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ECONOMIC OUTLOOK UPDATE

MONTHLY

APRIL 2018

ECONOMIC UPDATE AT A GLANCE (APRIL 2018 SUMMARY)

The Leading Economic Index increased 0.4% in April, which marked the seventh consecutive month of gains. The growth in the LEI resulted in an index reading of 109.4 points. In the six-month period ending April 2018, the LEI increased 3.3% (a 6.7% annual rate), which is slightly faster than its growth of 3.0% (a 6.7% annual rate) over the previous six months. The strengths in the index were widespread in April as negative contributions only came from stock prices and housing permits. April's reading suggests continued economic growth throughout 2018.

The Consumer Confidence Index increased 1.0 point in April, recording its second highest total since 2000. The index reported at 128.7 and was spurred by a large number of respondents stating their expectations to purchase big-ticket items, which would give the consumer spending component of GDP a boost in the current quarter. The Consumer Sentiment Index fell 2.6 points in April, after reaching its highest level since 2004 in the month prior. The decline brought the index to 98.8 points in April, which came in ahead of economists' forecasts for a reading of 98.0, according to a poll by Reuters. Despite the decline, the index remains elevated by historical standards and continues to boast its highest annual average since 2000. At its peak, the consumer sentiment levels averaged 105.3 from 1997 to 2000.

Small Business Optimism index advanced in April, moving closer to record highs. The index inched up 0.1 point in April and now stands at 104.8. The April reading marked the index's 17th consecutive month of being ranked among the top 5% in the 45-year history of the survey. The survey noted that, in the history of the survey, profits were never reported as high as they are now. In addition, worker compensation or salary reported at its highest level since 2000, with gains likely to continue through the rest of the year due to the tax cuts. The Wells Fargo/Gallup Small Business Report stated small-business owners are overwhelmingly optimistic about the financial outlook of their businesses and the national economy but continue to face challenges associated with hiring. In the second-quarter small-business survey for 2018, the overall index score fell 1.0 point, to 106.0 points, from the February 2018 survey but is up 11.0

Economic Summary April 2018

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.

points from one year ago. The key drivers for this quarter's index include:

- *Economic outlook:* Fifty-seven percent of business owners said the national economy has improved over the past year, and about a quarter of business owners said their businesses had benefited a great deal from the improved economy.
- *Improvements in capital spending:* Sixty-two percent of business owners said they were very likely or somewhat likely to purchase new equipment, while another 60% said they are very or somewhat likely to invest in new products or services to expand their businesses.
- *Tax reform impacts on small businesses:* Thirty-nine percent of business owners said they were unsure how the tax bill would affect their businesses.
- *Continued hiring:* Forty-three percent reported plans to hire in the next 12 months, up 10 percentage points from November.

The latest survey findings suggest that small-business owners continue to feel confident about the economy and the future of their businesses. The survey asked small-business owners specific questions regarding the current presidential administration. Overall, the administration received high marks on economic issues affecting small businesses but lower marks on noneconomic issues, such as infrastructure improvements and healthcare reform. The Present Situation score of the report increased 3.0 points for the quarter, to 45.0 points, while the Future Expectations score declined, moving down 4.0 points from last quarter, to 61.0 points.

Middle-market business sentiment achieved its second consecutive all-time high in the first quarter of 2018. The RSM U.S. Middle Market Business Index surged 4.5 points in the first quarter and was fueled by strong economic fundamentals, the arrival of substantial tax cuts, and robust expectations for hiring and compensation. The index stands at an all-time high of 136.7. The survey noted that nearly 70% of respondents indicated the economy had improved somewhat or substantially over the past quarter, while 73% expect the economy to continue to improve somewhat or substantially during the next half year.

About the Analysis in this Report

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

In this analysis, we examine the general economic climate that existed at the end of April 2018. 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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However, evidence of emerging price pressures, such as the proposed tariff on foreign steel, tempered the enthusiasm.

Total retail sales increased 0.3% in April, which marked their second consecutive month of gains, and rebounded from their sluggish start to 2018. The growth in April was credited to the tax reforms passed earlier, which enabled consumers to increase their spending for the month, although a rise in gasoline prices tempered the increase slightly. On a year-over-year basis, retail sales are up 4.7%. Core retail sales advanced 0.3% in April and were up by 4.8% over the past 12 months.

Employment in April increased by 164,000 jobs as gains in professional and business services, manufacturing, healthcare, and mining contributed to the rise. The job figures for February and March were revised, with February reporting a lower figure, at 324,000 jobs, versus the 326,000 jobs that were originally reported, and March reporting a higher figure, at 135,000 jobs, versus the 103,000 jobs that were originally reported. As a result, the net change resulted in 30,000 more jobs reported over the two-month period.

In a separate report, the Labor Department said initial claims for state unemployment benefits dropped to their lowest level in 48 years, to a seasonally adjusted 209,000, and remained at the 300,000 threshold, which is associated with a strong labor market, for the 165th straight week. This is the longest such stretch since 1970, when the labor market was smaller.

The White House Council of Economic Advisers believes an 80,000-jobs-a-month pace is needed to maintain a low and stable unemployment rate. In April, unemployment improved to 3.9%, its lowest level since 2000. The labor-force participation rate decreased 0.2 percentage point, to 62.8%.

Wages grew 4 cents in April, increasing to $26.84 from last month. The modest increase in April came as the unemployment rate fell to 3.9%, which suggests wage growth has yet to keep up with the job market. Real average hourly earnings, seasonally adjusted from April 2017 to April 2018, increased 2.6%.

The manufacturing sector fell 2.0 percentages points in April, to 57.3%, as measured by the Institute for Supply Management's manufacturing index. The report shows the economic activity in the manufacturing sector expanded in April and the overall economy grew for the 108th consecutive month, albeit at a slower pace. A reading above 50% indicates that the manufacturing economy is generally expanding, while a reading below 50% indicates that it is generally contracting.

As measured by the Institute for Supply Management's services index (NMI), the services sector decreased 2.0 percentage points in April, to 56.8%. The April report represents continued growth in the nonmanufacturing sector for the 99th consecutive month, albeit at a slower rate. 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.

The U.S. stock markets rebounded in April, as four of the five major U.S. stock indexes posted gains. The Dow Jones Industrial Average improved 0.3% in April, while the Nasdaq Composite rose 0.04%, and the S&P 500 Index rose 0.4%. The S&P MidCap 400 was the only index to decline, moving down 0.3%, while the Russell 2000 advanced 0.9% in April. Volatility, as measured by the Chicago Board Options Exchange Volatility Index, ranged between 14.6 and 25.7 and recorded an average 18.3 for the month.

Consumer prices, as measured by the Consumer Price Index, rose 0.2% in April, after falling 0.1% last month, which had been the first decline in the index in 10 months. The index reading was below economists' forecasts for a rise of 0.3% for the month, according to a poll by MarketWatch. Over the last 12 months, the index is up 2.5%. Chained CPI advanced 0.4% in April and is up 2.3% over the past 12 months. Core CPI, which excludes energy and food prices, increased 0.1% in April. Core CPI is up 2.1% over the past 12 months.

Producer prices advanced 0.1% in April, marking the smallest monthly gain since the end of 2017. The rise in April brought the 12-month figure to 2.6%, down from the 3.0% reported last month. The scant rise in April is attributable to the wholesale cost of most services being largely unchanged, while prices for food and gas both fell. Core PPI, which excludes highly volatile food and energy prices, advanced 0.3% and is up 2.3% over the past 12 months.

Housing starts fell in April, reporting at an adjusted annual rate of 1.287 million units. April's figures are 3.7% below last month's figures. Housing starts posted losses in three of the four regions, reporting gains only in the South. However, over the past 12 months, housing starts are up 10.5%. Building permits authorized, which can be seen as a sign of how much construction is in the pipeline, decreased by 1.8% in April but are up 7.7% from the level of a year ago. Existing-home sales retreated in April after rising in the prior two months. Sales fell 2.5% for the month and are down 1.4% from one year ago. April's report saw sales of existing homes post a seasonally adjusted annual rate of 5.46 million homes, down from 5.60 million in March.

Distressed home sales decreased 0.5 percentage point, to 3.5% of sales, in April and are down from 5% from one year ago. The National Association of Realtors Confidence Index for current conditions remained unchanged in April, at 74.0, but is 3.0 points lower when compared to a year ago. In April, the NAHB/Wells Fargo Housing Marking Index decreased 1.0 point, to 69.0. As result, none of the three HMI components posted gains in April, with the component gauging current sales conditions falling 2.0 points, to 75.0; the component measuring buyer traffic held steady, at 51.0; and the index charting sales expectations in the next six months falling one point, to 77.0.

The National Association of Realtors' most recent Commercial Real Estate Outlook, analyzing the fourth quarter of 2017, found that sales volume in the large-cap commercial real estate market totaled $463.9 billion in 2017, signaling a 7.0% year-over-year decline. Sales volume declined in each of the four quarters, with the last quarter posting a decline of 13%, when typically the fourth quarter had accounted for a third of the annual volume.

INDEX OF LEADING INDICATORS

The Conference Board's Leading Economic Index (LEI) increased 0.4% in April, which marked the seventh consecutive month of gains. The increase resulted in a final reading of 109.4. In April, stock prices and housing permits were the only negative components to the index. The April report noted that growth should continue in the second half of 2018; however, as the six-month growth rate has moderated somewhat, the growth rate isn't likely to be as strong. The board's coincident index, designed to reflect current economic conditions, rose 0.3% in April, to 103.5, and the lagging index increased by 0.3%, to 104.7.

EXHIBIT 1: Historical Economic Data 2004-2017 and Forecasts 2018-2027

	HISTORICAL DATA														CONSENSUS FORECASTS**					
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023-2027
Real GDP*	3.8	3.3	2.7	1.8	-0.3	-2.8	2.5	1.6	2.2	1.7	2.6	2.9	1.5	2.3	2.8	2.6	2.1	2.1	2.1	2.1
Industrial production*	2.6	3.3	2.2	2.5	-3.6	-11.5	5.5	2.9	2.8	2.0	3.1	-0.7	-1.9	1.6	3.5	2.6	2.5	2.4	2.4	2.3
Consumer spending*	3.8	3.5	3.0	2.2	-0.3	-1.6	1.9	2.3	1.5	1.5	2.9	3.6	2.7	2.8	2.6	2.5	2.3	2.3	2.3	2.3
Real disposable personal income*	3.6	1.5	4.0	2.1	1.5	-0.4	1.0	2.5	3.1	-1.4	3.6	4.2	1.4	1.2	2.6	2.8	2.3	2.2	2.2	2.3
Business investment*	5.2	7.0	7.1	5.9	-0.7	-15.6	2.5	7.7	9.0	3.5	6.9	2.3	-0.6	4.7	5.8	4.8	3.7	3.8	3.8	3.6
Nominal pretax corp. profits*	21.5	15.1	11.4	-7.1	-16.0	8.4	25.0	4.0	10.0	1.7	5.3	-1.1	-2.1	4.4	5.2	4.1	3.4	3.6	3.6	3.9
Total government spending*	1.6	0.6	1.5	1.6	2.8	3.2	0.1	-3.0	-1.9	-2.9	-0.6	1.4	0.8	0.1	1.7	2.2	NA	NA	NA	NA
Consumer price inflation*	2.7	3.4	3.2	2.8	3.8	-0.4	1.6	3.2	2.1	1.5	1.6	0.1	1.3	2.1	2.5	2.1	2.3	2.3	2.3	2.3
3-month Treasury bill rate	1.40	3.22	4.85	4.48	1.40	0.15	0.14	0.05	0.09	0.06	0.03	0.2	0.5	1.4	2.2	2.8	2.9	3.0	3.0	3.1
10-year Treasury bond yield	4.27	4.29	4.80	4.63	3.66	3.26	3.22	2.78	1.80	2.35	2.54	2.2	2.45	2.8	3.1	3.4	3.8	3.9	3.9	4.1
Unemployment rate	5.5	5.1	4.6	4.6	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.9	4.4	3.9	3.6	NA	NA	NA	NA
Housing starts (millions)	1.956	2.068	1.801	1.355	0.906	0.554	0.587	0.609	0.781	0.925	1.003	1.112	1.174	1.200	1.344	1.400	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*, April 2018.

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 2018 through 2022 forecasts for the 3-month Treasury rate and 10-year Treasury yield are for the end of each period. Forecasts for 2023-2027 signify the average for that period.

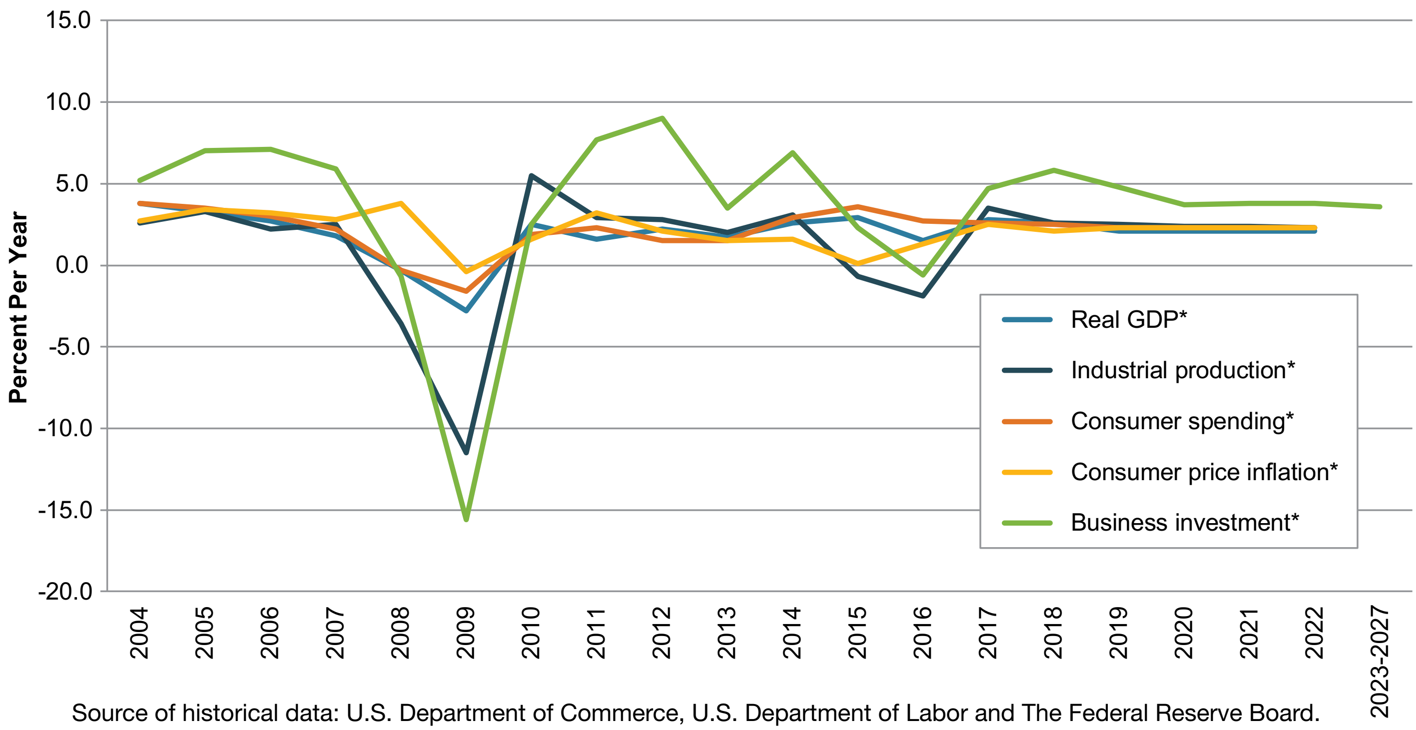
Consumer spending, also known as personal consumption expenditures, includes spending on services, durable, and nondurable goods. Business investment is also referred to as nonresidential fixed investment. Total government spending includes federal, state, and local government spending.

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. The 10 components of the LEI include:

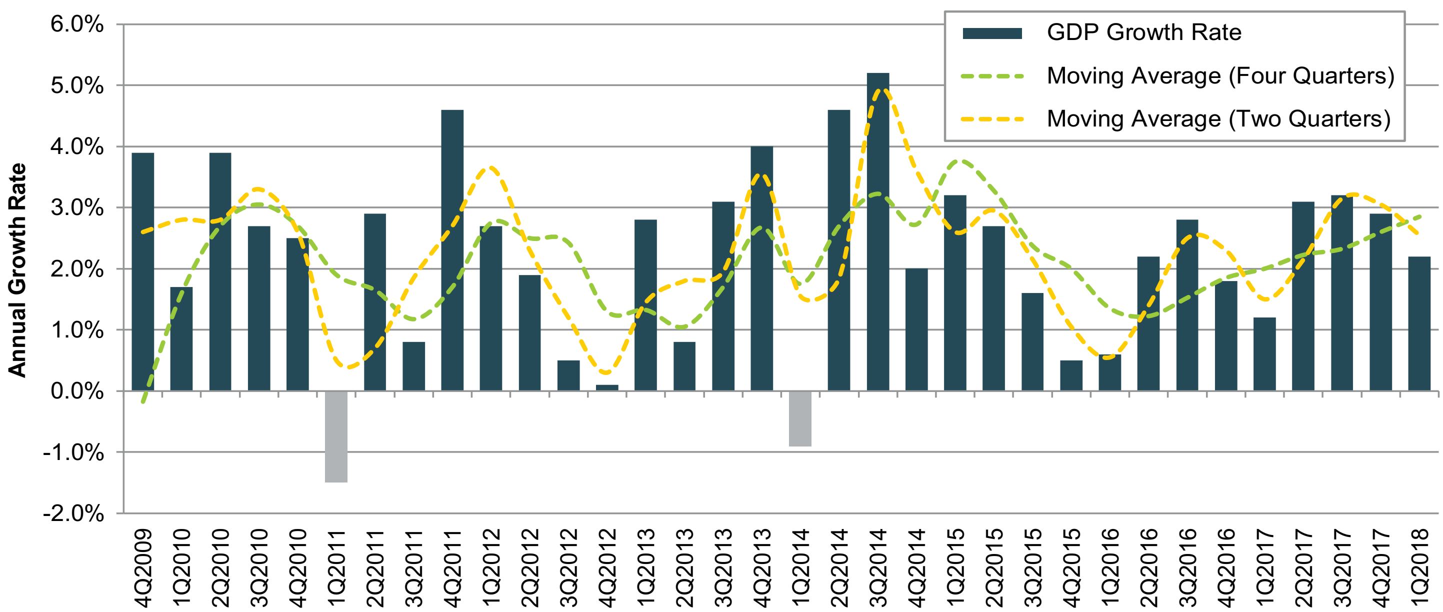
- Average weekly hours, manufacturing;
- Average weekly initial claims for unemployment insurance;
- Manufacturers' new orders, consumer goods and materials;
- Institute for Supply Management's Index of New Orders;
- Manufacturers' new orders, nondefense capital goods excluding aircraft orders;
- Building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

EXHIBIT 2: Key Economic Variables Actual 2004-2017 and Forecast 2018-2027



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.

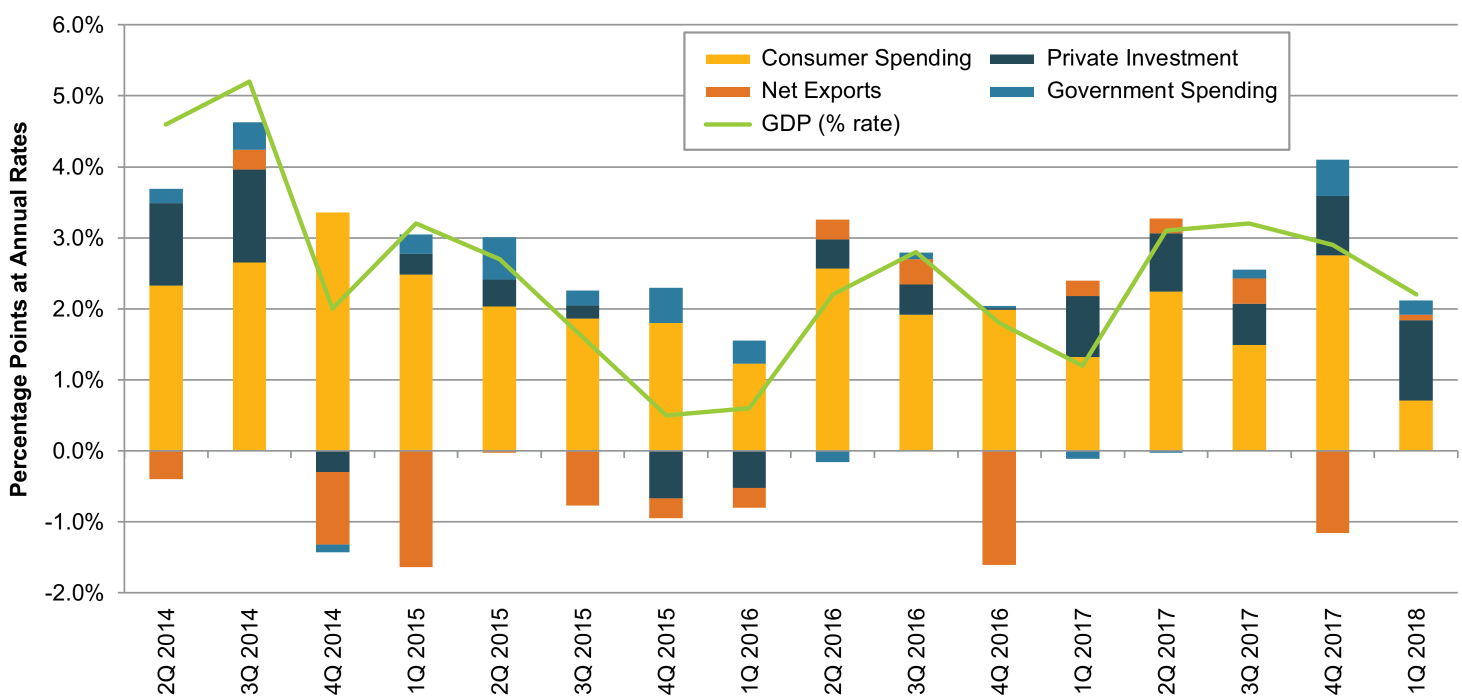
EXHIBIT 3A: Real Gross Domestic Product and Moving Averages



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 increased 1.0 point in April, rebounding from its decline in March. The index now stands at 128.7, which beat economists' forecasts for a reading of 126.0, according to a survey by Reuters. The reading remains near historically high levels, an indication that confidence levels remain strong. The report cited that consumers rated both business and labor market conditions quite favorably during the month. The survey is a leading indicator of consumer attitudes and measures of confidence toward business conditions, short-term outlook, and personal finances and jobs.

Consumers' impressions of current economic conditions rose in April, as the Conference Board's Present Situation Index increased 1.5 percentage points. The index measures consumers' confidence in the present and near-term future economy. Consumers' assessment of current conditions rebounded from a decline in March and remains at historically strong levels. The percentage saying business conditions are "good" decreased from 37.6% to 35.2%; however, those saying business conditions are "bad" also decreased from 13.3% to 11.3%. Overall, consumers' assessment of the labor market was mixed as the percentage of consumers stating jobs are "plentiful" declined from 39.5% to 38.1%, while those claiming jobs are "hard to get" also decreased from 15.7% to 15.2%.

Consumers' outlook in the short term was moderately more positive in April, as the Expectations Index improved 1.9 points, from 106.2 to 108.1. The survey results showed the percentage of consumers expecting business conditions to improve over the next six months increased 1.3 percentage points, to 24.5%, while those expecting business conditions to worsen decreased by 0.5 percentage point, to 9.7%. Consumers' outlook for the labor market was more positive than in March, evidenced by the proportion of those expecting more jobs in the months ahead increasing 0.6 percentage point, to 19.5%, while those anticipating fewer jobs remained at 12.5%. The percentage of consumers expecting an improvement in their incomes remained virtually unchanged, at 23.1%, and the percentage expecting a decline decreased 0.4 percentage point, to 6.8%.

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 fell in April after rising to its highest reading since 2004 in March. The April index reported at 98.8 points, higher than its midmonth reading of 97.8, but still 2.6 percentage points lower than last month. The April reading did surpass estimates by economists for a reading of 98.0 points. Despite this month's decline, the sentiment levels remain elevated by historical standards and continue to boast their highest annual average since 2000. According to the survey, the level of sentiment is consistent with 2.7% real personal consumption in the coming year.

Survey respondents offered their views on tax reform, trade policies, and tariffs, with the respondents who mentioned the tax cuts much more positive about the future than those who didn't and those who commented on the tariffs more negative. The survey indicated that 25% of respondents reported recent income gains, a figure that is up from 18% from one year ago. Forty percent expected income gains, which is on par with the average over the past year.

A measure of inflation in the GDP report, tied to consumer spending and excluding volatile food and energy costs, advanced at a 2.5% annualized pace, the fastest since 2011, adding to signs that price gains are picking up. The Michigan survey showed consumers expect inflation to average 2.5% over the next five years.

The Index of Consumer Expectations eased 0.4 point in April, to a reading of 88.4. 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 index is up 1.8 points from its levels from one year ago, for a rise of 1.9%.

The Current Economic Conditions component fell 6.3 points in April, to 114.9. The index is up 2.2 points from its level from one year ago, for a rise of 2.0%.

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's (NFIB) Small Business Optimism Index advanced modestly in April, recording its 17th consecutive month of placing in the top 5% in the 45-year history of the survey. The survey inched up 0.1 point in April, to 104.8. According to the survey, small-business owners have never seen profit trends as high as the current levels, with small-business owners stating that the economy is turning into new job creation, increased wages and benefits, and investment. Additionally, the number of small businesses reporting poor sales fell to a near record low in April.

In April, only four of the 10 components that make up the Small Business Optimism Index posted gains, while three of the 10 components of the index decreased and three remained unchanged. The April report noted a streak of 17 consecutive months of reporting strong small-business optimism, citing the strength in consumer spending, new tax laws, and lower regulatory barriers as supporting the surge in optimism across all industry sectors.

The component that measures small-business owners' expectations of earnings trends improved 3.0 percentage points, to a net -1% reporting quarter on quarter profit improvements, the best reading in the 45-year history of the survey. This, despite the new tax laws that did not impact profits this year, came on the improvement due to gains in operating profits and stronger sales. Overall, the new tax law and the strong economy are supportive of profit improvements. Reports of higher worker compensation were unchanged, at a net 33%, the highest reading since 2000 and among the highest readings in the history of the survey. Plans to raise compensation rose 2.0 percentage points, to a net 21%, which is near historical highs. The survey further noted that, although government reports of wage and salary gains remain historically low, they are among the best in several years and don't include benefits.

Twenty-two percent of small-business owners reported that finding qualified labor was their top business problem, which is up 1.0 percentage point from last month. This exceeded taxes, weak sales, and the cost of regulation as their top business problem. Fifty-seven percent of owners reported hiring or trying to hire, which is up 4.0 percentage points, but 50% (88% of those hiring or trying to hire) reported few or no qualified applicants are available. Sixteen percent of small-business owners plan to create new jobs, which is down 4.0 percentage points from March but still at historically high levels. Job creation was solid in the small-business sector as owners reported an adjusted average employment change of 0.28 workers per firm, down from 0.36 workers per firm reported in March, and the highest reading since 2006. Sixteen percent reported increasing employment an average of 2.77 workers per firm, which is up 2.0 percentage points from March, and 9.0% reported reducing employment an average of 2.5 workers per firm, which is unchanged from last month. Thirty-five percent of owners reported job openings they could not fill in the current period, which is unchanged from last month, and the highest reading since November 2000. Twelve percent of small-business owners reported using temporary workers, which is up 2.0 percentage points from last month. Reports of job openings were most frequent in the construction industry and the manufacturing industry, at 48% at each, respectively.

The component that measures owners' expectations to see higher real sales rose 1.0 percentage point, to a net 21% in April. Fifty-nine percent of construction firms and 56% of manufacturing firms expect to see higher real sales in the coming months. The sales and inventories component that measures the net percentage of owners reporting inventory increases rose 1.0 percentage point, to a net 4.0%, which extends a four-month run of substantial inventory building. The net percentage of owners planning to add to inventory remained unchanged, at net 1.0%. The net percentage of owners viewing current inventory stocks as too low improved 2.0 percentage points, to a net -4.0%, meaning the build in inventory is clearly not excessive in the minds of owners expecting continued strong sales.

Sixty-one percent of small-business owners reported making capital outlays, which is up 3.0 percentage points from March. Of those making expenditures, 43% reported spending on new equipment, 27% acquired vehicles, and 16% improved or expanded facilities. Five percent acquired new buildings or land for expansion, and 15% spent money for new fixtures and furniture. Nonresidential fixed investment has grown at a better than 6% rate for the past five quarters, with small businesses being a major contributor. As a comparison, nonresidential fixed investment grew under 1% in 2015 and 2016.

Small-business owners reporting they raised average selling prices fell by 2.0 percentage points, to a net 14.0%, which broke a steady rise that started in November 2016. Seasonally adjusted, a net 22% plan price hikes, which is down 3.0 percentage points, when it reported as the highest reading since 2008. Unadjusted, 9.0% of owners reported reducing their average selling prices in the past three months, and 26.0% reported price increases.

The component that measures small-business owners' plans to raise compensation rose 2.0 percentage points, to a net 21%, which remains near historical highs, but is off from its peak of 24.0% achieved in January 2018. Eighty-eight percent of owners reported they were hiring or trying to hire but there were few or no qualified applicants for their open positions. A seasonally adjusted 16% of small-business owners plan to create new jobs, which is down 4.0 percentage points from March, but still historically strong. Not seasonally adjusted, 27.0% of owners plan to increase total employment at their firm, which is down 3.0 percentage points, and 3.0% plan reductions, which is up 1.0 percentage point. In some industries, nearly half the firms have unfilled openings, especially in construction and manufacturing.

The component measuring the credit markets reported a net 4.0% of owners indicated not all their borrowing needs were satisfied, which is unchanged from last month and represents a record low. Thirty-two percent reported all credit needs met, which is up 1.0 percentage point, and 50% explicitly said they were not interested in a loan, which was up 3.0 percentage points from last month. Only 2.0% reported that financing was their top business problem, compared to 22.0% citing the availability of qualified labor. Five percent of owners reported that loans were harder to get, which is near historic lows. Thirty-one percent of all owners reported borrowing regularly, which is down 1.0 percentage point from last month. The average rate paid on short maturity loans was up 30 basis points, at 6.4%, as rates are rising gradually due the Federal Reserve's policy moves. In anticipation of future rate hikes, borrowers have increased their demand for fixed rate loans with longer maturities.

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 2Q 2018 Wells Fargo/Gallup Small Business Index fell 1.0 point, to 106.0 in its May report. The quarterly reading fell from its level in February, when it reported the highest score for the index since early 2007. Still, the level of optimism and the overall confidence in the economy remains high, which is due to an increase in sales and revenue, which suggest demand is strong. The survey further noted that a large number of small-business owners struggle to find the workers they need, and that may ultimately squeeze profit margins.

The second-quarter survey asked small-business owners about their challenges in hiring. Forty-three percent of those surveyed said they plan to hire new employees in the next 12 months. Sixty-four percent said finding well-qualified employees will be a challenge for the growth of their business. Hiring and retaining employees rose to the top challenge facing small-business owners, as 17% of those surveyed gave that response. Small-business owners also listed hiring as their top challenge in the July and October surveys.

Despite the recent stock market volatility and their problems with hiring, nearly 75% of small-business owners said the economy is on the right track for their business to grow. Eight-three percent said their businesses are positioned to take advantage of a strong economy in the next year. Fifty-seven percent of owners said the national economy has improved over the past year, and about 25% of business owners said their businesses had benefited a great deal from the improved national economy over the past year. As result, 59% of small-business owners said they were very likely or somewhat likely to increase salary or wages to their employees over the next 12 months, and 52% said they are very likely or somewhat likely to provide bonuses or other benefits to employees. Sixty-two percent said they were very likely or somewhat likely to purchase new equipment, and another 60% said they were very likely or somewhat likely to invest in new products or services to expand their businesses.

The American Tax Cuts and Jobs Act, which passed in December, was still unsettled with small-business owners. Thirty-nine percent said they didn't know how the tax bill will affect their businesses, and 27% said they do not expect tax reform to benefit their businesses. Twelve percent of respondents said tax reform has already helped their businesses, and 21% said they expect it to help their businesses in the future.

The Present Situation Index (how business owners gauge their perception of the past 12 months) increased 3.0 points, to a reading of 45.0, but the future expectations index (how business owners expect their businesses to perform over the next 12 months) decreased 4.0 points, to 61.0. During the second quarter of 2017, the Present Situation Index reported at 36.0 and the future expectations index was at 59.0.

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 its 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 Q1 Small Business Index, which advanced for the fourth consecutive quarter. The first quarter rise of 3.1 percentage points was the largest quarterly rise in the index and brought the index to a reading of 66.3%. The survey asked small-business owners about their opinion on the tax reform plan, with a majority of small-business owners, or 54%, believing it will help the economy. Twenty-seven percent of small-business owners think the plan will hurt the economy, but, among American manufacturers, 65% believe tax reform will help the U.S. economy. Women-owned businesses are less confident, however: Only 44% believe tax reform will help the economy, compared to 31% who think it will hurt their business. Confidence drops further among minority business owners, as 30% see tax reform helping their business versus 41% who think it will hurt their business. Small-business owners in the Northeast and South are more confident about tax reform, as 58% and 52% felt optimistic about the tax plan, versus small-business owners in the Midwest and West, who responded at 41% and 37%, respectively. Small-businesses owners who employ more than 20 employees were almost four times as likely to think tax reform will help versus hurt their business, with 51% responding favorably and 14% responding negatively. Small businesses with less than 20 employees responded at a 47% rate in favor of the tax plan, while 23% said it would hurt their business.

The survey also asked small-business owners about their expectations for the year, with 90% of entrepreneurs anticipating a good year. The optimism is shared across all segments, as 93% of minority owners and 86% of women shared the same response. Small-businesses owners also noted their expectations for higher earnings, which rose for the third consecutive quarter. Sixty-one percent of owners expect an increase in future revenue one year from now, which is up four percentage points from last quarter. As a result, 32% of small-business owners plan to increase staff in the next year, compared to a response of 27% from the last quarter.

The RSM U.S. Middle Market Business Index (MMBI) continued to climb to record highs, as the index rose 4.5 points in the first quarter, to 136.7. Strong economic fundamentals, the arrival of large tax cuts, and robust expectations on hiring and compensation fueled this quarter's rise in the index, which marked the second consecutive quarter the index reached an all-time high. The survey noted, however, that evidence of emerging price pressures, such as the impending U.S. tariff on foreign steel, may temper this quarter's reading. The survey further indicates that 70% of middle-market executives indicate the economy has improved somewhat or substantially over the past three months, while 73% expect it to improve somewhat or substantially during the next half year. The survey found that 44% of middle-market leaders reported hiring more workers over the past three months, while 58% indicated they expect to accelerate their hiring over the next two quarters. Forty-nine percent of executives reported an increase in compensation, which marked a record high for this reading, while 62% said they plan to increase compensation during the next six months.

The survey indicated the No. 1 challenge facing middle-market businesses in the economy is the availability of labor. While some economists view labor tightness as a good sign, a lengthened period of labor tightness could lead to bottlenecks in production, which would result in a slowdown in economic growth. Furthermore, while the public embraces higher wages, business owners expressed concerns about compressed profit margins amid tight labor markets. An all-time high 75% of middle-market executives indicate they anticipate improved revenues, while 57% said revenues improved during the past 90 days. Fifty-three percent of executives surveyed saw an increase in net earnings in the current quarter, while 72% expect net earnings to improve over the next six months.

When the survey focused on capital expenditure spending in the middle-market segment, 45% of middle-market executives reported making capital outlays on software, equipment, and intellectual property during the first quarter. Fifty-five percent of executives indicated they plan to increase capital outlays over the next six months. As a result, the survey found that middle-market businesses risk falling behind their large-cap counterparts on capital expenditure spending.

This quarter's survey asked middle-market executives about the growing security threat their businesses face with regard to security and data breaches. Thirteen percent of middle-market businesses reported incidents in the first quarter of 2018 compared to just 5% in the same period three years ago. Of the larger middle-market companies, 19% reported a breach during the quarter versus 10% from the same period two years ago.

Forty-seven percent of middle-market businesses indicated a likelihood that unauthorized users will attempt to access their data or systems in 2018, while 93% remain confident they are able to safeguard sensitive customer information. Fifty-two percent of middle-market businesses said they carry cyber insurance to protect them and their clients from internet-based threats. Meanwhile, 18% of middle-market businesses said they experienced a ransomware demand over the past 12 months. Of those impacted, 44% said their existing security and operational controls were not completely successful in dealing with the breach.

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

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

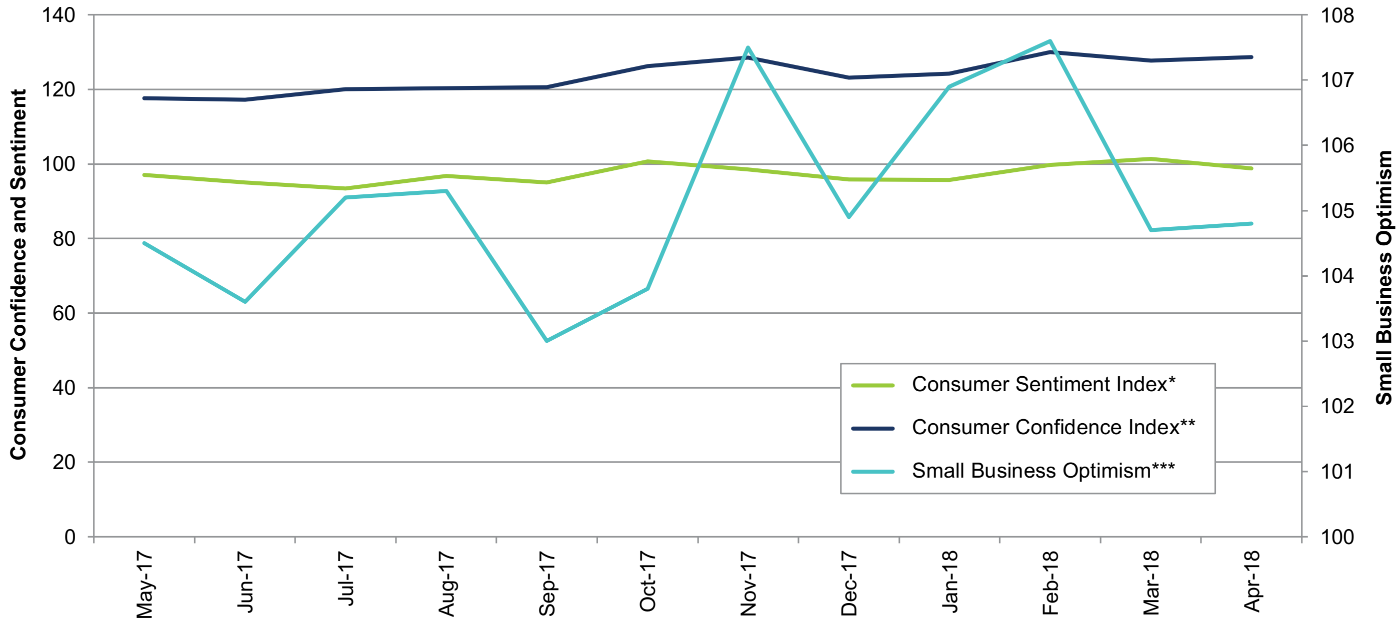
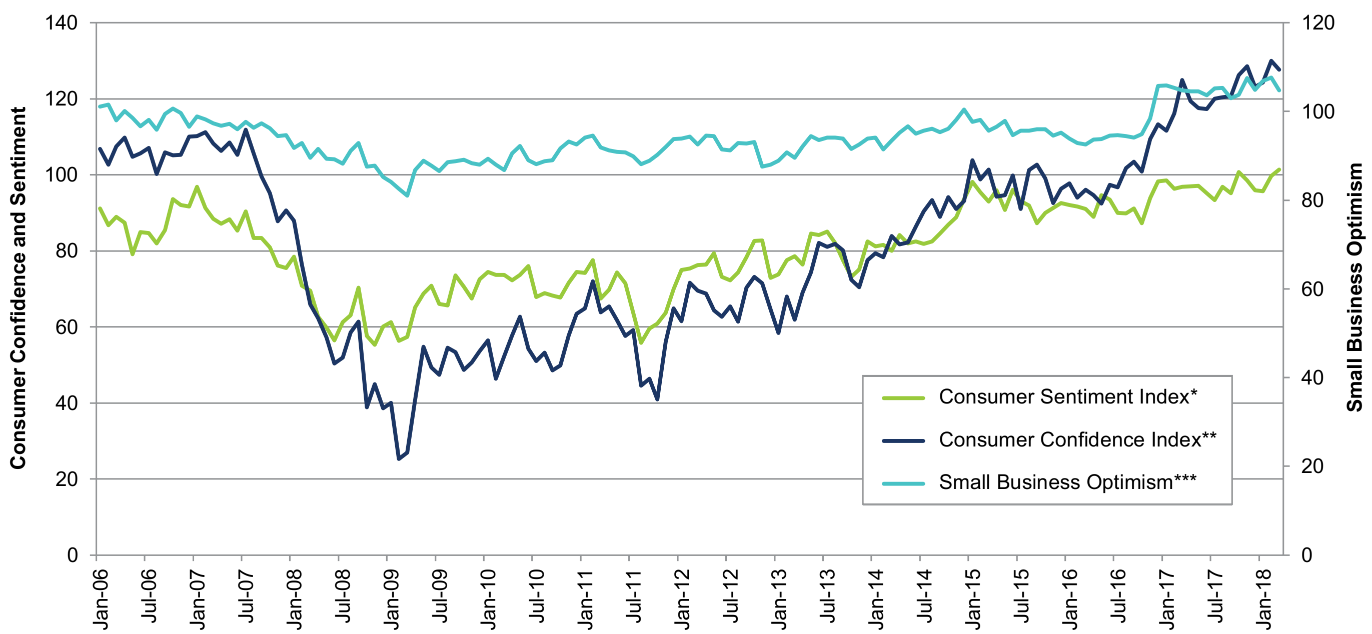


EXHIBIT 4B: Consumer Confidence and Small Business Optimism—Since 2006



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

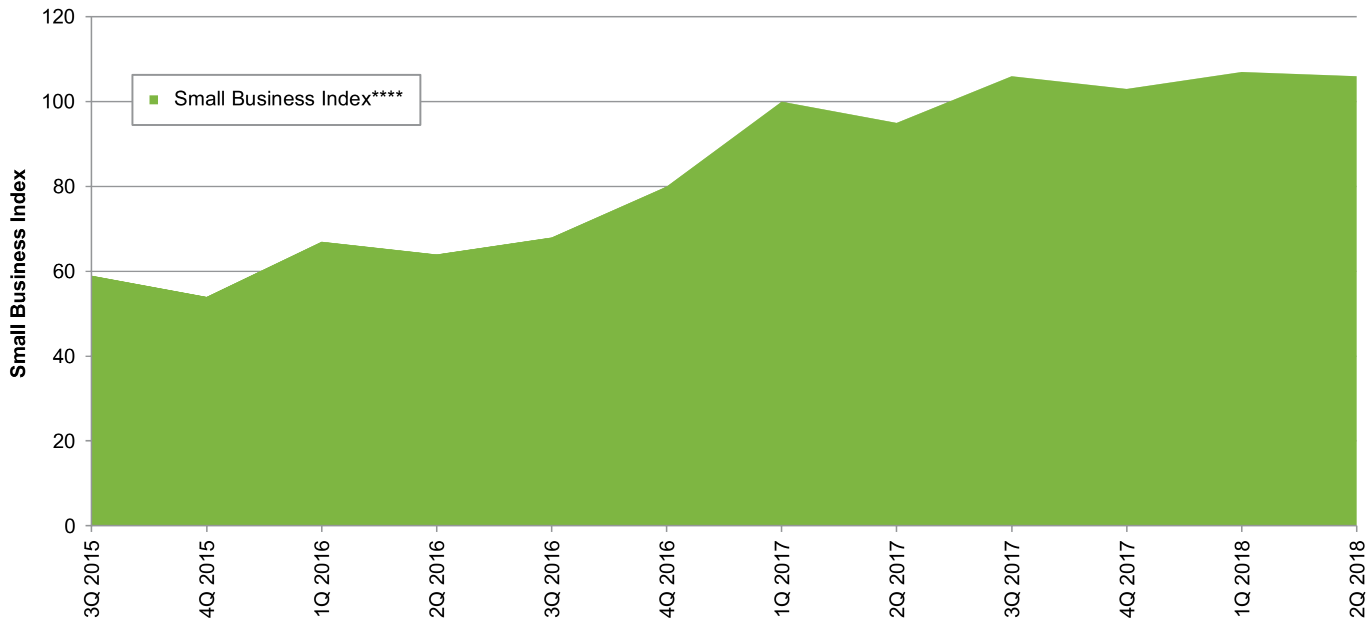
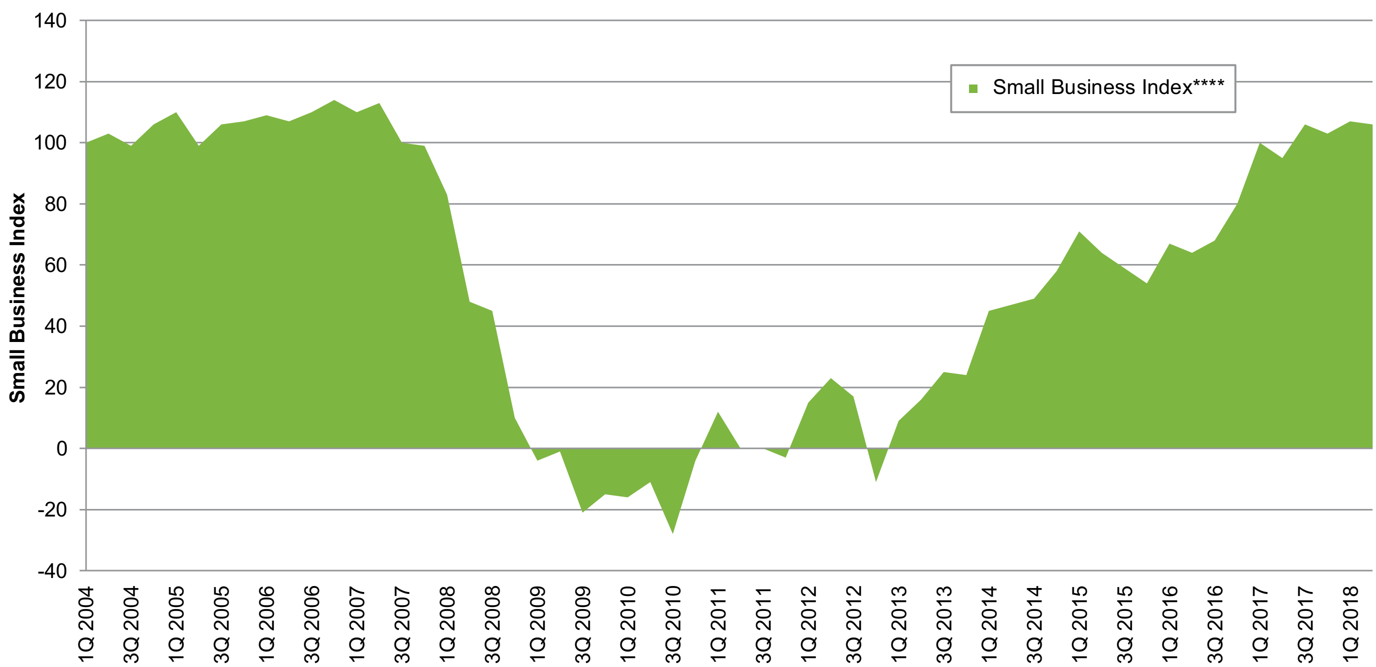


EXHIBIT 4D: Small Business Index—Since 2004



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

U.S. retail and food services sales advanced 0.3% in April, the second consecutive month of increases. The rise in April matched forecasts by economists but suggests a pickup in real sales in the second quarter after a sluggish first quarter. Gains in retail sales were broad-based as a rise in gasoline prices didn't withhold consumer purchases in April. The rise in retail sales over the past two months suggests that consumers may have received a boost in income from the 2017 tax reform policies. 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 rebound in sales across most retail categories in April, with nine of the 13 major categories seeing higher sales. Sales at clothing and clothing accessories stores saw the largest rise, at 1.4% from last month, while sales at miscellaneous store retailers saw a rise of 0.9% in April. Despite rising gasoline prices, gasoline stations advanced 0.8% from last month and are up 11.7% from one year ago.

The categories to show the biggest declines were sales at health and personal care stores, which fell 0.4% from last month, while sales at food services and drinking places fell 0.3% from last month. Sales at electronics and appliance stores and sporting goods, hobby, book and music stores retreated 0.1% each.

The retail sales figures over the past 12 months also increased 4.7% from last year. The year-over-year rise in retail sales is due to the rise in consumer confidence, the growth in the labor markets, and the overall strength of the economy. Increases in 11 of the 13 major categories showed broad-based gains. Sales at nonstore retailers and gasoline stations both hiked up 9.6%.

Core retail sales increased 0.3% in April. 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 4.8%.

EXHIBIT 5A: Total Retail Sales—Past 24 Months

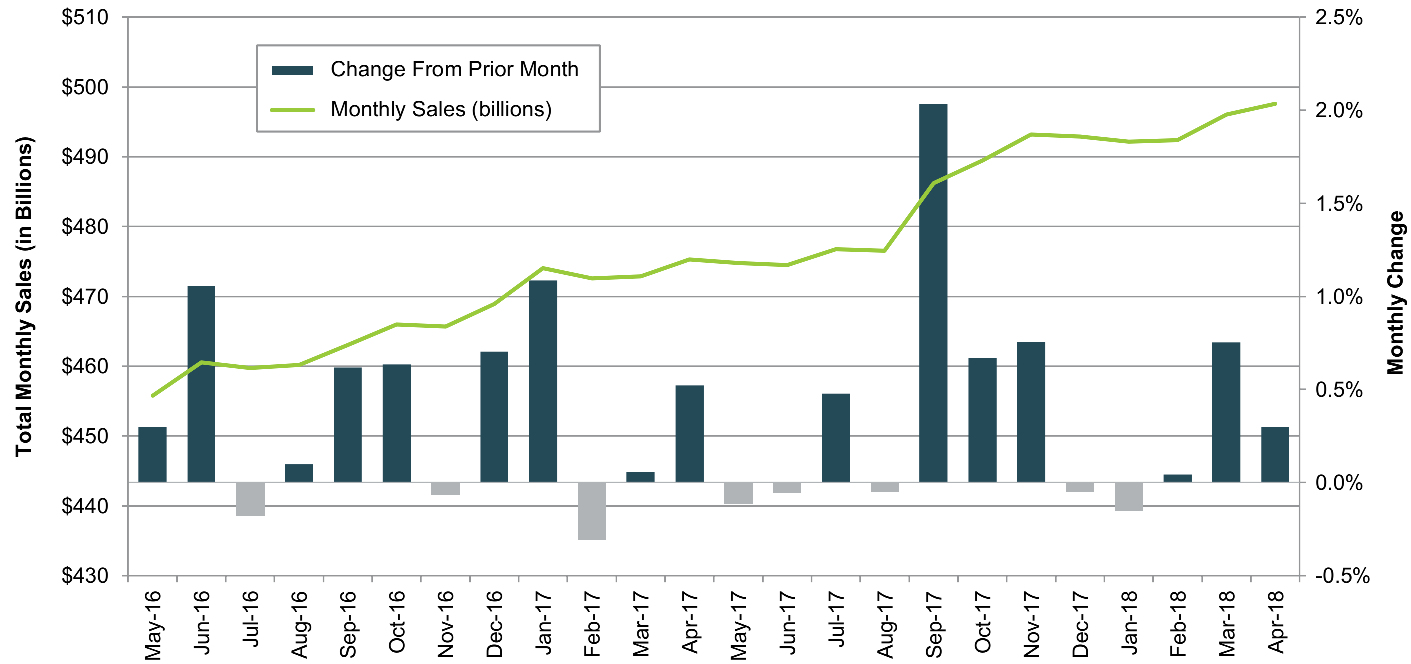
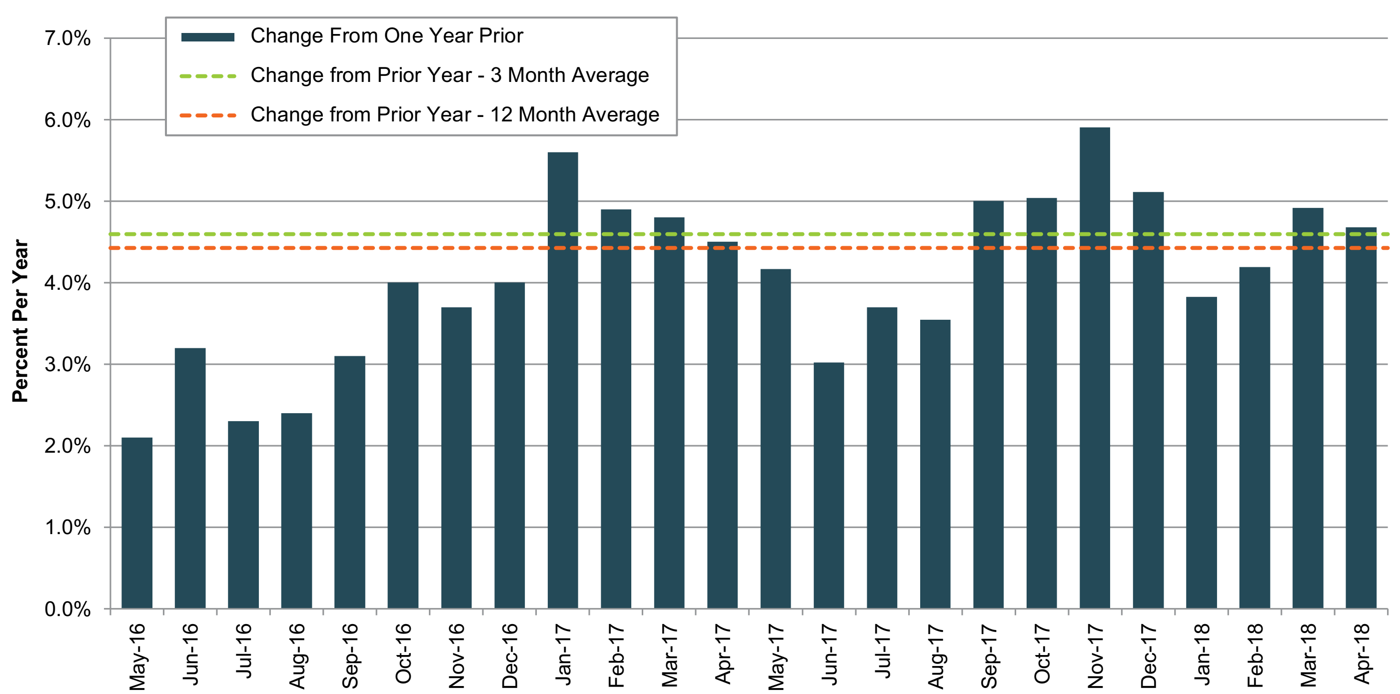


EXHIBIT 5B: Total Retail Sales Change From One Year Prior—Past 24 Months With Averages



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 2008

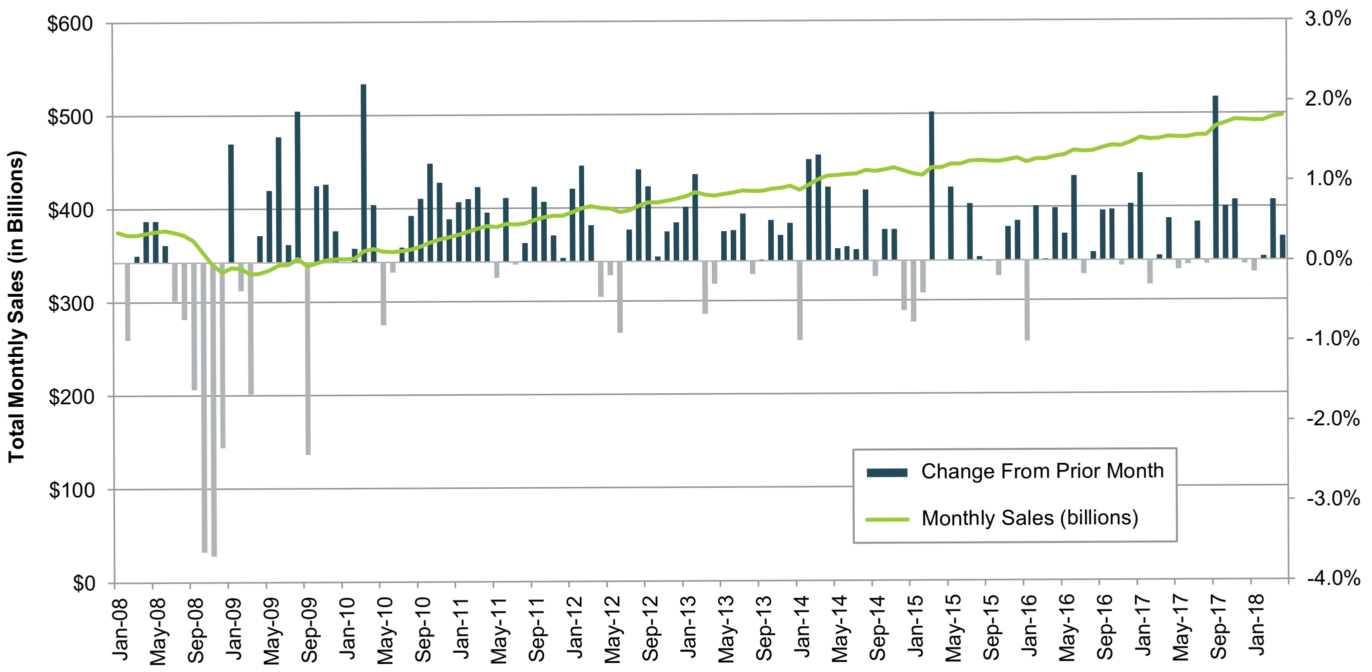
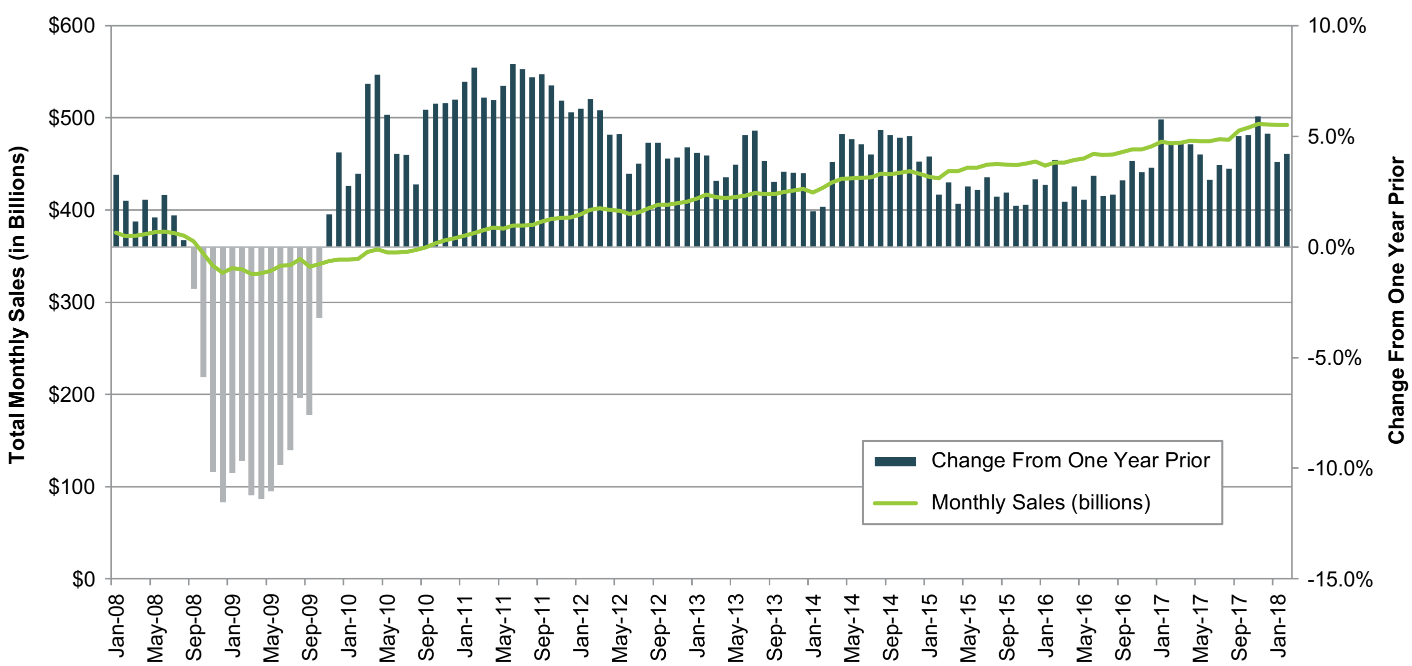


EXHIBIT 5D: Total Retail Sales—Percent Change From One Year Prior Since 2008



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 164,000 in April. In 2018, the number of jobs created per month has averaged nearly 200,000, ahead of the 179,000 pace in 2017. In addition, the April job report extended the streak of monthly job gains to 91 consecutive months, which ranks as the longest period of job growth on record.

The April report also showed revisions to the job figures for the prior two months, which showed employment gains over this period, with 30,000 jobs more than previously reported. February's figures were revised up from 103,000 jobs to 135,000 jobs, but March's figures fell from 326,000 jobs to 324,000 jobs.

Employment gains were seen in the professional and business services, manufacturing, healthcare, and mining industries. The number of jobs in professional and business services increased by 54,000, and, over the past 12 months, this sector has added 518,000 jobs. The number of jobs in manufacturing increased by 24,000 in April, with most of the gain in the durable goods component. Over the past year, manufacturing has added 245,000 jobs.

Healthcare added 24,000 jobs in April and has seen gains of 305,000 jobs over the past 12 months. The number of mining jobs increased by 8,000 in April and has seen gains of 86,000 over the past year.

Employment in other major industries, including construction, wholesale trade, retail trade, transportation and warehousing, information, financial activities, leisure and hospitality, and government, changed little over the month.

According to ADP, midsized businesses outpaced their peers in job creation, adding 88,000 jobs in April, compared with 62,000 jobs for small businesses and 54,000 jobs for large businesses. The report showed regional job gains in the South of 89,000 jobs, followed by gains in the West of 49,000 jobs, the Midwest of 40,000 jobs, and the East of 26,000 jobs.

The unemployment rate (also known as the U3 unemployment rate) improved 0.2 percentage point in April, to 3.9%, its lowest level since 2000. This milestone— having unemployment fall below 4.0%—has been achieved only a few times over the past 70 years: during the Korean War in the early 1950s, during the Vietnam War in the late 1960s and early 1970s, and during the tech boom of 2000. At 3.9%, the unemployment rate remains below the longer-term level the Federal Reserve targets. The U3 unemployment rate is the official rate per the International Labour Organization definition and occurs when people who have actively looked for work within the past four weeks are still without jobs.

The report found that the labor-force participation rate fell 0.1% in April, to 62.8%, but still 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, fell 0.1 percentage point in April, at 60.3%. The number of long-term unemployed (those jobless for 27 weeks or more) changed little in April, at 1.3 million, which accounted for 20.0% of the unemployed.

The broadest measure of labor underutilization, the U6 unemployment rate, improved 0.2 percentage point in April, to a seasonally adjusted 7.8%. 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

Wage growth rose 4 cents in April, to $26.84, a figure that remains suppressed despite the robust employment gains. Average hourly earnings for all private-sector employees were up 67 cents, or 2.6%, over the past 12 months. Average hourly earnings for private-sector production and nonsupervisory employees rose by 5 cents in April, to $22.51. Over the last 12 months, average hourly earnings for private-sector production and nonsupervisory employees have increased 57 cents, or 2.6%.

The average workweek for all private workers remained unchanged in April, at 34.5 hours, but is up 0.1 hour from one year ago. The manufacturing workweek increased 0.2 hour in April, to 41.1 hours, and manufacturing overtime increased 0.1 hour, to 3.7 hours. The average workweek for production and nonsupervisory employees increased 0.1 hour in April, to 33.8 hours.

According to a report by the GOP, not only has job growth been robust, but wages are starting to pick up as well. Since the passing of the tax bill, 345 companies have pledged to give their employees bonuses, pay raises, or increased benefits. According to the U.S. Treasury Department, the tax bill will enable 90% of Americans to see an increase in their take home pay. The administration has continued to cite that, during its first year in office, the policies it has instituted have lowered unemployment from 4.8% to 4.1%, with the total number of job cuts in 2017 were at the lowest total since 1990.

The White House Economic Council published a report showing the effects that corporate tax reform would have on employee wages. The report highlighted the stagnation of wage growth in the United States over the past eight years, suggesting that the real median wage in the U.S. rose by an average of six-tenths of a percent each year. The report indicates that a reduction in the corporate tax rate from 35% to 20% would increase the average household income in the United States by a conservative estimate of $4,000 per year by household. Noted as evidence, the study showed that, between 2012 and 2016, the 10 lowest corporate tax countries of the OECD had corporate tax rates 13.9 percentage points lower than the 10 highest corporate tax countries, about the same scale as the reduction currently under consideration in the U.S. As a result, the average wage growth in the low tax countries has been dramatically higher, as a consumer of the academic literature, which looks at much longer periods and explores the relationship with modern econometric techniques, would have been predicted.

The Federal Reserve published in May the fifth annual "Report on the Economic Well-Being of Households in 2017." The survey reported on the many signs of growth and improvement among households, along with remaining pockets of distress and fragility. It also reveal new insights into how households approach their financial lives and decisions. The survey highlighted that, in 2017, more people gave a positive assessment of their own economic well-being than in the prior year, a trend that has been going up over the past five years. Some of the key drivers of the survey include:

- *Economic well-being:* Seventy-four percent of adults said they were doing OK or living comfortably in 2017. This is over 10 percentage points higher than the figure reported in the first survey in 2013.
- *Income:* Thirty percent of adults have family income that varies from month to month, and 10% of adults experienced hardships because of monthly changes in income.
- *Banking and credit: Ninet*y-five percent of all adults have a bank account or access to a credit union account; however, the breakdown varies by race and ethnicity.
- *Higher education:* Two-thirds of graduates from bachelor degree programs feel their education investment paid off, but less than one-third who started but failed to complete their education share the same opinion.
- *Student loans:* Twenty-five percent of all borrowers who went to for-profit schools are behind on their loan payments, versus less than one-tenth of borrowers who went to public or private not-for-profit institutions.

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

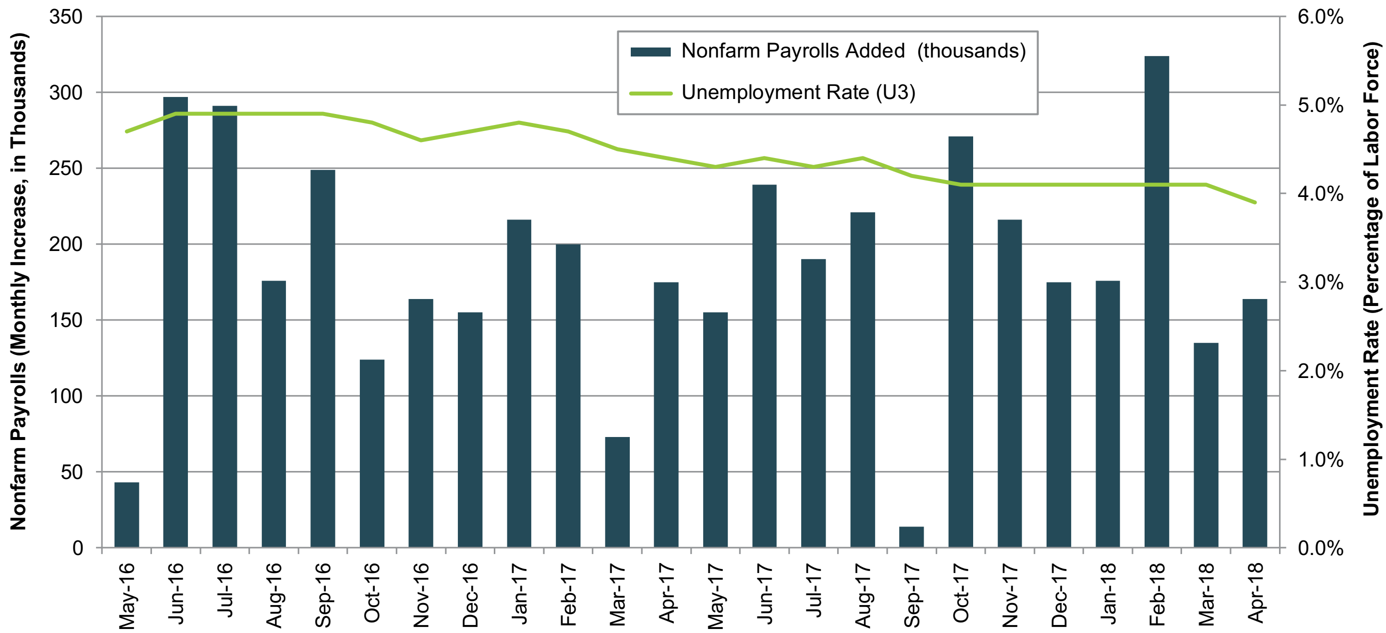
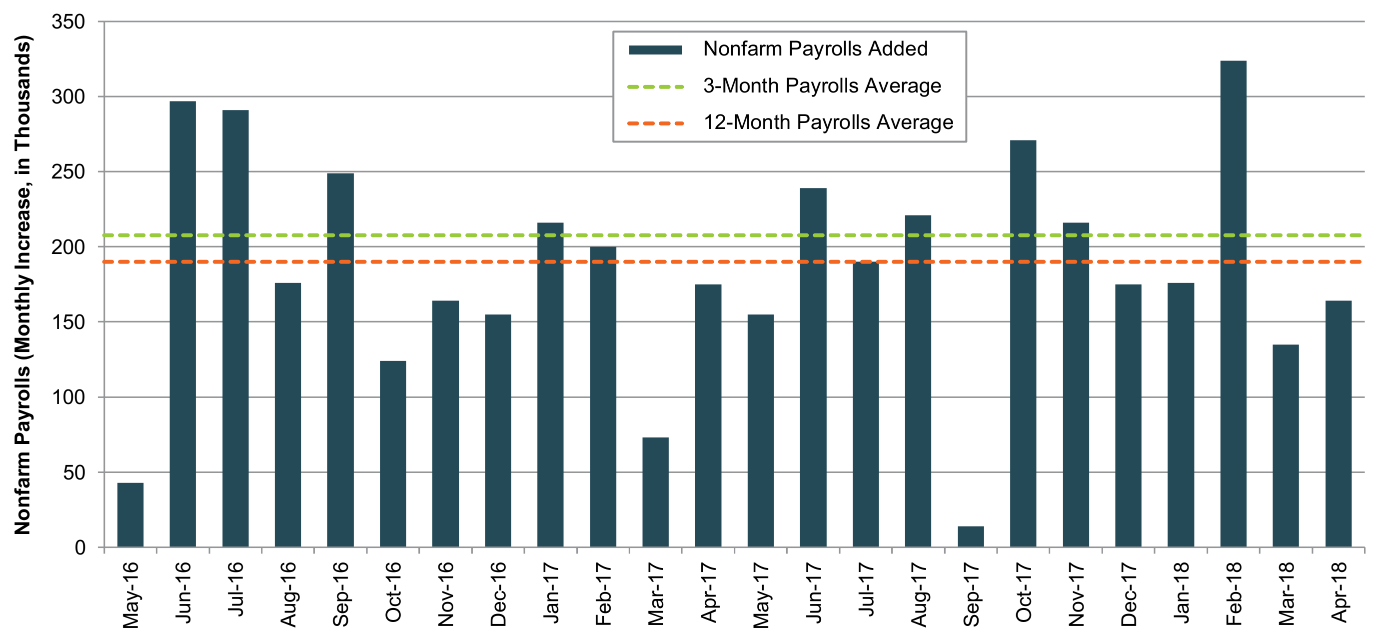


EXHIBIT 6B: U.S. Employment—Past 24 Months With Averages



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—Since 2008

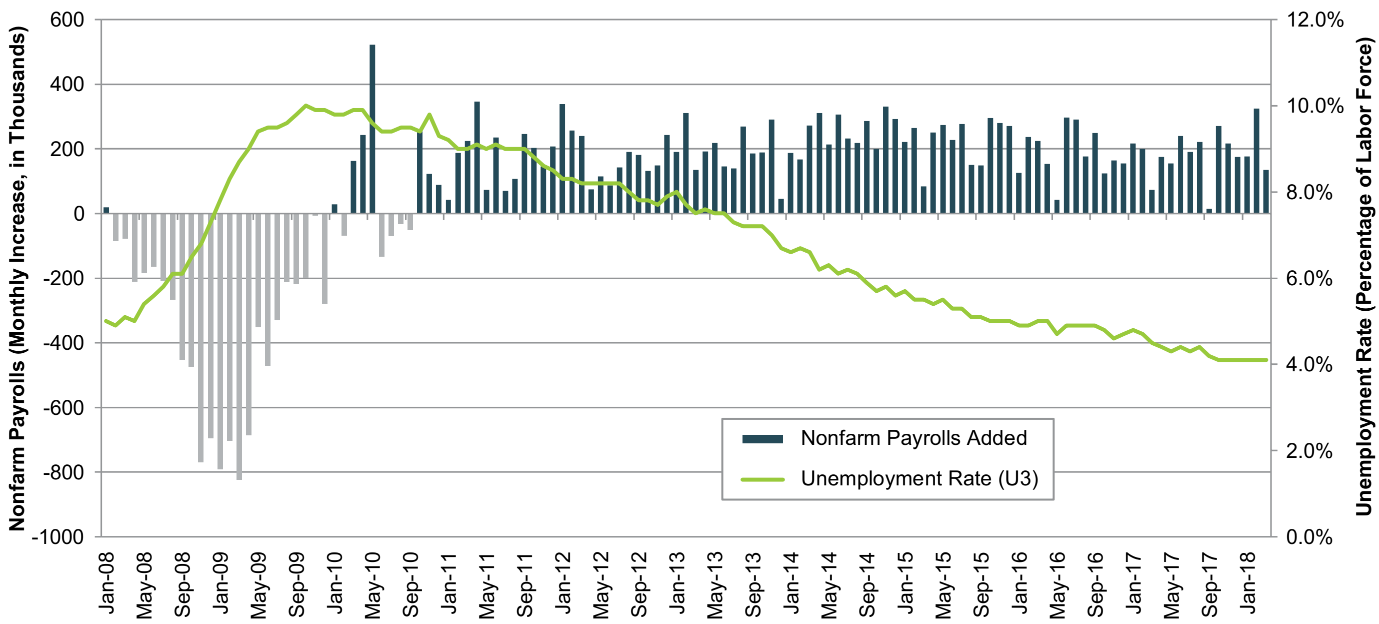
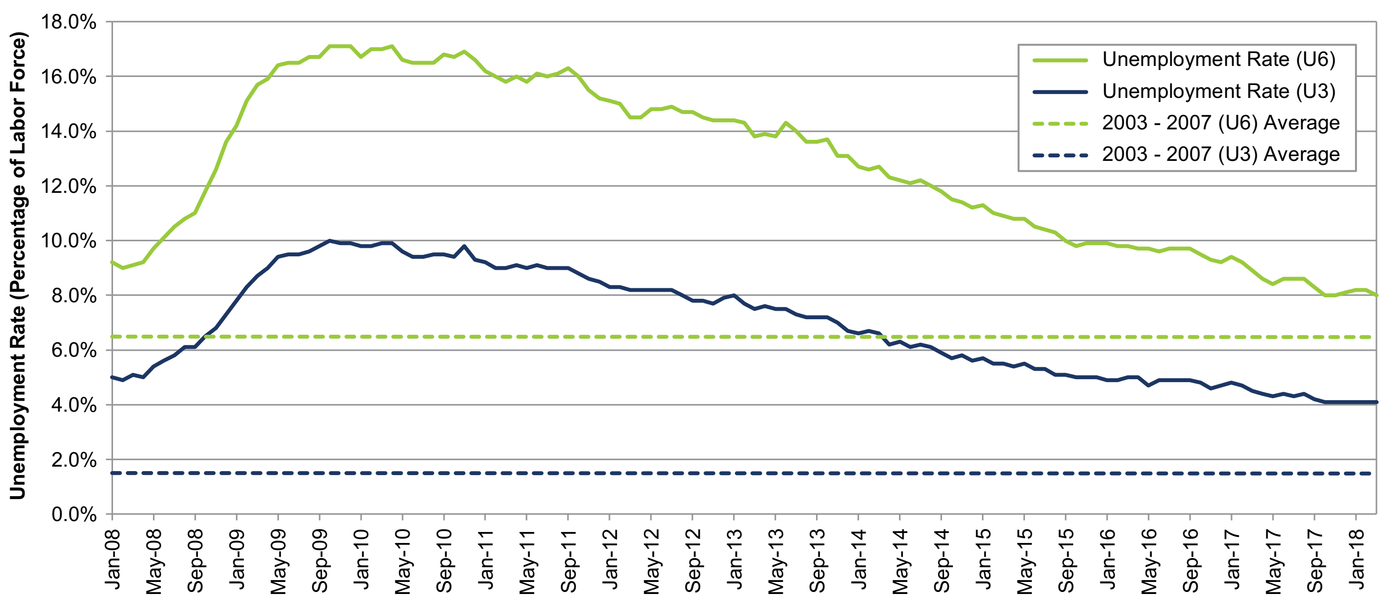


EXHIBIT 6D: U3 Unemployment Compared With U6 Unemployment—Since 2008



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

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

MANUFACTURING, SERVICES, AND INDUSTRIAL PRODUCTION

MANUFACTURING

The manufacturing sector decreased 2.0 percentage points in April, as reported by the Institute for Supply Management (ISM). The manufacturing index (PMI) reading in April was 57.3%. The April report highlighted that consumption, which is described as production and employment, continued to expand but has been restrained by labor and skill shortages, while inputs, which are expressed as supplier deliveries, inventories, and imports, declined due primarily to inventory reductions likely led by supplier performance restrictions. 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 that April was the 20th consecutive month of growth in the manufacturing sector and the 108th straight month of growth in the overall economy.

Seventeen of the 18 manufacturing sectors surveyed in April reported growth. The report stated that, based on the past relationship between PMI and the overall economy, if PMI for April were annualized (57.3%), it would correspond to a 4.3% increase in GDP annually.

The 17 manufacturing industries that reported growth in April were: fabricated metal products; plastics and rubber products; computer and electronic products; paper products; printing and related support activities; nonmetallic mineral products; transportation equipment; petroleum and coal products; wood products; machinery; chemical products; apparel, leather, and allied products; electrical equipment, appliances and components; furniture and related products; miscellaneous manufacturing; food, beverage, and tobacco products; and primary metals. No industry reported a decrease during the period.

The component for new orders decreased 0.7 percentage point in April, to 61.2%. This marked the 12th consecutive month with a reading above 60.0%. This reading indicates growth in new orders for the 28th consecutive month, albeit at a slower rate. A New Orders Index above 52.4%, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders. Sixteen of 18 industries reported growth in new orders in April, and only one industry reported a decrease in growth in new orders.

The component for production decreased 3.8 percentage points in April, to 57.2%. This reading indicates growth in new orders for the 20th consecutive month, albeit at a slower rate. April's report marked the first time in 10 months that the index's reading was below 60.0%, which suggests that labor constraints and supply chain disruptions continue to prevent or limit maximum production potential. An index above 51.5%, over time, is generally consistent with an increase in the Federal Reserve Board's industrial production figures. Fifteen of the 18 industries reported growth in production during the month of April, while one industry reported a decrease in production.

The manufacturing employment component decreased 3.1 percentage points in April, to 54.2%. The reading indicates growth in manufacturing employment in April for the 19th consecutive month, albeit at a slower rate. Employment levels have been expanding since October 2016, but many respondents cited the labor market as a constraint to their production and their suppliers' production. Twelve of the 18 industries reported employment growth in April.

The index that tracks delivery performance of suppliers to manufacturing organizations increased 0.5 percentage point, to 61.1%. A reading below 50% indicates faster deliveries, while a reading above 50% indicates slower deliveries. The reading indicates slower deliveries in April for the 19th consecutive month, and that continues to be a constraint to production growth. Lead-time extensions in many areas, including steel, supplier labor shortages, and transportation delays, are expected to restrict production output for the foreseeable future. Sixteen of the 18 industries reported slower supplier deliveries, and only one industry reported faster deliveries in April.

The index that tracks inventory decreased 2.6 percentage points in April, to 52.9%. The reading indicated raw materials inventories grew in April compared to March, although suppliers were not able to maintain desired inventory expansion levels consistent with production demands for the second consecutive month. Broad supplier lead-time extensions and freight uncertainties continued to impact inventory accounts. An Inventories Index greater than 43.0%, over time, is generally consistent with expansion in the Bureau of Economic Analysis' figures on overall manufacturing inventories. Eight of the 18 industries reported higher inventories in April, and six reported no change in raw inventories.

The component that measures customers' inventories increased 2.3 percentage points in April, to 44.3, an indication that customers' inventory levels are considered still too low. Inventory levels remained too low for the 19th consecutive month. One of the 18 industries reported inventories being too high in April, while 12 reported no change in inventories during the month.

The component that measures prices increased 1.2 percentage points in April, to 79.3%, its highest reading since April 2011, when it registered 82.6%. This reading indicates an increase in raw materials prices for the 26th consecutive month. In April, 61.2% of respondents reported paying higher prices than the previous month, 2.6% reported paying lower prices than the previous month, and 36.2% reported paying the same prices as the previous month. Survey members noted price increases in metals (all steels, steel components, aluminum, and copper); corrugate; and parts made from plastics. A Prices Index above 52.4%, over time, is generally consistent with an increase in the Bureau of Labor Statistics' Index of Manufacturers Prices. Seventeen of the 18 industries reported paying higher prices for raw materials in April.

The index that tracks new export orders decreased 1.0 percentage point in April, to 57.7%. This reading indicates growth in new order exports for the 26th consecutive month, as all "Big Six" industry sectors, which account for 71% of all manufacturing, continued to expand their activity during the period. Fourteen of the 18 industries reported growth in new order exports in April.

The index that tracks imports decreased 1.9 percentage points in April, to 57.8%. This reading indicates imports are growing in April for the 15th consecutive month. Twelve of the 18 industries reported the same or better import levels in April compared to March.

The Institute for Supply Management published its most recent "Semiannual Economic Forecast" in May, with the report noting that expectations for the remainder of 2018 continuing to be positive for both the manufacturing and nonmanufacturing sectors.

The survey results showed that 62% of respondents from the panel of manufacturing supply management executives predict their revenues, on average, will be 11.6% greater in 2018, when compared to 2017, while 5% expect an 11.9% decline, and 33% foresee no change in revenue. Overall, this yielded an average forecast for a 6.6% revenue growth among manufacturers in 2018. This rate is 1.5 percentage points above the December 2017 forecast for 5.1% revenue growth for 2018 and is 2.5 percentage points above the actual revenue growth reported in 2017. Fifteen of the 18 industries reported expecting revenue growth for 2018.

Purchasing managers reported that their companies are currently operating, on average, at 85.8% of normal capacity. This figure is unchanged from the December 2017 rate but is an increase of 3.3 percentage points from the percentage reported in May 2017 of 82.5%. Eleven of the 18 industries reported at the average capacity of 85.8% or above.

Production capacity in manufacturing is expected to increase by 4.9% in 2018, which is 2.7 percentage points higher than predicted in December 2017, as well as 4.3 percentage points higher than the figure reported for all of 2017. This reflects the continuing strength in the sector, as 43% of respondents expect an average capacity increase of 13.3%, 3% expect decreases averaging 29.6%, and 54% expect no change. Fifteen of the 18 industries expect production capacity increases for 2018.

Survey respondents expect a 10.1% increase in capital expenditures in 2018. This is notably higher than the 2.7% increase the panel predicted in the December 2017 forecast for 2018. Currently, 34% of respondents predict increased capital expenditures in 2018, with an average increase of 42.1%, and 14% said their capital spending would decrease an average of 30.5%. Fifty-two percent say they will spend the same in 2018 as they did in 2017. Thirteen of the 18 industries are expecting increases in capital expenditures in 2018 when compared to 2017.

In the December 2017 forecast, respondents predicted an increase of 1.3% in prices paid during the first four months of 2018. They now report prices actually increased by 4.8%. Seventy percent who say their prices are higher now than at the end of 2017 reported an average increase of 7.1%, while the 4% who report lower prices report an average decrease of 4.5%. The remaining 26% indicated no change for the period. All 18 manufacturing industries reported an increase in prices paid for the first part of 2018.

When asked to predict 2018 price changes, 70% of respondents expected prices to increase by 7.3% for the full year of 2018 compared to the end of 2017. Meanwhile, 4% anticipate decreases averaging 3.6%. Among the 26% who expect no change in prices, survey respondents expect a net average price increase of 5% for all of 2018, indicating that prices are expected to rise 0.2 percentage point over the remainder of the year. All 18 manufacturing industries are predicting price increases for all of 2018.

Survey respondents forecast that manufacturing employment will increase by 1.8% by the end of 2018, compared to the end of 2017. Thirty-eight percent of respondents expect employment to be 7.7% higher, while 9% of respondents predict employment to be lower by 13.1%. The remaining 53% of respondents expect their employment levels to be unchanged for the remainder of 2018. Twelve of the 18 industries reported expectations for employment growth in 2018.

Increased revenue is expected in 2018 as purchasing and supply management executives predict an overall net increase of 6.6% in sector business revenue for 2018 over 2017. This is 1.5 percentage points higher than the 5.1% increase forecast in December 2017 for all of 2018, and 2.5 percentage points higher than the 4.1% increase reported for 2017 over 2016. Sixty-two percent of respondents say that revenues for 2018 will increase, on average, 11.6% over 2017. Conversely, 5% say their revenues will decrease, on average, 11.9%, and the remaining 33% indicate no change. Fifteen of the 18 industries are reporting expectations of growth in revenue in 2018.

SERVICES

The services sector grew for the 99th consecutive month, albeit at a slower rate, as the nonmanufacturing index (NMI) fell 2.0 percentage points in April, to 56.8%. Respondents noted that the tax reform policies have continued to help business conditions and that the outlook is very promising as businesses approach the seasonal uptrend period. 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 April NMI indicates an expansion in the services sector for the 99th consecutive month and growth in the overall economy for the 104th consecutive month.

All 18 nonmanufacturing sectors surveyed in April reported growth during the month. The majority of the respondents' comments continue to indicate optimism about business conditions and the overall economy. The report noted that, based on the past relationship between the NMI and the overall economy, if NMI for April were annualized (56.8%), it would correspond to a 2.9% increase in GDP.

The component that measures business activity decreased 1.5 percentage points in April, to 59.1%. The reading indicates that business activity grew for the 105th consecutive month, albeit at a slower rate. Fifteen of the industries in the index reported growth in business activity for the month.

The new orders component of the index increased 0.5 percentage point, to 60.0%. The April report represents growth at a faster rate in new orders for the 87th consecutive month. Sixteen of the industries in this index reported an increase in new orders for the month.

The employment component decreased 3.0 percentage points, to 53.6%, in April, which marked employment growth in the services sector for the 50th consecutive month. Ten of the industries reported increased employment, while one industry reported a reduction in employment for the month.

The supplier deliveries component decreased 4.0 percentage points in April, at 54.5%, which indicates deliveries were slower in April for the 28th consecutive month. A reading above 50% indicates slower deliveries, while a reading below 50% indicates faster deliveries. Seven industries reported slower deliveries than in March.

The component that measures the Inventories Index increased 3.5 percentage points in April. The index reported at 57.0% in April. Of the total respondents in April, 31% indicated they do not have inventories or do not measure them. Nine industries reported an increase in inventories in April.

The component that measures prices nonmanufacturing organizations paid for purchased materials and services increased 0.3 percentage point, to 61.8%, in April. For the month, 33% of respondents reported higher prices, 63% indicated no change in prices paid, and 4% of respondents reported lower prices. Fourteen of the 18 industries reported an increase in prices paid in the month of April.

The Institute for Supply Management published its most recent "Semiannual Economic Forecast" in May, with the report noting that expectations for the remainder of 2018 continue to be positive for both the manufacturing and nonmanufacturing sectors.

The survey results showed that 49% of respondents from the panel of nonmanufacturing supply management executives expect their 2018 revenues to be greater by 7.1% when compared to 2018. Respondents currently expect a 3.2% net increase in overall revenue, which is less than the 6% increase that was forecasted in December 2017. Sixteen out of 18 industries are forecasting increased revenues in 2018.

Nonmanufacturing purchasing and supply executives report that their organizations are currently operating at 85.5% of normal capacity. This is 6.4% less than what was reported in December 2017 and less than the 86.9% reported in May 2017. Nine out of the 18 industries operated at capacity levels above the average rate of 85.5% of normal capacity.

The capacity to produce products or provide services in the nonmanufacturing sector is expected to increase 3.8% during 2018. This compares to an increase of 2.9% reported for 2017 and a prediction in December 2017 for an increase of 3.4% for 2018. Twenty-four percent of nonmanufacturing respondents expect their capacity for 2018 to increase by an average of 16.6%, and 1% of the respondents foresee their capacity decreasing by an average of 8.3%. Seventy-five percent expect no change in their capacity. Twelve of the 18 industries are expected to add to their production capacity in 2018.

Nonmanufacturing purchasing and supply executives are expecting to increase their level of capital expenditures 6.8% in 2018 compared to 2017. The 29% of members expecting to spend more predict an average increase of 30.6%. Seven percent of respondents anticipate an average decrease of 29.1%. Sixty-four percent of the respondents expect to spend the same on capital expenditures in 2018 as in 2017. Twelve of the 18 industries are expecting to increase their capital expenditures in 2018 from 2017.

Nonmanufacturing respondents report that their purchases in the first four months of this year cost an average of 1.3% more than at the end of 2017. This is 0.2 percentage point higher than the 1.1% increase predicted in December 2017 for the first four months of 2018. Thirty-nine percent of nonmanufacturing respondents report that prices increased an average of 4.6% in the first part of 2017. Eight percent report price decreases averaging 6.1%. The remaining 53% indicate no change in prices paid in the first four months of 2018. Fourteen of the 18 industries reported an increase in paid prices in the first part of 2018.

The survey noted that respondents expect prices to increase, on average, 2.1% when compared to the prices at the end of 2017. Given that respondents have reported that prices have increased 1.3% through May 2018, prices are projected to increase 0.8 percentage point over the remainder of the year. Fifty-three percent of respondents anticipate price increases averaging 4.8%. Nine percent of respondents expect price decreases of 6%, and 38% do not expect prices to change. Sixteen of the 18 industries are expecting price increases in 2018.

In 2018, respondents forecast that employment will increase 1.5% through the end of 2018. For the remaining months of 2018, 33% expect employment to increase, on average, 7.4%; 12% anticipate employment to decrease by 8.5%; and 55% expect their employment levels to be unchanged. Eleven of the 18 industries are expecting employment to increase in 2018.

Nonmanufacturing respondents forecast that sector business revenue for 2018 will increase 3.2% compared to 2017. This is 2.8% less than the 6% that was predicted in December 2017 for 2018. The 49% of respondents forecasting better business in 2018 than in 2017 estimate an average revenue increase of 7.1%. The 5% who predict less business in 2018 forecast an average decrease of 7.7%. The remaining 46% see no change in revenues for 2018. Sixteen of the 18 industries are expecting revenues to increase in 2018.

INDUSTRIAL PRODUCTION

The Federal Reserve reported that total industrial production increased 0.7% in April, which marked the third consecutive month of gains. The April reading beat analysts' expectations for a gain of 0.6%, according to a poll by Reuters. The rise in April was supported by increases for every major market group, with consumer goods, business equipment, and defense and space equipment posting gains of nearly 1% or more. Revisions were made to prior month's results, however, which resulted in a net downward revision to first-quarter figures, for a rise of 2.3%. At 107.3% of its 2012 average, total industrial production in April was 3.5% above its level from one year ago. Capacity utilization for the industrial sector climbed 0.4 percentage point in April, to 78.0%, a rate that is 1.8 percentage points below its long-run (1972 to 2017) average.

The output of consumer goods edged up 0.9% in April. The output of nondurables rose nearly 1.5% in April, as both consumer energy products and nonenergy nondurable consumer goods posted increases. The output of durable consumer goods declined about 0.5%, mostly because of a sizable drop in automotive products. The advance in business equipment resulted from gains for information processing equipment and for industrial and other equipment, while the rise in materials was led by an increase for energy materials.

Manufacturing output moved up 0.5% in April. Revision to prior months' percentages changed the first-quarter figures to show a downwardly revised increase of 1.4%. In April, the indexes for durables and nondurables each gained about 0.5%, while the production of other manufacturing industries rose nearly 1%. Among durables, advances of more than 1% were posted by machinery, computer and electronic products, electrical equipment, appliances, components, aerospace, and miscellaneous transportation equipment. Motor vehicles and parts and wood products recorded the largest losses, slightly more than 1%. The increase in nondurables reflected widespread gains among its industries.

The output of mining rose 1.1% in April and was 10.6% above its year-earlier level. The increase in the mining index for April reflected further gains in the oil and gas sector but was tempered by a drop in coal mining.

In April, the index for utilities advanced 1.9%. The output of electric utilities was little changed, but the output of gas utilities jumped more than 10% as a result of strong demand for heating due to below-normal temperatures.

Capacity utilization for manufacturing rose 1.1 percentage points, to 75.8%, in April, a rate that is 2.5 percentage points below its long-run average. The operating rate for durables and nondurables each moved up one quarter of a percentage point, and the rate for other manufacturing rose about three-quarters of a percentage point. Utilization for mining rose 0.5 percentage point, to 90.6%, while the capacity utilization rate for utilities jumped more than 1.0 percentage point, to 79.2%.

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

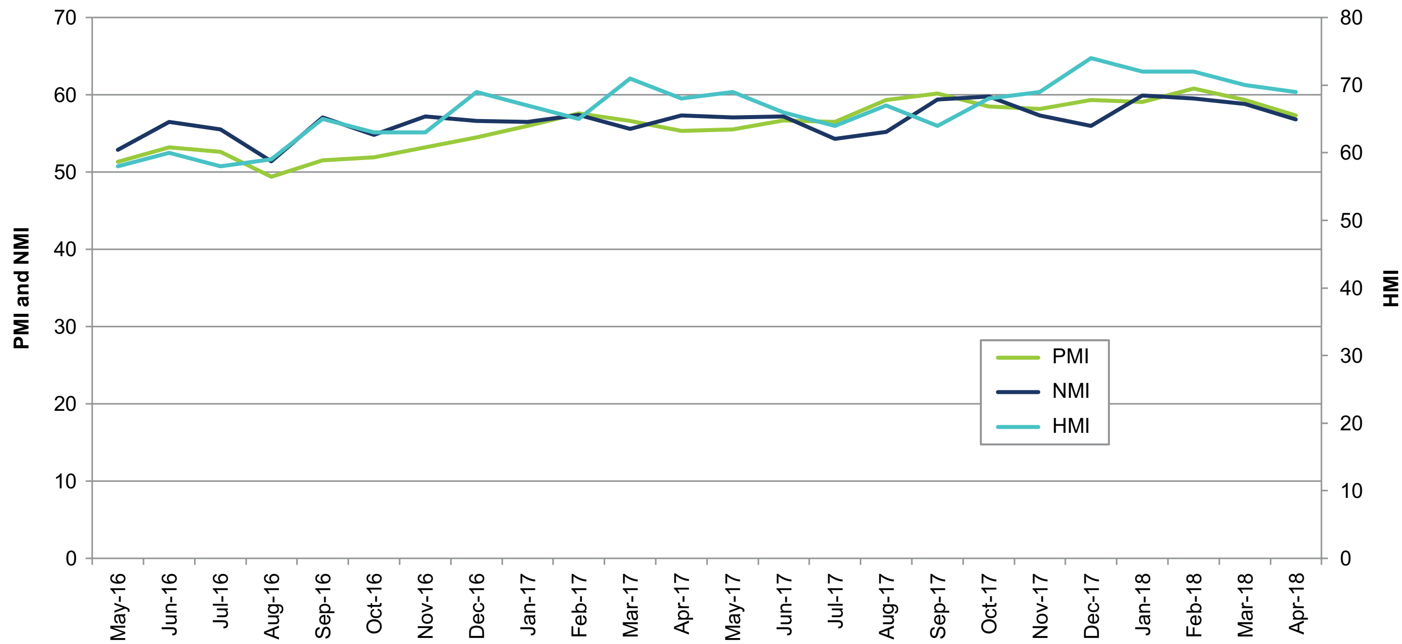
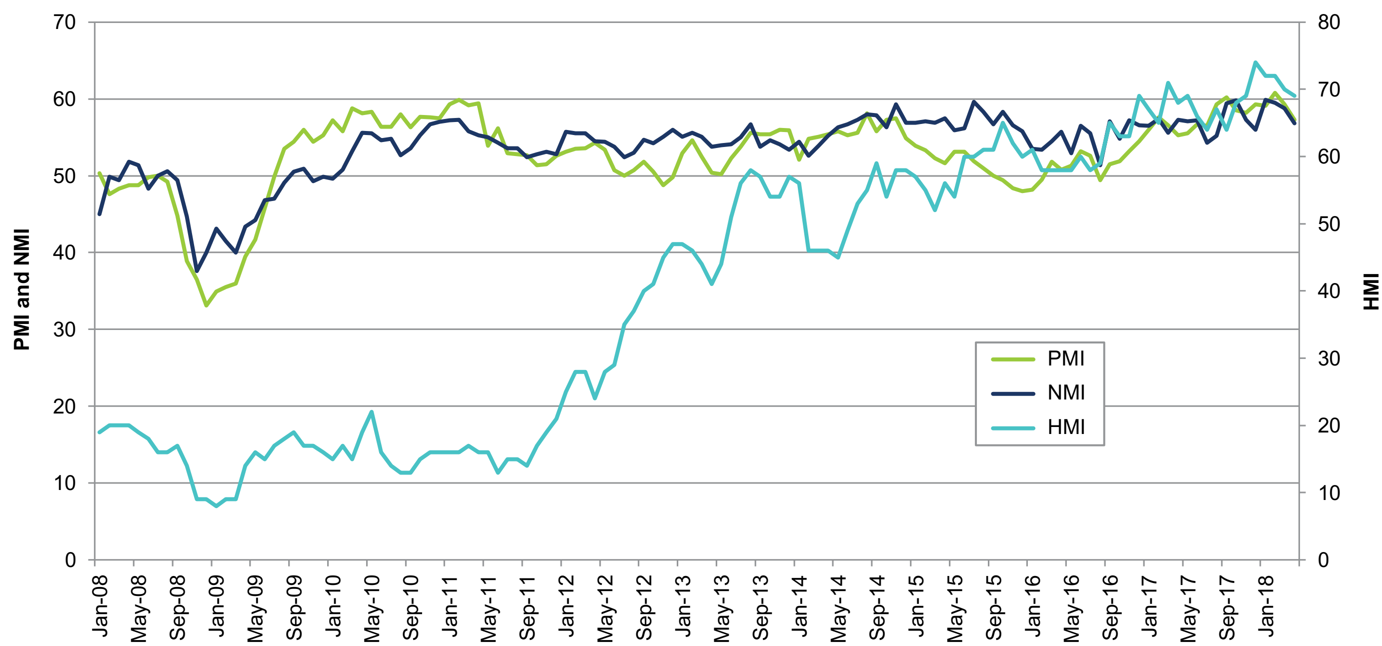


EXHIBIT 7B: Manufacturing, Services, and Housing Indicators—Since 2008



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

Most of the major stock market indexes ended slightly higher in April, but market concerns heightened midmonth over ongoing trade worries, causing the indexes to trade lower by month's end. Four of the five major stock markets saw positive returns in April, led by the Russell 2000 gaining 0.9%. The technology-focused Nasdaq Composite posted slight gains, at 0.04%, while the Dow Jones Industrial Average improved 0.3%, and the S&P 500 rose 0.4% in April. The S&P MidCap 400 was the lone index to post a decline, moving down 0.3%.

April marked the 25th anniversary of the VIX Index. It has been a turbulent 2018 for the index when compared to the record lows set in 2017. In April, the VIX ranged from 14.6 to 25.7 and reported a monthly average of 18.3.

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	Apr-18	Year-to-Date
Dow Jones Industrial Average	0.3%	-1.6%
S&P 500	0.4%	-0.4%
Nasdaq Composite	0.04%	2.4%
S&P MidCap 400	-0.3%	-1.0%
Russell 2000	0.9%	0.8%

Source of data: T. Rowe Price

*Returns are for the periods ended April 30, 2017. The returns include dividends based on data compiled by T. Rowe Price, except for the Nasdaq Composite, whose return is principal only.

VOLATILITY

VIX*	Apr-18	Year-to-Date
High	25.7	50.3
Low	14.6	8.9
Average	18.3	17.6

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 rebounded in April, increasing 0.2% on the month after falling 0.1% last month. The rebound followed the March report, which had been the first drop in the index in 10 months. Economists polled in a survey by Reuters had expected an increase of 0.3% in April. Over the past 12 months, the Consumer Price Index is up 2.5%, which marked the largest annual gain since February 2017, and suggests a steady buildup of inflation. CPI is a measure of a basket of products and services—including housing, electricity, food, and transportation—and is used as a measure of inflation. CPI is comprised of three main indexes: the food index, the energy index, and the all items less food and energy index (also known as "Core CPI"). Core CPI is a measure of inflation that excludes volatile food and energy costs.

The index for all items less food and energy rose 0.1% in April. This made 13 consecutive months of gains. Over the past year, the index has increased 2.1%. The shelter index increased 0.3%, with the rent index rising 0.4% and the index for owners' equivalent rent rising 0.3%. The index for lodging away from home increased 0.7% in April, which marked the second consecutive month of rising. The index for household furnishings and operations rose 0.5% in April, which is the largest increase since April 2015. The personal care index rose 0.5%.

The medical care index rose 0.1%, with the hospital services index rising 0.2% and the index for prescription drugs rose 0.1%.

The food index rose 0.3% in April, as the index for food at home increased 0.3% in April, which was the largest increase since March 2017. Over the past 12 months, the food index has risen 1.4%.

The energy index rose 1.4% in April, rebounding from a decline in March. The gasoline index rose 3.0% in April, ending two months of declines. The index for natural gas also declined 0.4% in April, while the index for electricity declined 0.6% in April.

The energy index increased 7.9% over the past year, with all the major component indexes rising. The gasoline index increased 13.4%, and the fuel oil index rose 22.6%. The electricity index increased 1.2%, and the index for natural gas advanced 1.0%.

The Chained Consumer Price Index for all urban consumers increased 0.4% in April. Over the past 12 months, the index has risen 2.3%. 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 April, which marked 12 consecutive months of gains. Core CPI has risen 2.1% over the past 12 months, matching the increase in March. In addition, the core CPI figure is well above the 1.8% average annual increase measured over the past 10 years.

PRODUCER PRICES

The Producer Price Index (PPI) increased 0.1% in April, which marked the smallest gain in the index since December 2017. The rise in April follows a 0.3% gain in March, on a seasonally adjusted basis, indicating a leveling off of inflationary pressures in April. This month's increase fell short of expectations by economists for a gain of 0.3%, according to a poll by MarketWatch. Over the past 12 months, PPI has grown at an annual rate of 2.6%. 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 rose 0.1% in April, after rising 0.4% in the prior three months. Over the past 12 months, prices for final demand less foods, energy, and trade services increased 2.5%.

A major factor in the April advance in prices for final demand services was the index for machinery, equipment, parts, and supplies wholesaling, which climbed 0.9%. The indexes for services related to securities brokerage and dealing (partial), residential real estate loans (partial), airline passenger services, and wireless telecommunication services also moved higher. In contrast, prices for traveler accommodation services fell 3.2%. The indexes for health, beauty, and optical goods retailing; legal services; and apparel wholesaling also decreased.

Prices for final demand goods were unchanged in April, after increasing 0.3% in March. A 0.3% rise in the index for final demand goods less food and energy, and the 0.1% rise in prices for final demand energy offset a 1.1% drop in the index for final demand foods.

Core PPI rose 0.1% in April and is up 2.5% over the past 12 months. The increase in the annual Core PPI figure showed a modest slowdown due to inflationary pressures in April.

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

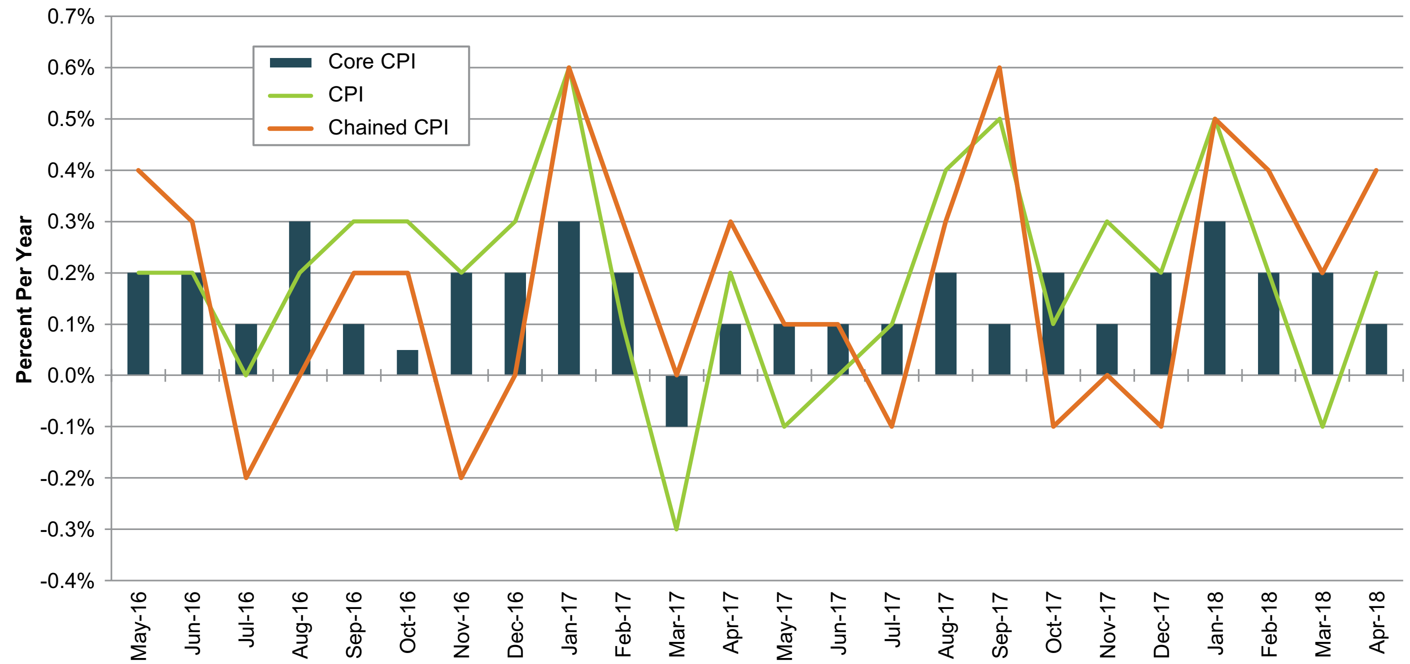
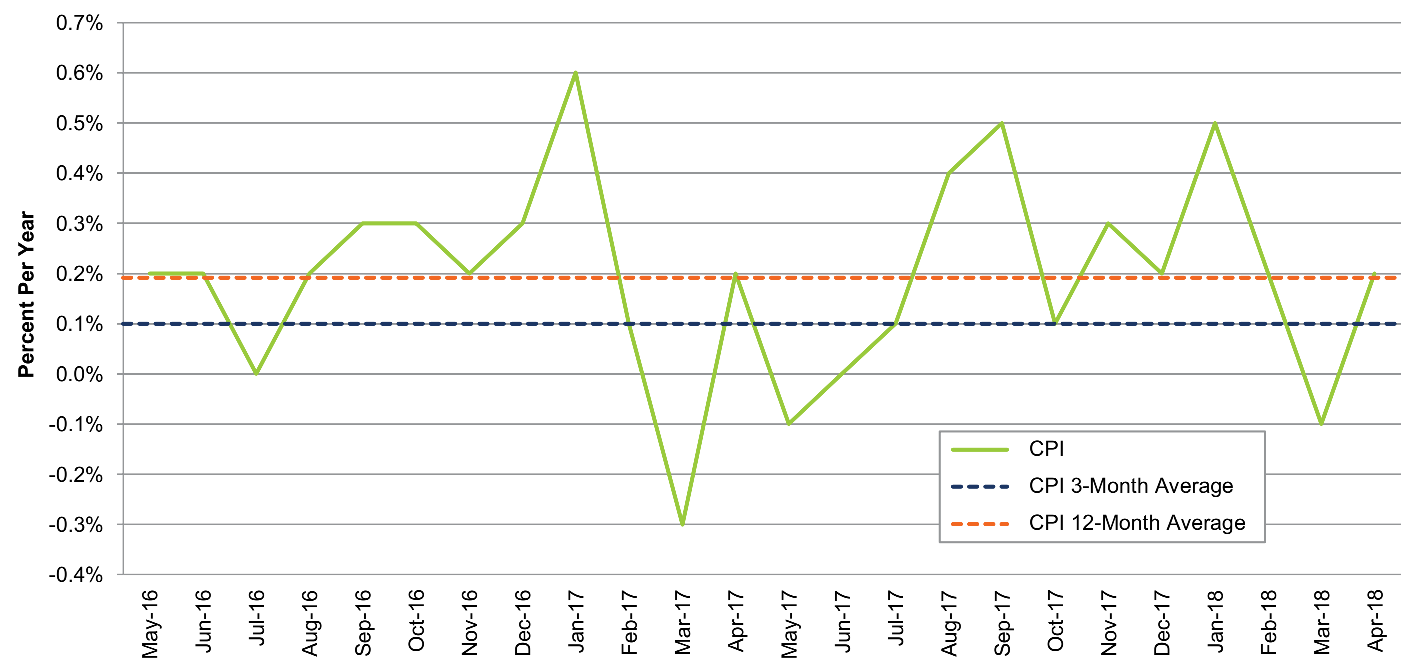


EXHIBIT 9B: U.S Consumer Price Index—Past 24 Months With Averages



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

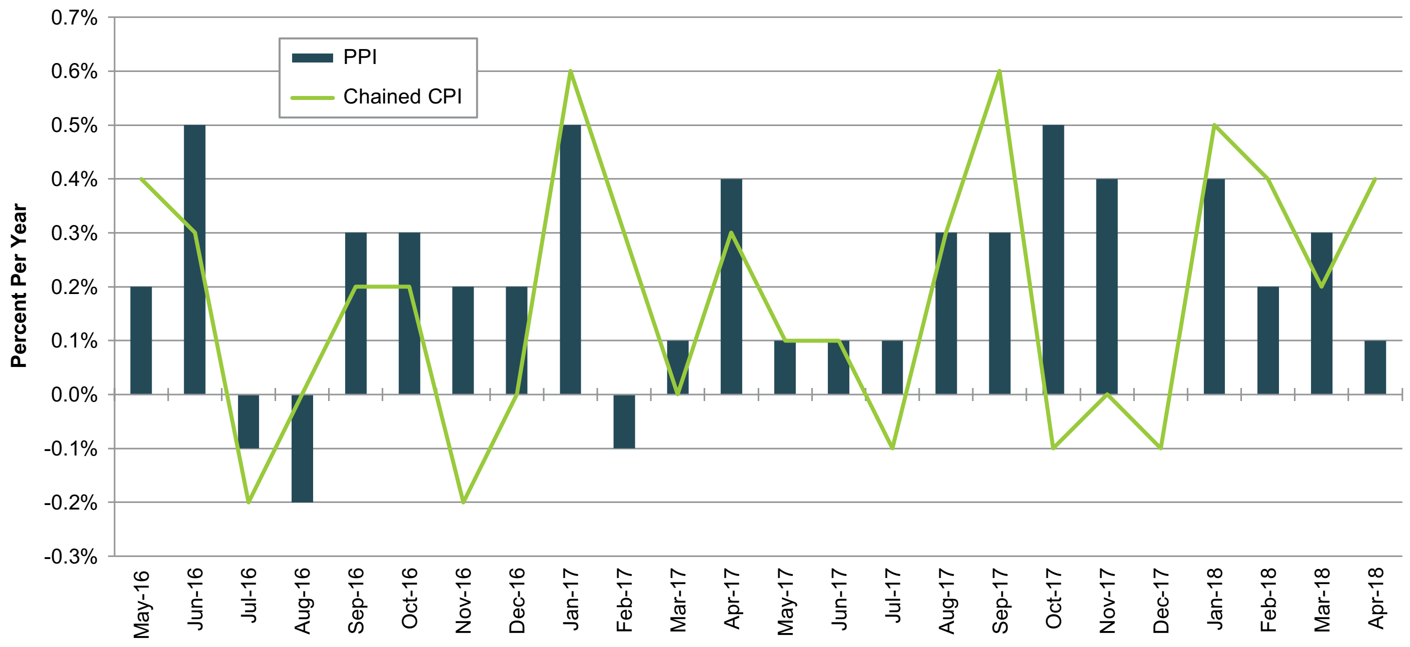
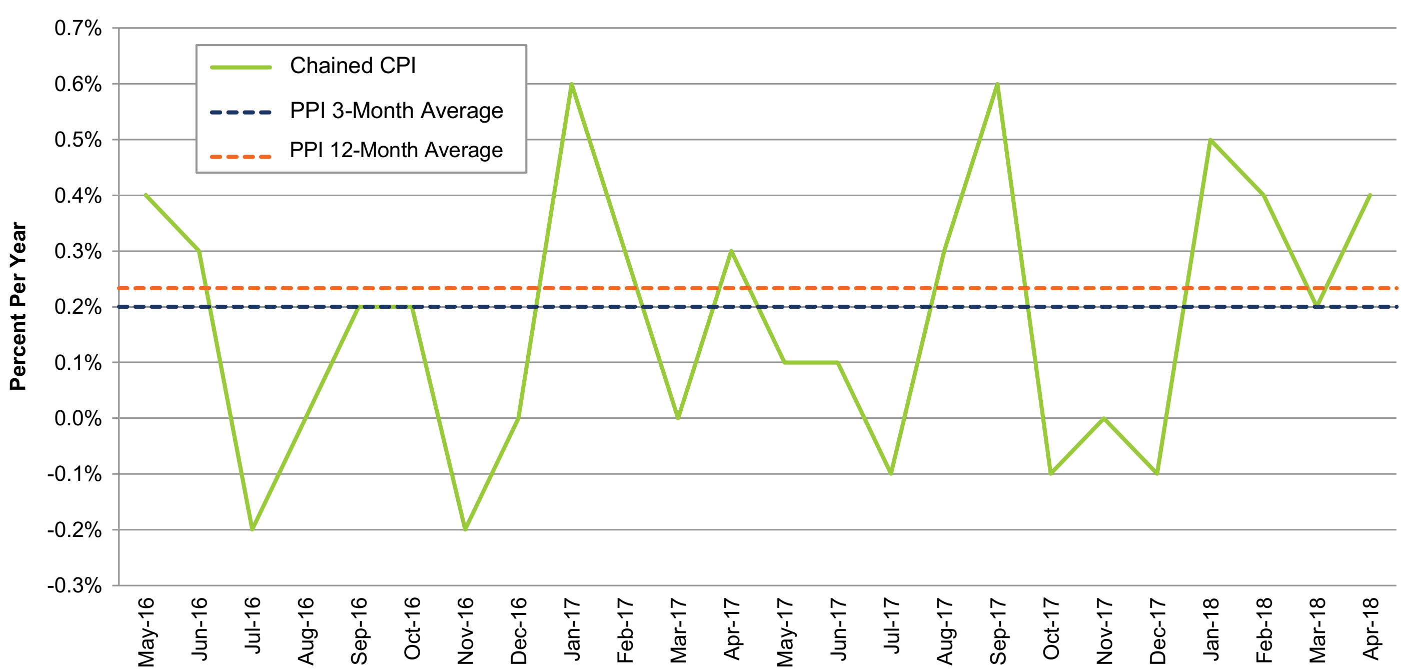


EXHIBIT 9D: U.S Producer Price Index—Past 24 Months With Averages



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.

HOUSING STARTS AND BUILDING PERMITS

Housing starts fell in April, moving down 3.7% from the revised rate in March. The figures in March were revised upward to a seasonally adjusted rate of 1,336,000, while the figures in April reported at 1,287,000. The April figures came in below economists' forecasts of 1,310,000, according to a poll by Reuters. Despite the decline in April, housings starts are 10.5% above the figure over the past 12 months. The construction of multifamily homes declined 12.6% from last month. The multifamily-home sector, which consists of buildings with five units or more, tends to be more volatile than the single-family-home sector. The construction of single-family homes improved 0.1% in April and is up 7.2% over the past 12 months.

Building permit authorizations for privately owned housing units, considered a leading indicator of demand for new homes, were at a seasonally adjusted rate of 1,352,000 in April. This is 1.8% below the revised March rate of 1,377,000. Building permits are 7.7% above the levels from one year ago. Building permits for single-family housing units increased 0.9% in April and were up 7.9% from one year ago. Building permits for multifamily housing units decreased 7.4% in April but were up 6.4% from one year ago.

Housing completions were at a seasonally adjusted rate of 1,257,000 in April. This is 2.8% above the revised rate in March and is 14.8% above the rate from one year ago. Single-family housing completions in April were at a rate of 820,000, which is 4.0% below the revised March rate of 854,000.

Builder confidence decreased 1.0 point in April, with the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) reporting a reading of 69.0. April's reading marked the second consecutive month of declines, but the index remains near the 18-year high established in December 2017. An HMI reading above 50.0 indicates that more builders view sales conditions as good, rather than poor. HMI has now been above the 50.0 benchmark for 41 consecutive months. The report noted growing consumer demand for housing and the overall confidence in the market continue to fuel optimism. In a recent survey, 84% of homebuilders cited concerns over cost and availability of workers as a key challenge in 2018, which matches the 84% who cited rising building material costs.

The three HMI components posted mixed results in April. The component measuring buyer traffic remained unchanged, at 51.0, while the component charting current sales conditions fell one point, to 77.0. The component gauging sales conditions over the next six months fell two points, to 75.0.

Looking at the three-month moving averages for the regional HMI indexes, the HMI scores posted gains in all four regions. The South remained unchanged, at 73.0; the Northeast fell one point, to 55.0; the West fell three points, to 76.0; and the Midwest fell two points, to 66.0.

HOME SALES, PRICES, AND INVENTORY

Existing-home sales decreased 2.5% in April, after two consecutive months of gains. Following the decline in April, sales are now 1.4% below the figure from one year ago. The report states that, although the healthy economy and job market are keeping buyers in the market for now, there are concerns over rising mortgage rates. In addition, inventory shortages are even worse than in recent years, and home prices keep climbing above what many home shoppers are able to afford. The root problem remains the continuation of a lack of available listings on the market to meet the strong demand for buying a home.

All-cash sales were 21% of transactions in April, which is up 1% from March but unchanged from one year ago. Individual investors, who account for many cash sales, purchased 15% of homes in April, unchanged from March and from one year ago.

The report noted that three of the four major regions saw sales decrease in April. Shares of distressed home sales were at 3.5%, the lowest rate since October 2008. This is 0.5 percentage point less than last month and down from 5% one year ago. Three percent of sales were foreclosures, and 0.5% were short sales.

Existing-home sales decreased in April, to an annual pace of 5.46 million sales, down from 5.60 million in March. Existing-home sales are completed transactions that include single-family houses, townhomes, condominiums, and co-ops.

Home sales in the Northeast fell 4.4% in April and are down 11.0% from a year ago. Sales in the Midwest are unchanged from March but are down 3.0% from one year ago. Sales in the South decreased 2.9% but are up 2.2% compared to this time last year. Sales in the West declined 3.3% and are up 0.8% from one year ago.

The national median existing-home price for all housing types was $257,900 in April, up 5.3% from a year ago. April's price increase marked the 74th consecutive month of year-over-year price gains. In April, home prices in the Northeast moved up 2.8% from one year ago, while prices in the Midwest climbed 4.6%. Home prices in the South rose 3.9%, while prices in the West jumped 6.2% over the last 12 months.

The median time on the market for all homes sold in April was 26 days, which was down from 30 days in March and 29 days from one year ago. Fifty-seven percent of homes sold in April were on the market for less than a month.

Total housing inventory rose 9.8% in April, to 1.80 million existing homes available for sale. Housing inventory remains down 6.3% from one year ago and has fallen year over year for 35 consecutive months. Unsold inventory was at a 4.0-month supply at the current sales pace in April, which is down from 4.2 months one year ago. Six months of inventory is considered a balanced market that equally benefits buyers and sellers.

NAR reports that, according to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage moved up for the seventh consecutive month, to 4.47% in April, rising from the 4.44% rate in the prior month. This is the highest rate since September 2013, when it was 4.49%. The average 30-year rate for 2017 was 3.99%.

NAR's Realtors Confidence Index (RCI) for current conditions remained unchanged in April. The RCI for single-family houses reported a reading of 74.0 and was unchanged over the past 12 months (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 Market Survey," analyzing the fourth quarter of 2017, noted prices for commercial properties increased 6.9% year over year in the fourth quarter of 2017. Capitalization rates closed the year 10 basis points higher from 2016, as sales volumes advanced at a solid rate of 9.1%. Capitalization rates for small-cap real estate markets in 2017 reported at 7.2%.

A shortage of inventory remained the principal concern among investors, as a wide gap between buyers and sellers affected over 20% of respondents. Prices for large-cap real estate markets increased 7.1% year over year, while small-cap real estate properties advanced 6.9% year over year. The pricing gap between sellers and buyers remained the second-highest-ranked concern.

Average national cap rates remained relatively flat in the fourth quarter, ranging between 6.7% and 6.9%. The small-cap real estate market experienced a modest decline after posting a 20-basis-points compression to average a 7.0% cap rate. The rate on fourth-quarter 10-year Treasury notes ranged from 2.17% to 2.29%, before settling at 2.25% in December.

Overall, the commercial fundamentals in large-cap real estate markets provided a solid-but-nuanced performance during the last quarter of 2017, in tandem with trends in economic activity. Commercial leasing fundamentals remained poised for expansion this year, boosted by an expanding economy, employment, and tax reform. Sixty-five percent of realtors closed a leasing transaction in 2017, and fourth-quarter 2017 leasing rates increased by 3.3%. Vacancy rates are projected to continue their decline, except for multifamily properties, where rising new supply is putting downward pressure on rents. Fourth-quarter 2017 vacancy rates reported at 13.7%, office vacancies at 12.0%, retail vacancies at 11.4%, industrial vacancies at 7.8%, and multifamily vacancies at 5.0%. Asking rents for industrial properties moved up 0.6% on a yearly basis.

The industrial sector continued its hot streak during the fourth quarter of this year, advancing 20% year over year, and was the only property type to see a gain in 2017. Industrial net absorption totaled 44.4 million square feet in the fourth quarter. Completions totaled 51.7 million square feet in the fourth quarter, while industrial vacancy declined in the fourth quarter to 4.5% from 5.2% in the third quarter.

With rising wages and employment, consumer optimism was well reflected in the fourth quarter's holiday shopping season figures. As a result, demand for retail spaces advanced, with net absorption totaling 3.1 million square feet during the fourth quarter. Retail construction activity slowed, with completions totaling 9.1 million square feet. The retail availability rate picked up, moving to 6.6% in the fourth quarter, as asking retail rents reached $17.12 per square foot.

Leasing volume declined during the quarter, as tenants shifted their focus toward larger footprints. In the third quarter, the 5,000-square-feet-and-below segment accounted for 82.0% of activity. The fourth quarter recorded a decline in the segment's share, to 71.0% of activity. The 5,000-to-7,499-square-feet segment jumped from 7.0% of activity in the third quarter to 13.0% in the last one. In addition, the 10,000-to-49,999-square-feet and 50,000-to-100,000-square-feet segments also notched higher interest in the fourth quarter, rising to 8.0% and 2.0% of total leasing demand, compared to 6.0% and 0.0% of total leasing demand in the third quarter.

Vacancy rates continued on a downward trend in the fourth quarter of 2017 across all property types, as lease terms remained steady, with 36-month and 60-month leases capturing 65.0% of the market. Vacancy rates ranged from 5.0% for multifamily properties to 13.7% for hotel properties.

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 3.2% in the second quarter of 2018 and 3.0% in the third quarter of 2018. 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 2.8% in 2018 and 2.6% in 2019.

They forecast that consumer spending will increase at a rate of 2.8% in the second quarter of 2018 and 2.7% in the third quarter of 2018. They expect consumer spending to increase 2.5% in 2018 and 2.4% in 2019.

The forecasters believe unemployment will average 3.9% in the second quarter of 2018 and 3.8% in the third quarter of 2018. They predict that unemployment will average 3.9% in 2018 and 3.6% in 2019.

The forecasters believe that the three-month Treasury bill rate will be 1.9% at the end of the second quarter of 2018 and 2.1% at the end of the third quarter of 2018. They predict the 10-year Treasury bond yield will be 3.0% at the end of the second quarter of 2018 and 3.1% at the end of the third quarter of 2018.

They also believe consumer prices will rise at a rate of 1.9% in the second quarter of 2018 and 2.3% in the third quarter of 2018. They expect consumer prices to increase 2.5% in 2018 and 2.2% in 2019. They expect producer prices to increase at a rate of 1.7% in the second quarter of 2018 and 1.9% in the third quarter of 2018. The forecasters anticipate producer prices will rise 2.8% in 2018 and 1.6% in 2019.

The forecasters believe real disposable personal income will rise at a rate of 2.8% in the second quarter of 2018 and 2.7% in the third quarter of 2018. They believe real disposable personal income will increase 2.4% in 2018 and 2.8% in 2019.

The forecasters expect industrial production to increase at a rate of 3.5% in the second quarter of 2018 and 3.1% in the third quarter of 2018. They forecast that industrial production will increase 3.8% in 2018 and 2.7% in 2019.

Nominal pretax corporate profits are expected to rise 4.9% in 2018 and 4.3% in 2019. The forecasters also project housing starts will be 1,300,000 in 2018 and 1,350,000 in 2019.

The most recent release of The Livingston Survey (the Survey) predicts higher growth for the second half of 2017 than had been predicted in its prior survey. The Survey, conducted by the Federal Reserve Bank of Philadelphia, is the oldest continuous survey of economists' expectations. It summarizes the forecasts of economists from industry, government, banking, and academia. The participants project real GDP to grow at an annual rate of 2.5% in the first half of 2018 and 2.4% in the second half of 2018. They believe that GDP will grow 2.18% annually over the next 10 years.

The Survey forecasted the unemployment rate to be 4.1% in December 2017 and to fall to 4.0% by June 2018. The unemployment rate is expected to be 3.9% in December 2018.

The forecasters in the Survey expected consumer price inflation (CPI) to be 2.2% in June 2018 and 2.3% in December 2018. The Survey expects CPI to average 2.34% over the next 10 years. The Survey also expects producer price inflation (PPI) to be 2.2% in June 2018 and 2.0% in December 2018.

The Survey predicted the interest rate on three-month Treasury bills will be 1.3% at the end of December 2017. From there, the forecasters expect that the rate will increase to 1.60% in June 2018, to 1.88% in December 2018, and to 2.41% in December 2019. They predicted the interest rate on 10-year Treasury bonds to reach 2.45% at the end of December 2017. According to the Survey, the rate will then rise to 2.75% in June 2018, to 3.00% in December 2018, and to 3.35% in December 2019.

The forecasters have increased their previous projections for future S&P 500 index values. They expect the S&P 500 index to be at 2,644.8 by the end of December 2017, 2,739.8 at the end of June 2018, 2,805.0 at the end of December 2018, and 2,980.0 at the end of December 2019.

The Energy Information Administration (EIA) predicts that the West Texas Intermediate crude oil spot price will average approximately $65.58 per barrel in 2018 before falling to $60.86 per barrel in 2019, compared with $50.79 per barrel in 2017. The EIA expects retail prices for regular-grade gas to average $2.79 per gallon in 2018 and fall to $2.71 per gallon in 2019, compared with $2.42 per gallon in 2017.

The Energy Information Administration believes the Henry Hub natural gas spot price will average $3.12 per million Btu (MMBtu) in 2018 and $3.23 per MMBtu in 2019, compared with $3.10 per MMBtu in 2017. The cost of coal delivered to electricity-generating plants, which averaged $2.09 per MMBtu in 2017, is expected to average $2.20 per MMBtu in 2018 and $2.22 per MMBtu in 2019. Residential electricity prices, which averaged 12.90 cents per kilowatt-hour (kWh) in 2017, are expected to average 13.09 cents per kWh in 2018 then rise to 13.56 cents per kWh in 2019. The airline ticket price index, which averaged 275.78 in 2017, is expected to be 297.32 in 2018 before rising to 326.88 in 2019.

The National Association of Realtors' Realtors Confidence Index for future conditions increased one point, to 74.0, in April. The reading remains at an optimistic level. The RCI for the outlook of single-family homes increased two points in April, to 76.0 (strong = 100; moderate = 50; weak = 0). The RCI for the outlook for townhomes increased two points, to 65.0, while the outlook for condos increased two points in April, to 61.0. 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 2018 to be 5.6100 million before increasing to 5.690 million (+1.4%) in 2019. It believes that new single-family home sales will be 703,000 (+14.9%) in 2018, before increasing to 760,000 (+8.1%) in 2019. NAR believes the median existing-home price will be $258,300 (+4.4%) in 2018, before increasing to $266,800 (+3.3%) in 2019. NAR believes the median new-home price will increase to $331,400 (+2.5%) in 2018, before rising to $333,400 (+0.6%) in 2019. It expects housing starts to increase to 1,344,000 (+12.0%) in 2018, then to 1,400,000 (+4.2%) in 2019. NAR believes the 30-year fixed mortgage rate will average 4.6% in 2018, before rising to 5.0% in 2019, and the 5-1 hybrid adjustable rate mortgage will average 3.8% in 2018 and 4.2% in 2019.

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 48 of the industry's top economists and analysts representing 36 of the country's leading real estate investment, advisory, and research firms and organizations. The forecast for each indicator is the median forecast from the 48 survey respondents. The key findings from the *Real Estate Consensus Forecast* include:

- Annual commercial property transaction volume is expected to decline to $450 billion in 2018 and $408 billion by 2020. Still, these are among the highest annual volumes and remain well above the long-term average.
- The issuance of commercial mortgage-backed securities (CMBS), a key source of financing for commercial real estate, rebounded in 2017, to $88 billion. Issuance is expected to remain essentially level in 2018 and 2019, at $90 billion, before decreasing slightly in 2020, to $80 billion.
- Commercial real estate prices are projected to grow at subdued and relatively slowing rates relative to recent years, at 5.0% in 2018, 3.0% in 2019, and 2.3% in 2020. These are all below the long-term average growth rate of 4.4%.
- Institutional real estate assets are forecasted to provide total returns of 6.0% in 2018 and 5.0% in 2020. By property type, 2018 returns are expected to range from 10.0% for industrial to 5.0% for retail. Total returns in 2020 are expected to range from 8.0% for industrial to 4.3% for retail.
- Both availability and vacancy rates for three sectors are expected to plateau in 2018 from their 2017 rates, before edging up in both 2019 and 2020. Retail availability rates and apartment vacancy rates are expected to experience an increase in 2018 and a continued increase in 2019 and 2020. The hotel occupancy rate is forecast to increase slightly in 2018, plateau in 2019, and then decline slightly in 2020.
- Commercial property rent is expected to continue to increase in the next three years across all sectors, although at more subdued rates than in recent years. Rental rate growth in the industrial, retail, and office sectors is forecast to decelerate in 2019 and 2020, while rental rate growth in the apartment sector is expected to plateau. In 2018, rent increases will range from 4.6% for industrial to 1.5% for apartments. Rent increases in 2020 will range from 3.0% for industrial to 1.1% for retail. Hotel RevPAR is expected to increase by 2.7% in 2018 and 1.7% in 2020.
- Single-family housing starts are projected to increase from 848,300 units in 2017 to 923,000 units in 2018, and 987,500 in 2019. This brings annual starts just below their long-term average and completes eight straight years of growth. Housing starts are expected to moderate back to 925,000 in 2020.
- In 2018, 14 real estate indicators are projected to be better than their 20-year averages, while nine are expected to be worse. Also, inflation is expected to be above its long-term average, while the 10-year Treasury rate and the NCRIEF capitalization rate are projected to be lower than their long-term averages.
- In 2020, nine indicators are expected to be better than their 20-year average, one indicator is expected to be right at its average, and 13 are expected to be worse. Similar to the 2018 projections, inflation in 2020 is expected to be above 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: www.bvlibrary.com/EOU/eouIssues.aspx. Login is required.

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