CONFIDENCE IS PREPARATION. EVERYTHING ELSE IS BEYOND YOUR CONTROL

S6 Partners – Business Advisory Services

December 2016 Economic Report

S6 PARTNERS™
BUSINESS ADVISORY SERVICES

Why Economic Conditions Matter for Businesses

Because your organization is directly impacted from improving or declining economic conditions, it is important that you monitor changes occurring in the economy.

Indicators of economic conditions provide important insights to your business. Your business should use indicators of economic conditions to adjust your views on economic growth and profitability.

An improvement in economic conditions would lead you to be more optimistic about the future and potentially invest in growth more as you may expect positive returns. The opposite could be true if economic conditions worsen. Additionally, you should monitor economic conditions to gain insight into your sales growth and profitability. A fairly typical way of forecasting growth would be to use the previous year's trend as a baseline and augment it with the latest economic data and projections that are most relevant to your products and services. For example, a company that manufactures products tied to construction would look at economic conditions in the housing sector to understand whether momentum is improving or slowing and adjust its business strategy accordingly.

It is our view at S6 Partners that in addition to rigorous market and competitive analysis, economic analysis and monitoring is one of the foundational analytical elements a business should endeavor to pursue and understand in an effort to more effectively respond to environmental factors often out of its control.

With this in mind, we have provided the following economic report. It is our intent to update this report quarterly. As we do, we will provide a copy to you for your review.

Best Regards,

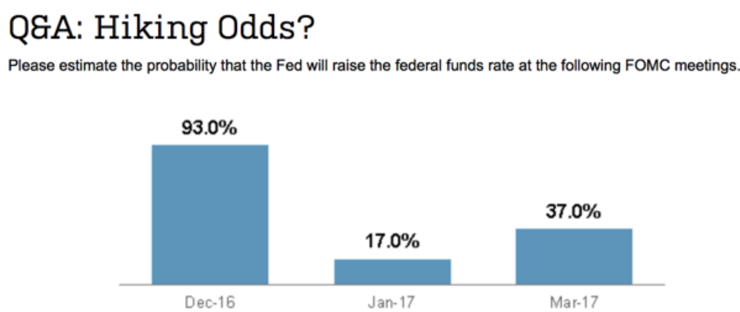
Mark W Stromberg

Managing Member
S6 Partners – Business Advisory Services
www.S6Partners.com
Clarity Leads to Confidence

Economic Forecasting Survey

THE WALL STREET JOURNAL SURVEYS A GROUP OF MORE THAN 60 ECONOMIST ON MORE THAN 10 MAJOR ECONOMIC INDICATORS

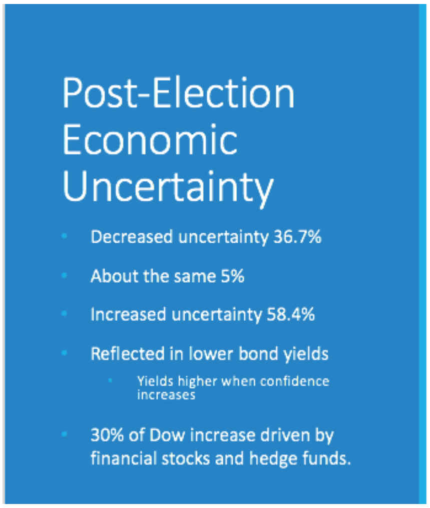
Economist Q&A

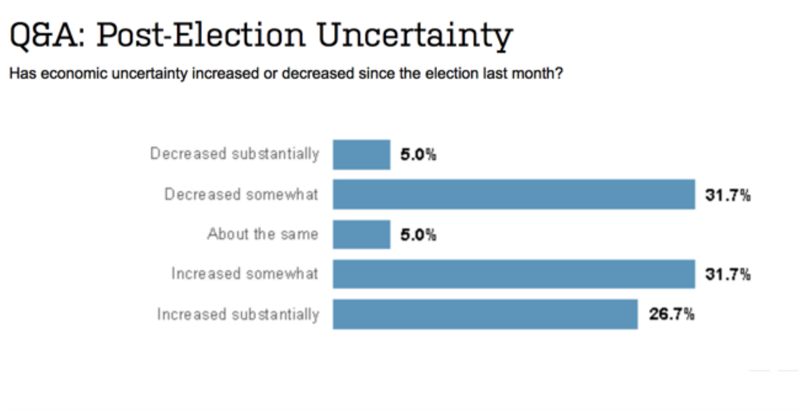


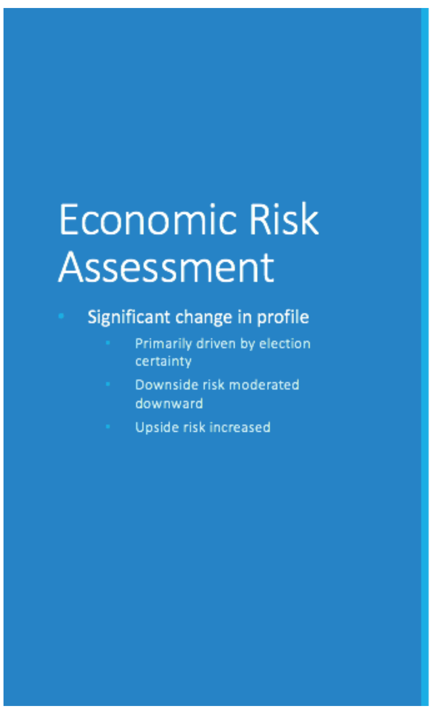
NOTE: On December 14, 2016 the Federal Reserve increased its target for the federal funds rate by another 25 basis points. In her statement, Fed Chair Janet Yellen said,

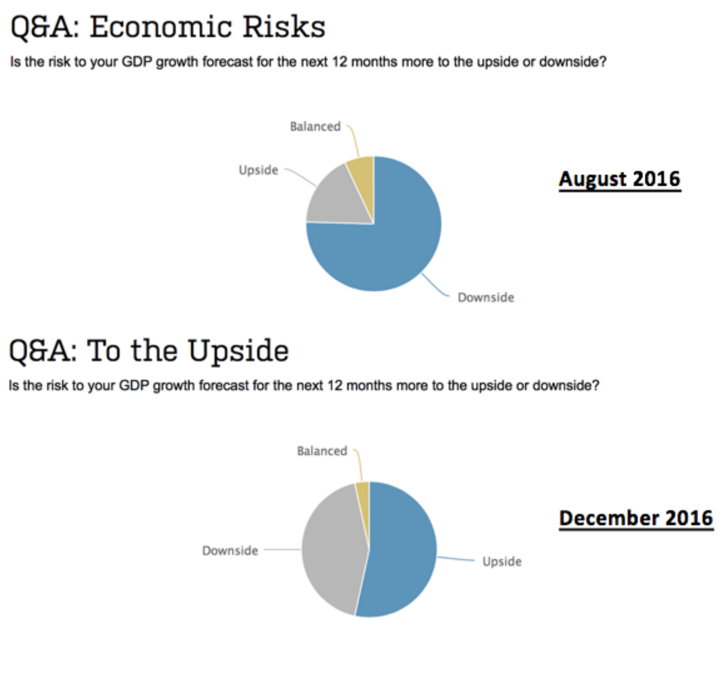
> "Today the Federal Open Market Committee decided to raise the target range for the federal funds rate by .25 percent, bringing it to .50 to .75 percent. In doing so, my colleagues and I are recognizing the considerable progress the economy has made toward our dual objectives of maximum employment and price stability. Over the past year, two and a quarter million net new jobs have been created, unemployment has fallen further, and inflation has moved closer to our longer run goal of 2 percent. We expect the economy will continue to perform well, with the job market strengthening further and inflation rising to 2 percent over the next couple of years.

Going forward, there will be a number of consequences of gradual increase in the federal funds rate over time In the private sector, interest rates on everything from car loans to home mortgages to business loans will rise. Interest rates on government securities will also rise — meaning that the federal government will have increased borrowing costs, which will have significant consequences for our national debt.







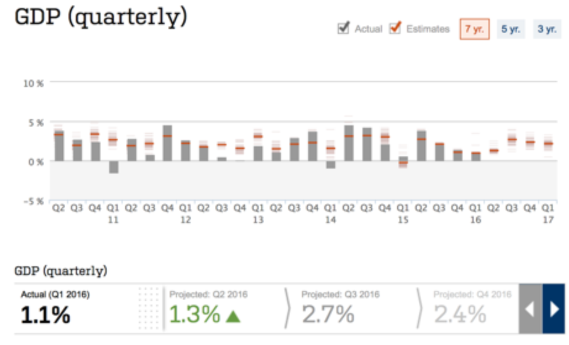


Economic Indicators

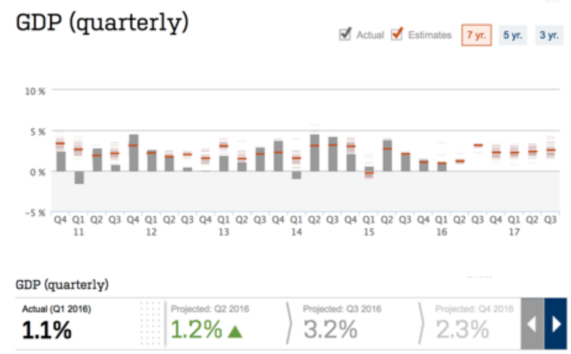
GDP - Quarterly

- Q2 2016 up .1% points over Q1 2016
  - Down .1% points from August Q2 Projection
- Q3 2016 Projected at 3.2%
  - Up .5% points from August Q3 Projection
- Q4 2016 Projected at 2.3%
  - Down .1% points from August Q4 Projection

August 2016 Forecast



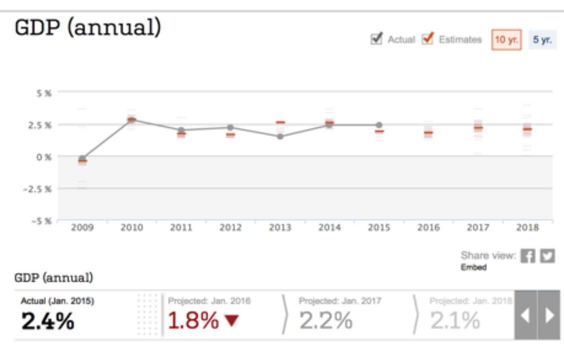
December 2016 Forecast



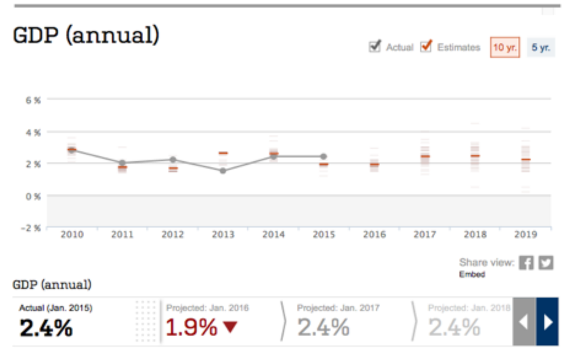
GDP - Annual

- 2016 Projected at 1.9%
  - Up .1% points from August Projection
  - Down .5% from Actual 2015
- 2017 Projected at 2.4%
  - Up .2% points from August Projection
  - Up .5% points from 2016 Projection
- 2018 Projected at 2.4%
  - Up .3% points from August Projection
  - Up .5% points from 2016 Projection

August 2016 Forecast



December 2016 Forecast



Consumer Price Index – CPI

The Consumer Price Index is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to asses price changes associated with the cost of living. The CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

- Federal Reserves CPI Target 2%
- 2016 Projected up 1.2% points over EOY 2015
- 2016 Projected at 1.9%
  - Up .7% points from August Projection
  - Up 1.7% points from actual June 2016

August 2016 Forecast

December 2016 Forecast

Oil Prices

- Projected EOY 2016 up $2.33 / 4.6% over Actual June 2016
- Projected EOY 2016 up $4.51 / 9% over August Projections
- 2017 Projections
  - Up $4.92 / 9% over Projected EOY 2016
  - Up $3.80 / 7%over August 2017 EOY Projection

August 2016 Forecast

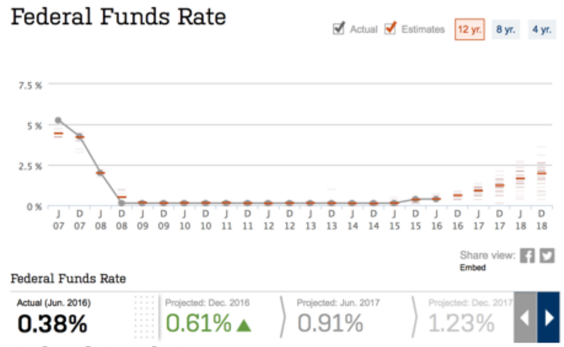
December 2016 Forecast

Federal Funds Rate

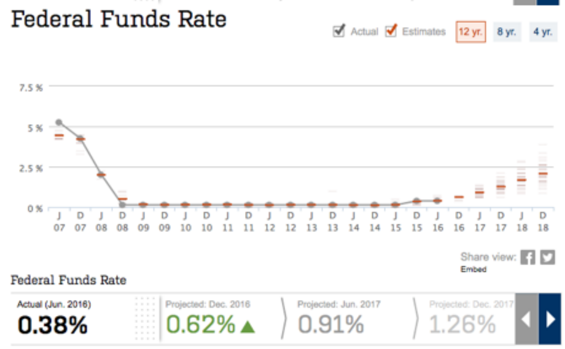
The interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. The federal funds rate is generally only applicable to the most creditworthy institutions when they borrow and lend overnight funds to each other. The federal funds rate is one of the most influential interest rates in the U.S. economy, since it affects monetary and financial conditions, which in turn have a bearing on key aspects of the broad economy including employment, growth and inflation. The Federal Open Market Committee (FOMC), which is the Federal Reserve's primary monetary policymaking body, telegraphs its desired target for the federal funds rate through open market operations. Also known as the "fed funds rate".

- Projected that the Fed will raise rate in December by roughly .25 basis points to .62%
- Projected increase by .29 basis points to .91% in June 2017
- Projected increase by .35 basis points to 1.26% in December 2017
- Projected EOY 2017 (1.26%) Fed Fund Rate increase over Projected EOY 2016 (.62%) .64 basis points.

August 2016 Forecast



December 2016 Forecast



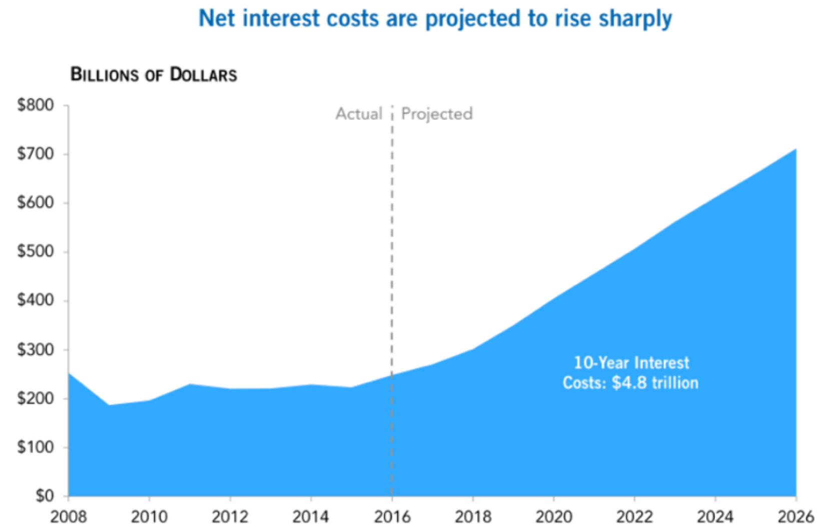
Interest Rates

CBO projects that interest rates will rise significantly from current levels

SOURCE: Board of Governors of the Federal Reserve, *H.15—Selected Interest Rates* and Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2016 to 2026*, August 2016. Compiled by PGPF.
NOTE: Data are presented on a calendar year basis.

Net Interest Costs

Under current law, CBO projects that net interest costs will more than double over the next 10 years, soaring from $270 billion in 2017 to $712 billion in 2026 and totaling $4.8 trillion over the period. [1] Interest costs are expected to continue climbing beyond the next 10 years and are projected to be the third largest category in the federal budget by 2028 (after just Social Security and Medicare), the second largest category in 2046, and the single largest category in 2050.

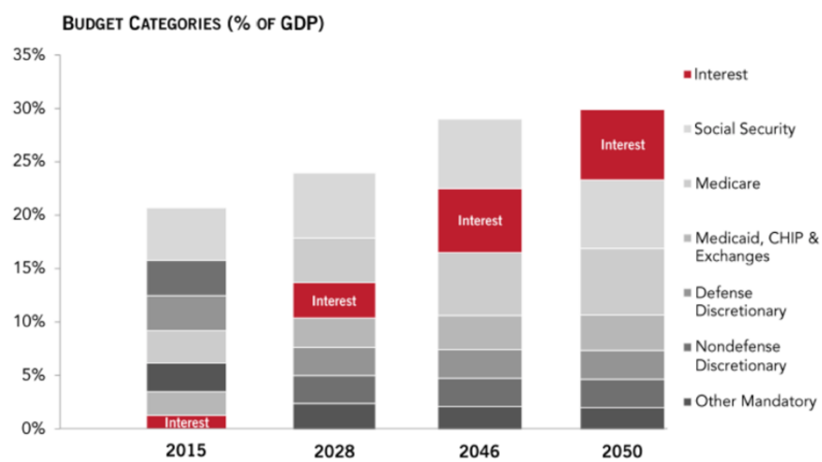


SOURCE: Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2016 to 2026*, August 2016, and *Updated Budget Projections: 2016 to 2026*, March 2016. Compiled by PGPF.

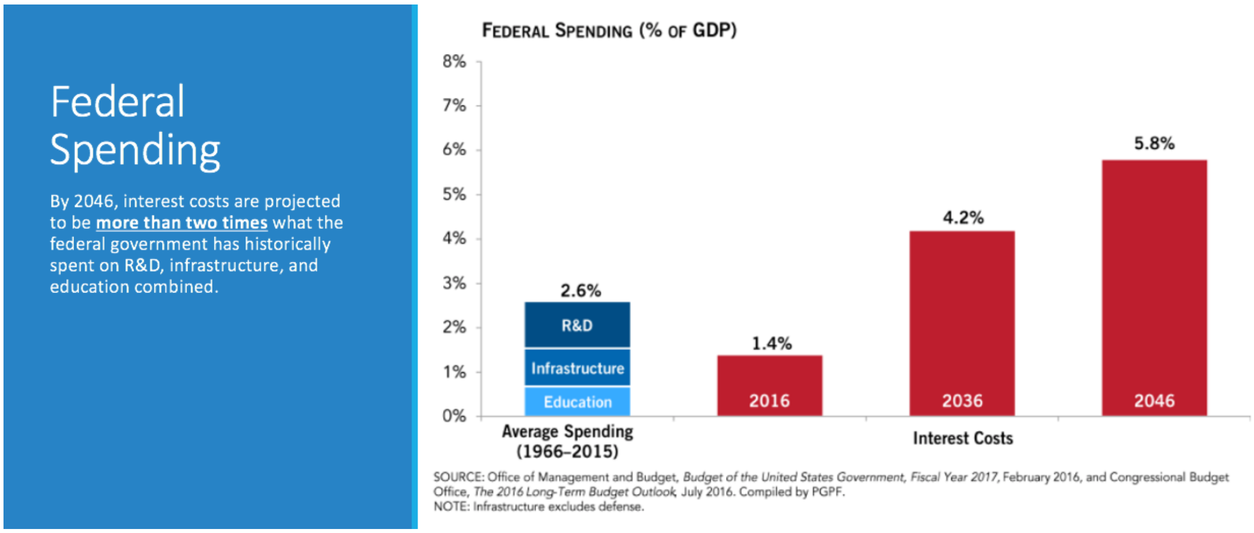
[1] Under current law, CBO projects that interest rates on 3-month Treasury Bills will increase from 0.3 percent in 2016 to 2.8 percent in 2026, while interest rates on 10-year Treasury Notes will increase from 1.8 percent in 2016 to 3.6 percent in 2026. The interest rates are expressed as calendar-year averages.

Budget Categories (% of GDP)

Ballooning interest costs threaten to crowd out important public investments that can fuel economic growth in the future. In its most recent long-term budget report, CBO estimates that by 2046, interest costs are projected to be more than double what the federal government has historically spent on R&D, nondefense infrastructure, and education, combined.



SOURCE: Congressional Budget Office, *The 2016 Long-Term Budget Outlook*, July 2016, and *Updated Budget Projections: 2016 to 2026*, March 2016; and PGPF projections based on CBO data.
NOTE: Medicare spending is net of premiums and payments from the states.

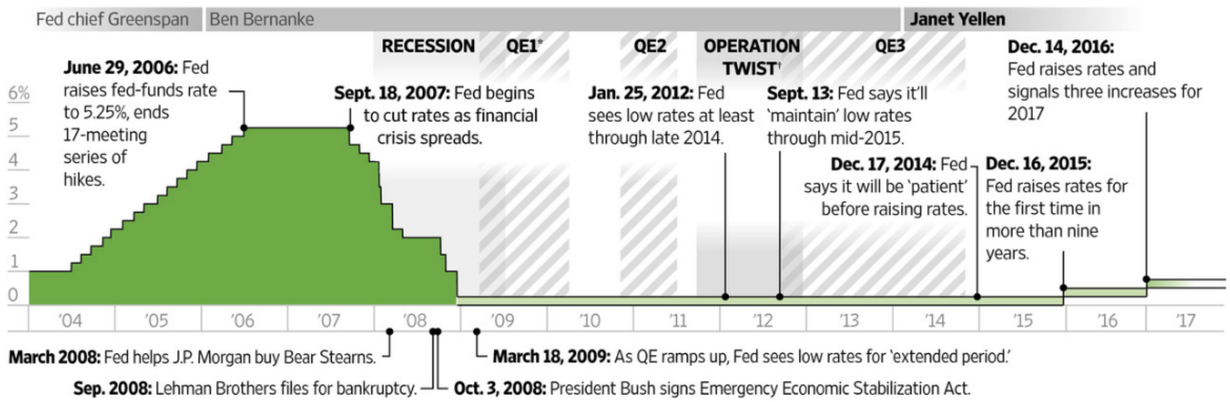


The long-term fiscal challenges facing the United States are serious. Even though our current deficits are lower than they used to be, ***we are still adding an average of more than one billion dollars to our national debt load every day***. ***Worse yet, we are headed toward a period of rising demands from unfunded entitlements in a rapidly aging society, combined with a tax system that fails to raise enough revenue and is filled with inefficient and costly tax subsidies.*** Many economists warn of this growth in debt – this year, both GAO and Ernst & Young also released reports this year warning about the dangers and unsustainability of U.S fiscal policy.

It is the opinion of S6Partners, a major culprit here is failed fiscal policy. The Fed is reacting to poor fiscal policy with draconian and extreme monetary policy with fewer and fewer arrows in their quiver. Congresses and presidents of both parties, over many years, have avoided making hard choices about our budget and failed to put it on a long-run, sustainable path.

Upward Momentum

The U.S. Federal Reserve said Wednesday it is raising its benchmark federal-funds rate a quarter percentage point, to a range between 0.50% and 0.75%, the first increase since December 2015 and just the second move higher since June 2006.



*In QE (quantitative easing) programs, the Federal Reserve purchased billions of dollars of Treasurys and other instruments.
†A program in which the Fed sold shorter-term bonds and bought longer-term ones to extend the maturity of its balance sheet.

Source: Federal Reserve

THE WALL STREET JOURNAL.

10 Year Note

A 10-year treasury note is a debt obligation issued by the United States government that matures in 10 years. A 10-year Treasury note pays interest at a fixed rate once every six months and pays face value to the holder at maturity. An advantage of investing in a 10-year Treasury notes, and other federal government securities, is that the interest payments are exempt from state and local income tax. However, they are still taxable at the federal level.

These notes are sold in order to finance federal debt. The Federal Reserve purchases these notes from the US Treasury and prints money. China is a significant holder of these notes as well.

The 10-year treasury is used as a proxy for many other important financial matters, such as mortgage rates.

This note also tends to signal investor confidence. When confidence is high, the 10-year treasury bond's price drops and yields go higher because investors feel they can find higher returning investments and do not feel they need to play it safe.

But when confidence is low, the price goes up as there is more demand for this safe investment and yields fall.

- Projected EOY 2016 up 85 basis points to 2.34% yield from actual June 2016.
  - Reflecting moderate economic confidence
  - The US Treasury is the best safe haven for global markets. This is an additional factor driving demand on the Treasury.
- Projected EOY 2017 up 45 basis points to 2.79% over EOY 2016 Projection.
  - Relatively flat yield
  - The yield moves inverse to the equity market

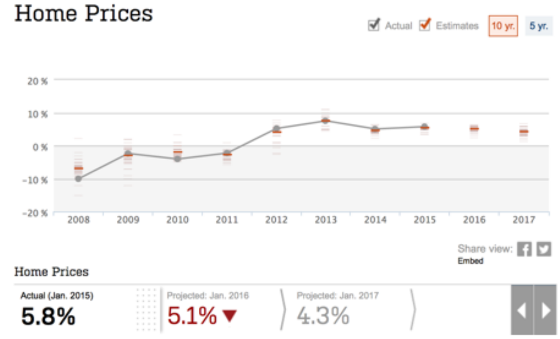
August 2016 Forecast

December 2016 Forecast

Housing Prices

- Home prices for 2016 are projected to be down 30 basis points / 5.5% from 2015 prices.
- Projected 2016 up 40 basis points / 5.5% from August projections.
- Projected 2017 prices are trending down from 2016.
- Projected 2018 prices are trending down from 2017.
- Projections indicate some continuance in housing appreciation nationally, albeit moderating.

August 2016 Forecast

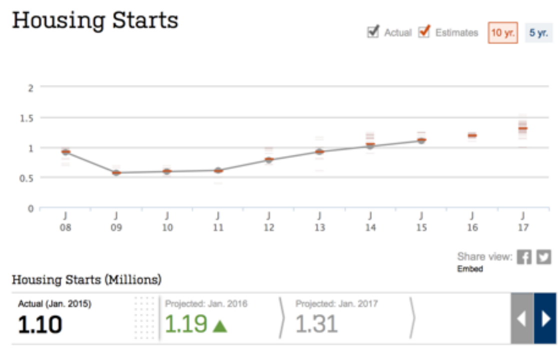


December 2016 Forecast

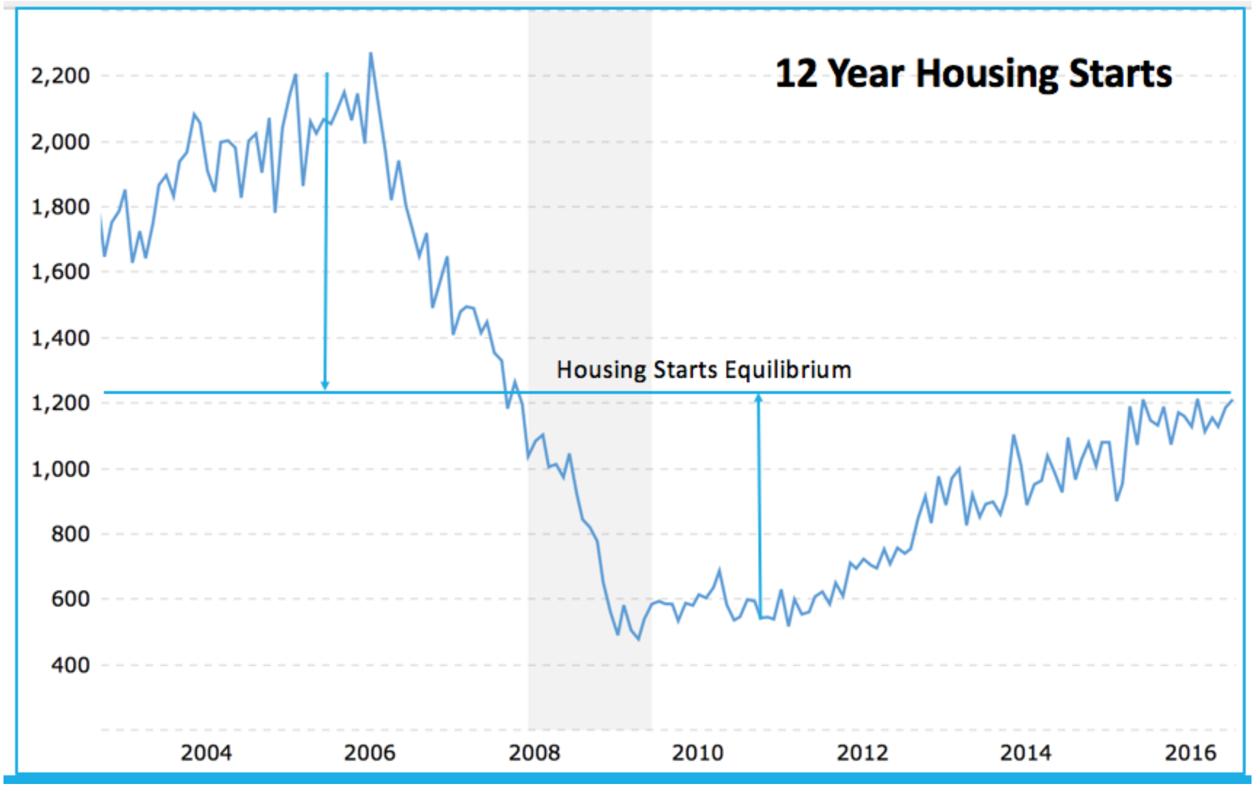
Housing Starts

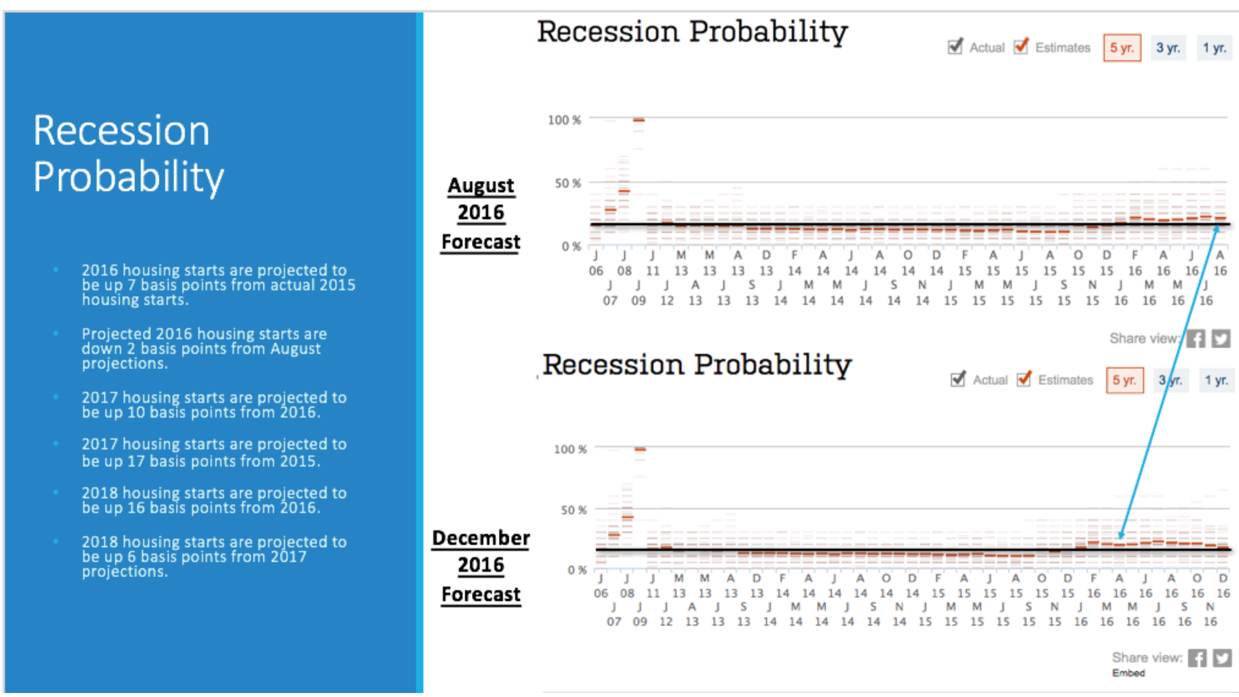
- 2016 housing starts are projected to be up 7 basis points from actual 2015 housing starts.
- Projected 2016 housing starts are down 2 basis points from August projections.
- 2017 housing starts are projected to be up 10 basis points from 2016.
- 2017 housing starts are projected to be up 17 basis points from 2015.
- 2018 housing starts are projected to be up 16 basis points from 2016.
- 2018 housing starts are projected to be up 6 basis points from 2017 projections.

August 2016 Forecast



December 2016 Forecast


12 Year Housing Starts
2,200
2,000
1,800
1,600
1,400
1,200
1,000
800
600
400
Housing Starts Equilibrium
2004
2006
2008
2010
2012
2014
2016


Recession Probability
- 2016 housing starts are projected to be up 7 basis points from actual 2015 housing starts.
- Projected 2016 housing starts are down 2 basis points from August projections.
- 2017 housing starts are projected to be up 10 basis points from 2016.
- 2017 housing starts are projected to be up 17 basis points from 2015.
- 2018 housing starts are projected to be up 16 basis points from 2016.
- 2018 housing starts are projected to be up 6 basis points from 2017 projections.
August 2016 Forecast
Recession Probability
Actual
Estimates
5 yr.
3 yr.
1 yr.
100 %
50 %
0 %
Share view:
December 2016 Forecast
Recession Probability
Actual
Estimates
5 yr.
3 yr.
1 yr.
100 %
50 %
0 %
Share view:
Embed