ECONOMIC OUTLOOK UPDATE

QUARTERLY

1Q 2018

ECONOMIC UPDATE AT A GLANCE (1Q 2018 SUMMARY)

The U.S. economy—as indicated by GDP—grew at an annual rate of 2.3% in the first quarter of 2018, which is slower than the upwardly revised rate of 2.9% reported for the fourth quarter of 2017. At 2.3%, GDP growth was slightly above the annual average rate since the recession ended nine years ago, although economists expected a slowdown this quarter. According to a survey by the *New York Times,* economists expect GDP growth to float around the 3.0% mark for the remainder of the year, with the belief the tax reform policies implemented may result in increased consumer spending. Total government spending eased to 1.2% in the first quarter, down from the 3.0% rate in the fourth quarter. Private fixed investment, which includes residential and business spending, was at 4.6%, which marked the eighth consecutive quarter of increases. The trade deficit was at a nine-and-a-half year high in February, at $57.6 billion, but narrowed by the end of the first quarter, to $49 billion, which is $4.1 billion, or 8.3% lower than the $53.1 billion reported in the fourth quarter of 2017. The *Wall Street Journal* had forecasted a trade deficit of $43.7 billion in March. The goods deficit decreased $7.5 billion in March, to $69.5 billion, while the services surplus increased $1.3 billion, to $20.5 billion.

The Leading Economic Index increased 0.3% in March, which marked the sixth consecutive month of gains for the index. The growth in the LEI resulted in an index reading of 109.0 points. In the six-month period ending March 2018, the LEI increased 4.3% (an 8.8% annual rate), which is much faster than its growth of 1.9% (a 3.7% annual rate) over the previous six months. The strengths in the index were widespread in March as contributions from the yield spread, the ISM new orders index, and expectations for business conditions more than offset the negative contributions from the average workweek and initial claims for unemployment insurance. March's reading points to robust economic growth throughout 2018.

Employment in March increased by 103,000 jobs. The job figures for January and February were revised to show gains of 176,000 jobs versus 239,000 jobs in January, while February's figures showed gains of 326,000 jobs versus 313,000 jobs as originally reported. As a result, the net change resulted in 50,000 less jobs reported over the two-month period.

In a separate report, the Labor Department said initial claims for state unemployment benefits remained below the 300,000 threshold, which is associated with a strong labor market, for the 161st straight week. Claims did, however, rise during the period, to 242,000, versus a forecast of 225,000, according to Reuters. Still, that 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 February, unemployment remained at 4.1% for the fifth consecutive month. The labor-force participation rate improved 0.3 percentage point, to 63.0%.

Wages grew 8 cents in March, increasing to $26.82 from last month. The increase in March came despite a lower-than-expected jobs report, which suggests wage growth and possible inflation are looming in the months ahead. Real average hourly earnings, seasonally adjusted from March 2017 to March 2018, increased 2.7%.

In the first quarter, the Federal Open Market Committee (FOMC) met twice. In the first meeting, in view of realized and expected labor market conditions and sustained 2% inflation, the FOMC determined the federal funds rate would remain unchanged, at between 1.25% and 1.50%. In determining to maintain the existing level, the committee noted the strong labor market conditions but also stated that the market measures of inflation remained low.

During the second meeting of the quarter, the FOMC voted to raise the target range for the federal funds rate to between 1.50% and 1.75%. In determining to raise the federal funds rate, the committee cited that the economic outlook had strengthened and that market measures for inflation had increased.

The Consumer Confidence Index decreased 2.3 points in March after two consecutive months of gains. The index recorded a reading of 127.7, which fell below analysts' forecasts for a reading of 131.0, according to a poll by Reuters. Despite the decline, the index remains at historically high levels, which suggests further growth for the economy in the months ahead. The Consumer Sentiment Index reached its highest level since 2004, 101.4 points, after an increase of 1.7 points in March. March's index came in slightly below economists' forecasts for a reading of 102.0, according to a poll by Reuters. The survey noted the uncertainty of the proposed trade tariffs and concerns over future interest rate hikes as potential handcuffs for future growth. At its peak, the consumer sentiment levels averaged 105.3 from 1997 to 2000.

The 1Q 2018 Wells Fargo/Gallup Small Business Index, which was reported in February, rose 4.0 points, to 107.0. The quarterly reading was its highest score since early 2007. The level of optimism is higher than its index score of 100.0 from the same period in 2017. The report highlighted that small-business owners believed 2017 ended strongly and that the momentum will carry over into the early part of 2018. Specifically, small-business owners were encouraged by the breadth of improvements in quantifiable areas such as sales and overall finances, with the more broad-based gains equaling a longer lasting upswing. Looking ahead to 2018, business owners

About the Analysis in this Report

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

In this analysis, we examine the general economic climate that existed at the end of the first quarter of 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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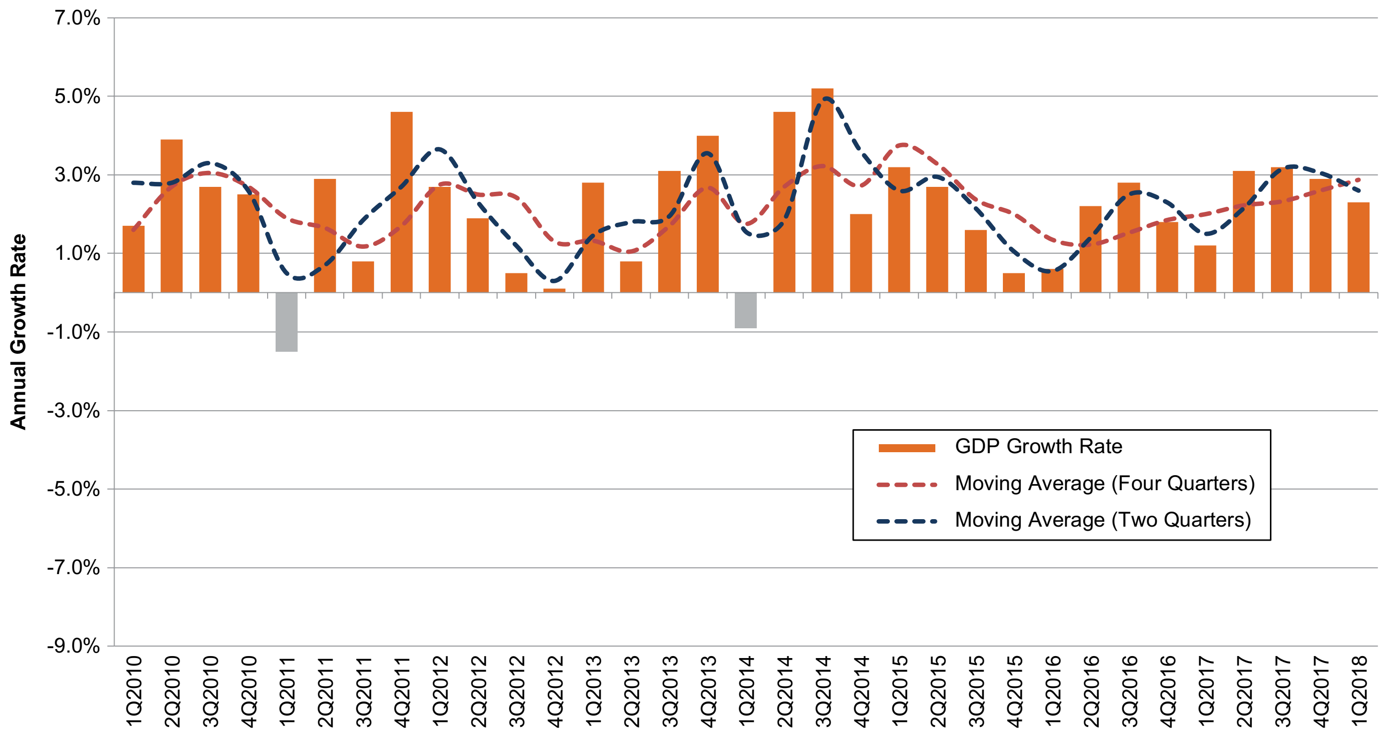
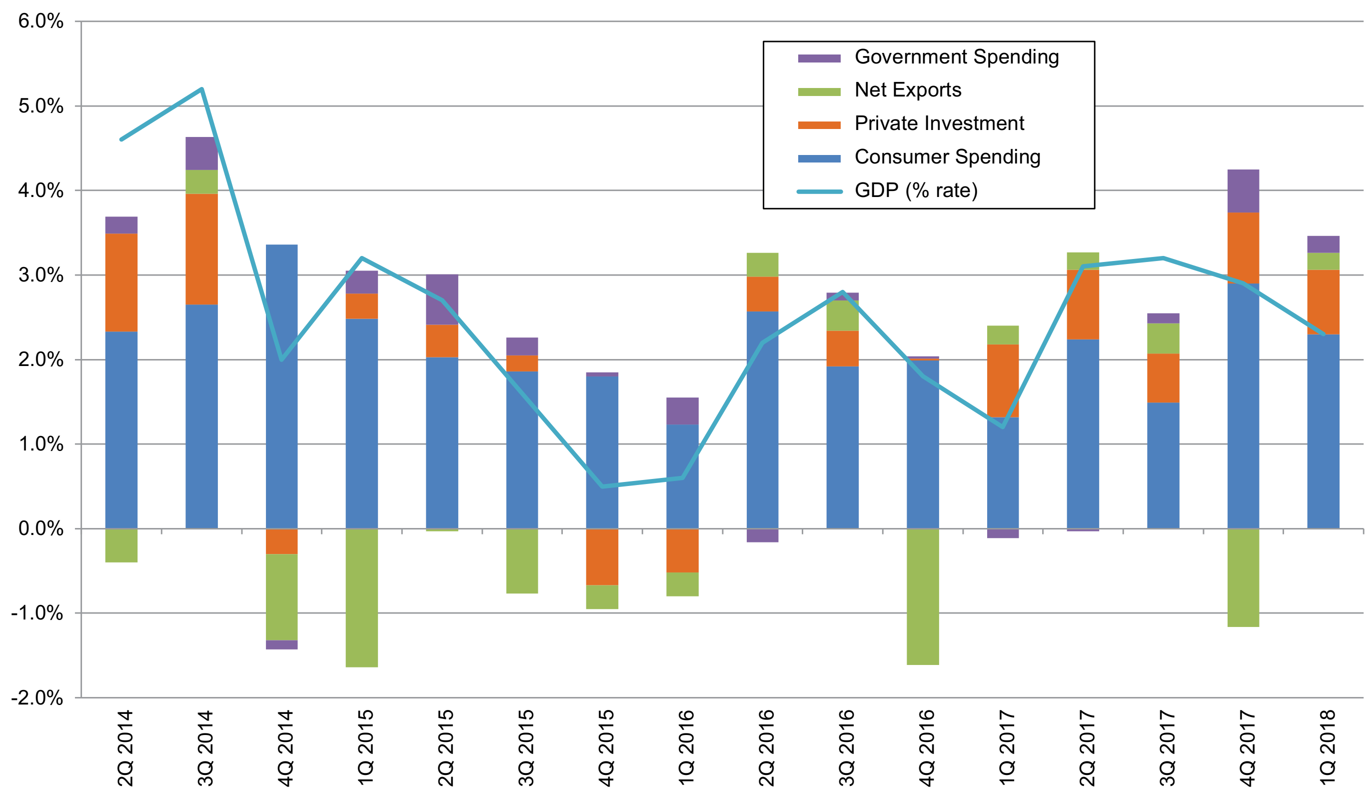
EXHIBIT 1A: Real Gross Domestic Product and Moving Averages



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

EXHIBIT 1B: GDP Components—Contribution to GDP Rate



are forecasting strong revenues, healthy cash flows, and increased capital spending, trends that suggest small-business owners are optimistic about the direction of the economy.

The first-quarter survey asked small-business owners about the current presidential administration and its impact on their businesses. More than half of respondents, or 58%, said the current administration understands the issues that are important to their business, and another 58% said the administration cares about these issues. Fifty-six percent of small-business owners prioritize these issues, and 55% said the administration is effective at addressing them. When asked to give the current administration a grade on its performance on issues important to their businesses over the past year, about half, or 49%, gave the administration an “A” or “B,” and a quarter of respondents gave the administration an “F.”

When it came to key issues impacting small-business owners, 61% said the current presidential administration is doing a very good or somewhat good job of improving the economy and 53% said the administration is doing a very good or somewhat good job in creating jobs. When asked about taxes, 50% said the current administration is

EXHIBIT 2A: 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	-1.0	-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	0.50	1.40	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	2.80	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.

doing a very good or somewhat good job on tax reform that impacts small-business owners specifically and 49% said it is doing a very good or somewhat good job on tax reform overall. When asked about regulation reform, which has been another key issue for small-business owners, 46% responded that the current administration is doing a very good or somewhat good job of regulation reform that impacts small-business owners.

The survey also asked owners about noneconomic issues, and 50% said the current administration is doing a very or somewhat poor job on healthcare reform. Forty-five percent of small-business owners said the current administration is doing a very or somewhat poor job on international relations, and 38% felt the same way about infrastructure improvements, such as roads and bridges.

Lastly, the first-quarter survey asked small-business owners to identify the most important challenges facing their businesses today. Attracting customers and finding new business rose to the top of the list, as stated by 16% of small-business owners, while hiring and retaining high-quality staff was next, with 13% of small-business owners citing this as a challenge. Other top concerns included financial stability and cash flow, at 10%; taxes, at 11%; government regulations, at 7%; and competition/large corporations/internet, at 7%.

EXHIBIT 2B: Historical Energy Data 2005-2017 and Forecasts 2018-2019

	HISTORICAL DATA													EIA FORECASTS		% CHANGE	
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2018	2019
Brent crude oil spot price*	54.60	65.18	72.49	96.94	61.75	79.64	111.33	111.65	108.56	98.89	52.32	43.74	54.15	63.36	62.68	17.0%	-1.1%
West Texas intermediate crude oil price*	56.65	66.06	72.34	99.67	61.96	79.50	94.90	94.08	97.98	93.17	48.67	43.33	50.79	59.37	58.68	16.9%	-1.2%
Heating oil retail price**	219.50	247.30	266.40	350.90	252.40	297.10	365.70	378.60	378.28	371.35	264.92	210.28	250.66	283.76	285.01	13.2%	0.4%
Gasoline regular grade retail price**	227.10	257.60	280.60	325.70	234.90	278.10	352.60	362.70	350.55	336.38	242.83	214.92	241.68	264.47	260.67	9.4%	-1.4%
Electricity residential retail price***	9.43	10.40	10.65	11.26	11.51	11.54	11.72	11.88	12.13	12.52	12.65	12.55	12.90	13.19	13.62	2.2%	3.3%
Electricity commercial retail price***	8.72	9.46	9.65	10.26	10.16	10.19	10.23	10.09	10.26	10.74	10.64	10.37	10.68	10.96	11.05	2.6%	0.8%
Electricity industrial retail price***	5.57	6.16	6.39	6.96	6.83	6.77	6.82	6.67	6.89	7.10	6.91	6.76	6.91	7.20	7.30	4.2%	1.4%
Natural gas Henry Hub spot price****	8.81	6.74	6.98	8.86	3.95	4.39	4.00	2.75	3.73	4.39	2.63	2.51	2.99	2.99	3.07	0.0%	2.7%
Airline Ticket Price Index	236.60	247.30	251.70	282.00	258.00	278.20	304.00	305.00	312.70	307.70	292.23	282.56	275.78	294.08	322.61	6.6%	9.7%
Producer Price Index: Petroleum	1.65	1.93	2.14	2.72	1.76	2.25	2.99	3.07	2.95	2.78	1.76	1.44	1.75	1.97	1.93	12.8%	-2.0%
Producer Price Index: all commodities	1.57	1.65	1.73	1.90	1.73	1.85	2.01	2.02	2.03	2.05	1.90	1.85	1.94	2.02	2.05	4.1%	1.5%

Source of historical and forecast data: U.S. Energy Information Administration.

Notes:

*Dollars per barrel

**Cents per gallon, U.S. average

***Cents per kilowatt-hour, U.S. average

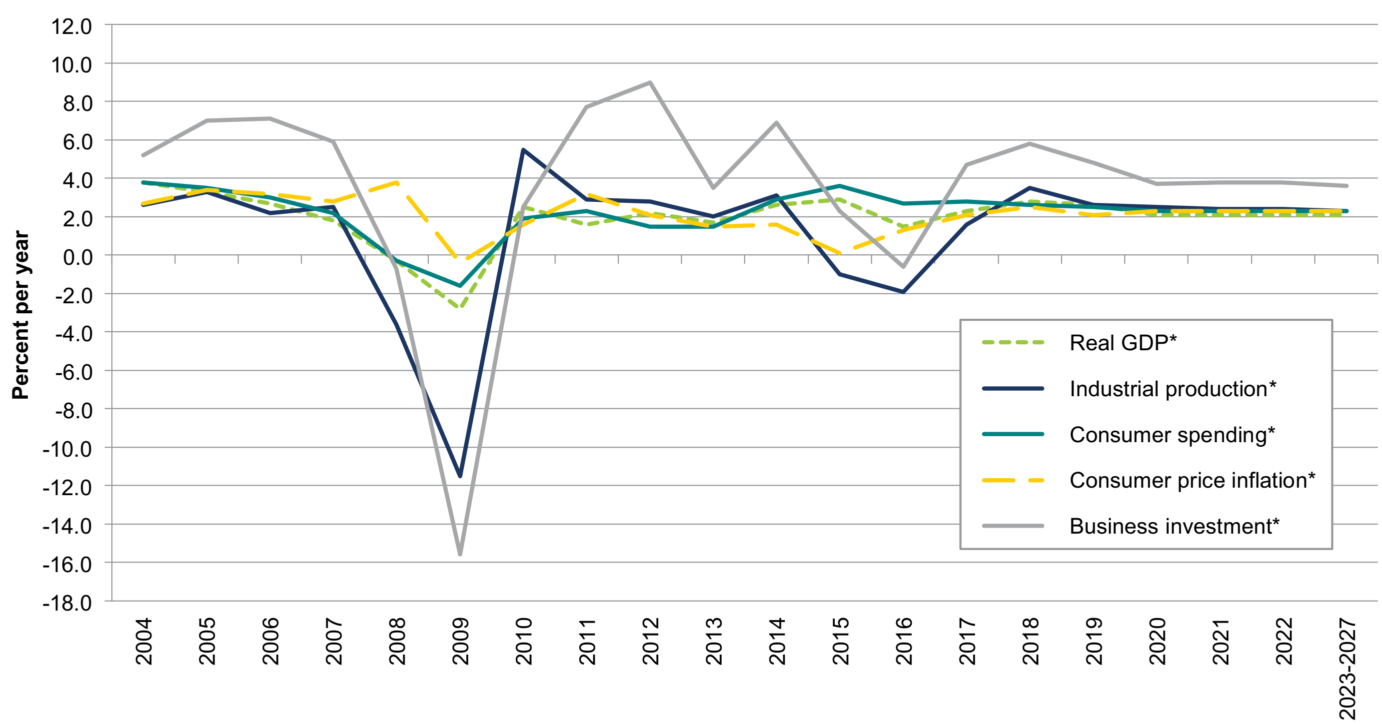
****Dollars per million Btu

The Present Situation Index (how business owners gauge their perception of the past 12 months) declined 1.0 point, to a reading of 42.0, but the future expectations index (how business owners expect their businesses to perform over the next 12 months) increased 5.0 points, to 65.0, its highest score since December 2006. During the first quarter of 2017, the Present Situation Index was at 40.0 and the future expectations index was at 60.0.

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.

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. However, evidence of emerging price pressures, such as the proposed tariff on foreign steel, tempered the enthusiasm.

EXHIBIT 3: 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.

U.S. long-term growth slowed in the first quarter after increasing at an annual rate of 2.3% based on the Bureau of Economic Analysis' advanced estimate of gross domestic product. The first quarter rate is below the 2.9% growth from last quarter, although economists polled by *New York Times* had forecasted a slowdown for this quarter. Looking ahead in 2018, the poll also stated that the economists expect GDP to hover around 3.0% for the remainder of the year, noting that the recent passing of new tax reform policies are likely to encourage businesses to increase investments and spending, which could boost GDP figures in 2018.

The manufacturing sector fell 1.5 percentages points in March, to 59.3%, as measured by the Institute for Supply Management's manufacturing index. The report shows the economic activity in the manufacturing sector expanded in March and the overall economy grew for the 107th 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.

The Federal Reserve reported that total industrial production increased 0.5% in March, which marked the second consecutive month of gains. The March reading beat analysts' expectations for a gain of 0.4%, according to a poll by Reuters. In addition, the percentage of industrial production in use rose 0.3 percentage point in March, to 78.0%, its highest level in three years. At 107.2% of its 2012 average, total industrial production in March was 4.3% above its level from one year ago. Capacity utilization for the industrial sector climbed 0.3 percentage point in March, to 78.0%, a rate that is 1.8 percentage points below its long-run (1972 to 2017) average.

As measured by the Institute for Supply Management's services index, the services sector decreased 0.7 percentage point in March, to 58.8%. The March report represents continued growth in the nonmanufacturing sector for the 98th 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 posted mixed results in March, as three of the five major U.S. stock indexes posted losses. The Dow Jones Industrial Average declined 3.6% in March, while the Nasdaq Composite fell 2.9%, and the S&P 500 Index declined 2.5%. The S&P MidCap 400 posted a modest gain of 0.9%, and the Russell 2000 advanced 1.3% in March. Volatility, as measured by the Chicago Board Options Exchange Volatility Index, eased in March when compared to February, as the index ranged from a reading of 13.3 to 26.2 and closed at an average 19.0 on the month.

For most of the quarter, the yield on the benchmark 10-year U.S. Treasury bond steadily rose. At the start of the quarter, the 10-year Treasury yield was 2.46%. By the end of the quarter, the rate was 2.74%.

Housing starts rebounded in March after falling 7.0% in February. Housing starts were at an adjusted annual rate of 1.319 million units, which is 1.9% above last month's figures. Housing starts posted gains in two of the four regions, with strong gains of 22.4% in the Midwest. Over the past 12 months, housing starts are up 10.9%. Building permits authorized, which can be seen as a sign of how much construction is in the pipeline, increased by 2.5% in March and are up 7.5% from the level of a year ago.

Existing-home sales grew for the second consecutive month in March, as sales climbed 1.1% for the month. Despite the rise in March's sales pace, sales are down 1.2% from one year ago. March's report saw sales of existing homes post a seasonally adjusted annual rate of 5.60 million homes, up from 5.54 million in February. Distressed home sales remained unchanged, at 4% of sales, in March but are down from 6% from one year ago.

EXHIBIT 4: Economic Indicators Historical Data

	MONTHLY DATA											
	4/17	5/17	6/17	7/17	8/17	9/17	10/17	11/17	12/17	1/18	2/18	3/18
Real GDP			3.1			3.2			2.9			2.3
Consumer spending			3.3			2.2			4.0			1.1
Business investment			6.7			4.7			6.8			6.1
Total government spending			-0.2			0.7			3.0			1.2
Exports			3.5			2.1			7.0			4.8
Imports			1.5			-0.7			14.1			2.6
CPI (one-month % change)	0.2	-0.1	0.0	0.1	0.4	0.5	0.1	0.3	0.2	0.5	0.2	-0.1
Unemployment rate	4.4	4.3	4.4	4.3	4.4	4.2	4.1	4.1	4.1	4.1	4.1	4.1
PMI	55.3	55.5	56.7	56.5	59.3	60.2	58.5	58.2	59.3	59.1	60.8	59.3
NMI	57.3	57.1	57.2	54.3	55.2	59.4	59.8	57.3	56.0	59.9	59.5	58.8
HMI	68.0	69.0	66.0	64.0	67.0	64.0	68.0	69.0	74.0	72.0	72.0	70.0
Housing starts (millions)	1.154	1.129	1.217	1.185	1.172	1.159	1.261	1.299	1.207	1.339	1.295	1.319
Building permits (millions)	1.228	1.168	1.275	1.230	1.272	1.225	1.316	1.303	1.300	1.377	1.321	1.354

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

	QUARTERLY DATA											
	2Q 14	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15	4Q 15	1Q 16	2Q 16	3Q 16	4Q 16	1Q 17
Real GDP	4.6	5.2	2.0	3.2	2.7	1.6	0.5	0.6	2.2	2.8	1.8	1.2
Consumer spending	3.5	3.9	5.1	3.7	3.0	2.8	2.7	1.8	3.8	2.8	2.9	1.9
Business investment	9.4	10.5	-2.3	2.2	2.9	1.5	-5.1	-4.0	3.3	3.4	0.2	7.2
Total government spending	1.1	2.1	-0.6	1.5	3.4	1.2	0.3	1.8	-0.9	0.5	0.2	-0.6
Exports	9.2	0.6	4.9	-4.5	3.7	-4.0	-2.3	-2.6	2.8	6.4	-3.8	7.3
Imports	10.2	-1.0	10.8	6.7	3.3	1.7	0.0	-0.2	0.4	2.7	-3.4	4.3
CPI (3-month % change)	0.4	0.2	-0.5	-0.1	0.6	0.0	0.2	0.1	0.7	0.3	0.3	0.3
Unemployment rate	6.1	5.9	5.6	5.5	5.3	5.1	5.0	5.0	4.9	4.9	4.7	4.5
PMI	55.3	55.8	54.9	52.3	53.1	50.0	48.0	51.8	53.2	51.5	54.5	56.6
NMI	56.7	57.9	56.9	56.9	56.2	56.7	55.8	54.5	56.5	57.1	56.6	55.6
HMI	49.0	59.0	58.0	52.0	60.0	61.0	60.0	58.0	60.0	65.0	69.0	71.0
Housing starts (millions)	0.928	0.999	1.081	0.974	1.201	1.209	1.138	1.128	1.190	1.062	1.268	1.189
Building permits (millions)	1.015	1.062	1.070	1.079	1.363	1.125	1.218	1.115	1.193	1.270	1.266	1.260

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

	YEARLY DATA											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP	2.7	1.8	-0.3	-2.8	2.5	1.6	2.2	1.7	2.6	2.9	1.5	2.3
Consumer spending	3.0	2.2	-0.3	-1.6	1.9	2.3	1.5	1.5	2.9	3.6	2.7	2.8
Business investment	7.1	5.9	-0.7	-15.6	2.5	7.7	9.0	3.5	6.9	2.3	-0.6	4.7
Total government spending	1.5	1.6	2.8	3.2	0.1	-3.0	-1.9	-2.9	-0.6	1.4	0.8	0.1
Exports	9.0	9.3	5.7	-8.8	11.9	6.9	3.4	3.5	4.3	0.4	-0.3	3.4
Imports	6.3	2.5	-2.6	-13.7	12.7	5.5	2.2	1.1	4.5	5.0	1.3	4.0
Consumer Price Index	3.2	2.8	3.8	-0.4	1.6	3.2	2.1	1.5	1.6	0.1	1.3	2.1
Unemployment rate	4.6	4.6	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.9	4.4
Housing starts (millions)	1.801	1.355	0.906	0.554	0.587	0.609	0.781	0.925	1.003	1.112	1.174	1.202
Building permits (millions)	1.838	1.398	0.905	0.583	0.605	0.624	0.830	0.991	1.052	1.183	1.190	1.263

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

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

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

NAR's Realtors Confidence Index (RCI) for current conditions increased 4.0 points in March. 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.

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 than they were in 2016, as sales volumes advanced at a solid rate of 9.1%. Capitalization rates for small-cap real estate markets in 2017 were 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.

1. GROSS DOMESTIC PRODUCT

The Bureau of Economic Analysis (BEA) reported that the nation's economy—as indicated by GDP—grew at an annual rate of 2.3% in the first quarter of 2018. GDP growth for the first quarter represents a decrease from the revised figure of 2.9% from the fourth-quarter 2017. The first quarter results reflected positive contributions from nonresidential fixed investment, personal consumption expenditures (PCE), exports, private inventory investment, federal government spending, and state and local government spending. Imports, which are a subtraction from GDP, increased. However, compared to last quarter, the deceleration in real GDP growth reflected decelerations in personal consumption expenditures, residential fixed investment, exports, and state and local government spending. These movements were partly offset by an upturn in private inventory investment.

Final sales of domestic product rose at a rate of 1.9% in the first quarter, less than the rate of 3.2% in the fourth quarter. Final sales of domestic product are GDP minus the influence of private inventory investment, which tends to be volatile from quarter to quarter. Final sales to domestic purchasers, or GDP excluding trade and inventories, rose at a rate of 1.6% in the first quarter, less than the rate of 4.5% in the fourth quarter.

At the end of the first quarter, the U.S. economy recorded its 106th consecutive month of growth since the great recession, tying it for the second longest period of economic expansion.

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

1.1 CONSUMER SPENDING

Consumer spending eased in the first quarter of 2018, coming in at a rate of 1.1%. The first quarter rate was down from the rate of 4.0% in the prior quarter. In 2017, consumer spending grew at a rate of 2.8%. Consumer spending, also referred to as "personal consumption," accounts for approximately 70% of the U.S. GDP.

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

Consumer spending on durable goods—items meant to last three years or more, such as computers, cars, and machinery—decreased at a rate of 3.3% in the first quarter, after rising 13.7% in the fourth quarter. Consumer spending on durable goods grew 6.7% in 2017. Overall, consumer spending on durable goods subtracted 0.25 percentage point from the GDP. Consumer spending on nondurable goods—items such as food and gasoline—eased in the first quarter, reporting growth of 0.1%, which is a decrease from the rate of 4.8% in the prior quarter. Consumer spending on nondurable goods was at 2.4% in 2017.

Service expenditures grew at a rate of 2.1% in the first quarter of 2018, down from the 2.3% rate in the prior quarter. In 2017, service expenditures grew at 2.2%.

U.S. retail and food services sales rebounded 0.6% in March, ending three consecutive months of declines. The March reading was the largest monthly increase since November 2017. A 2.0% gain in auto sales and big-ticket items helped fuel this month's rise. Economists polled in a survey by CNBC expected a gain of 0.3% in March, noted the rise in March was fueled by the impact from the consumer tax cuts, and suggested solid spending growth in the months ahead. 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 March, with eight of the 13 major categories seeing higher sales. Sales at health and personal care stores rose 1.4% from last month, while sales at nonstore retailers rose 0.8% in March.

The categories to show the biggest declines were sales at sporting goods, hobby, book, and music stores, which fell 1.8% from last month, while sales at clothing and clothing accessories stores fell 0.8% from last month. Sales at building material and garden equipment and supplies dealers retreated 0.6%, and sales at gasoline stations declined 0.3%.

The retail sales figures over the past 12 months also increased 4.5% from last year. The year-over-year increase 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 12 of the 13 major categories showed the broad-based posted gains. Sales at nonstore retailers and gasoline stations both hiked up 9.7%.

Core retail sales increased 0.2% in March. The core retail sales figure excludes sales of automobiles, gasoline, building materials, and food services and corresponds most closely with the consumer-spending component of gross domestic product. Over the past 12 months, core retail sales have grown 4.5%.

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

1.2 GOVERNMENT SPENDING

Total government spending increased at a rate of 1.2% in the first quarter of 2018, after rising of 3.0% in the prior quarter. The first-quarter figures in government spending added 0.20 percentage point to the GDP rate. In 2017, government spending increased 0.02%.

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

Federal government spending increased at a rate of 1.7% in the first quarter. This was the fourth consecutive quarterly increase. Federal government spending added 0.11 percentage point to the first-quarter GDP rate. Overall, government spending has been an absentee player in GDP growth since 2010.

National defense spending increased at a 1.8% rate in the first quarter of 2018. National defense spending improved 0.2% in 2017. The first-quarter rise marked four consecutive quarters of increases. Federal nondefense

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

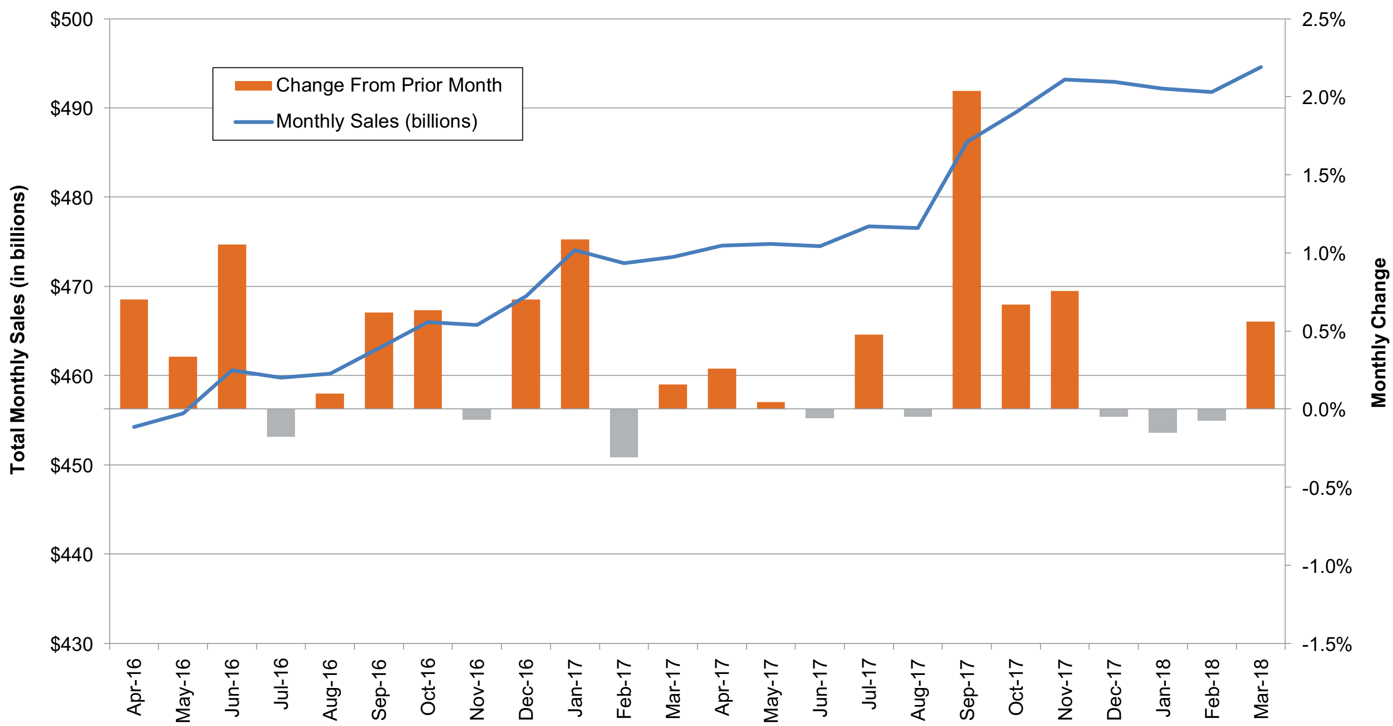
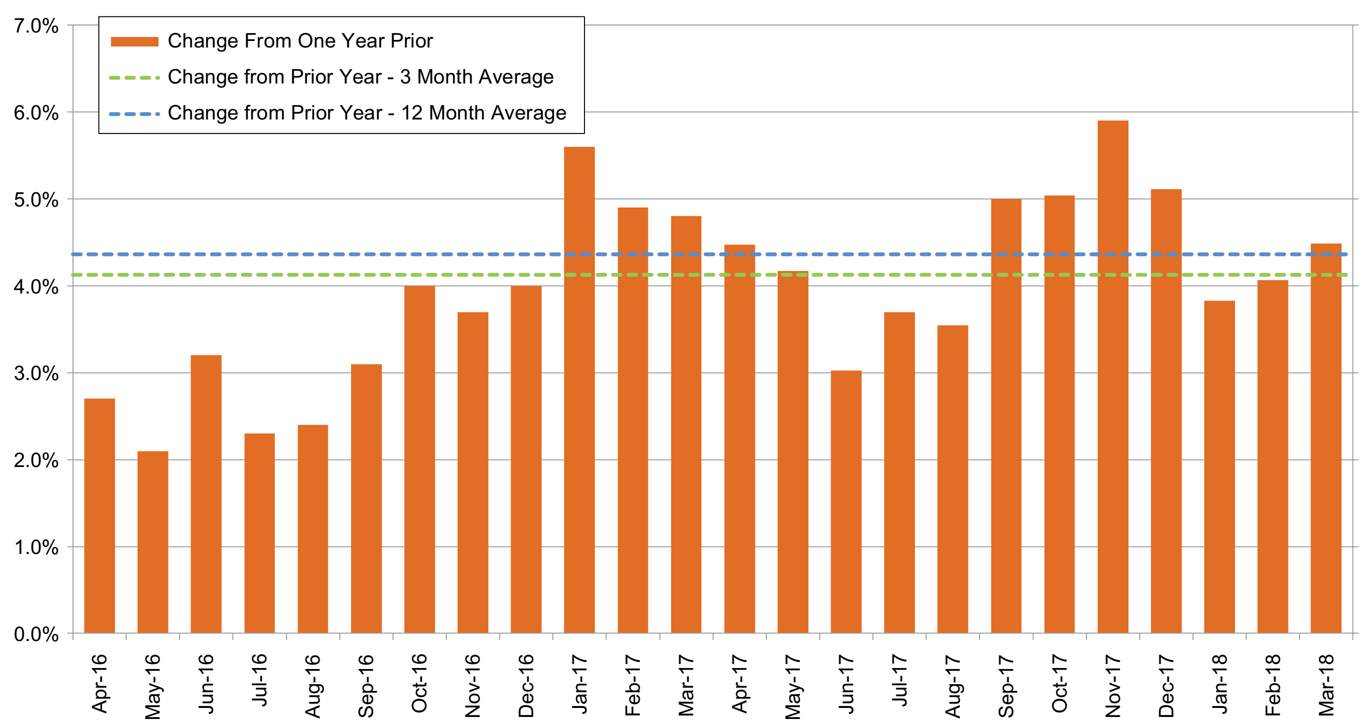


EXHIBIT 5B: Total U.S. Retail Sales Change From One Year Prior—Past 24 Months With Averages



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

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

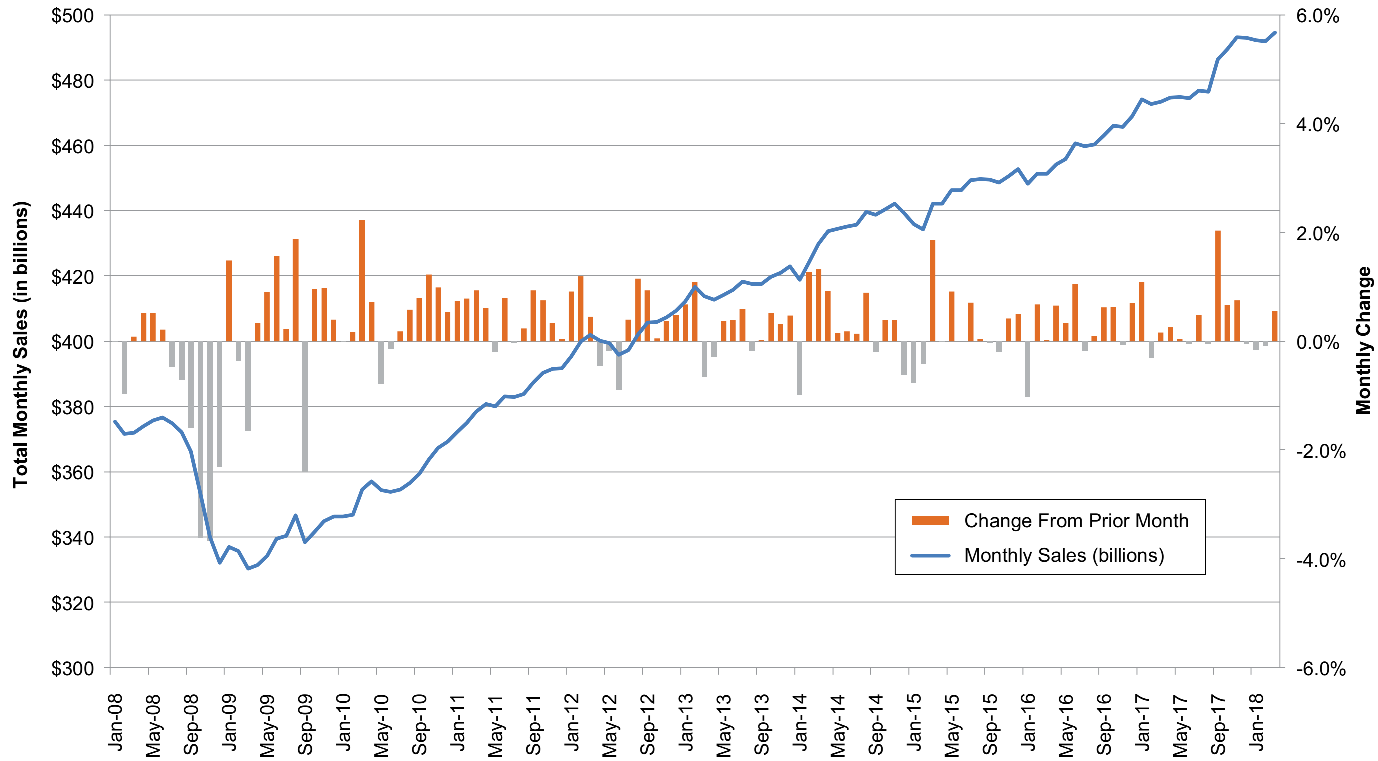
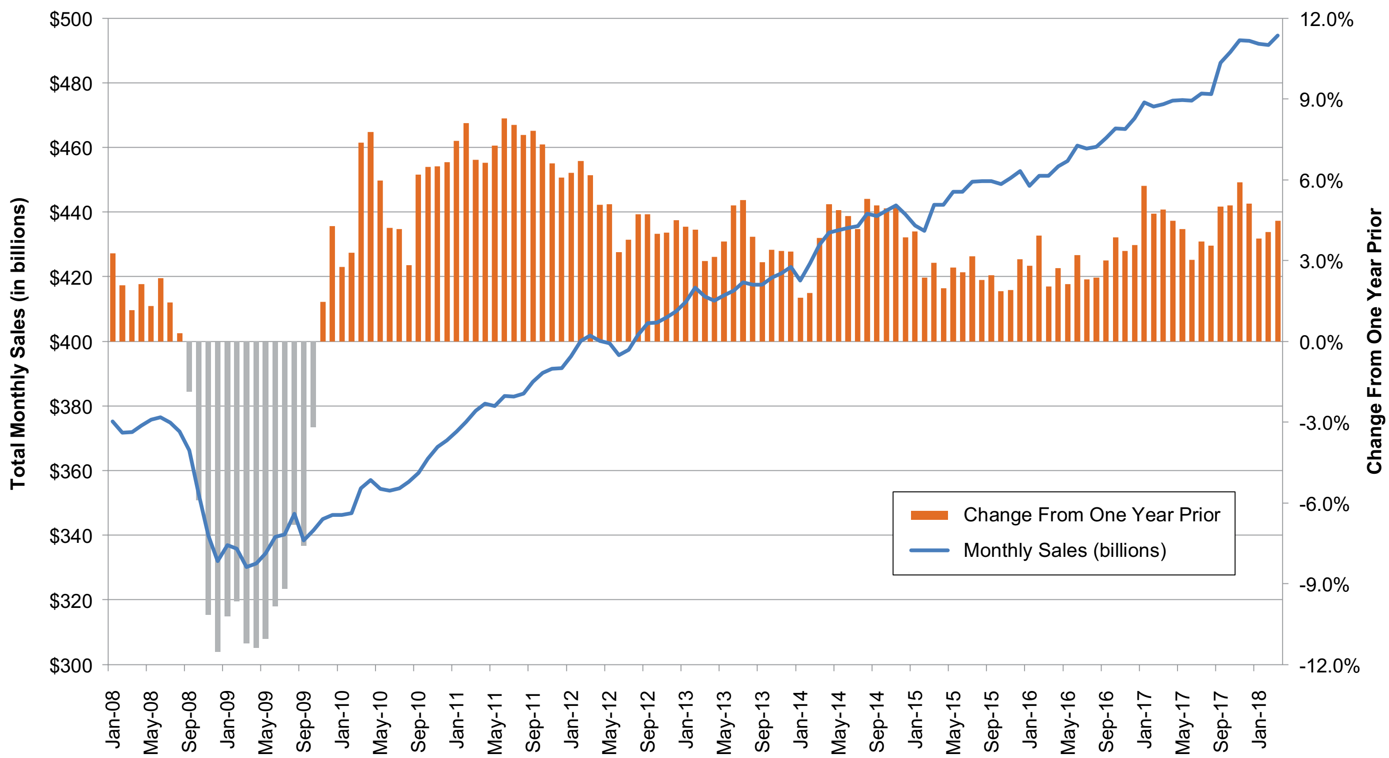


EXHIBIT 5D: Total Retail Sales—Percent Change From One Year Prior Since 2008



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

spending improved at a rate of 1.6% in the first quarter, ending four consecutive months of declines after posting 11 consecutive quarters of increased spending.

State and local government spending improved at a rate of 0.8% in the first quarter. This marked the third consecutive quarter of gains. In 2017, state and local government spending grew at 0.1%.

1.3 FIXED INVESTMENT

Business investment, also referred to as "nonresidential fixed investment," rose at a rate of 6.1% in the first quarter of 2018. This was the eighth consecutive quarterly rise in business investment and stemmed from increased business spending on equipment and intellectual property products. The rise in business investment added 0.76 percentage point to the first-quarter GDP.

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

Business spending on structures increased at an annual rate of 12.3% in the first quarter, rising from the 6.4% increase in the prior quarter. Business spending has increased six times in the past eight quarters. Business spending on equipment increased for the sixth consecutive quarter, rising at a rate of 4.7% in the first quarter. Previously, business spending had a streak of four consecutive quarters of decline. Business spending on intellectual property products continued to be positive, rising for the ninth time in the past 10 quarters, and increased at a rate of 3.6%.

Residential fixed investment, often considered a proxy for the housing market, reported no change in the first quarter. Prior, residential fixed investment had decreased for two consecutive quarters. The first-quarter figure in residential fixed investment contributed no change to the first-quarter GDP.

1.4 BUSINESS INVENTORIES

Businesses' inventory investments increased slightly in the first quarter of 2018, after falling in the fourth quarter. Business inventory investment added 0.43 percentage point to the first-quarter GDP.

1.5 EXPORTS AND IMPORTS

The GDP report showed that America's trade deficit shrunk in the first quarter. Exports reported growth of 4.8% in the first quarter of 2018, which is down from 7.0% in the prior quarter. Exported goods reported at a rate of 6.1% in the first quarter, which is down from their rate of 11.6% in the fourth quarter. Exported services increased at a rate of 2.4%.

Imports, which are subtracted in the calculation of GDP, climbed at a rate of 2.6% in the first quarter, down from the rate of 14.1% in the previous quarter. Imported goods grew at a rate of 2.1% in the first quarter, while imported services increased at a rate of 4.8%.

Net exports (the value of exports minus the value of imports) added 0.2 percentage point to the first-quarter GDP, after subtracting 1.16 point in the prior quarter.

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

2. CONSUMER PRICES AND INFLATION RATES

Consumer prices decreased 0.1% in March after rising 0.2% last month. The March reading marked the first drop in the index in 10 months and was weighed down by a decline in the cost of gasoline. Despite the decline in March, concerns over rising inflation loom over the report as, over the past 12 months, the Consumer Price Index is up 2.4%, which marked the largest annual gain in a year. Economists had forecasted CPI to report no change on the month, according to a poll by CNBC. 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 0.2% in March. This made 12 consecutive months of gains. Over the past year, the index has increased 2.1%. The shelter index increased 0.4%, with the indexes for rent and owners’ equivalent rent both rising 0.3%. The index for lodging away from home increased 2.3% in March, which marked the first rise for the index in 2018. The apparel index fell 0.6% in March but had risen for two consecutive months prior. The personal care index increased 0.3% in March. The index for motor vehicle insurance continued to rise, increasing 0.3%. The airline fares index increased 0.6%, the same increase as in February. The indexes for alcoholic beverages and household furnishings and operations both increased 0.1% in March, while the indexes for new vehicles and recreation were unchanged.

The medical care index rose 0.4%, with the hospital services index rising 0.6% and the physicians’ services index increasing 0.2%, but the index for prescription drugs declined 0.2%.

The food index rose 0.1% in March after being unchanged in February. The index for food away from home increased 0.1% in March. The index for food at home also increased 0.1% as four of the six major grocery store food group indexes rose. Over the past 12 months, the index has risen 1.3%.

The energy index fell 2.8% in March after rising in three of the last four months. The gasoline index fell 4.9% in March after a 0.9% decrease in February. The index for natural gas also declined in March, falling 1.2% after rising 4.7% in February. The index for electricity was unchanged in March.

The energy index increased 7.0% over the past year, with all the major component indexes rising. The gasoline index increased 11.1%, and the fuel oil index rose 20.0%. The electricity index increased 2.2%, and the index for natural gas advanced 3.4%.

Core CPI rose 0.2% in March, which marked 11 consecutive months of gains. Core CPI has risen 2.1% over the past 12 months, which is the largest year-over-year advance since February 2017. In addition, the core CPI figure is well above the 1.8% average annual increase measured over the past 10 years.

The Chained Consumer Price Index for all urban consumers increased 0.2% in March. Over the past 12 months, the index has risen 2.2%. 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.

The Producer Price Index (PPI) increased 0.3% in March and follows a 0.2% gain in February, on a seasonally adjusted basis. This month’s increase surpassed expectations by economists for a gain of 0.1%, according to a poll by Reuters, which supports the view that inflation is accelerating toward the Federal Reserve’s goal of 2.0%

inflation. Over the past 12 months, PPI has grown at an annual rate of 3.0%. Over 70% of the increase in March is attributable to a 0.3% advance in the index for final demand services. The prices for final demand goods also moved up 0.3%. 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 0.4% in March, the same as in both February and January. Over the past 12 months, prices for final demand less foods, energy, and trade services increased 2.9%, the largest advance since 12-month percentage change data were available in August 2014.

A major factor in the March advance in prices for final demand services was the index for outpatient care, which climbed 0.4%. The indexes for machinery, equipment, parts, and supplies wholesaling; cable and satellite subscriber services; airline passenger services; food and alcohol wholesaling; and hospital inpatient care also moved higher. In contrast, margins for automotive fuels and lubricants retailing fell 10.4%. The indexes for apparel, footwear, and accessories retailing and wireless telecommunications services also decreased.

Prices for final demand goods moved up 0.3% in March, after moving down 0.1% in February. Most of the increase can be traced to prices for final demand foods, which advanced 2.2%. The index for final demand goods less foods and energy climbed 0.3%. Conversely, prices for final demand energy declined 2.1%.

Core PPI rose 0.3% in March and is up 2.9% over the past 12 months. This is the largest annual gain since August 2014 and follows a gain of 2.7% in February. The increase in the annual Core PPI figure suggests inflationary pressures are likely to build in 2018.

(See Exhibit 6 for historic PPI figures.)

3. ENERGY PRICES

The Energy Information Administration (EIA) reported that the spot price for a barrel of West Texas Intermediate (WTI) crude oil was $62.90 at the end of the first quarter, up from $55.27 at the end of the fourth quarter and $51.64 per barrel from a year ago. Forecasts project prices to average $59.37 in 2018 and $58.68 in 2019.

The regular retail gas price (conventional areas) was at $2.58 per gallon at the end of the first quarter of 2018 and is projected to be at $2.78 per gallon at the end of the second quarter of 2018. The price is above what it was from one year ago, when the price was $2.33 per gallon in 2017. Prices are expected to rise to an average of $294 per gallon in 2018, up from $2.42 per gallon in 2017.

The Henry Hub natural gas spot price was $3.01 per million Btu (MMBtu) at the end of the first quarter, higher than the price of $2.90 per MMBtu at the end of the previous quarter but unchanged from one year ago.

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

4. INTEREST RATES

The Federal Open Market Committee (FOMC) met twice during the first quarter of 2018, issuing a statement from each meeting. In the first meeting, the FOMC cited that, despite the continued strengthening of the labor market and an economy that has been rising at a solid rate, inflation measurements remain below the 2.0% levels, it voted

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

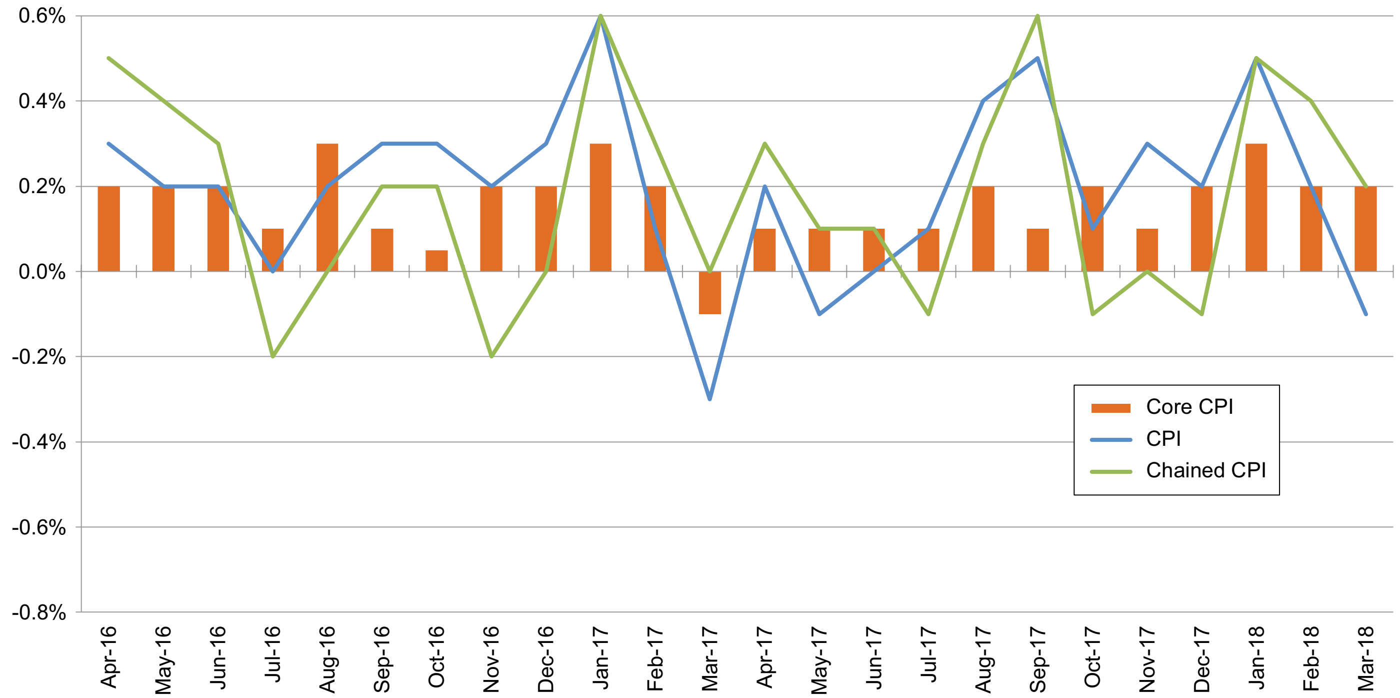
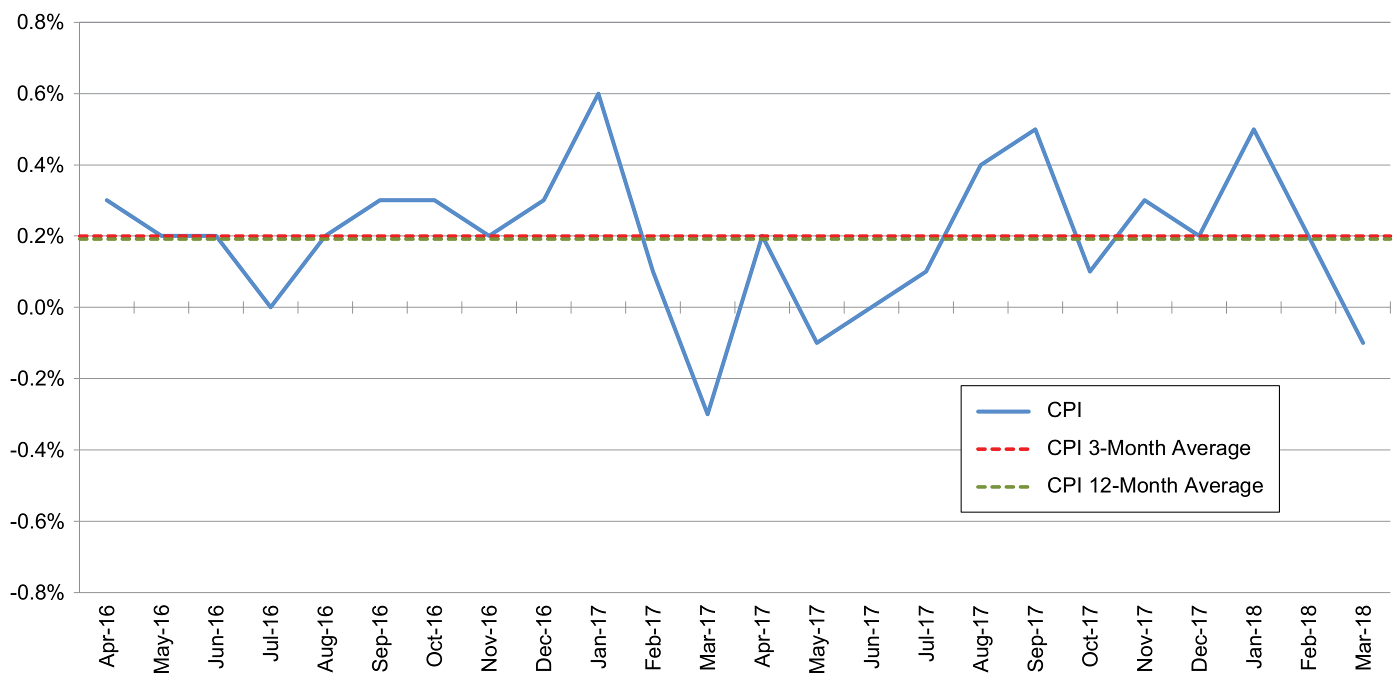


EXHIBIT 6B: U.S. Consumer Price Index—Past 24 Months With Averages



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

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

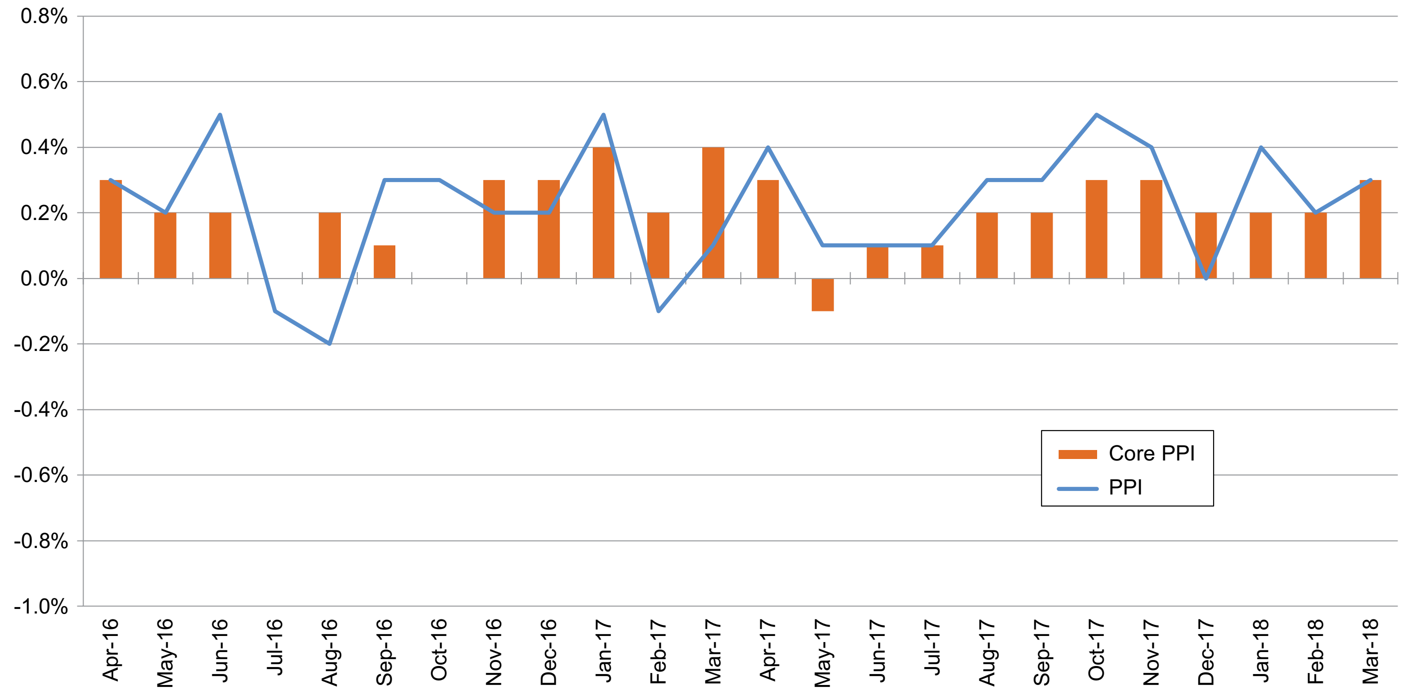
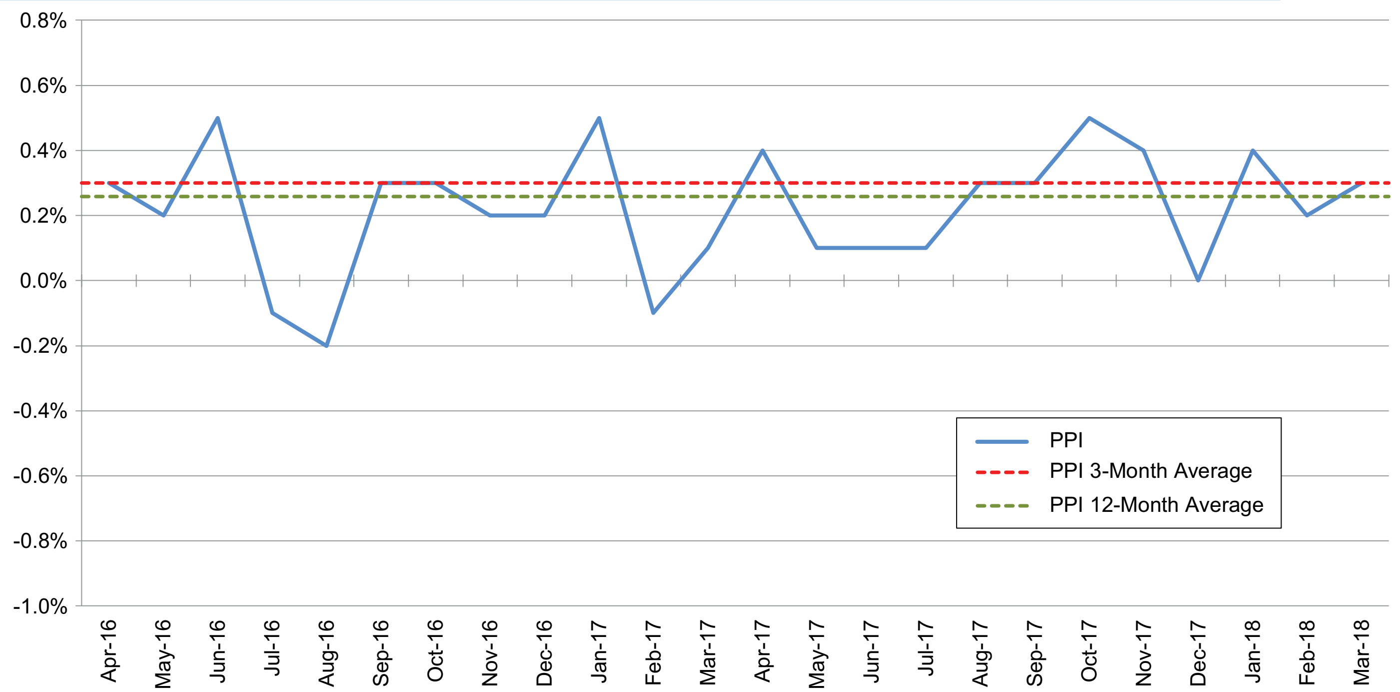


EXHIBIT 6D: U.S. Producer Price Index—Past 24 Months With Averages



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

to maintain the target range for the federal funds rate one-quarter basis point, to between 1.25% and 1.50%. The federal funds rate is the interest rate at which a commercial bank lends immediately available funds in balances at the Federal Reserve to another commercial bank. The FOMC establishes a target rate and expands or contracts the money supply with the aim that the federal funds rate, a market rate, will approximate the target rate. In coming to the decision, however, the Federal Reserve appeared divided as noted in its meeting minutes.

During the second meeting in March, notably the first meeting with Jerome Powell as the Fed's chairman, the FOMC voted to raise the target range for the federal funds rate to between 1.50% and 1.75%. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2% inflation. The Committee currently expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will continue to strengthen. Inflation is expected to remain low in the near term, in part because of the further declines in energy prices, but to rise to 2% over the medium term as the transitory effects of declines in energy and import prices dissipate and the labor market strengthens further. The Committee is closely monitoring global economic and financial developments and is assessing their implications for the labor market and inflation and for the balance of risks to the outlook.

Based on the most recent "dot plot" released by the FOMC, rate hikes now appear to forecast a steeper path of hikes in 2019 and 2020, as the economy continues to improve. Policymakers continued to project a total of three increases this year. In the forecasts, U.S. central bankers projected a median federal funds rate of 2.9% by the end of 2019, implying three rate increases next year, compared with two 2019 moves seen in the last round of forecasts in December. They saw rates at 3.4% in 2020, up from 3.1% in December, according to the median estimate.

Also at this meeting, the board of governors of the Federal Reserve voted to raise the discount rate, which was last raised in the second quarter of 2017, from 1.75% to 2.00%. The discount rate is the interest rate a commercial bank is charged to borrow funds, typically for a short period, directly from a Federal Reserve Bank. This is only the second time in a decade the FOMC has raised rates. The board of directors of each Reserve Bank establishes the discount rate every 14 days, subject to the approval of the Board of Governors.

5. UNEMPLOYMENT AND PERSONAL INCOME

Job gains reported growth in March but at their slowest pace since September 2017. In March, 103,000 jobs were added, significantly lower than the 326,000 jobs added in February and below economists' prediction for gains of 180,000 jobs, according to a survey by CNN. Nevertheless, the March job report extended the streak of monthly job gains to 90 consecutive months and still indicated the continued strength in the U.S. economy.

The March report also showed revisions to the job figures for the prior two months, which showed employment gains over this period with 50,000 jobs less than previously reported. January's figures were revised down from 239,000 jobs to 176,000 jobs, but February's figures rose from 313,000 jobs to 326,000 jobs.

Employment continued to trend up in manufacturing, healthcare, and mining. Manufacturing jobs increased by 22,000 jobs in March, with all of the gain in the durable goods component. Over the past year, manufacturing has added 232,000 jobs.

Healthcare employment saw job growth of 22,000 jobs in March, which came in line with its monthly average over the past 12 months. Employment in professional and business services added 33,000 jobs in March and has seen gains of 502,000 over the past year.

Mining saw an increase of 9,000 jobs in March and, since a recent low in October 2016, has added 76,000 jobs.

Employment in other major industries, including wholesale 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 127,000 jobs in March, compared with 67,000 jobs for large businesses and 47,000 jobs for small businesses. The report showed regional job gains in the South of 101,000 jobs, followed by gains in the West of 73,000 jobs, the Midwest of 42,000 jobs, and the East of 26,000 jobs.

The unemployment rate (also known as the U3 unemployment rate) was unchanged for the sixth consecutive month in March, at 4.1%, and remains at a 17-year low. At 4.1%, 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 percentage point in March, to 62.9%, 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, remained unchanged in March, at 60.4%. The number of long-term unemployed (those jobless for 27 weeks or more) changed little in March, at 1.3 million, which accounted for 20.3% of the unemployed.

The broadest measure of labor underutilization, the U6 unemployment rate, improved 0.2 percentage point in March, to a seasonally adjusted 8.0%. 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.

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 at its lowest level 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 predicted.

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

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

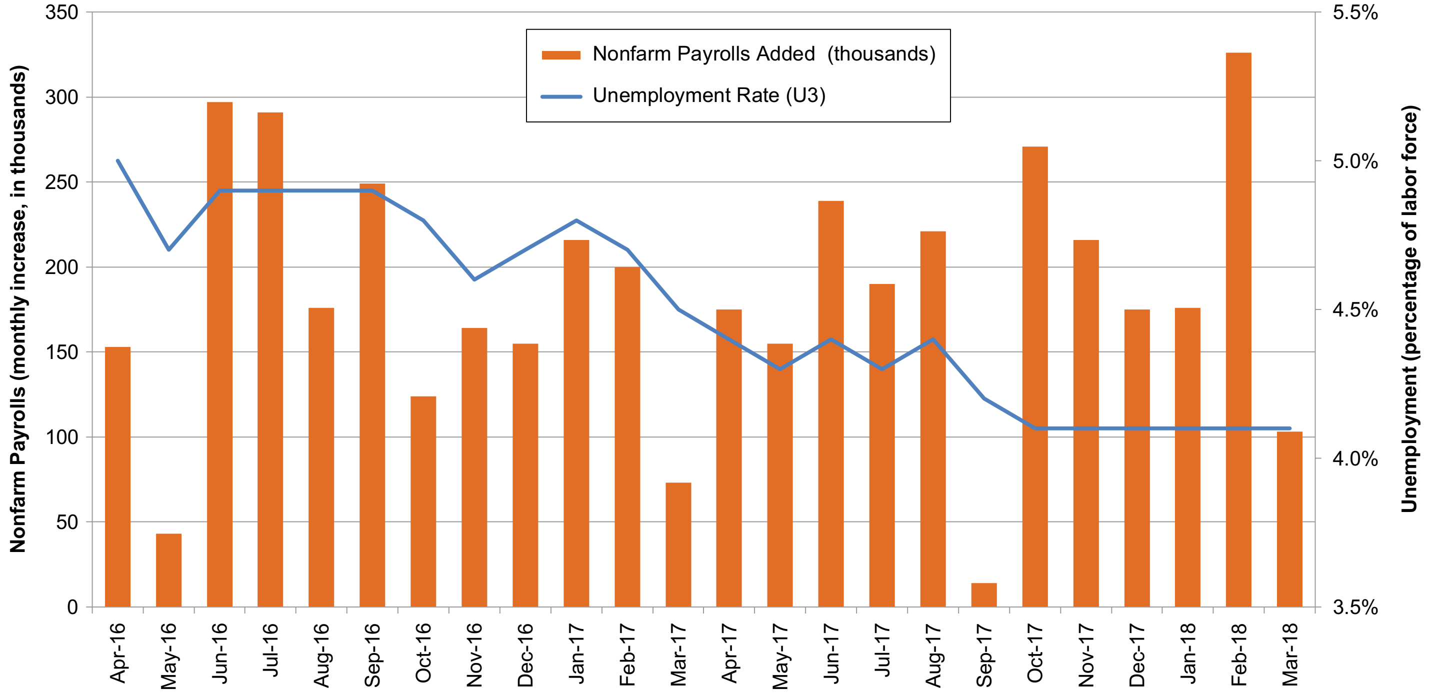
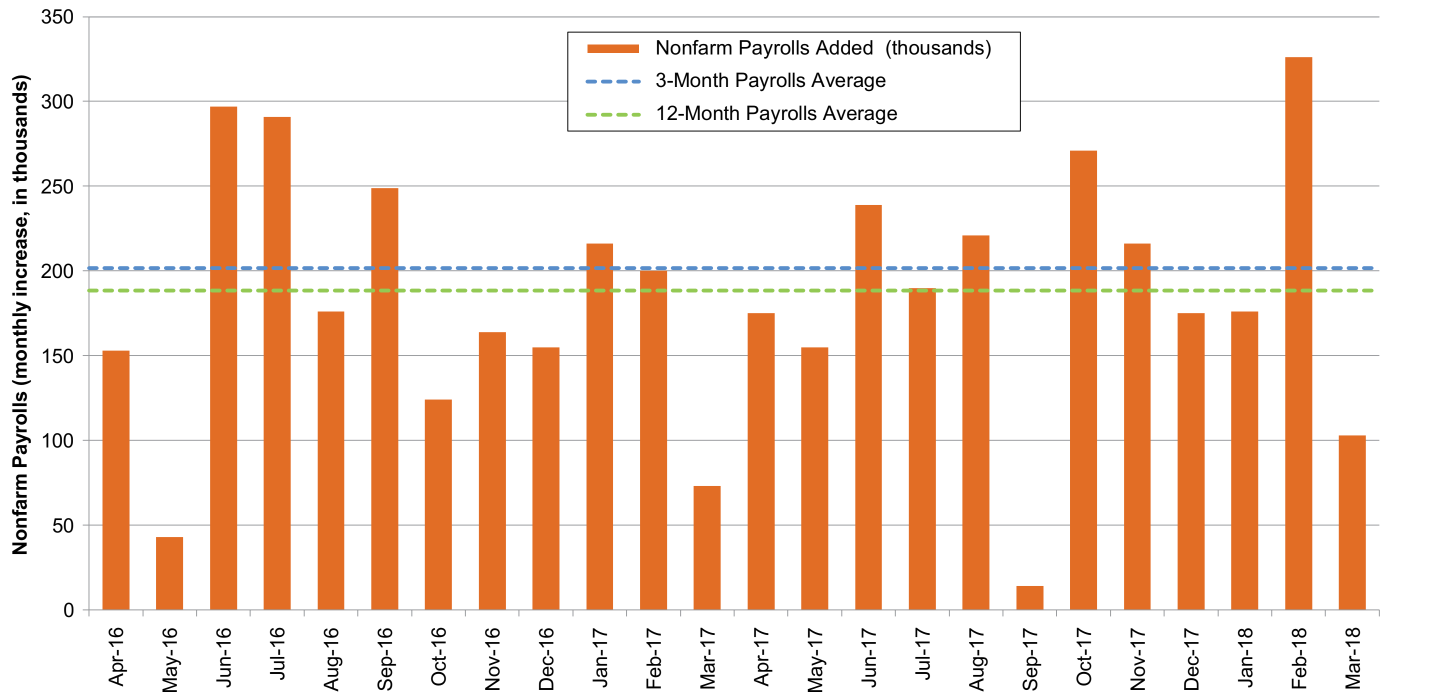


EXHIBIT 7B: U.S. Employment—Past 24 Months With Averages



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

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

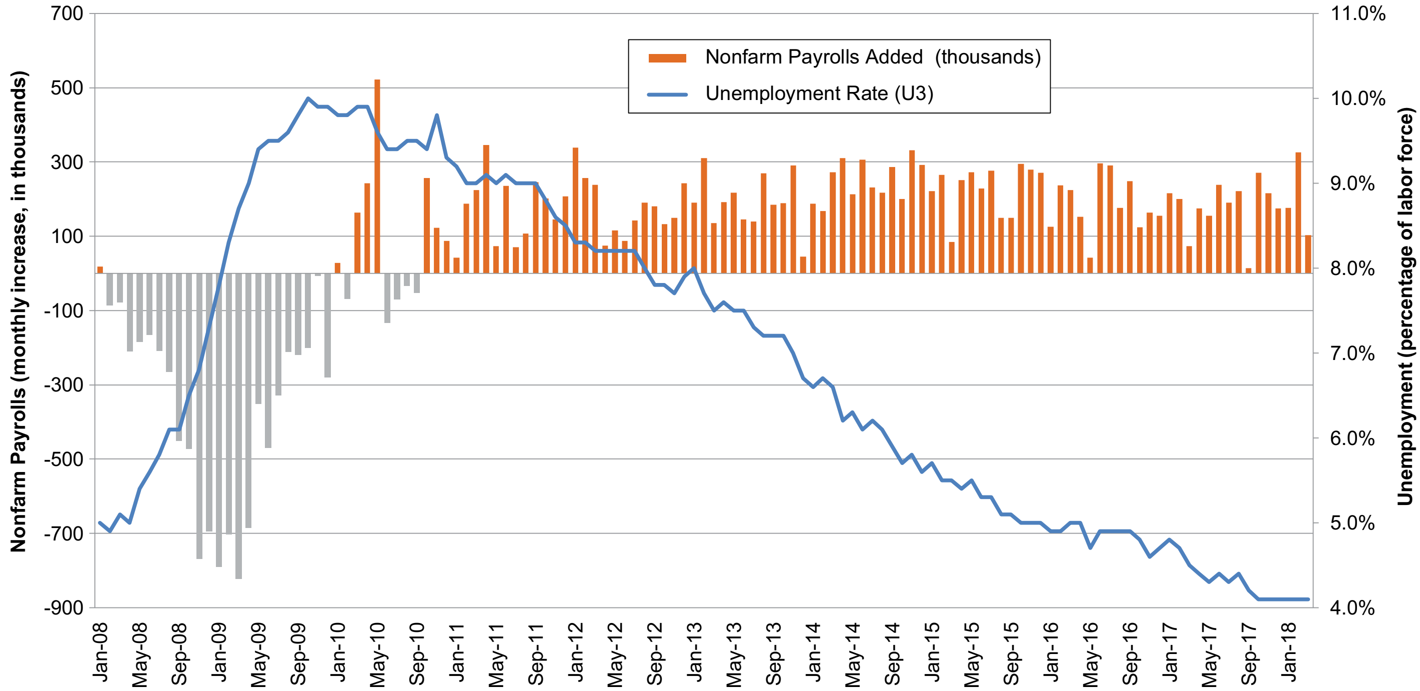
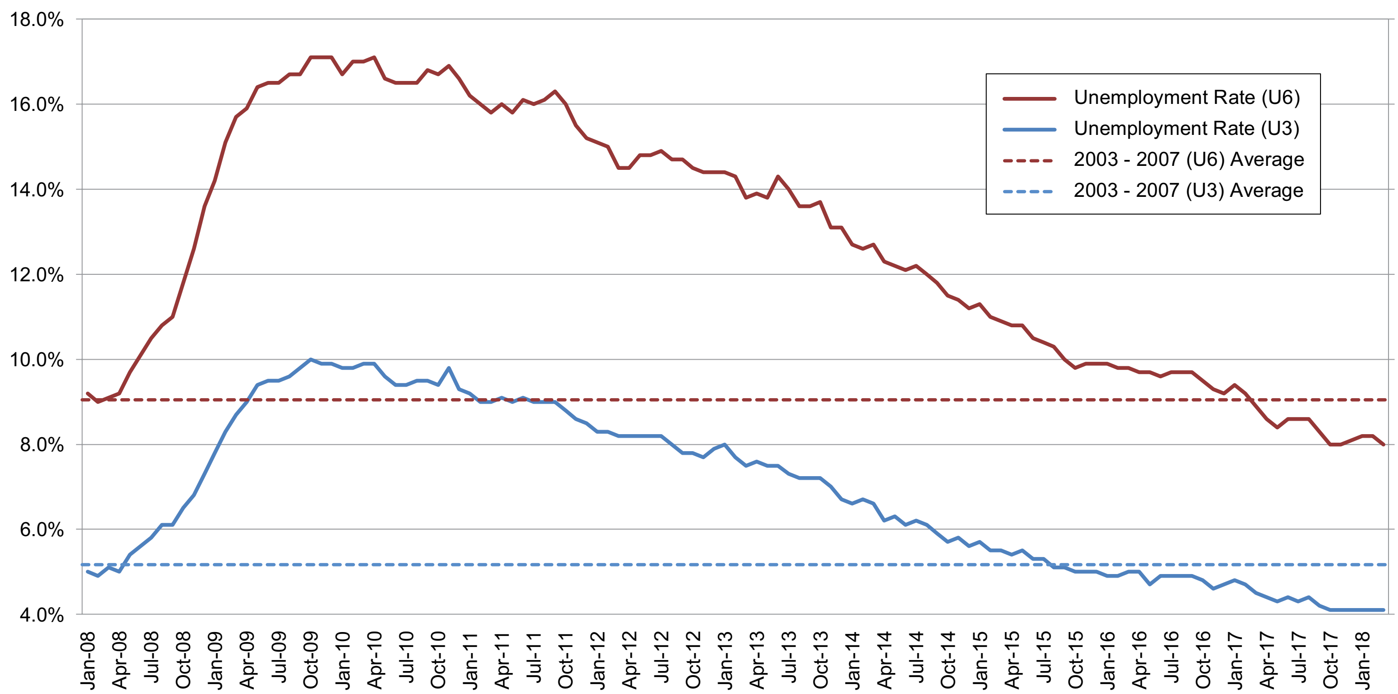


EXHIBIT 7D: U3 Unemployment Compared With U6 Unemployment—Since 2008



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

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

Wage growth rose 8 cents in March, to $26.82, an amount that signaled a pickup from last month and pointed to a tightening labor market. The wage growth is a signal that the Federal Reserve would further raise interest rates in 2018. Average hourly earnings for all private-sector employees were up 71 cents, or 2.7%, over the past 12 months. Average hourly earnings for private-sector production and nonsupervisory employees rose by 4 cents in March, to $22.42. Over the last 12 months, average hourly earnings for private-sector production and nonsupervisory employees have increased 53 cents, or 2.4%.

The average workweek for all private workers remained unchanged in March, at 34.5 hours, but is up 0.2 hour from one year ago. The manufacturing workweek decreased 0.1 hour in March, to 40.9 hours, and manufacturing overtime decreased 0.1 hour, to 3.6 hours. The average workweek for production and nonsupervisory employees decreased 0.1 hour in March, to 33.7 hours.

The Bureau of Economic Analysis reported that current-dollar personal income was at $182.1 billion in the first quarter of 2018, compared with an increase of $186.4 billion in the fourth quarter. Decelerations in personal interest income, rental income, and nonfarm proprietors' income were largely offset by accelerations in wages and salaries and in government social benefits.

Disposable personal income increased $222.1 billion (+6.2%) in the first quarter, compared with an increase of $136.3 billion (+3.8%) in the fourth. Real disposable personal income rose 3.4% in the first quarter, compared with an increase of 1.1% in the fourth quarter.

Personal saving—disposable personal income less personal outlays—was $462.1 billion in the first quarter, compared with $379.8 billion in the fourth quarter. The personal saving rate—saving as a percentage of disposable personal income—was 3.1% in the first quarter, up from 1.1% in the prior quarter.

6. INDEX OF LEADING INDICATORS

The Conference Board's Leading Economic Index (LEI) increased 0.3% in March, which marked the sixth consecutive month of gains for the index. The increase resulted in a final reading of 109.0, as positive contributions from the yield spread, the ISM new orders index, and expectations for business conditions more than offset negative contributions from the average workweek and initial claims for unemployment insurance. The March report noted that, while the monthly gain is slower than in previous months, its six-month growth rate increased further and points to continued solid growth in the U.S. economy for the rest of the year. The board's coincident index, designed to reflect current economic conditions, rose 0.2% in March, to 103.3, and the lagging index increased by 0.1%, to 104.5.

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

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

- Building permits, new private housing units;
- Stock prices, 500 common stocks;
- Leading Credit Index;
- Interest rate spread, 10-year Treasury bonds less federal funds; and
- Average consumer expectations for business conditions.

7. CONSUMER CONFIDENCE

The Consumer Confidence Index fell 2.3 points in March after reaching an 18-year high in February. The index now stands at 127.7, which fell short of economists' forecasts for a reading of 131.0, according to a survey by Reuters. Still, the reading remains near historically high levels and indicates continued economic growth in the months ahead. Consumers' opinion about their short-term expectations about business conditions and the stock market, although their overall expectations remained quite favorable, weakened the March report, which came after two months of gains. 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 situations eased in March, as the Conference Board's Present Situation Index fell 1.3 percentage points. The index measures consumers' confidence in the present and near-term future economy. Consumers' assessment of current conditions fell in March but remains at historically strong levels. The percentage saying business conditions are "good" increased from 36.5% to 37.9%; however, those saying business conditions are "bad" also increased from 11.3% to 13.4%. Overall, consumers' assessment of the labor market was marginally more favorable as the percentage of consumers stating jobs are "plentiful" improved from 39.1% to 39.9%, while those claiming jobs are "hard to get" decreased from 15.1% to 14.9%.

Consumers' outlook in the short term was less optimistic in March, as the Expectations Index fell 3.0 points, from 109.2 to 106.2. The survey results showed the percentage of consumers expecting business conditions to improve over the next six months decreased 2.0 percentage points, to 23.0%, while those expecting business conditions to worsen increased by 0.4 percentage point, to 9.8%. Consumers' outlook for the labor market was less upbeat than in February, evidenced by the proportion of those expecting more jobs in the months ahead decreasing 3.3 percentage points, to 19.1%, while those anticipating fewer jobs increasing 0.2 percentage point, to 12.6%. The percentage of consumers expecting an improvement in their incomes decreased 1.5 percentage points, to 22.0%, and the proportion expecting a decline decreased 1.4 percentage points, to 7.2%.

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).

The Thomson Reuters/University of Michigan's Consumer Sentiment Index rose from last month to its highest reading since 2004. The March index was at 101.4 points, slightly lower than its midmonth preliminary reading of 102.0, but still 1.7 percentage points higher than last month. The March rise was the second consecutive month of gains but came below economists' forecasts for a reading of 102.0, according to a poll by Reuters. The end of the month reading came short of the midmonth reading, as consumers were uncertain how the proposed trade tariffs would affect the economy. As a result, all of the March gain in the Consumer Sentiment Index was among households with incomes in the bottom third, with a gain of 14.1 points, while those in the middle third were unchanged. Households in the top third of the income bracket reported a decrease in the index of 5.6 points. Households with incomes in the top third cited significantly greater concerns with government economic policies than last month, especially trade policies, with net references falling from +31 to just +1, offsetting their positive reactions to tax policies. The consensus expectation among consumers is that interest rates will increase in the near future. While consumers view the current level of interest rates as still relatively low, they understand that interest rate hikes are intended to dampen the future pace of economic growth. Their reaction will both emphasize borrowing in advance of those expected increases and heightening their precautionary savings motives. The trade-off between spending and saving will crucially depend on the pace of future interest rate hikes compared with the pace of income growth. It is likely that income growth will initially dominate, tilting consumers' motives more toward spending than saving. Overall, the data are consistent with a growth rate of 2.6% in consumption from mid-2018 to mid-2019.

The Index of Consumer Expectations fell 1.2 points in March, to a reading of 88.8. 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 2.3 points from its levels from one year ago, for a rise of 2.7%.

The Current Economic Conditions component rose 6.3 points in March, to 121.2. The index is up 8.0 points from its level from one year ago, for a rise of 7.1%.

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

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

8. BUSINESS OPTIMISM

The National Federation of Independent Business's (NFIB) Small Business Optimism Index eased in March but still recorded its 16th consecutive month of placing in the top 5% in the 45-year history of the survey. The survey fell 2.9 points in March, to 104.7. According to the survey, small-business owners have displayed their confidence and certainty in the economy through their ability to hire more workers and invest in their business. The historically high readings indicate that policy changes, specifically the tax bill and fewer regulations, are transformative for small businesses. In addition, for the first time since 1982, taxes received the fewest votes as the No. 1 business problem for small business. Since November 2017, the month before the tax bill passed, the percentage of members surveyed reporting taxes as their main problem fell from 22% to 13% in March.

In March, only two of the 10 components that make up the Small Business Optimism Index posted gains, while eight of the 10 components of the index decreased. The March report noted a streak of 16 consecutive months reporting strong small-business optimism, with many of the index scores remaining near record highs despite the decline in the index on the month.

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

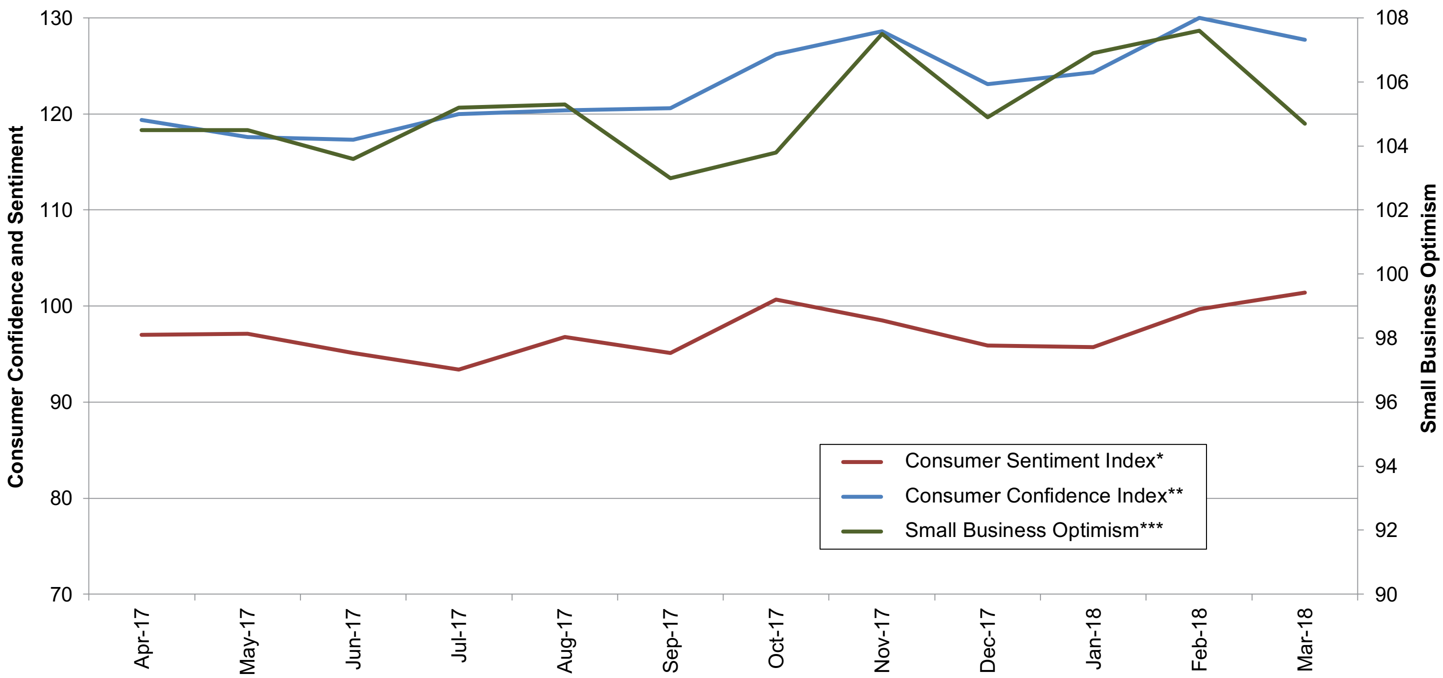
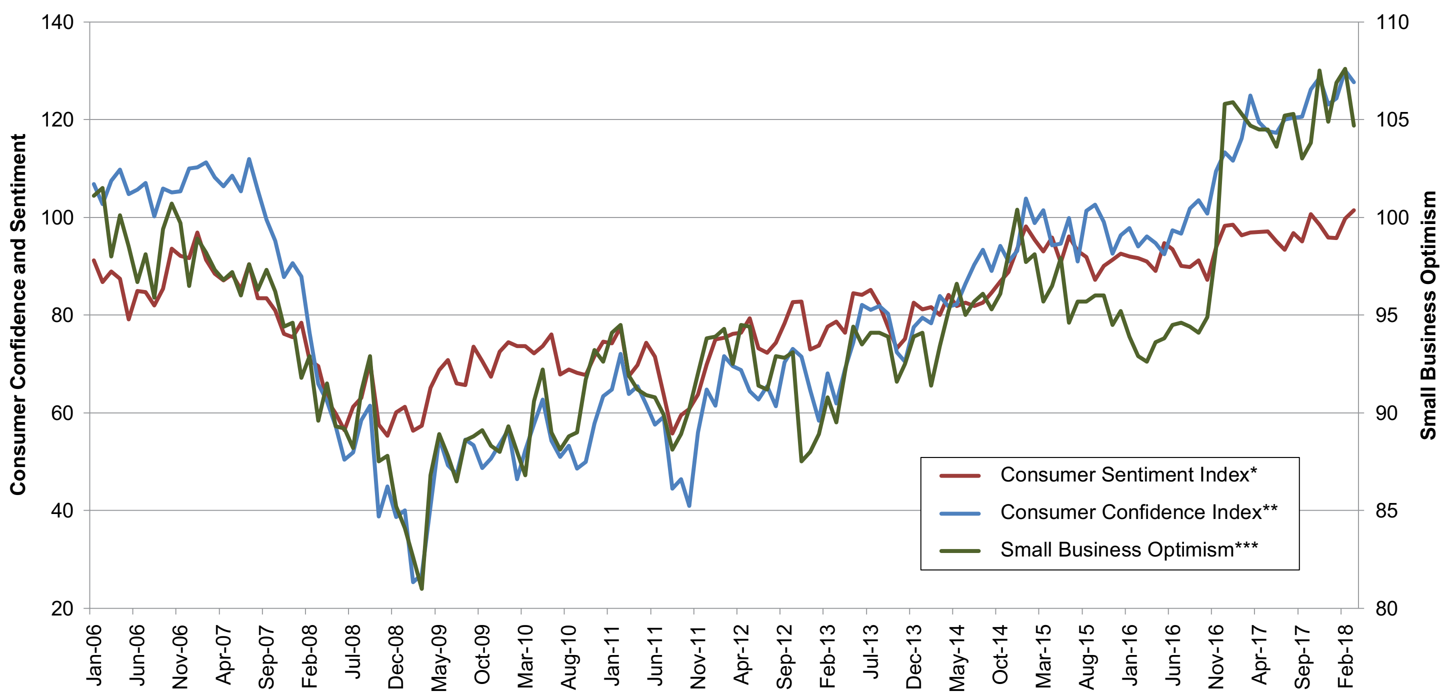


EXHIBIT 8B: Consumer Confidence and Small Business Optimism—Since 2006



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

EXHIBIT 8C: Small Business Index—Prior 12 Quarters

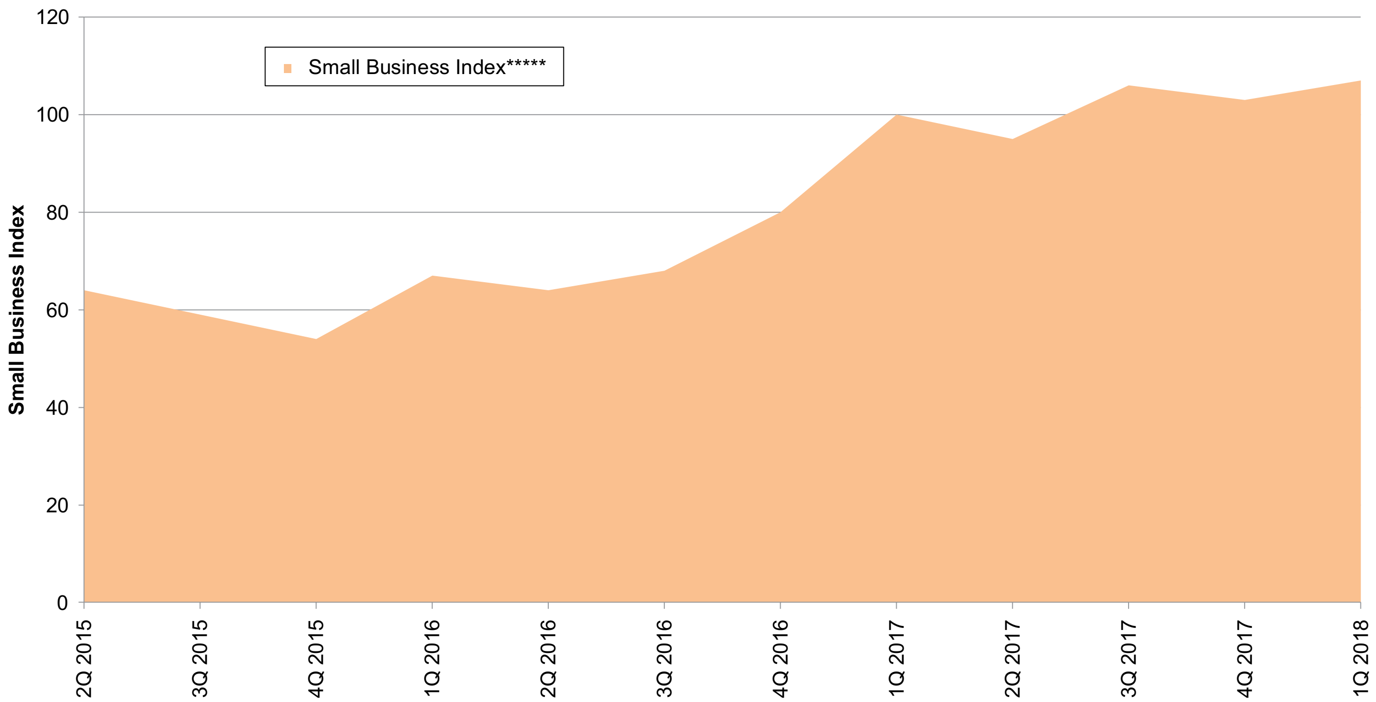
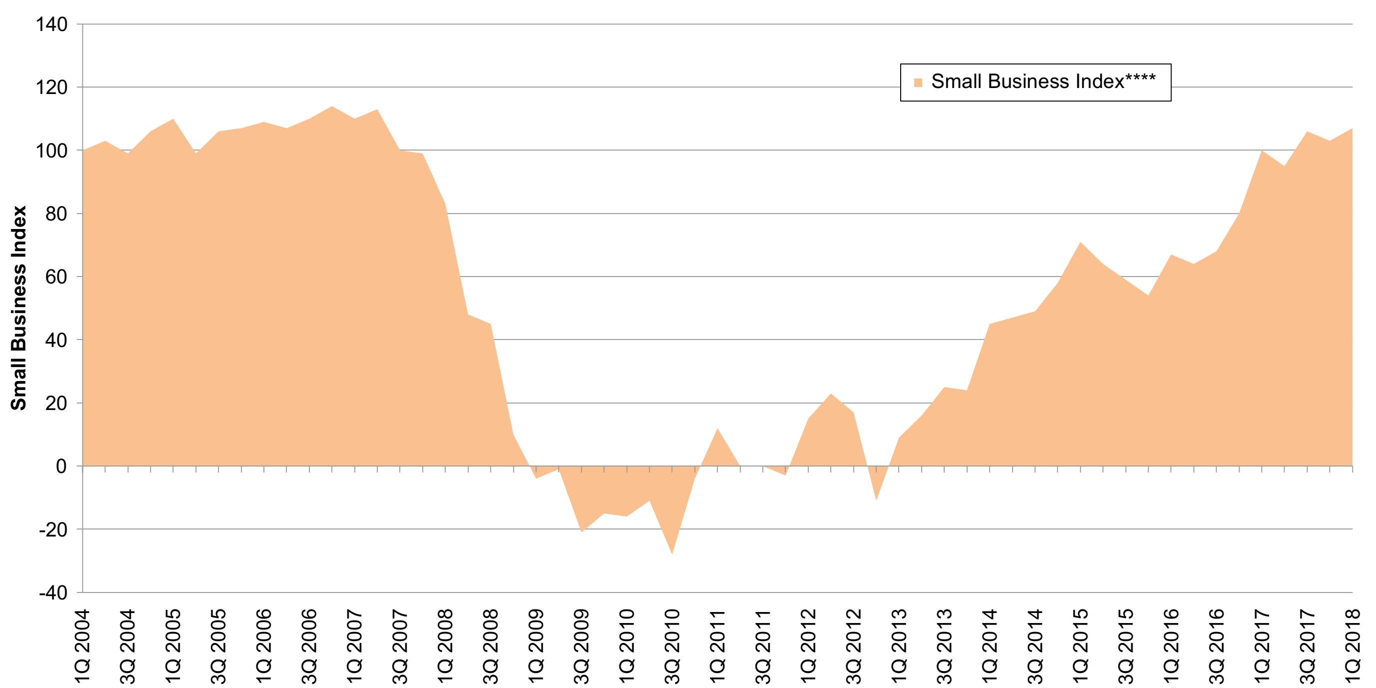


EXHIBIT 8D: Small Business Index—Since 2004



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

Notes:

* Thomson Reuters/University of Michigan Index of Consumer Sentiment

** The Conference Board Consumer Confidence Index®

*** National Federation of Independent Business Small Business Optimism Index

**** Wells Fargo/Gallup Small Business Index

The component that measures small-business owners' expectations of earnings trends declined 1.0 percentage point, to a net -4%, still one of the best readings in the history of the survey. Reports of earnings gains surged 11.0 percentage points in January and, despite the decline, have remained elevated over the past two months. Reports of higher worker compensation increased 2.0 percentage points, to a net 33%, the highest reading since 2000 and among the highest readings in the history of the survey. Plans to raise compensation fell 3.0 percentage points, to a net 19%, a sign that the recent gain in the labor-force participation rate may have reduced the pressure to increase wages as hiring became somewhat easier.

Twenty-one percent of small-business owners reported that finding qualified labor was their top business problem, which is down 1.0 percentage point from last month. This exceeded taxes, weak sales, and the cost of regulation as their top business problem. Fifty-three percent of owners reported hiring or trying to hire, which is up 1.0 percentage point, but 47% (89% of those hiring or trying to hire) reported few or no qualified applicants are available. Twenty percent of small-business owners plan to create new jobs, which is up 2.0 percentage points from February and at historically high levels. Job creation was solid in the small-business sector as owners reported an adjusted average employment change of 0.36 workers per firm, up from 0.22 workers per firm reported in February. Thirty-five percent of owners reported job openings they could not fill in the current period.

The component that measures owners' expectations to see higher real sales fell 8.0 percentage points, to a net 20% in March, which caught the attention of survey members, in light of continued strong reports on the labor market and the economy. The sales and inventories component that measures the net percentage of owners reporting inventory increases fell 4.0 percentage points, to a net 3.0%, which extends a three-month run of substantial inventory building. Still, the net percentage of owners planning to add to inventory fell 3.0 percentage points, to a net 1.0%.

Fifty-eight percent of small-business owners reported making capital outlays, which is down 8.0 percentage points from February, which was the highest reading since 2004. Of those making expenditures, 39% reported spending on new equipment, 24% acquired vehicles, and 16% improved or expanded facilities. Eight percent acquired new buildings or land for expansion, and 12% spent money for new fixtures and furniture. Twenty-six percent of owners plan to make capital outlays in the next three to six months, which is down 3.0 percentage points from February. Improvements in productivity depend heavily on investment spending in the labor-intensive small-business sector.

Small-business owners reporting they raised average selling prices increased by 3.0 percentage points, to a net 16.0%, after rises of 3.0 percentage points in January and February. Seasonally adjusted, a net 25% plan price hikes, up 1.0 percentage point, which is the highest reading since 2008.

The component that measures small-business owners' plans to raise compensation rose 2.0 percentage points, to a net 33%, and is the highest reading since 2000. Eighty-nine percent of owners reported they were hiring or trying to hire but there were few or no qualified applicants for their open positions.

The component measuring the credit markets reported a net 4.0% of owners indicated not all their borrowing needs were satisfied, which is up 2.0 percentage points from last month and represents a record low. Thirty-one percent reported all credit needs met, which is down 1.0 percentage point, and 47% explicitly said they were not interested in a loan, which was down 4.0 percentage points from last month. Only 2.0% reported that financing was their top business problem, compared to 21.0% citing the availability of qualified labor. Four percent of owners reported that loans were harder to get, which is near historic lows. Thirty-two percent of all owners reported borrowing regularly, which is up 1.0 percentage point from last month. The average rate paid on short maturity loans was up 40 basis points, at 6.1%.

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 1Q 2018 Wells Fargo/Gallup Small Business Index, which was reported in February, rose 4.0 points, to 107.0. The quarterly reading reported its highest score since early 2007. The level of optimism is higher from its index score of 100.0 from the same period in 2017. The report highlighted that small-business owners believed 2017 ended strongly and that the momentum will carry over into the early part of 2018. Specifically, small-business owners were encouraged by the breadth of improvements in quantifiable areas such as sales and overall finances, with the more broad-based gains equaling a longer-lasting upswing. Looking ahead to 2018, business owners are forecasting strong revenues, healthy cash flows, and increased capital spending, trends that suggest small-business owners are optimistic about the direction of the economy.

The first-quarter survey asked small-business owners about the current presidential administration and its impact on their businesses. More than half of respondents, or 58%, said the current administration understands the issues that are important to their business, and another 58% said the administration cares about these issues. Fifty-six percent of small-business owners prioritize these issues, and 55% said the administration is effective at addressing them. When asked to give the current administration a grade on its performance on issues important to their businesses over the past year, about half, or 49%, gave the administration an "A" or "B," and a quarter of respondents gave the administration an "F."

When it came to key issues impacting small-business owners, 61% said the current presidential administration is doing a very good or somewhat good job of improving the economy and 53% said the administration is doing a very good or somewhat good job in creating jobs. When asked about taxes, 50% said the current administration is doing a very good or somewhat good job on tax reform that impacts small-business owners specifically and 49% said it is doing a very good or somewhat good job on tax reform overall. When asked about regulation reform, which has been another key issue for small-business owners, 46% responded that the current administration is doing a very good or somewhat good job of regulation reform that impacts small-business owners.

The survey also asked owners about noneconomic issues, and 50% said the current administration is doing a very or somewhat poor job on healthcare reform. Forty-five percent of small-business owners said the current administration is doing a very or somewhat poor job on international relations, and 38% felt the same way about infrastructure improvements, such as roads and bridges.

Lastly, the first-quarter survey asked small-business owners to identify the most important challenges facing their businesses today. Attracting customers and finding new business rose to the top of the list, as stated by 16% of small-business owners, while hiring and retaining high-quality staff was next, with 13% of small-business owners citing this as a challenge. Other top concerns included financial stability and cash flow, at 10%; taxes, at 11%; government regulations, at 7%; and competition/large corporations/internet, at 7%.

The Present Situation Index (how business owners gauge their perception of the past 12 months) declined 1.0 point, to a reading of 42.0, but the future expectations index (how business owners expect their businesses to perform over the next 12 months) increased 5.0 points, to 65.0, its highest score since December 2006. During the first quarter of 2017, the Present Situation Index reported at 40.0 and the future expectations index was at 60.0.

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.

(See Exhibit 8 for business optimism figures.)

9. STOCK MARKETS AND VOLATILITY

Throughout January, it appeared that the first quarter would continue the record-setting performance seen in 2017. Surging investor sentiment, positive feelings toward the proposed tax reforms, strong economic data, and positive fourth-quarter earnings reports helped fuel the rise in January, but the markets in February saw an abrupt reversal in market behavior. Stock prices plummeted, as inflation fears led to concerns that the tight labor market was feeding through into increased labor costs, which in turn would enable the Federal Reserve to quicken its pace of interest rate hikes. Markets continued to stumble in March after President Trump announced that the U.S. would impose tariffs on imported steel and aluminum, creating concerns over possible "trade wars." These fears intensified after the administration revealed that it was planning to impose tariffs on roughly $50 billion to $60 billion worth of imports from China, as well as new restrictions on technology transfers and acquisitions of U.S. firms by Chinese competitors. As a result, four of the five major stock indexes posted declines over the quarter.

Notably, the Standard & Poor's 500 Index recorded its first quarterly loss since 2015 and went on a roller coaster ride as the index reached a low point for the quarter and entered correction territory and retreated over 10% from recent highs. The S&P 500 consists of a representative sample of 500 leading companies of the U.S. economy and is one of the most commonly used benchmarks for the overall U.S. stock market.

The small-cap Russell 2000 Index fared better than the larger-cap benchmarks but still trended down on the quarter, as the Russell 2000 Index fell 0.4% on the quarter. The Dow Jones Industrial Average declined 2.5%. The Dow is an index of 30 of the largest and most widely held public companies in the U.S. and is considered the most-watched index in the world.

The Nasdaq Composite Index was the lone index to post a gain over the quarter, rising 2.3%. The Nasdaq Composite Index, which consists mainly of high-tech stocks, has posted positive returns for seven consecutive quarters.

The S&P MidCap 400 index fell 1.1% in the first quarter of 2018. The S&P MidCap 400, which is distinct from the large-cap S&P 500, measures the performance of midsized companies and is the most widely followed midcap index.

(See Exhibit 9 for stock price figures.)

After a volatile month in February, which saw the VIX range from 12.5 to 50.3 and surpass a reading of 50 for this first time since August 2015, the VIX tempered its volatility in March. On the month, the index reported a high of 26.2 and a low of 13.3, while reporting a monthly average of 19.0.

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.

(See Exhibit 9 for VIX figures.)

10. BOND MARKETS

The Treasury yield curve rose steadily throughout the quarter, with shorter maturity Treasury yields (three-year maturity and less) and longer maturity Treasury yields both closing the quarter at higher rates than when the quarter started. The 10-year Treasury yield started the quarter at 2.46% and finished at 2.74%, while the 20-year Treasury yield started the quarter at 2.64% and finished at 2.85%.

The 30-day T-bill rate was 1.29% at the beginning of the first quarter of 2018 and closed the quarter at 1.63%. The five-year Treasury ended the first quarter with a yield of 2.56%, higher than the yield of 2.25% at the beginning of the quarter.

The prime lending rate began the first quarter at 4.50% and rose to 4.70% by the end of the first quarter. The discount window (primary credit) rose from 2.00% in the start of the first quarter to 2.25%.

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

EXHIBIT 9: Stock Market Historical Data

	QUARTERLY PRICE RETURNS											
(%)	2Q 15	3Q 15	4Q 15	1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17	1Q 18
DJIA	-0.9	-7.6	7.0	1.5	1.4	2.1	7.9	4.6	3.3	4.9	10.3	-2.5
Nasdaq Composite	1.8	-7.4	8.4	-2.7	-0.6	9.7	2.5	8.6	3.9	5.8	6.3	2.3
S&P 500	-0.2	-6.9	6.5	0.8	1.9	3.3	3.3	5.5	2.6	4.0	6.1	-1.2
S&P MidCap 400	-1.4	-8.9	2.2	3.3	3.6	3.7	7.0	3.6	1.6	2.8	5.8	-1.1
Russell 2000	0.1	-12.2	3.2	-1.9	3.4	8.7	8.4	2.1	2.1	5.3	3.0	-0.4

	YEARLY PRICE RETURNS										FORECAST*	
(%)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
DJIA	-33.8	18.8	11.0	5.5	7.3	26.5	7.5	-2.2	16.5	25.1		
Nasdaq Composite	-40.5	43.9	16.9	-1.8	15.9	38.3	13.4	5.7	7.5	26.8		
S&P 500	-38.5	23.5	12.8	0.0	13.4	29.6	11.4	-0.7	12.0	19.4	3.3	3.7
S&P MidCap 400	-37.3	35.0	24.9	-3.1	16.1	31.6	8.2	-3.7	20.7	14.5		
Russell 2000	-34.8	25.2	25.3	-5.5	14.6	37.0	3.5	-5.7	21.3	13.1		

	MONTHLY DATA											
	4/17	5/17	6/17	7/17	8/17	9/17	10/17	11/17	12/17	1/18	2/18	3/18
DJIA	20,940.5	21,008.7	21,349.6	21,891.1	21,948.1	22,405.1	23,377.2	24,272.4	24,719.2	26,149.4	25,029.2	24,103.1
Nasdaq Composite	6,047.6	6,198.5	6,140.4	6,348.1	6,428.7	6,495.6	6,727.7	6,874.0	6,903.4	7,411.5	7,273.0	7,063.5
S&P 500	2,384.2	2,411.8	2,423.4	2,470.3	2,471.7	2,519.4	2,572.3	2,647.6	2,673.6	2,823.8	2,713.8	2,640.9
S&P MidCap 400	1,732.8	1,721.7	1,746.7	1,760.7	1,716.7	1,795.9	1,835.1	1,899.2	1,900.6	1,954.0	1,864.6	1,878.8
Russell 2000	1,400.4	1,370.2	1,415.4	1,425.1	1,405.3	1,490.9	1,502.5	1,544.1	1,535.5	1,575.0	1,512.5	1,529.4
VIX**	16.0	15.6	11.5	12.5	15.6	12.2	13.2	14.5	14.6	15.4	50.3	26.2

	QUARTERLY DATA											
	2Q 14	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15	4Q 15	1Q 16	2Q 16	3Q 16	4Q 16	1Q 17
DJIA	16,826.60	17,042.90	17,823.07	17,776.12	17,619.51	16,284.70	17,425.03	17,685.09	17,929.99	18,308.15	19,762.60	20,663.22
Nasdaq Composite	4,408.18	4,493.39	4,736.05	4,900.88	4,986.87	4,620.16	5,007.41	4,869.85	4,842.67	5,312.00	5,383.12	5,911.74
S&P 500	1,960.23	1,972.29	2,058.90	2,067.89	2,063.11	1,920.03	2,043.94	2,059.74	2,098.86	2,168.27	2,238.83	2,362.72
S&P MidCap 400	1,432.94	1,370.97	1,452.44	1,524.03	1,502.17	1,368.91	1,398.58	1,445.19	1,496.50	1,552.26	1,660.58	1,719.65
Russell 2000	1,192.96	1,101.68	1,204.70	1,252.77	1,253.95	1,100.69	1,135.89	1114.03	1151.92	1251.65	1357.13	1385.92
VIX**	12.7	17.0	25.3	22.4	18.9	40.7	25.3	14.0	15.6	13.3	28.1	15.1

	YEARLY DATA										FORECAST*	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
DJIA	8,776.39	10,428.05	11,577.51	12,217.56	13,104.14	16,576.66	17,823.07	17,425.03	19,762.60	24,719.22		
Nasdaq Composite	1,577.03	2,269.15	2,652.87	2,605.15	3,019.51	4,176.59	4,736.05	5,007.41	5,383.12	6,903.39		
S&P 500	903.25	1,115.10	1,257.64	1,257.60	1,426.19	1,848.36	2,058.90	2,043.94	2,238.83	2,673.61	2,805.00	2,980.00
S&P MidCap 400	538.28	726.67	907.25	879.16	1,020.43	1,342.53	1,452.44	1,398.58	1,660.58	1,900.57		
Russell 2000	499.45	625.39	783.65	740.92	849.35	1,163.64	1204.7	1,135.89	1,357.13	1,535.51		
VIX**	80.9	56.7	45.8	48.0	26.7	20.5	25.3	40.7	28.1	17.3		

Source of data: Yahoo! Finance
Index Tickers: ^DJI, ^IXIC, ^GSPC, ^MID, ^RUT, ^VIX
Notes: Quotes are closing prices on the last day of trade for the month.
*Source: The Livingston Survey, December 2017
**VIX values reported are the highest value of the respective time period. VIX is a popular volatility measure; higher values correspond to greater volatility.

EXHIBIT 10: Bond Market Historical Data

	PERIODIC DATA								
	1/18			2/18			3/18		
(%)	BM	MM	EM	BM	MM	EM	BM	MM	EM
30-day Treasury bill[1]	1.29	1.33	1.43	1.41	1.30	1.50	1.50	1.70	1.63
5-year Treasury note[1]	2.25	2.36	2.52	2.56	2.65	2.65	2.58	2.62	2.56
10-year Treasury bond[1]	2.46	2.54	2.72	2.78	2.90	2.87	2.81	2.82	2.74
20-year Treasury bond[1]	2.64	2.69	2.83	2.90	3.04	3.02	2.97	2.94	2.85
Prime lending rate	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.75
Federal funds rate	1.33	1.42	1.34	1.42	1.42	1.35	1.42	1.43	1.67
Discount window primary credit rate	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.25

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

	MONTHLY DATA								
(%)	4/17	5/17	6/17	7/17	8/17	9/17	10/17	11/17	12/17
30-day Treasury bill[1]	0.75	0.73	0.84	0.75	0.73	0.84	1.00	1.09	1.20
5-year Treasury note[1]	1.82	1.84	1.77	1.82	1.84	1.77	1.98	2.05	2.18
10-year Treasury bond[1]	2.30	2.30	2.19	2.30	2.30	2.19	2.36	2.35	2.40
20-year Treasury bond[1]	2.67	2.70	2.54	2.67	2.70	2.54	1.20	2.60	2.60
Prime lending rate[2]	4.00	4.00	4.13	4.00	4.00	4.13	4.25	4.25	4.40
Federal funds rate[2]	0.90	0.91	1.04	0.90	0.91	1.04	1.15	1.16	1.30
Discount window primary credit rate[2]	1.50	1.50	1.63	1.50	1.50	1.63	1.75	1.75	1.90
Corporate Bonds Moody's Seasoned Aaa[4]									
Corporate Bonds Moody's Seasoned Baa[4]									

	YEARLY DATA								
(%)	2009	2010	2011	2012	2013	2014	2015	2016	2017
30-day Treasury bill[1]	0.10	0.11	0.04	0.07	0.05	0.03	0.04	0.25	0.85
5-year Treasury note[1]	2.20	1.93	1.52	0.76	1.17	1.64	1.53	1.33	1.91
10-year Treasury bond[1]	3.26	3.22	2.78	1.80	2.35	2.54	2.14	1.84	2.33
20-year Treasury bond[1]	4.11	4.03	3.62	2.54	3.12	3.07	2.55	2.22	2.65
Prime lending rate[3]	3.25	3.25	3.25	3.25	3.25	3.25	3.26	3.51	4.10
Federal funds rate[3]	0.16	0.18	0.10	0.14	0.11	0.09	0.13	0.39	1.00
Discount window primary credit rate[3]	0.50	0.72	0.75	0.75	0.75	0.75	0.76	1.01	1.60
Corporate Bonds Moody's Seasoned Aaa[4]	5.31	4.94	4.64	3.67	4.23	4.16	3.89		
Corporate Bonds Moody's Seasoned Baa[4]	7.29	6.04	5.66	4.94	5.10	4.85	5.00		

Source of data: The Federal Reserve Board.

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

EXHIBIT 11: Treasury Historical Data

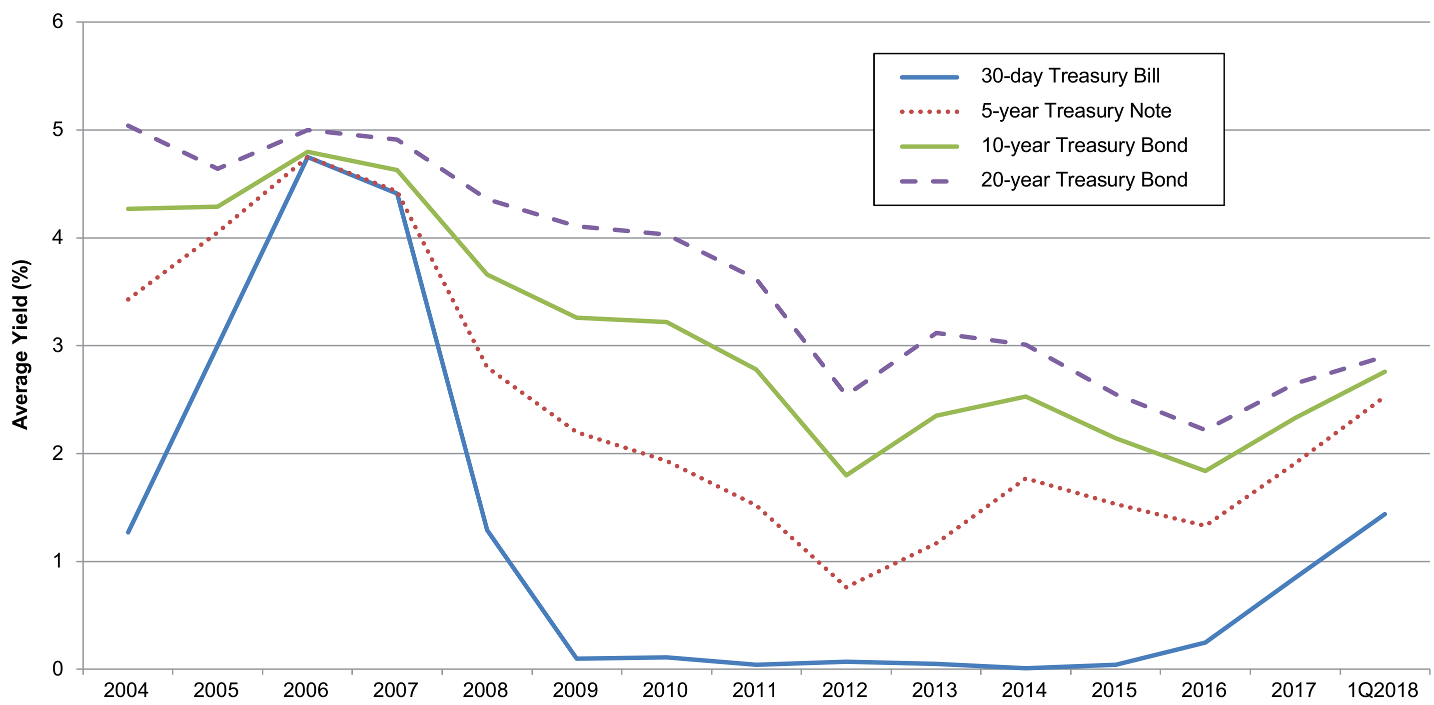
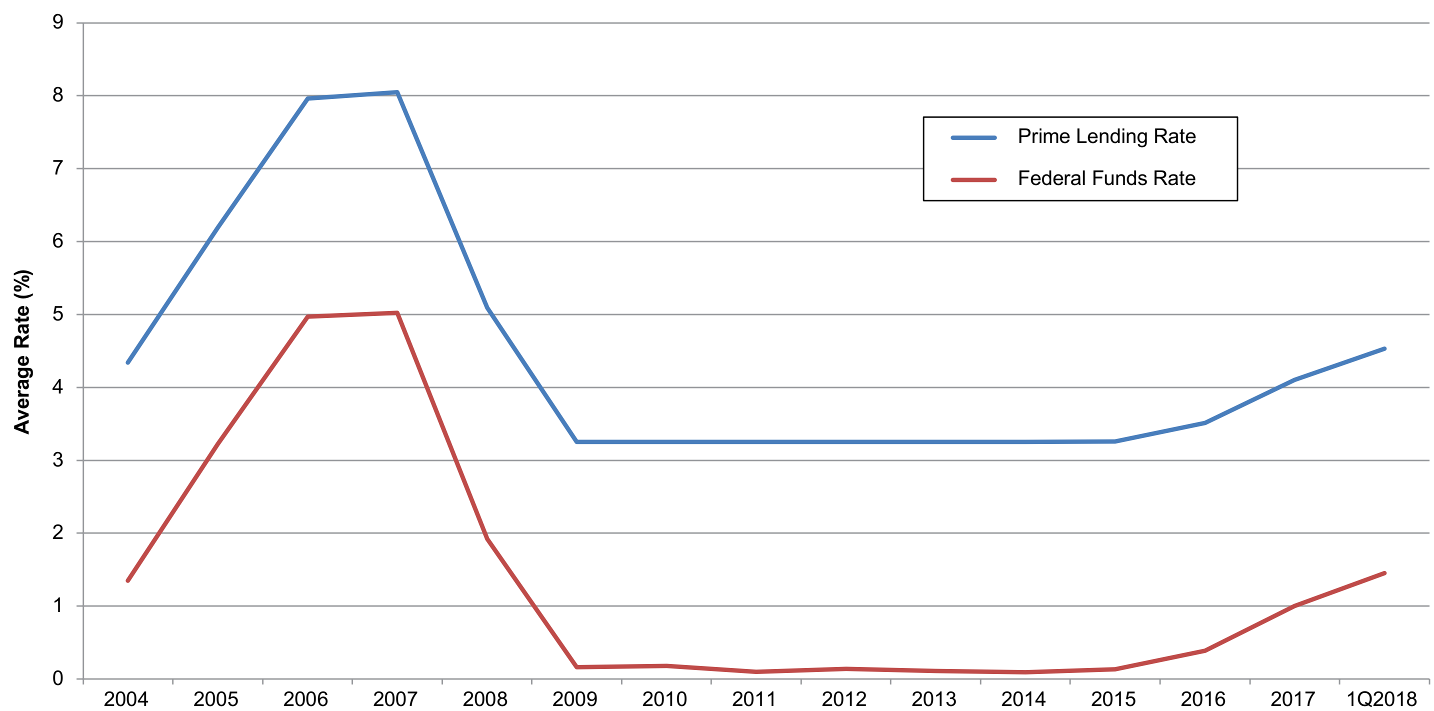


EXHIBIT 12: Prime Lending and Federal Funds Historical Data



11. CONSTRUCTION

Housing starts rebounded in March, moving up 1.9% from the revised rate in February. The figures in February were revised upward, to a seasonally adjusted rate of 1,295,000, while the figures in March were at 1,319,000. The March figures came in ahead of economists' forecasts of 1,262,000, according to a poll by Reuters. The rise in March moves housings starts 10.9% above the figure over the past 12 months. The construction of multifamily homes fueled the rebound, as figures went from last month's decline of 28.0% to a gain of 16.1%.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 declined 3.7% in March but is up 5.2% over the past 12 months.

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

Building permit authorizations for privately owned housing units, considered a leading indicator of demand for new homes, were at a seasonally adjusted rate of 1,354,000 in March. This is 2.5% above the revised February rate of 1,321,000. Building permits are 675% above the levels from one year ago. Building permits for single-family housing units decreased 5.5% in March but were up 1.7% from one year ago. Building permits for multifamily housing units increased 22.9% in March and were up 19.1% from one year ago.

Housing completions were at a seasonally adjusted rate of 1,217,000 in March. This is 5.1% below the revised rate in March but 1.9% above the rate from one year ago. Single-family housing completions in March were at a rate of 840,000, which is 4.7% below the revised February rate of 881,000.

(See Exhibit 4 for building permit authorization figures.)

The U.S. Census Bureau reported that overall spending on construction was at a seasonally adjusted annual rate of $1,284.7 billion in March. This figure was 1.7% below the revised February rate of $1,306.4 billion but 3.6% above the $1,239.6 billion rate from one year ago. Overall construction spending amounted to $1,230.6 billion in 2017, 3.8% above the $1,185.7 billion spent in 2016.

Spending on all private construction was at a seasonally adjusted annual rate of $987.5 billion in March, 2.1% below the revised February rate of $1,009.1 billion but 3.9% above the rate from one year ago. Private residential construction spending was at a seasonally adjusted annual rate of $536.8 billion in March, 3.5% below the revised rate of $556.5 billion in February, but 5.3% above the rate from one year ago. Private nonresidential construction was at a seasonally adjusted annual rate of $450.7 billion in March, a 0.4% decrease from the February rate of $452.5 billion but 2.2% above the rate from a year ago.

The seasonally adjusted annual rate of total public construction spending was $297.2 billion in March, nearly the same as the revised February rate of $297.3 billion but 3.0% above the rate from a year ago. Educational construction was at a seasonally adjusted annual rate of $73.1 billion in March, 0.1% below the revised February rate of $73.2 billion but 2.0% above the rate from a year ago. Highway and street construction was at a seasonally adjusted annual rate of $91.0 billion in March, 1.2% above the revised February rate of $89.9 billion but 3.5% below the rate from one year ago.

12. MANUFACTURING

The Federal Reserve reported that total industrial production increased 0.5% in March, which marked the second consecutive month of gains. The March reading beat analysts' expectations for a gain of 0.4%, according to a poll by Reuters. In addition, the percentage of industrial production in use rose 0.3 percentage point in March, to 78.0%, its highest level in three years. At 107.2% of its 2012 average, total industrial production in March was 4.3% above its level from one year ago. Capacity utilization for the industrial sector climbed 0.3 percentage point in March, 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 0.5% in March. The production of durable consumer goods jumped 0.9% on the strength of a 2.7% gain for automotive products. The output of consumer nondurables moved up 0.4%, as a drop in the index for nonenergy nondurable consumer goods mostly offset a sharp increase in the index for consumer energy products. Business equipment registered a gain of 0.5%, and all of its major categories posted increases. The index for defense and space equipment rose 0.7%. The output of construction supplies fell 0.3% after jumping 2.8% in February. In March, the index for business supplies recorded an increase of 0.4%. The production of materials moved up 0.6%, primarily the result of a gain of 1.2% for energy materials. Consumer goods have now increased 3.6% over the past 12 months.

Manufacturing output increased 0.1% in March and is up at an annual rate of 3.1% in the first quarter 2018. The manufacturing index saw a decline of 0.3% for nondurables, which was outweighed by gains of 0.4% for durables and 0.2% for other manufacturing. Among durables, the index for motor vehicles and parts increased 2.7%; vehicle assemblies moved up to 12.0 million units at an annual rate, their highest level since December 2016. Manufacturing is up 3.0% over the past 12 months.

In March, the output of mining climbed 1.0% and follows a 4.3% gain in February. The gain in the index reflected the strength in the oil and gas sector and coal mining. Over the past 12 months, the mining index was 10.8% higher than it was a year earlier but is still 4% below its peak in 2014.

Capacity utilization for manufacturing fell 0.1 percentage point, to 75.9% in March, a rate that is 2.4 percentage points below its long-run average. The operating rate for durables, at 75.9%, which is 1.0 percentage point below its long-run average, whereas the rates for nondurables and other manufacturing came in at 77.0% and 61.3%, which were further below their long-run averages of about 80.0% for each. Utilization for mining rose 0.5 percentage point, to 90.1%, which is 3.1 percentage points above its long-run average but 1.5 percentage points below its high in 2014. The capacity utilization rate for utilities jumped 2.2 percentage points, to 79.0%, but remained below its long-run average.

The manufacturing sector decreased 1.5 percentage points in March, as reported by the Institute for Supply Management (ISM). The manufacturing index (PMI) reading in March was 59.3%. The March report highlighted that demand remains robust, but the nation's employment resources and supply chains are still struggling to keep up. 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 March was the 19th consecutive month of growth in the manufacturing sector and the 107th straight month of growth in the overall economy.

Seventeen of the 18 manufacturing sectors surveyed in March reported growth. The report stated that, based on the past relationship between PMI and the overall economy, if PMI for March were annualized (59.3%), it would correspond to a 4.9% increase in GDP annually.

The 17 manufacturing industries that reported growth in March 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; textile mills; electrical equipment, appliances and components; furniture and related products; miscellaneous manufacturing; food, beverage, and tobacco products; and primary metals. The only industry reporting a decrease during the period is apparel, leather, and allied products.

The component for new orders decreased 2.3 percentage points in March, to 61.9%. This marked the 12th consecutive month with a reading above 60.0%. This reading indicates growth in new orders for the 27th 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. Fifteen of 18 industries reported growth in new orders in March, and only one industry reported a decrease in growth in new orders.

The component for production decreased 1.0 percentage point in March, to 61.0%. This reading indicates growth in new orders for the 19th consecutive month, albeit at a slower rate. March's report was the 10th consecutive month the index's reading was over 60.0% and indicates that activity appears to be stabilizing at high rates as the spring and summer selling season approaches. However, labor constraints and supply chain disruptions will 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. Fourteen of the 18 industries reported growth in production during the month of March, while two industries reported a decrease in production.

The manufacturing employment component decreased 2.4 percentage points in March, to 57.3%. The reading indicates growth in manufacturing employment in March for the 18th consecutive month, albeit at a slower rate. Employment levels have been expanding since October 2016 and are consistent with production output. Employment expansion remains strong, with panel members noting their struggles to hire skilled workers and indirect personnel to replace natural attrition and, to some extent, an increase in turnover. Many respondents see the labor market as a constraint to production. ISM's recent "Semiannual Economic Forecast" indicates that 65% had difficulty hiring new employees and 44% increased starting pay to attract new workers. An employment index above 50.8%, over time, is generally consistent with an increase in the Bureau of Labor Statistics' data on manufacturing employment. Twelve of the 18 industries reported employment growth in March.

The index that tracks delivery performance of suppliers to manufacturing organizations decreased 0.5 percentage point, to 60.6%. A reading below 50% indicates faster deliveries, while a reading above 50% indicates slower deliveries. The reading indicates slower deliveries in March for the 18th 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. Thirteen of the 18 industries reported slower supplier deliveries, and only one industry reported faster deliveries in March.

The index that tracks inventory decreased 1.2 percentage points in March, to 55.5%. The reading indicated raw materials inventories grew in March compared to February, although suppliers were not able to maintain desired inventory expansion levels consistent with production demands. 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. Nine of the 18 industries reported higher inventories in March, and seven reported no change in raw inventories.

The component that measures customers' inventories decreased 1.7 percentage points in March, to 42.0, an indication that customers' inventory levels are considered still too low. Inventory levels remained too low for the 18th consecutive month and are at their lowest levels since July 2011. One of the 18 industries reported inventories being too high in March, while seven reported no change in inventories during the month.

The component that measures prices increased 3.9 percentage points in March, to 78.1%, its highest reading since April 2011, when it registered 82.6%. This reading indicates an increase in raw materials prices for the 25th consecutive month. In March, 57.1% of respondents reported paying higher prices than the previous month, 0.8% reported paying lower prices than the previous month, and 42.1% 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 March.

The index that tracks new export orders decreased 4.1 percentage points in March, to 58.7%. This reading indicates growth in new order exports for the 25th consecutive month, as all "Big Six" industry sectors, which account for 71% of all manufacturing, continued to expand their activity during the period. Eleven of the 18 industries reported growth in new order exports in March.

The index that tracks imports decreased 0.8 percentage point in March, to 59.7%. This reading indicates imports are growing in March for the 14th consecutive month. Twelve of the 18 industries reported the same or better import levels in March compared to February.

In December, the Institute for Supply Management published its "Semiannual Economic Forecast." The report cited expectations for a continuation of the economic recovery that began in mid-2009 and optimism from manufacturing purchasing and supply executives for growth in the sector at least through the first half of 2018. The report cites expectations for revenues to increase in 16 manufacturing industries, capital expenditures to increase by 2.7%, and the manufacturing employment base to grow by 1.2%. The report highlighted strengths in 2017, noting that manufacturing experienced 11 straight months of growth from January through November, resulting in an average PMI of 57.4, as compared to 51.5 for 2016.

Among the survey respondents, 70% expect revenues to be greater in 2018 than in 2017. The panel of purchasing and supply executives expects a 5.1% net increase in overall revenues for 2018, compared to a 4.6% increase predicted for 2017 over 2016 revenues. The 16 manufacturing industries expecting revenue improvement in 2018 are: fabricated metal products; electrical equipment, appliances and components; nonmetallic mineral products; machinery; miscellaneous manufacturing; computer and electronic products; transportation equipment; plastics and rubber products; primary metals; paper products; textile mills; chemical products; food, beverage and tobacco products; furniture and related products; printing and related support activities; and petroleum and coal products.

In the manufacturing sector, respondents report operating at 85.8% of their normal capacity, up 3.3 percentage points from the 82.5% reported in May 2017. Purchasing and supply executives predict that capital expenditures will increase by 2.7% in 2018, compared to the 8.7% increase reported in 2017. Manufacturers have an expectation that labor and benefit costs are expected to increase an average of 2.1% in 2018. Respondents also expect the U.S. dollar to strengthen against all seven currencies of major trading partners in 2018, as was the case in 2017.

Respondents expect raw materials pricing pressures in 2018 to increase by 1.3% during the first four months of 2018 and to increase by an additional 0.5% during the remainder of the year, for an overall increase of 1.8% in 2018. Manufacturers also expect their profit margins will improve in 2018 and for growth in both exports and imports in 2018.

The survey asked four specific questions to panelists. When asked about the difficulty in hiring workers to fill open positions over the past six months, 64.7% of those surveyed found it difficult to hire, 33.8% did not find it difficult to hire, and 1.4% found their situation not applicable to the question. Next, when panelists were asked whether their firm had to raise wages to recruit new hires, 44.4% said, yes, they did have to raise wages; 53.1% said, no, they did not have to raise wages; and 2.4% found the question did not apply to their situation. The third question asked whether the firm offered additional training to new hires— 44.4% of panelists said, yes, they did provide additional training; 50.2% said, no, they did not have to provide additional training; and 5.4% found the question did not apply to their situation. The last question asked panelists whether their firm had increased, decreased, or left unchanged their capital spending plans for the next 12 months. Among the panelists who responded, 39.9% said yes to plans on increasing capital spending, while 16.3% said there were plans to decrease capital-spending plans, and 43.8% said there were no plans to change capital spending.

When asked why plans were changed, 66% of respondents reported general business outlook, 5.8% reported prospects for business tax reform, 2.9% reported prospects for regulatory reform, 13.6% reported other, and 11.7% reported not applicable.

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

13. SERVICES

The services sector grew for the 97th consecutive month, albeit at a slower rate, as the nonmanufacturing index (NMI) fell 0.7 percentage point in March, to 58.8%. Respondents noted that, as the first quarter ended, the business outlook remained steady, although it was not growing at the pace in the fourth quarter of 2017. In addition, respondents noted that further interest rate hikes and proposed tariffs were likely to impact the costs and prices of goods and services. 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 March NMI indicates an expansion in the services sector for the 98th consecutive month and growth in the overall economy for the 103rd consecutive month.

Fifteen of the 18 nonmanufacturing sectors surveyed in March reported growth, and two industries reported contraction. 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 March were annualized (58.8%), it would correspond to a 3.6% increase in GDP.

The component that measures business activity decreased 2.2 percentage points in March, to 60.6%. The reading indicates that business activity grew for the 104th consecutive month, albeit at a slower rate. Thirteen of the industries in the index reported growth in business activity for the month.

EXHIBIT 13A: Manufacturing, Services, and Housing Indicators—Past 24 Months

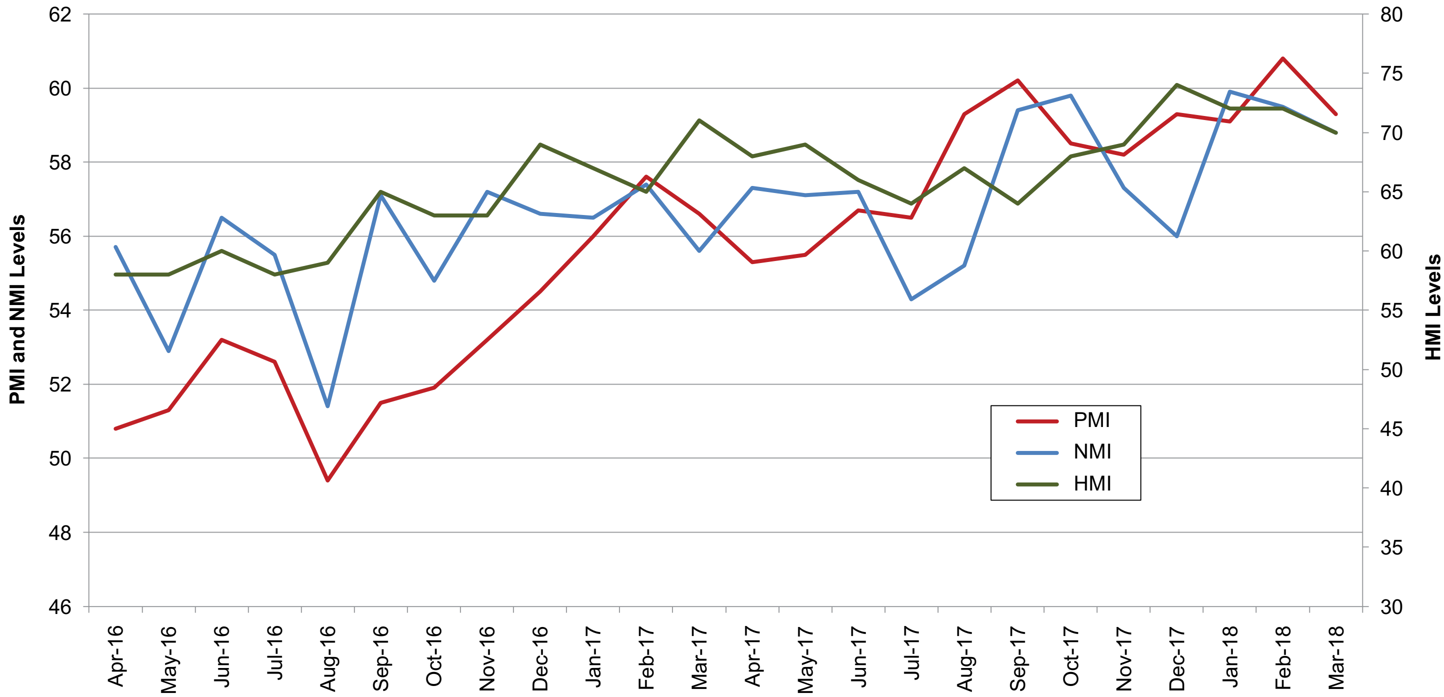
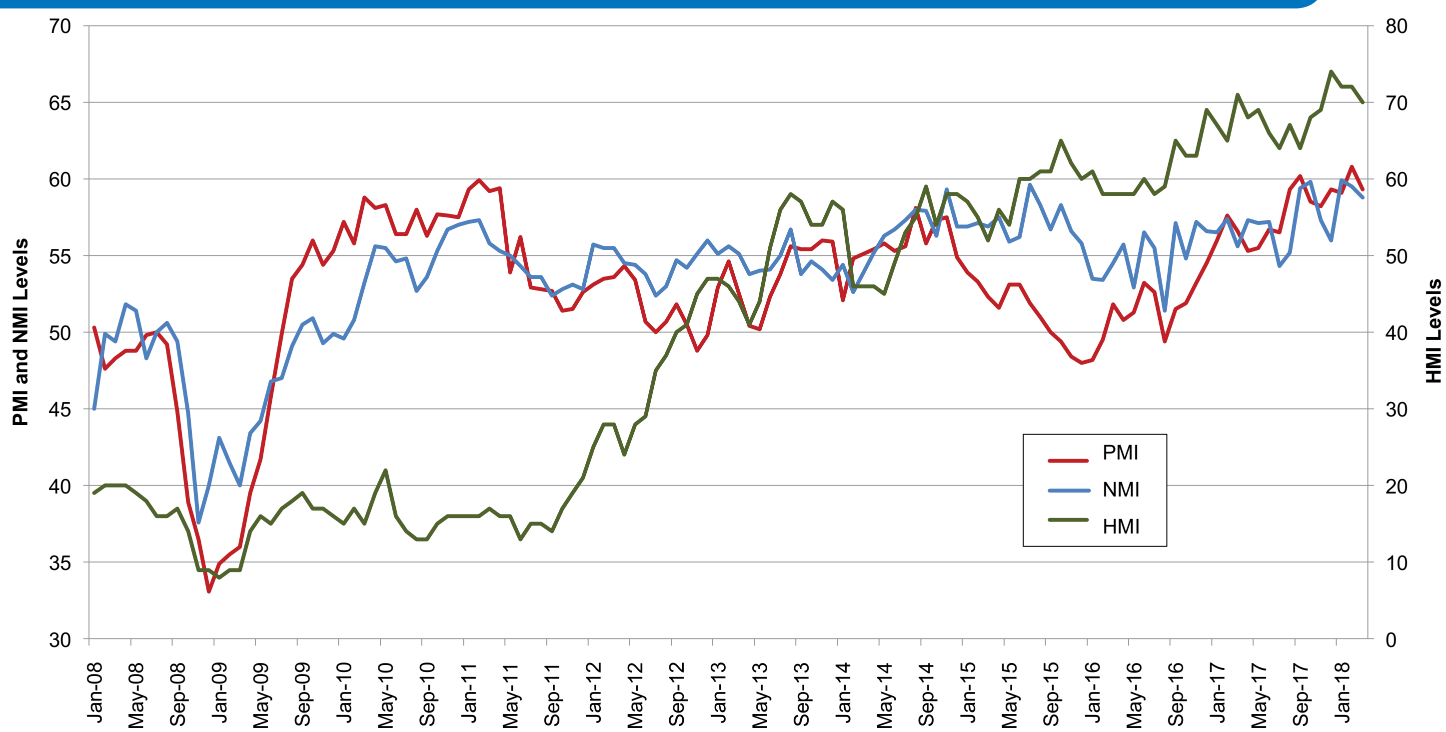


EXHIBIT 13B: Manufacturing, Services, and Housing Indicators—Since 2008



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

The new orders component of the index decreased 5.3 percentage points, to 59.5%. The March report represents growth at a faster rate in new orders for the 86th consecutive month, albeit at a slower rate than in February. Thirteen of the industries in this index reported an increase in new orders for the month. Two industries reported contraction in March.

The employment component increased 1.6 percentage points, to 56.6%, in March, which marked employment growth in the services sector for the 49th consecutive month. Twelve of the industries reported increased employment, while two industries reported a reduction in employment for the month.

The supplier deliveries component increased 3.0 percentage points in March, at 58.5%, which indicates deliveries were slower in March for the 27th consecutive month. A reading above 50% indicates slower deliveries, while a reading below 50% indicates faster deliveries. Eleven industries reported slower deliveries than in February.

The component that measures the Inventories Index remained unchanged in March. The index was at 53.5% in March. Of the total respondents in March, 30% indicated they do not have inventories or do not measure them. Eight industries reported an increase in inventories in March.

The component that measures prices nonmanufacturing organizations paid for purchased materials and services increased 0.5 percentage point, to 61.5%, in March. For the month, 30% of respondents reported higher prices, 66% indicated no change in prices paid, and 4% of respondents reported lower prices. Twelve of the 18 industries reported an increase in prices paid in the month of March.

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

14. REAL ESTATE

National Association of Home Builders

Builder confidence eased 2.0 points in March, with the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) reporting a reading of 70.0. February's reading showed no change, and the March reading 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 March. The component measuring buyer traffic fell three points, to 51.0, while the component charting current sales conditions remained unchanged, at 77.0. The component gauging sales conditions over the next six months fell two points, to 78.0.

Looking at the three-month moving averages for the regional HMI indexes, the HMI scores posted gains in all four regions. The South fell one point, to 73.0; the Northeast rose one point, to 58.0; the West fell two points, to 79.0; and the Midwest fell four points, to 68.0.

(See Exhibit 13 for historical HMI figures.)

National Association of Realtors (NAR)

Existing-home sales increased in March, which marked the second consecutive month of gains. Sales increased 1.1% on the month but are 1.2% below the figure from one year ago. The report states that, although the strong job market and recent tax cuts are boosting the incomes of many households, speedy price growth is squeezing overall affordability in several markets, especially those out West. The healthy economy has generated sustained interest in buying a home this spring, but sales are lagging year-ago levels because supply is low and home prices keep climbing above what some would-be buyers can afford

All-cash sales were 20% of transactions in March, which is down 4% from February and 3% from one year ago. Individual investors, who account for many cash sales, purchased 15% of homes in March, unchanged from February, but down 3% from one year ago.

The report noted that two of the four major regions saw sales increases in March. Shares of distressed home sales were at 4%, which is unchanged from last month but down from 6% one year ago. Three percent of sales were foreclosures, and 1% were short sales.

Existing-home sales increased in March, to an annual pace of 5.60 million sales, up from a 5.54 million in February. Existing-home sales are completed transactions that include single-family houses, townhomes, condominiums, and co-ops.

Home sales in the Northeast jumped 6.3% in March but are down 9.3% from a year ago. Sales in the Midwest increased 5.7% in March but are down 1.5% from one year ago. Sales in the South decreased 0.4% but are up 0.4% compared to this time last year. Sales in the West declined 3.1% but are up 0.8% from one year ago.

The national median existing-home price for all housing types was $252,100 in March, up 5.9% from a year ago. February's price increase marked the 73rd consecutive month of year-over-year price gains. In March, home prices in the Northeast moved up 3.3% from one year ago, while prices in the Midwest climbed 5.1%. Home prices in the South rose 5.7%, while prices in the West jumped 7.9% over the last 12 months.

The median time on the market for all homes sold in March was 30 days, which was down from 37 days in February and 34 days from one year ago. Fifty percent of homes sold in March were on the market for less than a month.

Total housing inventory rose 5.7% in March, to 1.67 million existing homes available for sale. Housing inventory remains down 7.2% from one year ago and has fallen year over year for 34 consecutive months. Unsold inventory was at a 3.6-month supply at the current sales pace in March, which is down from 3.8 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 fifth consecutive month, to 4.44% in March, rising from the 4.33% rate in the prior month. This is the highest rate since December 2013, when it was at 4.46%. The average 30-year rate for 2017 was 3.99%.

NAR's Realtors Confidence Index (RCI) for current conditions increased 4.0 points in March. The RCI for single-family houses reported a reading of 74.0 (strong = 100; moderate = 50; weak = 0) and was unchanged over the past 12 months. The RCI is a key indicator of housing market strength based on a monthly survey of over 50,000 real estate practitioners.

Pending home sales rose slightly in March, which marked the second consecutive month of advances. The index closed the first quarter up 0.4%, to a reading of 107.6%. Despite this month's rise, the index is down 3.0% above its levels from one year, which marked three straight months of annual declines. The report cited that, despite healthy economic conditions that are creating considerable demand for purchasing a home, not all buyers are able to sign contracts because of the lack of choices in inventory. Steady price growth and the swift pace listings are coming off the market are proof that more supply is needed to fully satisfy demand. What continues to hold back sales is the fact that prospective buyers are increasingly having difficulty finding an affordable home to buy. From 2012 to 2017, the median sales price of existing homes has increased the following amounts: 6.6%, 11.4%, 5.8%, 6.5%, 5.1%, and 5.8%.

The report also cited the impact new tax policy may have on the housing market. In the short term, most households will benefit from a larger paycheck from the tax cuts, which may give prospective buyers the ability to save for a larger down payment this year. The healthy labor economy and job market will continue to boost demand, but the tax law will adversely impact the nation's most expensive markets, which are faced with high property taxes. How severe the impact may be is uncertain, but with homeownership now less incentivized in the tax code, sellers in the upper end of the market may have to adjust their price expectations if they want to trade down or move to less expensive areas. This could in turn lead to both a decrease in sales and home values.

Two of the four regions saw pending home sales rise in the month, and two regions declined on the month. The PHSI in the South moved up 2.5%, to 128.6%, and is up 0.3% from one year ago. The West declined 1.1%, to 94.7%, and is 2.2% below its levels from one year ago. The Northeast fell 5.6%, to 90.6%, and is 8.1% below its level from one year ago. The Midwest index increased 2.4% in March, to 101.3, but is 6.0% below its level from a year ago.

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

NAR's most recent "Commercial Real Estate Market Survey," analyzing the 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 than they were in 2016, as sales volumes advanced at a solid rate of 9.1%. Capitalization rates for small-cap real estate markets in 2017 were 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 figures for the holiday shopping season. 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.

(See Exhibit 14 for forecasted figures from NAR.)

Homeownership Rates, Homeowner Vacancy Rates, and Rental Vacancy Rates

The U.S. Census Bureau found that the homeownership rate was 64.2% in the first quarter of 2018, statistically unchanged from 64.2% in the fourth quarter and statistically indifferent from the 63.6% rate from one year ago. The national vacancy rate for rental housing was 7.0% in the first quarter of 2018, statistically indifferent from 7.0% from one year ago, and 0.1 percentage point higher than the fourth-quarter rate of 6.9%. The national vacancy rate for homeowners was 1.5% in the first quarter, statistically indifferent from the rate of 1.6% in the fourth quarter, and 0.2 percentage point lower than one year ago, when it was 1.7%.

Mortgage Bankers Association

The Mortgage Bankers Association (MBA) finance commentary report stated the association believes refinance origination volume for 2018 will be $443 billion, a 27.0% decrease from 2017, which totaled $600 billion. The MBA projects the 30-year mortgage rate will hit 4.6% by the end of the second quarter 2018, reach 4.8% by the third quarter 2018, and reach 4.9% by the fourth quarter 2018. With a large segment of borrowers having taken advantage of sub-4% rates in recent years, refinance volume will decrease even though rates in the 5% range are still very low by historical standards. The MBA believes purchase originations will total $1.17 trillion in 2018, a 5.2% increase from 2017. The gains in the purchase market are driven by strong household formation, coupled with continued job growth, rising wages, and continuing growth in home prices. The MBA expects overall origination volume to total $1.61 trillion in 2018, compared to $1.71 trillion in 2017.

(See Exhibit 15 for forecasted figures from MBA.)

National Association of Real Estate Investment Trusts

Investment returns for properties, as measured by the National Association of Real Estate Investment Trusts (NAREIT), declined 6.66% in the first quarter of 2018, down from a rise of 2.37% in the fourth quarter and down from 8.67% from one year ago. The timber sector was the strongest performing segment this quarter and was followed by infrastructure. The worst performing segment in the first quarter was the Diversified sector, which declined 15.76%.

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

National Council of Real Estate Investment Fiduciaries

Property index returns, as measured by the National Council of Real Estate Investment Fiduciaries (NCREIF), remained positive in the fourth quarter. The total return for the quarter was 1.70%, which was down from 1.80% in the fourth quarter. The total annual return projected for 2018 is 7.12%. Of the property-type indexes, industrial had the best returns for the eighth quarter in a row, followed by office. Of the regional indexes, in the first quarter, the West outperformed the others for the 12th consecutive quarter, returning 2.16%.

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

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

15. ECONOMIC OUTLOOK

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 3.1% 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 3.0% in the second quarter of 2018 and 2.7% in the third quarter of 2018. They expect consumer spending to increase 2.6% in 2018 and 2.5% in 2019.

EXHIBIT 14: National Association of Realtors® Market Forecast

	Q2 2018	Q3 2018	2018	2019
Housing measures (thousands)				
Housing starts	1,320	1,360	1,344	1,400
Single-family	940	980	954	1,030
Multifamily	380	380	390	370
Home sales				
Total existing homes	5,580	5,650	5,610	5,690
New homes	690	720	703	760
Home prices (median)				
Existing homes	$265.3	$263.0	$258.3	$266.8
New homes	$329.6	$331.0	$331.4	$333.4
Mortgage Rates				
30-year fixed rate	4.5%	4.7%	4.6%	5.0%
5/1-year hybrid adjustable	3.7%	3.9%	3.8%	4.2%

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

EXHIBIT 15: Mortgage Bankers Association® Market Forecast

	Q2 2018	Q3 2018	2018	2019	2020
Housing measures (thousands)					
Housing starts	1,310	1,300	1,313	1,376	1,451
Single-family	910	920	914	986	1,065
Multifamily	400	380	400	390	386
Home sales					
Total existing homes	5,636	5,746	5,659	5,791	5,991
New homes	642	650	654	666	699
Home prices (median)					
Existing homes	$254.0	$254.2	$250.8	$259.1	$265.7
New homes	$330.8	$332.8	$330.5	$340.6	$348.8
Interest Rates					
30-year fixed rate mortgage	4.6%	4.8%	4.9%	5.4%	5.4%
10-Year Treasury yield	3.0%	3.1%	3.2%	3.5%	3.5%

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

EXHIBIT 16: REIT Returns Historical Data

	MONTHLY DATA											
(%)	4/17	5/17	6/17	7/17	8/17	9/17	10/17	11/17	12/17	1/18	2/18	3/18
All Equity REITs*	0.4	-0.1	2.0	1.3	0.6	-0.8	0.1	2.7	-0.3	-3.0	-7.3	3.7
Industrial**	5.5	2.9	3.2	3.5	3.6	-0.7	1.5	3.1	-2.8	-0.7	-7.0	4.6
Office**	-0.4	-1.2	2.7	-1.4	-1.1	1.8	-0.9	2.8	1.4	-3.8	-6.6	3.2
Retail**	-8.6	-7.0	3.5	2.4	-1.7	0.7	-4.0	7.3	3.6	-6.4	-6.0	0.8
Residential**	4.1	1.7	1.7	1.9	0.0	-2.5	1.0	0.2	-1.4	-4.4	-6.7	6.9
Diversified**	-0.7	-1.2	2.4	2.8	-2.9	1.6	-2.5	1.7	-1.1	-7.8	-8.7	0.1
Lodging/Resorts**	-3.3	-0.5	2.8	1.6	-3.3	4.7	2.4	2.1	0.8	3.2	-12.0	4.6
Health Care**	7.5	1.2	3.5	-2.4	-0.1	-3.0	-3.9	1.5	-2.9	-6.1	-10.4	5.9
Self Storage**	4.0	1.8	-1.5	-0.3	-0.5	5.6	-1.1	4.1	0.3	-5.8	-0.8	4.4
Timber**	3.6	-2.2	2.5	-0.7	-1.0	4.9	5.0	0.2	-0.3	5.9	-5.1	1.3
Infrastructure**	2.7	5.3	0.3	2.1	7.5	-7.2	6.6	2.9	-0.8	3.0	-5.1	3.8
Data Center **	5.9	4.7	-1.5	4.1	4.1	-2.9	2.6	-0.3	-1.9	-1.2	-13.1	6.4
Specialty **	0.9	-3.4	2.0	1.1	0.3	1.0	-0.6	1.6	-2.9	-4.3	-7.9	0.2
Mortgage REITs	3.5	-1.3	2.5	0.4	1.5	1.5	-3.1	0.6	2.5	-6.9	-3.3	6.5
Home Financing	4.1	-1.0	2.4	1.1	2.0	1.5	-4.0	0.5	3.1	-8.1	-3.8	7.3
Commercial Financing	1.3	-2.5	2.9	-1.6	0.0	1.4	-0.4	1.0	0.5	-3.5	-1.8	-0.8

	YEARLY DATA											
(%)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
All Equity REITs*	35.1	-15.7	-37.7	28.0	28.0	8.3	19.7	2.9	28.0	2.8	8.6	8.7
Industrial**	28.9	0.4	-67.5	12.2	18.9	-5.2	31.3	7.4	21.0	2.6	30.7	20.6
Office**	45.2	-19.0	-41.1	35.5	18.4	-0.8	14.2	5.6	25.9	0.3	13.2	5.3
Retail**	29.0	-15.8	-48.4	27.2	33.4	12.2	26.7	1.9	27.6	4.6	1.0	-4.8
Residential**	38.9	-25.2	-24.9	30.8	46.0	15.4	6.9	-5.4	40.0	17.1	4.5	6.6
Diversified**	38.0	-22.3	-28.2	17.0	23.8	2.8	12.2	4.3	27.2	-0.5	10.3	-0.1
Lodging/Resorts**	28.2	-22.4	-59.7	67.2	42.8	-14.3	12.5	27.2	32.5	-24.4	24.3	7.2
Health Care**	44.5	2.1	-12.0	24.6	19.2	13.6	20.4	-7.1	33.3	-7.2	6.4	0.9
Self Storage**	40.9	-24.8	5.0	8.4	29.3	35.2	19.9	9.5	31.4	40.6	-8.1	3.7
Timber**	N/A	N/A	N/A	N/A	N/A	7.7	37.0	7.9	8.6	-7.0	8.3	21.9
Infrastructure**	N/A	N/A	N/A	N/A	N/A	N/A	29.9	4.8	20.2	3.7	10.0	35.4
Data Center **	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.5	26.4	28.4
Specialty **	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.7	19.9	13.2
Mortgage REITs	19.3	-42.3	-31.3	24.6	22.6	-2.4	19.9	-2.0	17.9	-8.9	22.9	19.8
Home Financing	14.8	-38.2	-20.0	28.2	21.0	-0.9	16.4	-12.7	19.4	-9.8	25.9	23.3
Commercial Financing	30.3	-48.8	-74.8	-41.0	42.0	-11.3	43.0	41.8	14.5	-6.0	14.3	9.1

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

EXHIBIT 17: Property Index Returns Historical Data

	QUARTERLY DATA											
(%)	2Q 15	3Q 15	4Q 15	1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17	1Q 18
National*	3.1	3.1	2.9	2.2	2.0	1.8	1.7	1.6	1.8	1.7	1.8	1.7
East region*	2.9	2.6	2.3	1.7	1.7	1.5	1.4	1.0	1.5	1.3	1.3	1.2
West region*	3.4	3.6	3.6	2.8	2.5	2.2	2.2	2.0	2.2	2.2	2.3	2.2
South region*	3.1	3.1	3.0	2.2	1.8	1.6	1.6	1.8	1.6	1.6	1.7	1.8
Midwest region*	3.0	2.9	2.4	2.2	2.0	1.5	1.3	1.4	1.3	1.4	1.3	1.3
Hotel*	3.5	3.5	3.0	1.2	1.5	1.4	0.7	-0.2	1.8	2.3	1.0	1.0
Apartment*	3.0	2.9	2.7	1.9	1.9	1.7	1.7	1.3	1.5	1.7	1.6	1.5
Retail*	3.0	3.1	3.5	3.0	2.2	2.0	1.7	1.6	1.5	1.2	1.3	0.7
Industrial*	3.8	3.7	3.2	3.0	2.9	2.9	3.0	2.8	3.1	3.3	3.3	3.3
Office*	3.1	3.0	2.6	1.7	1.7	1.3	1.4	1.3	1.6	1.4	1.7	1.8

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

The forecasters believe unemployment will average 4.0% 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 1.8% at the end of the second quarter of 2018 and 2.0% at the end of the third quarter of 2018. They predict the 10-year Treasury bond yield will be 2.9% at the end of the second quarter of 2018 and 3.0% at the end of the third quarter of 2018.

They also believe consumer prices will rise at a rate of 1.7% in the second quarter of 2018 and 2.1% in the third quarter of 2018. They expect consumer prices to increase 2.3% in 2018 and 2.2% in 2019. They expect producer prices to increase at a rate of 2.5% in the second quarter of 2018 and 2.1% in the third quarter of 2018. The forecasters anticipate producer prices will rise 2.8% in 2018 and 1.7% in 2019.

The forecasters believe real disposable personal income will rise at a rate of 2.7% in the second quarter of 2018 and 3.0% in the third quarter of 2018. They believe real disposable personal income will increase 2.6% in 2018 and 2.8% in 2019.

The forecasters expect industrial production to increase at a rate of 3.2% in the second quarter of 2018 and 3.0% in the third quarter of 2018. They forecast that industrial production will increase 3.5% in 2018 and 2.6% in 2019.

Nominal pretax corporate profits are expected to rise 5.2% in 2018 and 4.1% in 2019. The forecasters also project housing starts will be 1,290,000 in 2018 and 1,340,000 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 $59.37 per barrel in 2018 before falling to $58.68 per barrel in 2019, compared with $50.79 per barrel in 2017. The EIA expects retail prices for regular-grade gas to average $2.64 per gallon in 2018 and fall to $2.61 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 $3.10 per million Btu (MMBtu) in 2018 and $3.19 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 $2.19 per MMBtu in 2018 and $2.21 per MMBtu in 2019. Residential electricity prices, which averaged 12.90 cents per kilowatt-hour (kWh) in 2017, are expected to average 13.19 cents per kWh in 2018 then rise to 13.62 cents per kWh in 2019. The airline ticket price index, which averaged 275.78 in 2017, is expected to be 294.08 in 2018 before rising to 322.61 in 2019.

The National Association of Realtors' Realtors Confidence Index for future conditions decreased one point in March, to 73.0, and is below the reading of 74.0 points from one year ago. The reading remains at an optimistic level. The RCI for the outlook of single-family homes increased four points in March, to 74.0 (strong = 100; moderate = 50; weak = 0), but remained unchanged from one year ago. The RCI for the outlook for townhomes increased four points, to 63.0, while the outlook for condos increased four points in February, to 59.0. 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 5.500 million before increasing to 5.670 million (+3.1%) in 2019. It believes that new single-family home sales will be 679,000 (+10.9%) in 2018, before increasing to 750,000 (+10.5%) in 2019. NAR believes the median existing-home price will be $254,000 (+2.7%) in 2018, before increasing to $262,700 (+3.4%) in 2019. NAR believes the median new-home price will decrease to $323,900 (+0.2%) in 2018, before rising to $332,000 (+2.5%) in 2019. It expects housing starts to increase to 1,331,000 (+10.9%) in 2018, then to 1,380,000 (+3.7%) in 2019. NAR believes the 30-year fixed mortgage rate will average 4.4% in 2018, before rising to 4.9% in 2019, and the 5-1 hybrid adjustable rate mortgage will average 3.8% in 2018 and 4.1% 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.

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

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