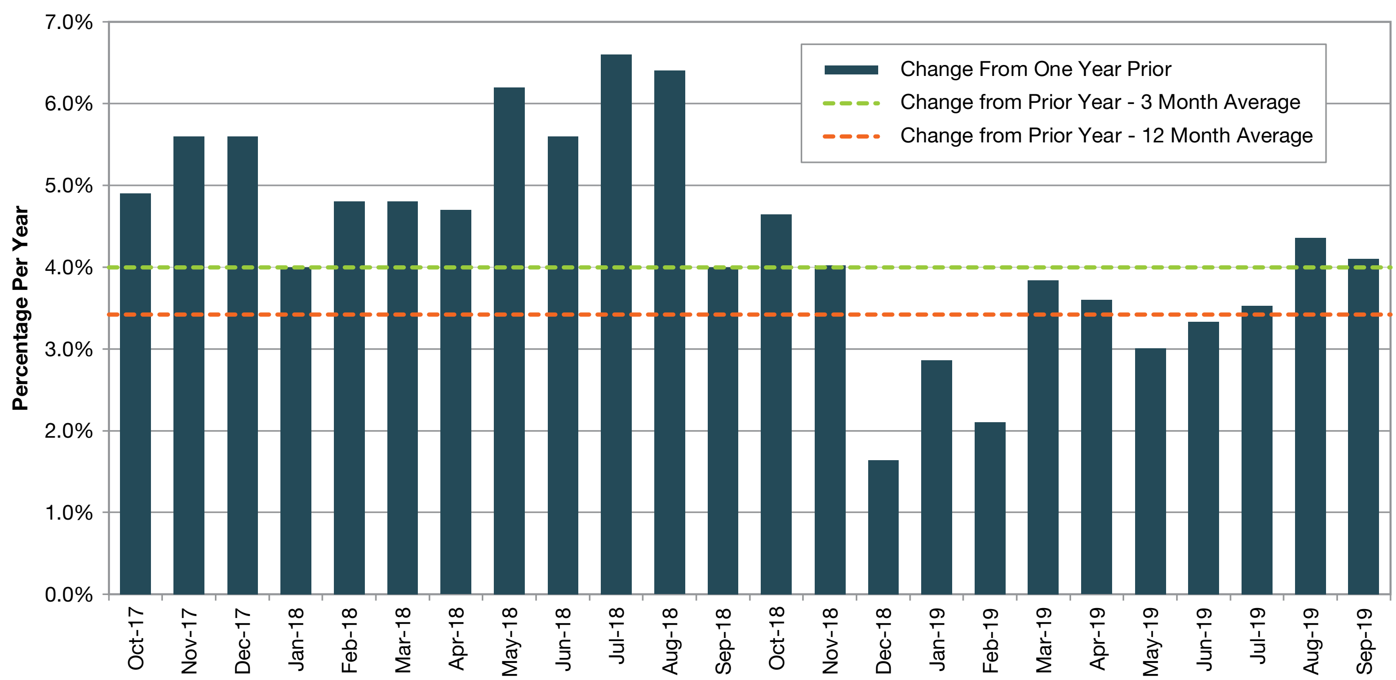


EXHIBIT 5B: Total Retail Sales Change From One Year Prior—Past 24 Months With Averages



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

EXHIBIT 5C: Total Retail Sales—Monthly Change Since 2009

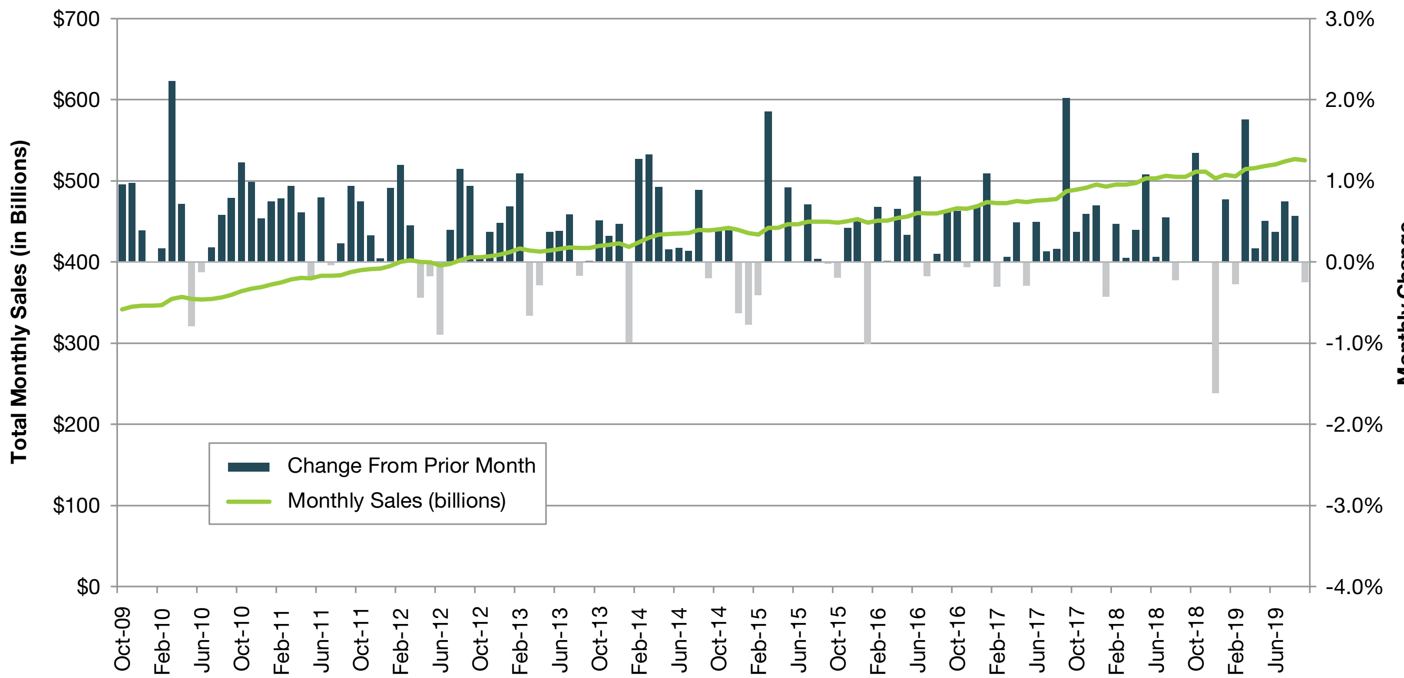
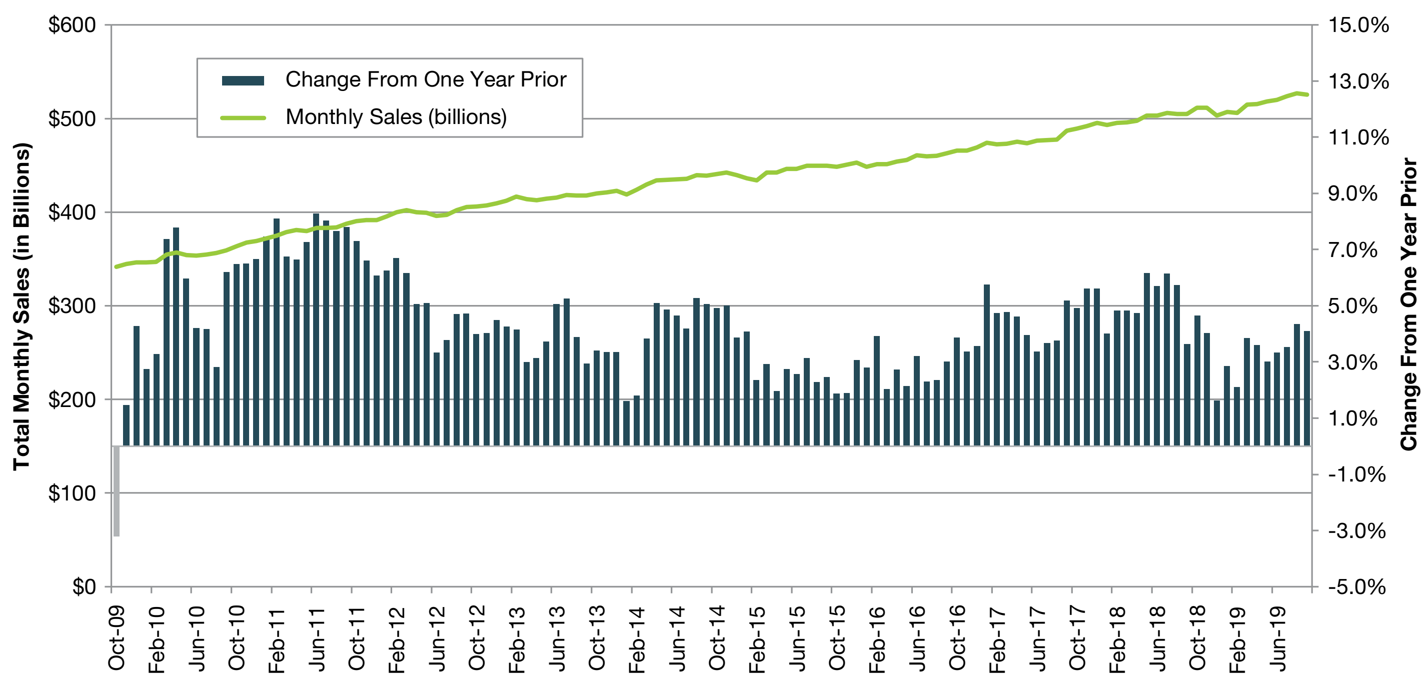


EXHIBIT 5D: Total Retail Sales—Percentage Change From One Year Prior Since 2009



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

UNEMPLOYMENT

Total nonfarm payroll employment increased by 136,000 jobs in September, while also reporting upward revisions to the prior two months. As a result, July figures increased from 159,000 jobs to 166,000 jobs and August's figures from 130,000 jobs to 168,000 jobs, for an additional 45,000 more jobs over the two-month period than originally reported. Despite the revisions, the September report did note a slowdown in job gains as the economy nears full employment

The White House Council of Economic Advisors published a report that stated that, over the past 34 months, or since the election, monthly job gains have added over 100,000 jobs per month in 31 of the months. The Council of Economic Advisors further noted that the total number of unemployed stood at 6 million in July 2019, a figure well below the 14 million as of July 2009, which marked the beginning of the current economic expansion.

In September, the U3 unemployment rate improved 0.2 percentage point, to 3.5%, which ties the 50-year low achieved in December 1969.

Employment gains continued to trend upwards in several industries, including professional and business services, healthcare, government, and transportation and warehousing.

Employment showed little change over the month in other major industries, including construction, manufacturing, financial activities, information, leisure and hospitality, and mining.

According to ADP, large businesses outpaced their peers in job creation, adding 67,000 jobs in September, compared with 39,000 jobs for midsized businesses and 30,000 jobs for small businesses. The report showed gains of 127,000 for service-sector jobs and 8,000 for goods-producing jobs. The number of jobs in small-sized businesses increased by 30,000, with the service-producing sector adding 27,000 and the goods-producing jobs contributing a gain of 2,000 jobs.

The report found that the labor-force participation rate held steady in September, at 63.2%, and has shown no clear trend over the past 12 months. The employment-population ratio, which is the share of the working-age population with a job, improved 0.1 percentage point in September, to 61.0%, and is up 0.6 percentage point from one year ago. The number of long-term unemployed (those jobless for 27 weeks or more) increased by 100,000 in September, standing at 1.3 million, which accounted for 22.7% of the unemployed.

The broadest measure of labor underutilization, the U6 unemployment rate, improved 0.3 percentage point in September, to a seasonally adjusted 6.9%, which is 0.1 percentage point higher than its all-time low and the lowest rate since 2000. 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 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 they would be unable to do so.

HOURLY EARNINGS AND WORKWEEK

Wages fell 1 cent in September, to $28.09, but have risen by 79 cents, or 2.9%, over the past 12 months, which is the lowest annual rate since July 2018. Average hourly earnings for private-sector production and nonsupervisory employees rose by 4 cents in September, to $23.65. Over the last 12 months, average hourly earnings for private-sector production and nonsupervisory employees have increased 79 cents, or 3.5%.

The average workweek for all private workers remained unchanged in September, at 34.4 hours, but is 0.1 hour lower from one year ago. The manufacturing workweek was also unchanged from August, at 40.5 hours, and manufacturing overtime remained at 3.2 hours. The average workweek for production and nonsupervisory employees remained unchanged in September, at 33.6 hours.

Compensation costs for civilian workers for the three-month period ending September 2019, as measured by the Employment Cost Index, increased 0.7% as wages and salaries (which comprise 70% of compensation costs) increased 0.9% and benefit costs (which make up the remaining 30%) increased 0.6%. Over the past 12 months, compensation costs for civilian workers increased 2.8%, which is 0.1 percentage point higher from the second-quarter reading and from one year ago, when it was 2.7%.

Compensation for private-industry workers increased 2.7% over the past year, which is higher than the rate of 2.6% from the second quarter of 2019 but 0.2 percentage point lower than the 2.9% mark from one year ago. Wages and salaries increased 3.0% for the 12-month period ending September 2019, while the costs of benefits increased 2.0% over the same period. Employer costs for healthcare benefits increased 2.0% for the 12-month period ending September 2019.

The Employment Cost Index is published quarterly by the Bureau of Labor Statistics and draws from a sample of 27,000 observations from 6,600 private businesses as well as 8,000 observations from 1,400 government offices.

EXHIBIT 6A: U.S. Employment—Past 24 Months

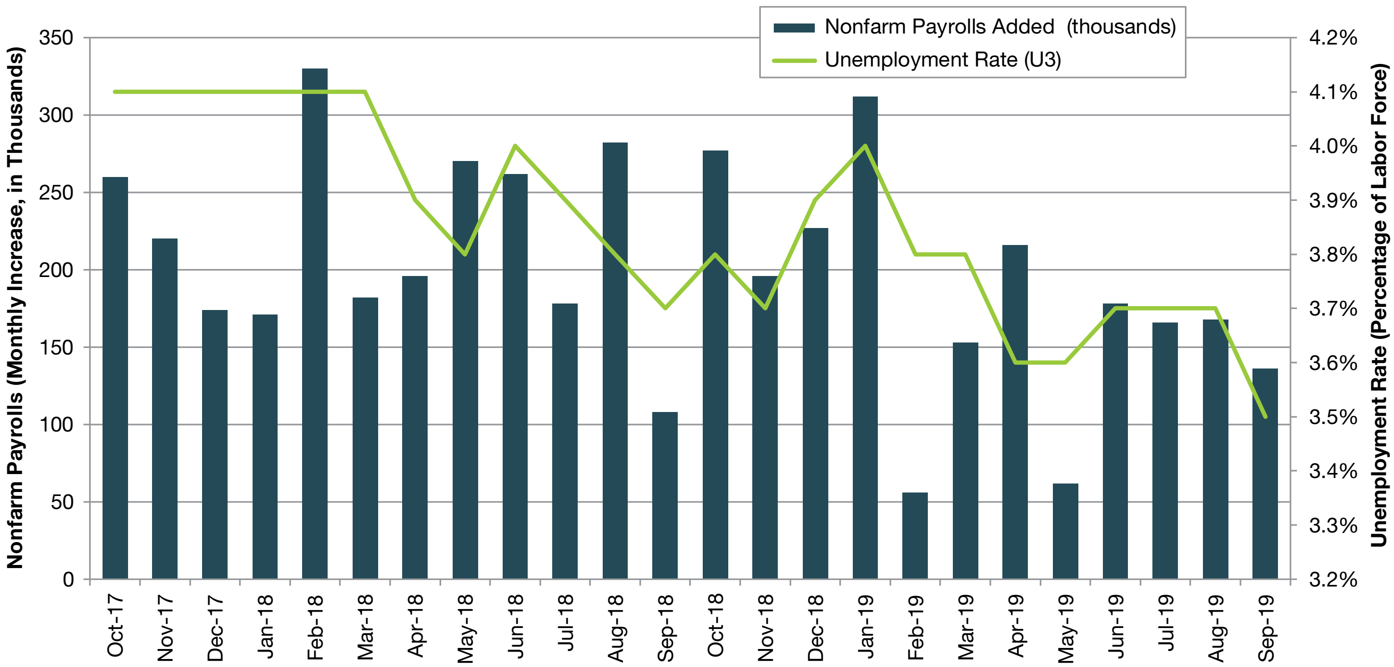
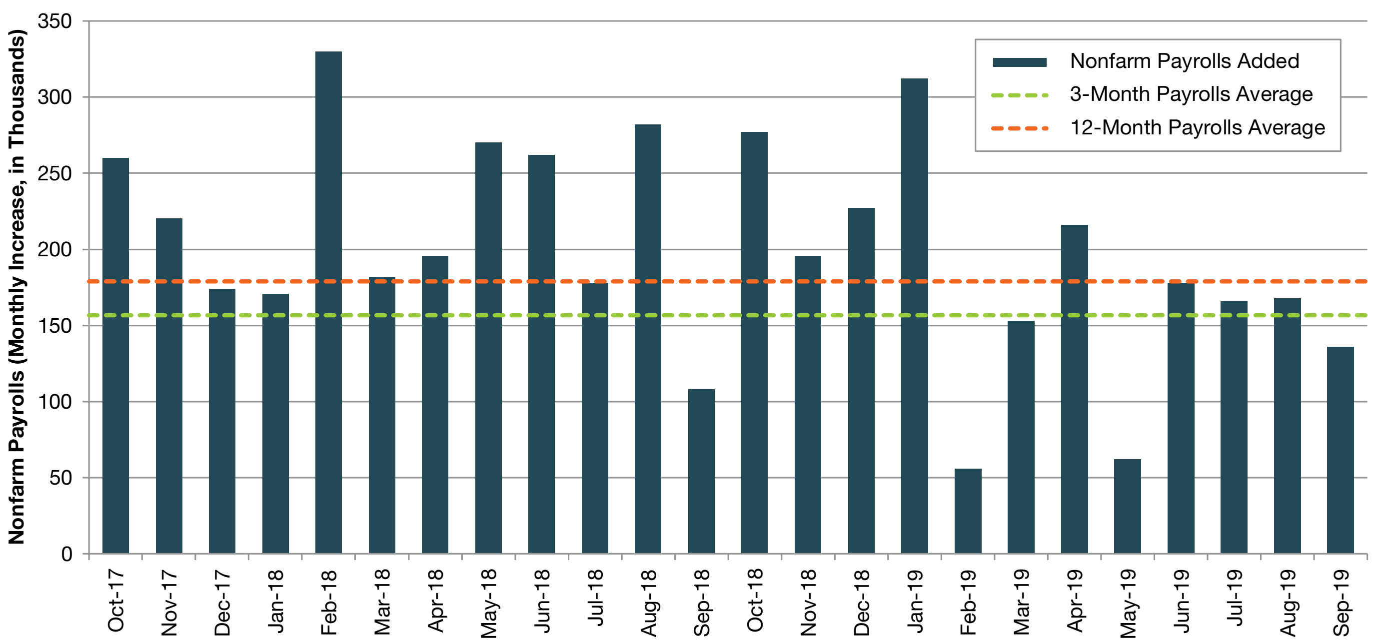


EXHIBIT 6B: U.S. Employment—Past 24 Months With Averages



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 6C: U.S. Employment—10 Years

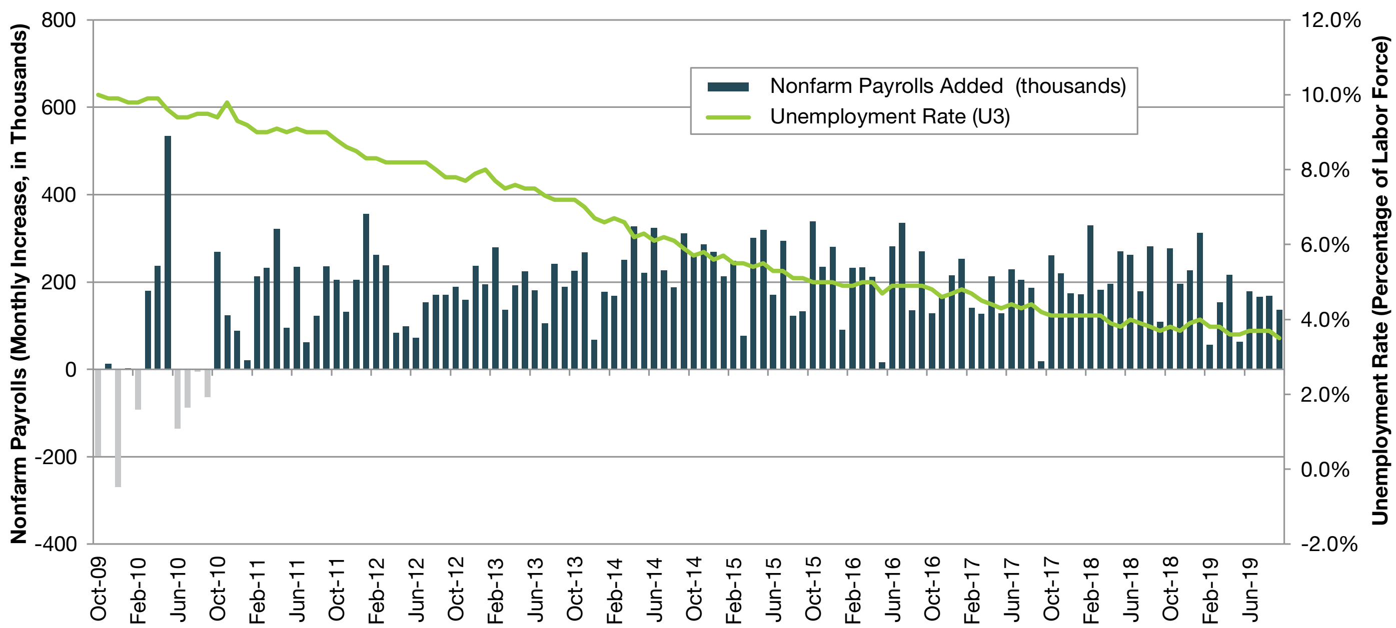
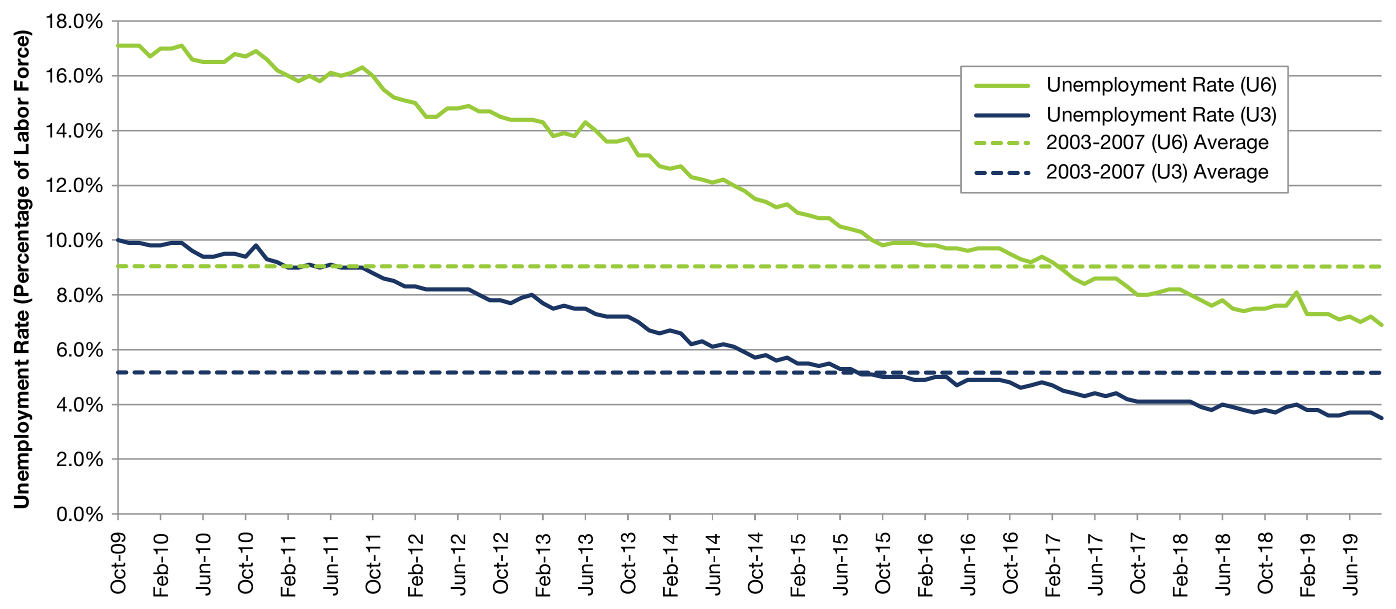


EXHIBIT 6D: U3 Unemployment Compared With U6 Unemployment—10 Years



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.

MANUFACTURING, SERVICES, AND INDUSTRIAL PRODUCTION

MANUFACTURING

The manufacturing sector decreased for the sixth consecutive month, falling 1.3 percentage points in September, as reported by the Institute for Supply Management (ISM). The manufacturing index (PMI) score in September was 47.8%, a rate that is lower than its 12-month average of 53.5% and the lowest level since June 2009. The continued decline of the index, which has gradually fallen since August 2018, indicates a contraction in the manufacturing economy. As a result, only two of the "Big Six" industries expanded and three contracted. 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 50.0% indicates that the manufacturing economy is generally expanding; a reading below 50.0% indicates that it is generally contracting. A PMI in excess of 43.3%, over a period, generally indicates an expansion of the overall economy. Therefore, the PMI reading indicates the manufacturing economy contracted in September for the second consecutive month. Still, the score indicated the 125th straight month of growth in the overall economy.

Three of the 18 manufacturing sectors surveyed in September reported growth. The report stated that, based on the past relationship between PMI and the overall economy, if PMI for September (47.8%) were annualized, it would correspond to a 1.5% increase in GDP annually.

The three manufacturing industries that reported growth in September were food, beverage, and tobacco products; miscellaneous manufacturing; and chemical products. Fifteen manufacturing industries reported contracting in September.

The component for new orders increased 0.1 percentage point in September, to 47.3%. The reading in September marked the second month of contraction. In September, two of the top six sectors expanded and four contracted. A New Orders Index above 52.5%, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders. Three of 18 industries reported growth in new orders in September, and 11 industries reported a decrease in growth in new orders.

The component for production decreased 2.2 percentage points in September, to 47.3%. The reading marks the second month of contraction to the production component. Two of the "Big Six" industry sectors expanded, and two contracted. Production output was able to improve customer-inventory positions, but backlog-orders contraction rates accelerated compared to the prior month. An index above 51.7%, over time, is generally consistent with an increase in the Federal Reserve Board's industrial production figures. Three of the 18 industries reported growth in production during the month of September, while 11 industries reported a decrease in production.

The manufacturing employment component decreased 1.1 percentage points in September, to 46.3%. The reading marked the second month of contraction to the manufacturing employment component. The report indicated that comments were generally neutral concerning hiring for attrition, workforce reduction comments were minimal, but 29% of employment comments were cautious regarding employment expansion. An Employment Index above 50.8%, over time, is generally consistent with an increase in the Bureau of Labor Statistics' data on manufacturing employment. Four of the 18 industries reported employment growth in September, while 11 industries reported a decrease in employment.

The index that tracks inventory decreased 3.0 percentage points in September, to 46.9%. The score indicates contraction to the index for the fourth consecutive month and is the lowest score since December 2016. An Inventories Index greater than 44.3%, over time, is generally consistent with expansion in the Bureau of Economic Analysis' figures on overall manufacturing inventories. Four of the 18 industries reported higher inventories in September, and 10 industries reported a decline.

The index that tracks customers' inventories increased 0.6 percentage point in September, to 45.5%, a score that marked the 36th consecutive month of low inventory levels, although inventories are approaching an optimum level. Five industries reported customers' inventories were too high in September, and nine reported levels were too low.

The component that measures prices increased 3.7 percentage points in September, to 49.7%, a score that indicated that the index is contracting for the fourth consecutive month. A Prices Index above 52.5%, over time, is generally consistent with an increase in the Bureau of Labor Statistics' Index of Manufacturers Prices. Five of the 18 industries reported paying higher prices for raw materials in September, while 12 reported a decrease in raw material prices.

The index that tracks new export orders decreased 2.3 percentage points in September, to 41.0%, a score that indicates new orders contracted for the third consecutive month. One of the "Big Six" industry sectors continued to expand its activity during the period, although respondents noted global trade softness. Two of the 18 industries reported growth in new order exports in September, and 11 reported a decrease.

The index that tracks imports increased 2.1 percentage points in September, to 48.1%, a score that indicates contraction for the third consecutive month. Five of the six big industry sectors contracted, and one expanded during the period. Two of the 18 industries reported the same or better import levels in September, and 11 reported a decrease.

The index that tracks the average commitment lead time for capital expenditures increased by four days in September, to 148 days. The average lead time for maintenance, repair, and operating supplies decreased, to 32 days, and the average lead time for production materials increased by two days, to 67 days.

The Institute for Supply Management published its most recent "Semiannual Economic Forecast" in May, and the report highlighted that expectations for economic growth will continue for the remainder of 2019. Specifically, executives in the manufacturing sector are optimistic that revenues are expected to increase in 17 manufacturing industries. Capital expenditures, a major driver in the U.S. economy, are expected to increase by 5.9%, and the employment base will grow by 2.0%.

The survey results showed that 55% of respondents from the panel of manufacturing supply management executives predict their revenues, on average, will be greater in 2019 than in 2018, while 11% expect an 11.1% decline, and 34% foresee no change in revenue. The panel of purchasing and supply executives expects a 5.7% net increase in overall revenues for 2019, compared to a 5.1% increase predicted for 2018 over 2017 revenues. Seventeen of the 18 industries are predicting revenue growth for 2019.

Purchasing managers reported that their companies are currently operating, on average, at 84.2% of normal capacity. This figure is down 1.0 percentage point from the December 2018 rate. Eight of the 18 industries are predicting an average capacity of 84.2% or above.

Production capacity in manufacturing increased 4.5% in 2019, as 37% of purchasing and supply executives expect an average capacity increase of 13.8%, 6% expect decreases averaging 9.9%, and 57% expect no change. This compares to a predicted increase in production capacity made in December 2018 of 4.7% for 2018. Fifteen of the 18 industries are predicting an increase in production capacity for 2019.

Survey respondents expect a 5.9% increase in capital expenditures in 2019. Currently, 32% of respondents predict increased capital expenditures in 2019, with an average increase of 29.3%, and 12% said their capital spending would decrease an average of 27.7%. Fifty-five percent say they will spend the same in 2019 as they did in 2018. Sixteen of the 18 industries are expecting increases in capital expenditures in 2019 when compared to 2018.

In the December 2018 forecast, respondents predicted an increase of 3.5% in prices paid during the first four months of 2019. The survey respondents now report prices increased by 1.5%. The 45% who say their prices are higher now than at the end of 2018 report an average increase of 4.9%, while the 13% who report lower prices report an average decrease of 5%. The remaining 42% indicate no change for the period. Sixteen of the 18 manufacturing industries are predicting an increase in prices paid for the first part of 2019.

When asked to predict 2019 price changes, 44% of respondents expect prices to increase by 4.8% for the full year of 2019 compared to the end of 2018. Meanwhile, 17% anticipate decreases averaging 4%. Including the 39% who expect no change in prices, survey respondents expect a net average prices increase of 1.5% for all of 2019. Seventeen of the 18 manufacturing industries are predicting a price increase in 2019.

Purchasing and supply executives forecast that manufacturing employment will increase by 2% by the end of 2019 compared to the end of 2018. Thirty-six percent of respondents expect employment to be 6.7% higher, on average, while 8% of respondents predict employment to be lower by 5.2%. The remaining 56% of respondents expect their employment levels to be unchanged for the remainder of 2019. Fourteen of the 18 industries are predicting employment growth in 2019.

Nonmanufacturing respondents forecast that sector business revenue for 2019 will increase 3.1% compared to 2018. This is 0.6 percentage point less than the 3.7% that was predicted in December 2018 for 2019. The 47% of respondents forecasting better business in 2019 than in 2018 estimate an average revenue increase of 9.2%. The 11% who predict less business in 2019 forecast an average decrease of 11.4%. The remaining 42% see no change in revenues for 2019.

The survey highlighted answers to seven specific questions related to the early months of 2019:

- Seventy-six percent of those surveyed had difficulty hiring workers to fill open positions, while 24% did not have any trouble;
- Nearly 54% of those surveyed raised their wages to recruit new hires, while 46.3% did not;
- Approximately 44% offered additional training to new hires, while 56% of firms did not;
- Nearly 35% of firms had increased capital spending plans in the past six months, while 17.9% of firms decreased capital spending plans and 47.4% reported no change to their capital spending plans;
- Among the 34.7% who had planned to increase their capital spending, 69.3% cited their reason as the general business outlook, 4.5% cited tax reforms, 3.0% cited the prospects for regulatory reforms, and 23.2% cited other;
- When asked about whether tariffs had raised the price of goods to their customers, 59.1% responded yes and 40.9% responded no; and
- Approximately 70.2% of those surveyed do not believe that tariffs have caused a delay or disruption to their supply chain, while 29.8% believed they have.

SERVICES

The nonmanufacturing index (NMI) decreased 3.8 percentage points in September, to 52.6%, and is now at its lowest score since August 2016. The report noted that respondents remained concerned over tariffs, labor issues, and the direction of the economy. NMI measures the strength of the services sector and is based on data compiled from purchasing and supply executives nationwide.

An NMI reading above 50.0% indicates that the services sector of the economy is generally expanding, whereas a reading below 50.0% indicates that the services sector is generally contracting. An NMI in excess of 49.0%, over time, generally indicates an expansion in the overall economy. Therefore, the September NMI indicates an expansion in the services sector for the 116th consecutive month and growth in the overall economy for the 122nd consecutive month.

Thirteen of the 18 nonmanufacturing sectors surveyed in September reported growth during the month. The report noted that, based on the past relationship between the NMI and the overall economy, if NMI for September (52.6%) were annualized, it would correspond to a 1.4% increase in GDP. Over the past 12 months, the NMI score averaged 56.8%.

The component that measures business activity decreased 6.3 percentage points in September, to 55.2%. Despite the decline, the reading indicates that business activity grew for the 122nd consecutive month. Thirteen of the industries in the index reported growth in business activity for the month.

The new orders component of the index decreased 6.6 percentage points, to 53.7%. The September report shows growth at a faster rate in new orders for the 122nd consecutive month. Twelve of the industries in this index reported an increase in new orders for the month.

The employment component decreased 2.7 percentage points, to 50.4%, in September. Despite the decline, the sector continued to grow for the 67th consecutive month. Eleven of the industries reported increased employment.

The supplier deliveries component increased 0.5 percentage point in September, to 51.0%. A reading above 50% indicates slower deliveries, while a reading below 50% indicates faster deliveries. Nine industries reported slower deliveries on the month.

The component that measures the Inventories Index decreased 2.0 percentage points in September, to 53.0%. Of the total respondents, 29% indicated they do not have inventories or do not measure them. Six industries reported an increase in inventories in September.

The component that measures prices nonmanufacturing organizations paid for purchased materials and services increased 1.8 percentage points, to 60.0%, in September. The index reported growth in the sector for the 28th consecutive month. Fifteen of the 18 industries reported an increase in prices paid in the month of September.

The component that measures inventory sentiment increased 2.0 percentage points in September, to 58.0%. This reading indicates that respondents believe their inventories are still too high at this time. Eight industries reported that their inventory level was still too high in September.

The Institute for Supply Management published its most recent “Semiannual Economic Forecast” in May, with the report noting that economic growth is expected to continue into 2019. Forty-seven percent of nonmanufacturing supply management executives expect their 2019 revenues to be greater by 9.2% than in 2018. Respondents currently expect a 3.1% net increase in overall revenue, which is less than the 3.7% increase that was forecasted in December 2018. Supply managers have indicated that prices are projected to increase 1.5% over the year, which reflects minimal inflation. Employment is projected to grow 1.3%. Executives in the nonmanufacturing sector also indicate that 17 of their industries forecast higher revenues.

Nonmanufacturing supply managers report operating at 89.0% of their normal capacity, which is 0.6 percentage point higher than reported in May 2018. Twelve out of the 18 industries operated at capacity levels above the average rate of 89.0% of normal capacity.

Respondents in nonmanufacturing industries expect the prices they pay for materials and services will increase by 2.0% in 2019, which is 0.4 percentage point lower than the forecast in December. Twenty-two percent of nonmanufacturing respondents expect their capacity for 2019 to increase by an average of 10.7%, and 3% of the respondents foresee their capacity decreasing by an average of 13.8%. Seventy-five percent expect no change in their capacity. Fourteen of the 18 industries are expecting to add to their production capacity in 2019.

Nonmanufacturing respondents report that their purchases in the first four months of this year cost an average of 1% more than at the end of 2018. This is 2.2 percentage points lower than the 3.2% increase predicted in December 2018 for the first four months of 2019. Thirty-eight percent of nonmanufacturing respondents report that prices increased an average of 3.8% in the first part of 2019. Eight percent report price decreases averaging 6.3%. The remaining 54% indicate no change in prices paid in the first four months of 2019. Fifteen of the 18 industries reported an increase in prices paid in the first part of 2019.

For 2019, nonmanufacturing respondents expect prices to increase, on average, 1.5% when compared to the prices at the end of 2018. Given that respondents reported that prices have increased 1% through May 2019, prices are projected to increase 0.5 percentage point over the remainder of the year. Forty-seven percent of respondents anticipate price increases averaging 4.6%. Twelve percent of respondents expect price decreases of 5.7%, and 41% do not expect prices to change. Fourteen of the 18 industries are forecasting price increases in 2019.

Respondents forecast that employment will increase 1.3% through the end of 2019. For the remaining months of 2019, 33% expect employment to increase, on average, 6.1%, 10% anticipate employment to decrease by 7.7%, and 57% expect their employment levels to be unchanged. Thirteen of the 18 industries are forecasting increases in employment for the remainder of 2019.

Nonmanufacturing respondents forecast that sector business revenue for 2019 will increase 3.1% compared to 2018. This is 0.6 percentage point less than the 3.7% that was predicted in December 2018. The 47% of respondents forecasting better business in 2019 than in 2018 estimate an average revenue increase of 9.2%. The 11% who predict less business in 2019 forecast an average decrease of 11.4%. The remaining 42% see no change in revenues for 2019. Seventeen industries are expecting an increase in revenues in 2019.

The survey highlighted answers to seven specific questions related to the early months of 2019:

- Approximately 70.2% of those surveyed had difficulty hiring workers to fill open positions, while 29.8% did not have any trouble;
- Nearly 48.1% of those surveyed raised their wages to recruit new hires, while 51.9% did not;
- Approximately 45% offered additional training to new hires, while 54.5% of firms did not;

- Nearly 27.1% of firms had increased capital spending plans in the past six months, while 18.8% of firms decreased capital spending plans and 54.1% reported no change to their capital spending plans;
- Among the 27.1% who had planned to increase their capital spending, 70.4% cited the general business outlook as their reason, 2.0% cited tax reforms, 3.3% cited the prospects for regulatory reforms, and 24.3% cited other;
- When asked about whether tariffs had raised the price of goods to their customers, 35.7% responded yes and 64.3% responded no; and
- Approximately 73.4% of those surveyed do not believe that tariffs have caused a delay or disruption to their supply chain, while 26.6% believed they have.

INDUSTRIAL PRODUCTION

The Federal Reserve reported that total industrial production decreased 0.4% in September after increasing 0.8% in August. At 109.5% of its 2012 average, total industrial production in September was 0.1% lower from its level from one year ago. Capacity utilization for the industrial sector decreased 0.4% in September, to 77.5%, a rate that is 2.3 percentage points below its long-run (1972-to-2018) average.

Manufacturing production decreased 0.5% in September and is 0.9% lower than the level from one year ago. Despite the decline on the month, manufacturing output rose at an annual rate of 1.1% in the third quarter. The output of mining decreased 1.3% in September, as reductions in crude oil extraction and well drilling contributed to the decline. The index has advanced 2.6% over the past 12 months. The index for utilities increased 1.4% in September and is up 1.2% over the past 12 months.

Capacity utilization for manufacturing decreased 0.4 percentage point in September, to 75.3%. Utilization for mining fell to 88.8% but remained above its long-run average of 87.1%. The capacity utilization rate for utilities increased 0.9 percentage point but remained well below its long-run average.

EXHIBIT 7A: Manufacturing, Services, and Housing Indicators—Past 24 Months

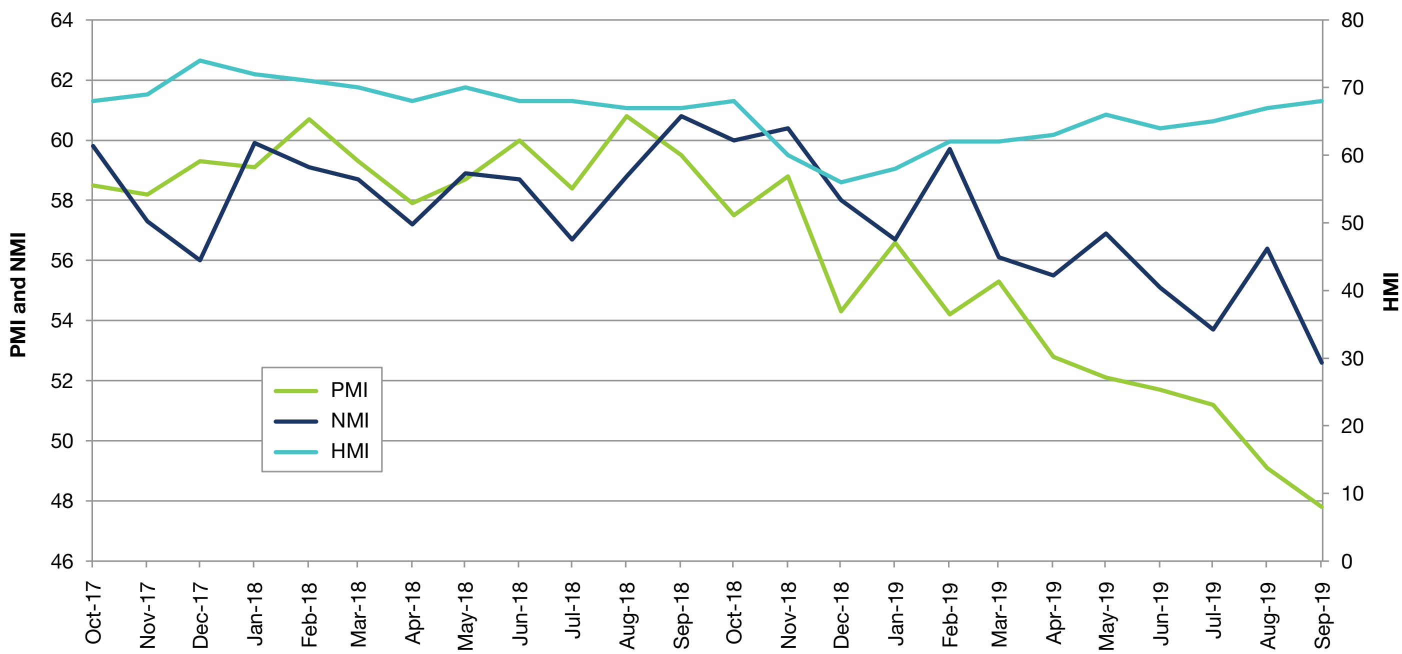
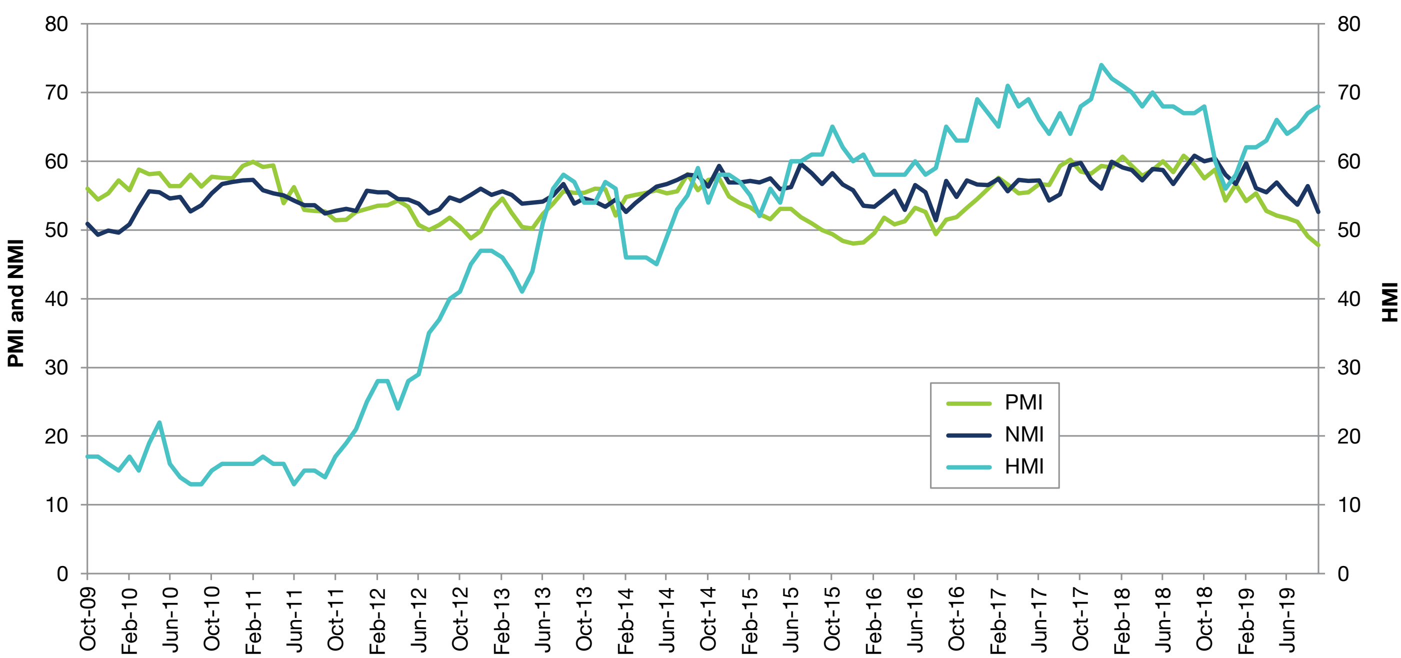


EXHIBIT 7B: Manufacturing, Services, and Housing Indicators—10 Years



Sources 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.

STOCK MARKET AND VOLATILITY

The trade dispute with China remained on the minds of investors, although all the major stock indexes rebounded in September from their declines in the month prior. The Dow Jones Industrial Average rose by 2.1%, the S&P 500 Index rose by 1.9%, the Nasdaq Composite advanced 0.5%, the S&P MidCap 400 rose by 3.1%, and the Russell 2000 Index rose by 2.1%.

Volatility eased in September after resurfacing in August, when it climbed to its highest levels since the beginning of 2019, as investors were concerned over the rising trade tensions with China. In September, the VIX ranged from 13.3 to 21.2 and held a monthly average, 15.6, that is lower than the annual average for 2019, 15.9.

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 Standard & Poor's 500 index. Stock market professionals use the VIX to gauge investor sentiment. Values greater than 30 are generally associated with a large amount of volatility because of investor fear or uncertainty, while values below 20 generally correspond to less stressful, even complacent, times in the markets.

EXHIBIT 8: Stock Market and Volatility

TOTAL RETURN*

Index	Sep-19	Year-to-Date
Dow Jones Industrial Average	2.1%	17.5%
S&P 500	1.9%	20.6%
Nasdaq Composite	0.5%	20.6%
S&P MidCap 400	3.1%	17.9%
Russell 2000	2.1%	14.2%

Source of data: T. Rowe Price

*Returns are for the periods ended September 30, 2019. The returns include dividends based on data compiled by T. Rowe Price, except for the Nasdaq Composite, whose return is principal only.

VOLATILITY

VIX*	Sep-19	Year-to-Date
High	21.2	28.5
Low	13.3	11.0
Average	15.6	15.9

Source of data: Yahoo! Finance

*The Chicago Board Options Exchange Volatility Index (VIX)—a popular volatility measure—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." Investopedia says the following: "VIX 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."

CONSUMER PRICE INDEX AND PRODUCER PRICE INDEX

CONSUMER PRICES

Consumer prices was unchanged in September, after rising 0.1% in August. The score in September was the weakest reading since January and came as increases in the cost of food and rents were offset by decreases in the prices of energy and used cars and trucks. Over the past 12 months, the CPI is up 1.7%. Economists polled by Reuters had forecasted a monthly rise of 0.1% and an annual increase of 1.8%. 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 Chained Consumer Price Index for all urban consumers rose 0.1% in September after reporting no change in August. Over the past 12 months, the index has risen 1.6%. The Chained Consumer Price Index was designed to be a closer approximation of a cost-of-living index in that it, in its final form, accounts for any substitution that consumers make across item categories in response to changes in relative prices.

Core CPI rose 0.1% in September, after rising 0.3% in the prior three months. The rise in the core rate was restrained by moderated gains in healthcare costs, as well as declines in apparel, new motor vehicles, and communications prices. Core CPI has risen 2.4% over the past 12 months.

PRODUCER PRICES

The Producer Price Index (PPI) unexpectedly declined 0.3% in September, which is the largest decline since January 2019. Over the past 12 months, PPI has grown at annual rate of 1.4%, which is the smallest annual gain since November 2016. The monthly decline was weighed down by decreases in the costs of goods and services, while economists polled by Reuters had expected a monthly gain of 0.1% and annual gains of 1.8%. 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 less foods, energy, and trade services went unchanged in September, after rising 0.4% in August. Over the past 12 months, prices for final demand less foods, energy, and trade services increased 1.7%.

In September, prices for final demand services fell 0.2%, while prices for final demand goods decreased 0.4%. Prices for final demand goods less foods and energy, or Core PPI, fell 0.1%. Core PPI is up 1.7% over the past 12 months. The figure for the annual Core PPI figure signals low inflationary risks.

EXHIBIT 9A: U.S Consumer Price Index—Past 24 Months

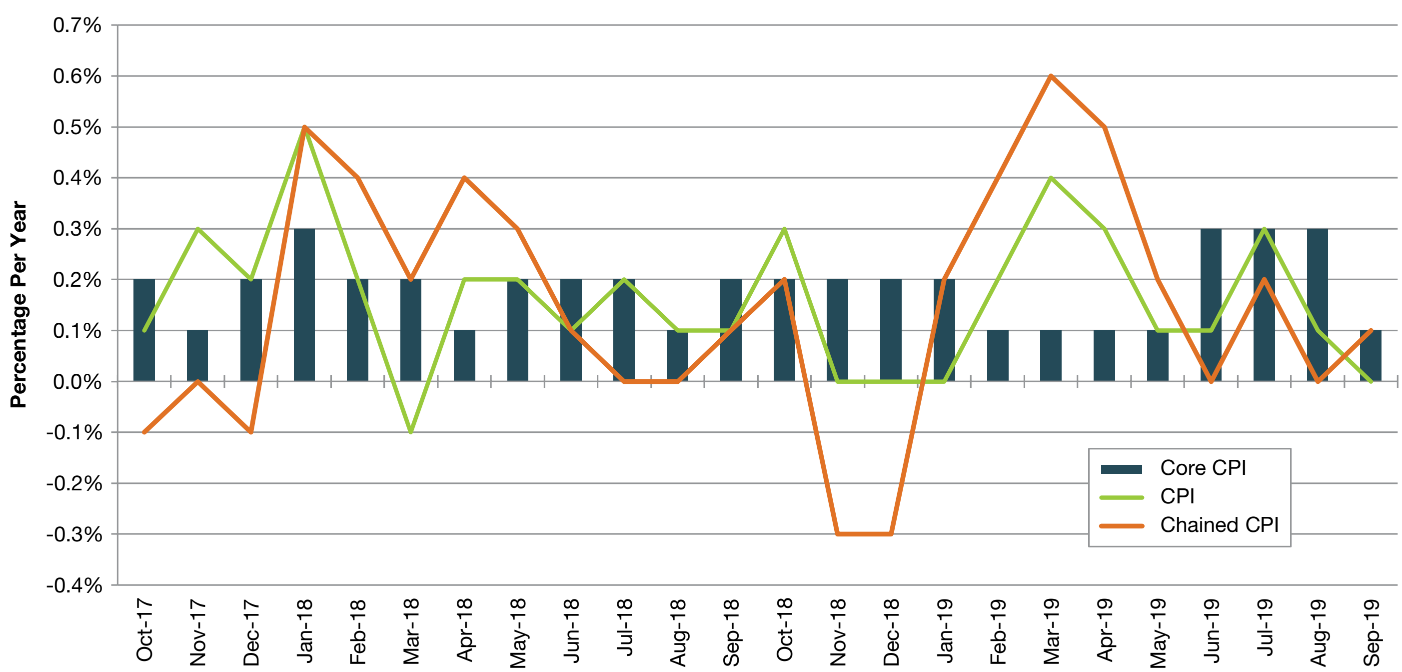
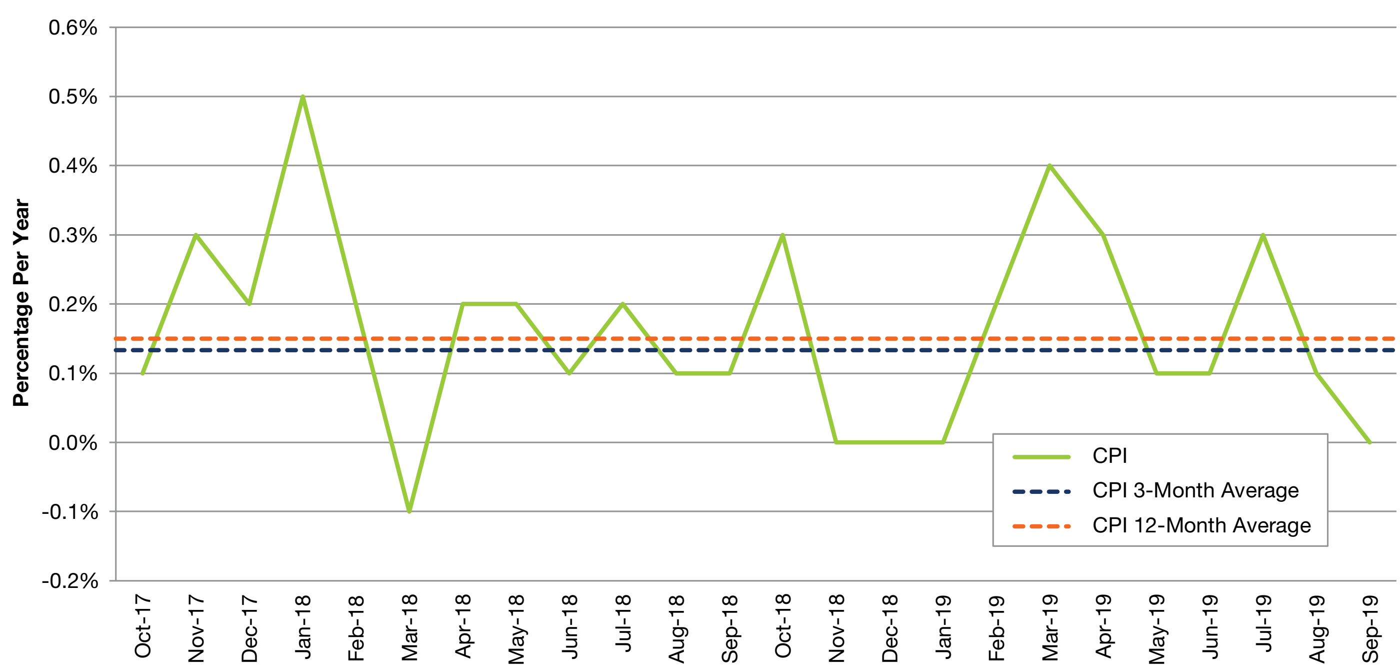


EXHIBIT 9B: U.S Consumer Price Index—Past 24 Months With Averages



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

Notes: 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 9C: U.S Producer Price Index—Past 24 Months

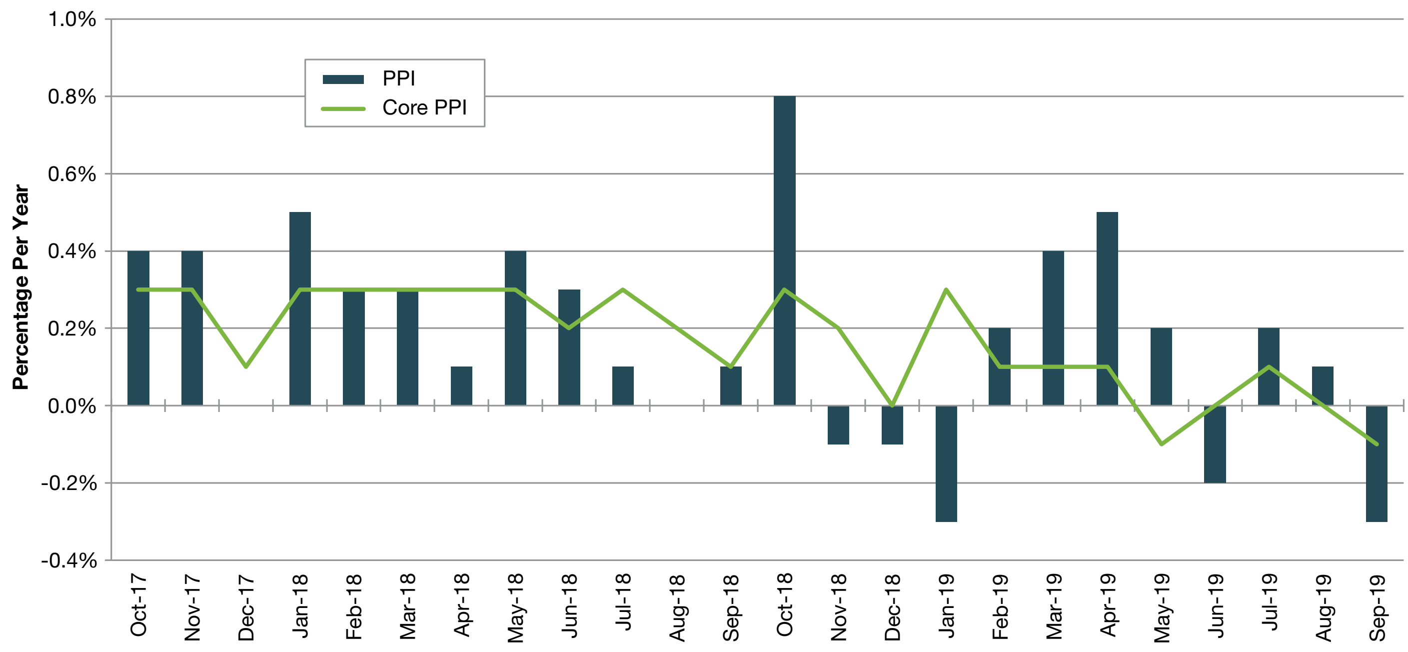
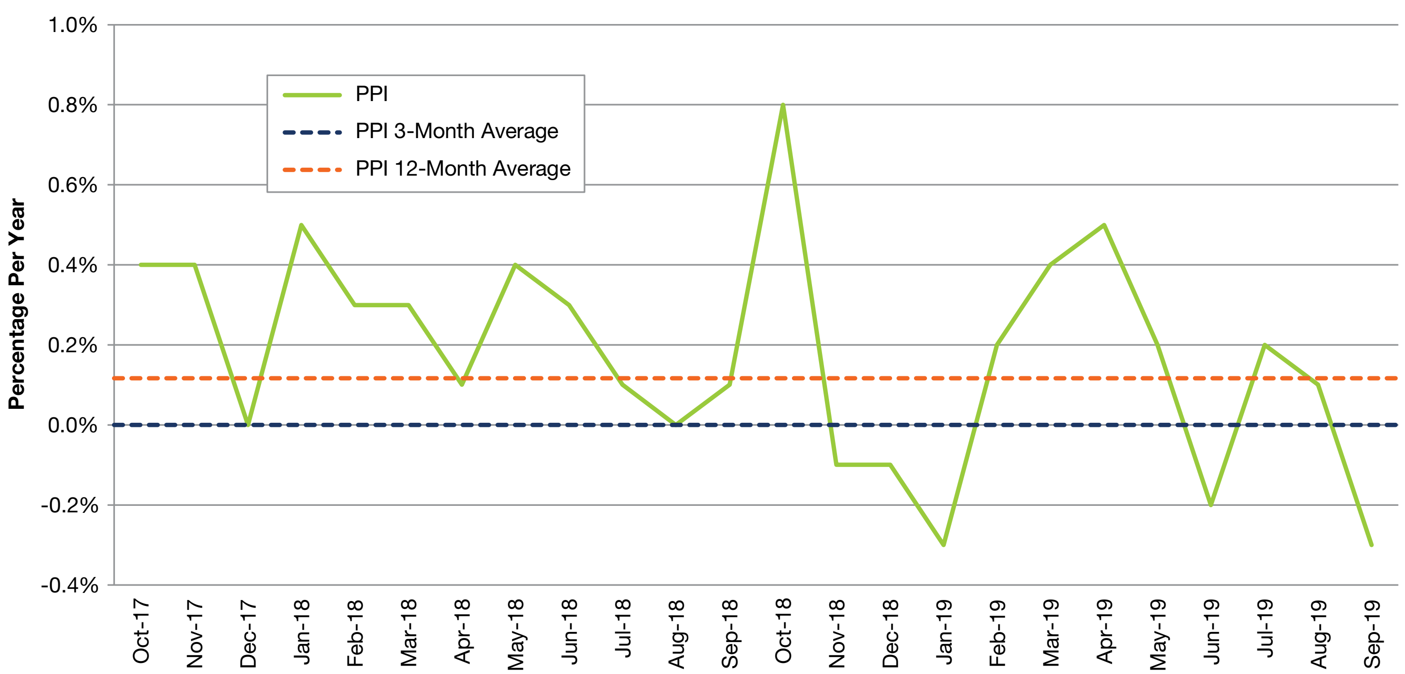


EXHIBIT 9D: U.S Producer Price Index—Past 24 Months With Averages



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

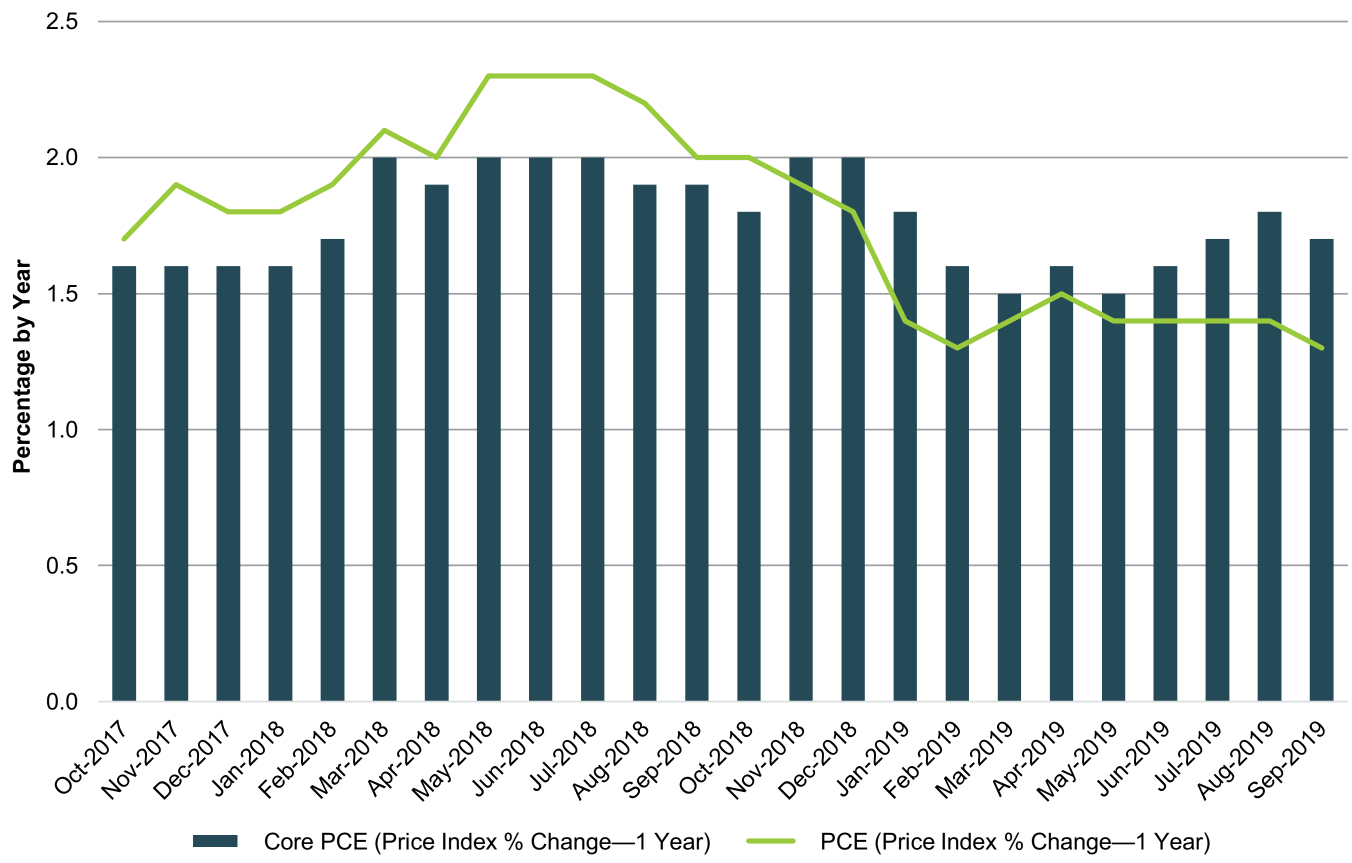
Notes: Data are seasonally adjusted change from the prior month. Core CPI is the All Items Less Food and Energy Index. Core PPI is the Final Demand Goods Less Foods and Energy Index.

PERSONAL CONSUMPTION EXPENDITURE

The Federal Reserve often emphasizes the price inflation measure for personal consumption expenditures (PCE), which the Department of Commerce produces, largely because the PCE index covers a wide range of household spending and is less volatile than some other measures. Prices, as measured in current dollars highlighted in the September report, increased 0.2%, matching the rise in August.

The PCE price index remained unchanged in September, matching the rise in August. Core PCE, which excludes the volatile food and energy components, remained unchanged in September, after rising 0.1% in August. From September 2018 to September 2019, the PCE price index is up 1.3% and core PCE has risen 1.7%. Core PCE, which is the Federal Reserve's preferred inflation measure, remained below the Federal Reserve's long-term rate, 1.99%, and below the U.S. central bank's 2.0% inflation target.

EXHIBIT 10: U.S. Personal Consumption Expenditure—Past 24 Months



HOUSING STARTS AND BUILDING PERMITS

Housing starts fell 9.4% in September, giving back most of the gains from August, when it reached a 12-year high. In September, the seasonally adjusted rate was 1,256,000. The report contained an upward revision to the data for August, which now shows housing starts at 1,386,000 units, for the highest total since June 2007. The data suggest that the housing market is supported by lower mortgage rates despite a slowing economy. Single-family starts increased 0.3% compared to last month and rose for the fourth consecutive month. The multifamily sector decreased by 28.3%. The multifamily-home sector, which consists of buildings with five units or more, tends to be more volatile than the single-family-home sector.

Building permit authorizations for privately owned housing units, considered a leading indicator of demand for new homes, decreased to a seasonally adjusted rate of 1,387,000 in September, after a rise in August led to the largest monthly figure since May 2007. The figure in September is 2.7% below the revised August rate of 1,425,000 but 7.7% above the levels from one year ago. Building permits for single-family housing units rose 0.8% and are up 2.8% from one year ago. Building permits for multifamily housing units fell 7.6% in September but are up 20.8% from one year ago.

Housing completions were at a seasonally adjusted rate of 1,139,000 in September. This is 9.7% below the revised rate in August and 1.0% below the rate from one year ago. Single-family housing completions in August were at a rate of 852,000, which is 8.6% below the revised August rate of 932,000. The rate for multifamily housing completions was 285,000 in September.

Builder confidence improved 1.0 point in September, as the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) reported a reading of 68.0, reaching its highest score since October 2018. An HMI reading above 50.0 indicates that more builders view sales conditions as good, rather than poor. HMI has now been above 51.0 for 62 consecutive months. The report also included an upward revision of 1.0 point to the August score, to 67.0 points. The report noted that solid household formations and attractive mortgage rates were contributing to a positive builder outlook. However, builders are expressing growing concerns regarding uncertainty stemming from the trade dispute with China. NAHB's Home Building Geography Index indicates that the slowdown in the manufacturing sector is holding back home construction in some parts of the nation, although there is growth in rural and exurban areas.

One of the three HMI components posted a gain in September: The component measuring current sales conditions rose two points, to 75.0; the component gauging sales conditions over the next six months fell one point, to 70.0; and the component that measures buyer traffic remained unchanged, at 50.0.

Looking at the three-month moving averages for the regional HMI indexes, the Northeast rose two points, to 59.0; the Midwest was unchanged, at 57.0; the West moved up two points, to 75.0; and the South inched up one point, to 70.0.

HOME SALES, PRICES, AND INVENTORY

Existing-home sales declined 2.2% in September, after two consecutive months of gains. The report noted that home prices are rising too rapidly because of the housing shortage and this lack of inventory is preventing home sales growth potential.

Existing-home sales in September reported at an annual pace of 5.38 million, up from 5.18 million (3.9%) from one year ago. The report noted that, despite historically low mortgage rates, sales have not commensurately increased, in part due to a low level of new housing options. Existing-home sales are completed transactions that include single-family houses, townhomes, condominiums, and co-ops.

All-cash sales were 17% of transactions in September, which is down 2.0 percentage points from August and down 4.0 percentage points from one year ago. Individual investors, who account for many cash sales, purchased 14% of homes in September, which is unchanged from August but down 2.0 percentage points from one year ago. First-time buyers accounted for 33% of sales in September, which is up 2.0 percentage points from last month and up 1.0 percentage point from one year ago.

Shares of distressed home sales, which include both foreclosures and short sales, were at 2.0%, which is unchanged from August but down 1.0 percentage point from one year ago.

The report showed that all four major regions saw sales decrease in September. Home sales in the Northeast decreased 2.8% in September but are up 1.5% from a year ago. Sales in the Midwest fell 3.1% from August but are unchanged from one year ago. Sales in the South fell 2.1% but are up 6.0% from one year ago. Sales in the West declined 0.9% but are up 5.6% from one year ago.

The national median existing-home price for all housing types was $275,100 in September and is up 6.1% from a year ago. September's price increase marked the 91st consecutive month of year-over-year price gains. In September, home prices in the Northeast moved up 5.2% from one year ago. The prices in the Midwest increased 7.2%. Home prices in the South rose 6.3%, and prices in the West increased 4.5% over the last 12 months. The median time on the market for all homes sold in September was 32 days, which was up one day from August but unchanged from one year ago. Forty-nine percent of homes sold in September were on the market for less than a month.

Total housing inventory was nearly unchanged from August, at 1.83 million existing homes for sale in September, but down from 1.88 million from one year ago. Unsold inventory was at a 4.1-month supply at the current sales pace in September, which is up from 4.0 months in August but down from 4.4 months one year ago. Six months of inventory is considered a balanced market that equally benefits buyers and sellers.

The Federal Housing Finance Agency (FHFA) published its House Price Index for August, which showed U.S. housing prices increased 0.2% from July, to 277.4 points. From August 2018 to August 2019, the U.S. housing prices increased 4.6%. The index measures housing prices across nine census regions, with the change in pricing ranging from -0.1% in both the South Atlantic and the Mountain divisions to 0.9% in the New England division. The report also released data for the second quarter of 2019, which shows an increase of 1.0% for the quarter. From the second quarter of 2018 to the second quarter of 2019, house prices increased 5.0%, which extends the streak of increases to 32 consecutive weeks.

NAR reports that, according to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased, to 3.61%, in September, down from the 3.62% rate in the prior month. The average 30-year rate for 2018 was 4.54%.

NAR's Realtors Confidence Index (RCI) for single-family houses reported a reading of 61.0 and is up 1.0 point from last month (strong = 100; moderate = 50; weak = 0). The RCI is a key indicator of housing market strength based on a monthly survey of over 50,000 real estate practitioners.

COMMERCIAL REAL ESTATE

NAR's most recent "Commercial Real Estate Trends and Outlook," analyzing the third quarter of 2019, noted prices for commercial properties are still trending upwards, although at a modest pace. As of the second quarter of 2019, the National Council of Real Estate Investment Fiduciaries (NCREIF) Index was up by 8% and the Green Street Advisors Price Index was up by 2% from one year ago.

In small markets, realtors reported on average a 3% rise in sales volume from one year ago. In the large market, the dollar sales volume was down by 36% through August 2019 from one year ago. Over the period from January 2019 to August 2019, sales transactions, at $321.4 billion, were down by 11% compared to the same period one year ago, when they were at $360.3 billion, based on a decline in acquisitions by nonindividual investors.

Leasing volume increased 2.4% during the quarter, as activity increased strongly for apartment properties, followed by industrial warehouses and flex properties. Cap rates among survey respondents continued to trend downward, to 6.6%. In the small commercial real estate market, apartment properties had the lowest median cap rate, at 5.9%, followed by industrial warehouse, at 6.5%. Retail strip centers had the highest cap rate, at 7.1%.

Vacancy rates continued to trend downward in the third quarter of 2019. Among property classes, the lowest median vacancy rates were in apartment and industrial properties, at 5%. Higher vacancy rates were seen in retail properties, at 9%, and office properties, at 10%. Lease terms remained steady, with a majority of leases at three years or longer. Longer leases result in more stable rental income for landlords.

FORECAST

Consensus Economics Inc., publisher of *Consensus Forecasts—USA*, reports that the consensus of U.S. forecasters believe that real GDP will increase at a seasonally adjusted annual rate of 1.8% in the fourth quarter of 2019 and 1.7% in the first quarter of 2020. 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 be 2.3% in 2019 and 1.8% in 2020.

They forecast that consumer spending will increase at a rate of 2.0% in the fourth quarter of 2019 and 1.9% in the first quarter of 2020. They expect consumer spending to increase 2.6% in 2019 and 2.2% in 2020.

The forecasters believe unemployment will average 3.6% in the fourth quarter of 2019 and 3.7% in the first quarter of 2020. They predict that unemployment will average 3.7% in 2019 and 3.7% in 2020.

The forecasters believe that the three-month Treasury bill rate will be 1.7% at the end of the fourth quarter of 2019 and 1.6% at the end of the first quarter of 2020. They predict the 10-year Treasury bond yield will be 1.7% at the end of the fourth quarter of 2019 and 1.8% at the end of the first quarter of 2020.

They also believe consumer prices will rise at a rate of 2.0% in the fourth quarter of 2019 and 2.1% in the first quarter of 2020. They expect consumer prices to increase 1.8% in 2019 and 2.1% in 2020. They expect producer prices to increase at a rate of 1.8% in the fourth quarter of 2019 and 1.9% in the first quarter of 2020. The forecasters anticipate producer prices will rise 1.1% in 2019 and 1.8% in 2020.

The forecasters believe real disposable personal income will rise at a rate of 2.1% in the fourth quarter of 2019 and 1.8% in the first quarter of 2020. They believe real disposable personal income will increase 3.1% in 2019 and 2.1% in 2020.

The forecasters expect industrial production to increase at a rate of 0.3% in the fourth quarter of 2019 and 1.2% in the first quarter of 2020. They forecast that industrial production will increase 0.8% in 2019 and 0.7% in 2020.

Nominal pretax corporate profits are expected to rise 0.8% in 2019 and rise 2.8% in 2020. The forecasters also project housing starts will be 1,250,000 in 2019 and 1,280,000 in 2020.

The most recent release of The Livingston Survey (the Survey) predicts growth for the second half of 2019 to remain unchanged from its prediction 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 2.5% in the first half of 2019 and 2.3% in the second half of 2019. They believe that GDP will grow 2.07% annually over the next 10 years. The Survey forecasted the unemployment rate to be 3.6% in June 2019, remain at 3.6% by December 2019, and improve to 3.5% in 2020.

The forecasters in the Survey expect consumer price inflation (CPI) to be 2.4% in 2019 and 2.0% in 2020. The Survey expects CPI to average 2.26% over the next 10 years. The Survey also expects producer price inflation (PPI) to be 1.3% in 2019 and 2.2% in 2020.

The Survey predicted the interest rate on three-month Treasury bills will be 2.38% in June 2019 and 2.40% in December 2019. It predicted the interest rate on 10-year Treasury bonds to reach 2.48% in June 2019 and 2.69% in December 2019. The forecasters have revised their previous projections for future S&P 500 index values. They expect the S&P 500 index to be 2,860.0 at the end of June 2019 and 2,900.0 at the end of December 2019.

The Energy Information Administration (EIA) predicts that the West Texas Intermediate crude oil spot price will average approximately $56.26 per barrel in 2019 and $54.43 per barrel in 2020, compared with $65.06 per barrel in 2018. The EIA expects retail prices for regular-grade gas to average $2.56 per gallon in 2019 and $2.57 per gallon in 2020, compared with $2.73 per gallon in 2018.

The EIA believes the Henry Hub natural gas spot price will average $2.57 per million Btu (MMBtu) in 2019 and $2.52 per MMBtu in 2020, compared with $3.15 per MMBtu in 2018. The cost of coal delivered to electricity-generating plants, which averaged $2.07 per MMBtu in 2018, is expected to average $2.09 per MMBtu in 2019 and $2.11 per MMBtu in 2020. Residential electricity prices, which averaged 12.89 cents per kilowatt-hour (kWh) in 2018, are expected to average 13.00 cents per kWh in 2019 then rise to 13.12 cents per kWh in 2020. The airline ticket price index, which averaged 266.08 in 2018, is expected to be 261.76 in 2019 before rising to 284.62 in 2020.

The National Association of Realtors' Realtors Confidence Index for the outlook of single-family homes increased 1.0 point, to 61.0 points, in September (strong = 100; moderate = 50; weak = 0). The RCI for the outlook for townhomes increased 1.0 point, to 51.0, and the outlook for condos increased 1.0 point, to 47.0. 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 projects existing-home sales in 2019 to be 5.370 million (0.6%) and that they will rise to 5.550 million (+3.4%) in 2020. It believes that new single-family home sales will be 668,000 (+8.3%) in 2019, before increasing to 730,000 (+9.3%) in 2020. NAR believes the median existing-home price will be $270,000 (+4.1%) in 2019, before increasing to $279,000 (+3.3%) in 2020. NAR believes the median new-home price will be $316,000 (-3.2%) in 2019, before rising to $320,000 (+1.3%) in 2020. It expects housing starts to increase to 1,275,000 (+2.0%) in 2019, then to 1,410,000 (+10.6%) in 2020. NAR believes the 30-year fixed mortgage rate will average 3.9% in 2019, and 3.6% in 2020, and the 5-1 hybrid adjustable rate mortgage will average 3.6% in 2019 and 3.1% in 2020.

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 over the next three years, though they expect employment growth to slow and the unemployment rate to plateau as the economy reaches full employment. The *ULI/EY Real Estate Consensus Forecast,* a semiannual publication, is based on a survey of 41 of the industry's top economists and analysts representing 32 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 41 survey respondents. The key findings from the *Real Estate Consensus Forecast* include:

- Annual commercial property transaction volume reached a post-recession high of $579 billion in 2018 and is near the 2007 volume of $582 billion. Commercial property transaction volume is expected to be at $500 billion by 2019, $480 billion in 2020, and $470 billion in 2021. Still, these are among the highest annual volumes and remain well above the long-term average.
- Commercial real estate prices are projected to grow at slowing rates relative to recent years, at 5.1% in 2019, 4.0% in 2020, and 3.9% in 2021, with the latter two years falling below the long-term average growth rate of 4.3% for the first time in 10 years.

- Institutional real estate assets are forecasted to provide total returns of 6.0% in 2019 and moderate to 5.2% in 2020 but rise to 5.5% in 2021. By property type, 2019 returns are expected to range from 11.0% for industrial to 2.9% for retail. Total returns in 2021 are expected to range from 7.1% for industrial to 3.0% for retail.
- Both industrial and office vacancy rates are expected to be unchanged in 2019 from their 2018 rates, before edging up in both 2020 and 2021. Both apartment and retail availability rates are expected to see a decrease in 2019 before increasing in both 2020 and 2021. The hotel occupancy rate is expected to plateau in 2019 and then edge down in 2020 and 2021.
- Commercial property rent is expected to continue to increase in the next three years across all sectors, although at decelerating rates. In 2019, rent increases will range from 3.6% for industrial to 1.8% for retail. Rent increases in 2021 will range from 2.4% for industrial to 1.0% for retail. Hotel RevPAR is expected to increase by 2.0% in 2019 and 1.0% in 2020.
- Single-family housing starts are projected to slightly decrease from their 2018 levels of 875,800 units in 2018 to 850,000 units in 2019, which would see an end to seven years of growth. Housing starts are expected to moderate to 810,000 in 2020 and 800,000 in 2021.
- In 2019, 17 real estate indicators are projected to be better than their 20-year averages while six are expected to be worse. Also, inflation, the 10-year Treasury rate, and the NCREIF capitalization rate are projected to be lower than their long-term averages.
- In 2021, two indicators are expected to be better than their 20-year average and six are expected to be worse. Similar to the 2019 projections, inflation in 2021 is expected to be below its long-term average, while the 10-year Treasury rate and the cap rate are projected to be lower than their 20-year averages.

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SOURCES FOR STATE ECONOMIC INFORMATION

A current list of sources for state economic information can be found at: news.bvresources.com/EOU/eouIssues.aspx. Login is required.

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