United States Economic Forecast Update for 2016

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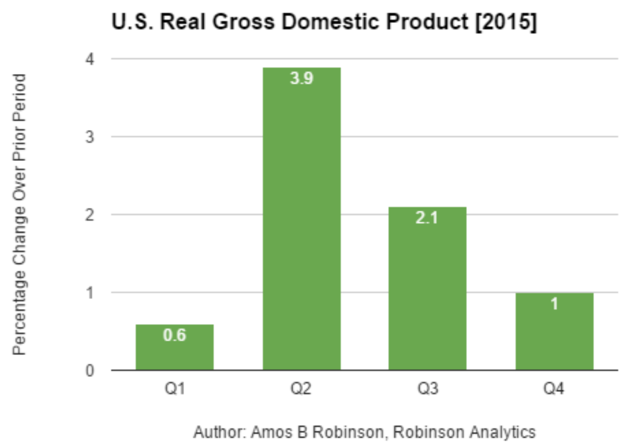
Year 2015

[Federal Reserve Chairwoman, Janet Yellen]

Fed raises interest rate for first time in nearly a decade [December 16, 2015]

As we look back on 2015, we see that we had a challenge to the economy at the beginning of the year (due to weather) but we recovered in quarter two nicely with a 3.9% annual growth. However, after the second quarter our growth rate slowed in both the third and fourth quarters. We see that our fourth quarter growth rate slowed to 1%.

The BEA's explanation for forth quarter growth is:
The increase in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures (PCE) [Consumer Spending], residential fixed investment, and federal government spending that were partly offset by negative contributions from exports, nonresidential fixed investment, state and local government spending, and private inventory investment. Imports, which are a subtraction in the calculation of GDP, decreased.



BEA's explanation for "*The deceleration in real GDP in the fourth quarter primarily reflected a deceleration in PCE [Consumer Spending] and downturns in nonresidential fixed investment [Commercial Real Estate], in state and local government spending, and in exports that were partly offset by a smaller decrease in private inventory investment, a downturn in imports, and an acceleration in federal government spending."*

The original U.S.GDP projected growth rate for 2015 in January of 2015 was 3.6% for the year. 2.4% is a far cry from the 3.6% originally estimated. The U.S. growth rate really decelerated during the course of the year.

For the year 2015, we ended up performing on par with 2014. In other words, we did not improve our growth rate over 2014. We grew at a rate of 2.4%, the same as 2014. So our 2015 growth rate was flat.

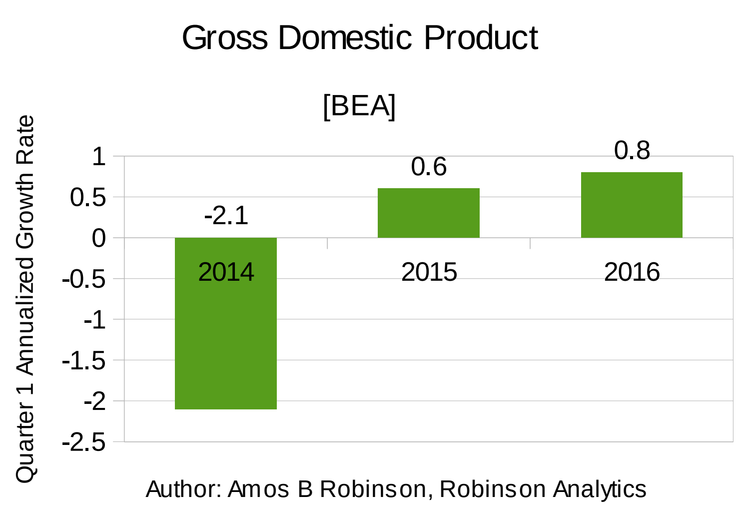
First Quarter 2016

"*The economy is still very soft domestically and is even softer at U.S. Corporations operations abroad or internationally. Where Q1 profits declined 37.3 billion.*
-Amos B Robinson

We started off with anemic growth during the first quarter. GDP was originally reported at .5% and then was revised to .8% at an annual rate. The deceleration in real GDP in the first quarter primarily reflected a larger decrease in nonresidential fixed investment [Commercial Real Estate], a deceleration in PCE [Consumer Spending], and a downturn in federal government spending that were partly offset by an upturn in state and local government spending, and an acceleration in residential fixed investment [Residential Real Estate].

This deceleration in 2016 Q1 GDP from 2015 Q4 at 1%, still reflects favorably when compared with 2015 and 2014. See graph below.

Corporate profits of domestic financial corporations decreased $2.0 billion in 2016 Q1, compared with a decrease of $24.0 billion in the 2015 Q4. Profits of domestic non-financial corporations increased $45.7 billion in 2016 Q1, in contrast to a decrease of $129.2 billion in 2015 Q4. The rest-of-the-world component of profits decreased $37.3 billion, compared with a decrease of $6.5 billion in 2015 Q4. This measure is calculated as the difference between receipts from the rest of the world and payments to the rest of the world. In the first quarter, receipts decreased $3.5 billion, and payments increased $33.8 billion.

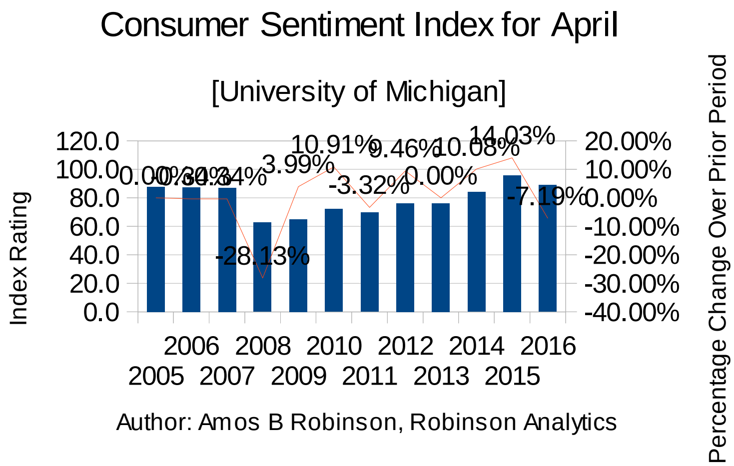


S & P 500 2016		Mkt High to May 27th Return
Mkt High	2102	
May 27th Close	2099	-0.16%

Stock market is still negative from the market high this year. We still have not recovered to our previous high of 2015

CME Group is now forecasting a 23% probability that the Federal Reserve will raise interest rate in June 2016, and a 59% probability of a rate hike in July.

When you look at consumer sentiment for the first quarter, you can see that United States consumers are saying that they are feeling good at the present moment, but they don't feel as good about the economy as they look 6 months out. See the table below.



The media is currently down-playing this, but I think that we have to very much take this into account. The first four months of this year, show consumer sentiment about the future trending down. So I draw from this consumer outlook, that consumers are forecasting slower economic growth. See table.

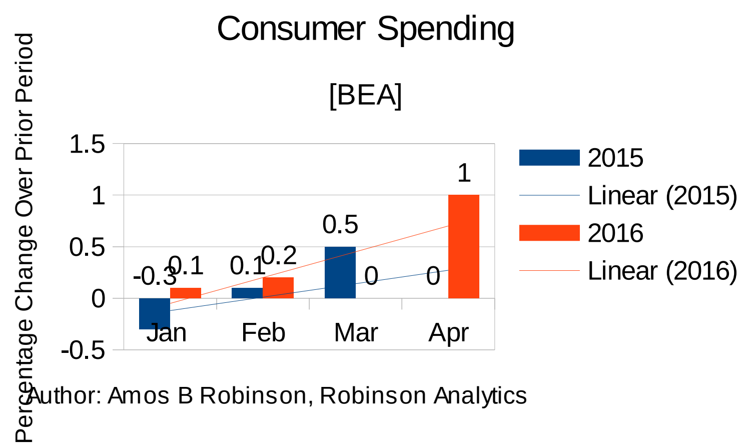
Date	Current Index	Expected Index
Jan 2016	106.4	82.7
'Feb	106.8	81.9
'Mar	105.6	81.5
Apr 2016	106.7	77.6

The U.S. stock market plays into this slower growth forecast as well. The U.S. stock market is just slightly down for the year and, of course, has not recovered to the highs of May 2015.

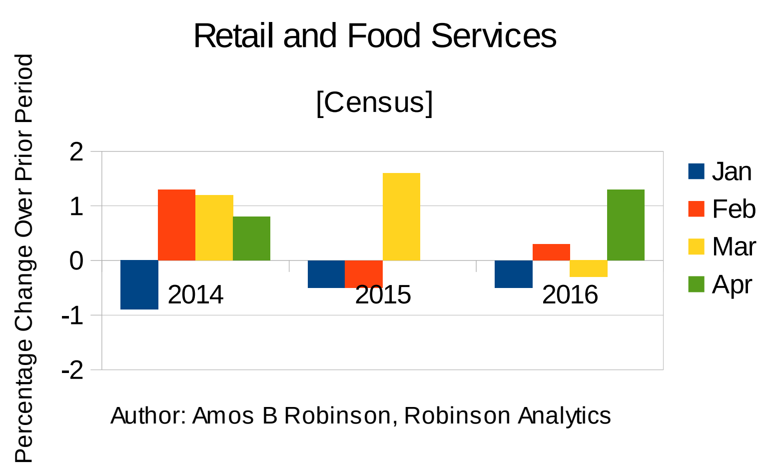
We know that the stock market is not thee leading indicator for the economy, but is an indicator of of how the economy will perform in the months ahead. The U.S. stock market has been forecasting a slow-down in the economy since last year.

With interest rates rising further sometime this year, I don't see how this will bode well for the stock market in the coming months, and thus the economy. The stock market and interest rates typically have an inverse relationship.

Consumer spending was very cautious and comparable with the first quarter of last year. So growth in the first quarter of 2016 is flat over 2015. This is the same pattern that we saw for the overall economy's growth rate last year over 2014. See graph below.



The net growth rate in Retail and Food Services was negative for the first quarter of 2016. This contrast with a net positive growth rate for the first quarter of both 2015 and 2014. This does give you pause for concern. Since 70% of our economy is consumer spending.

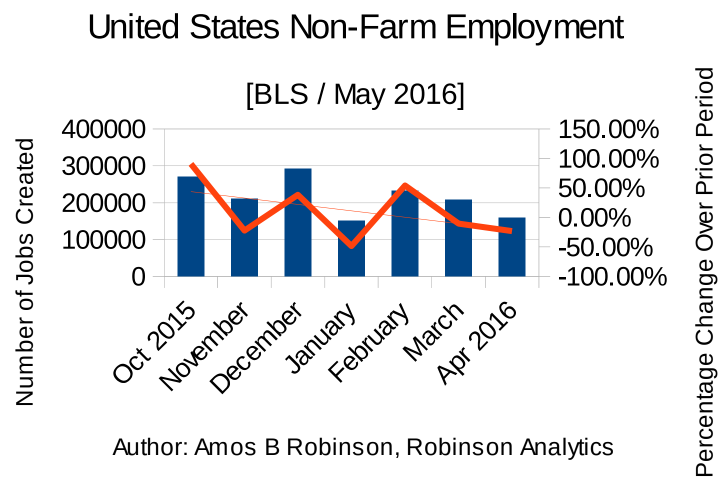


Icahn: No liquidity for high-yield bonds, market a 'keg of dynamite'

Activist investor Carl Icahn renewed his warnings about the high-yield debt market Friday, criticizing a perceived lack of liquidity in junk bond funds.

"The high-yield market is just a keg of dynamite that sooner or later will blow up," he said on CNBC's "Fast Money: Halftime Report."
[December 11, 2015]

See graph below. The U.S. economy has been improving into the New Year. However, when I graphed a trend-line on our non-farm employment growth rate, it showed that our growth rate is trending down. So our economy employment is still growing but has been growing at a slower rate.



The manufacturing area of the economy has been border-line for months. A 50 or better indicates that manufacturing is expanding. A rating below 50, indicates that manufacturing is contracting. In 5 of the past 12 months, manufacturing was contracting. When you look at April, you do see a decline from March. Our manufacturing sector has been fragile as well. See table below.

THE LAST 12 MONTHS

Month	***PMI®***	***Month***	***PMI®***
2016-04-01	50.8	2015-10-01	49.4
2016-03-01	51.8	2015-09-01	50
2016-02-01	49.5	2015-08-01	51
2016-01-01	48.2	2015-07-01	51.9
2015-12-01	48	2015-06-01	53.1
2015-11-01	48.4	2015-05-01	53.1

Average for 12 months – 50.4
High – 53.1
Low – 48.0

Forecast 2016

MSCI World Stock
This index is down approximately 10% from its high in May of 2015.

When you look around the world, you see weakness no matter where you look. When you look at the MSCI World stock, you see a negative return when you look at the year-to-date performance of the index. The MSCI World stock represents over 1,600 stocks from around the world. It is a stock market index that gives you a feel for how the world is performing, market wise. This points to weakness around planet earth. See table below.

MSCI World 2016		
maximum	71.67	
May 27, 2016	70.83	-1.17%

In performing analysis on the other top 9 economies in the world, China, Japan, Germany, United Kingdom, France Brazil, Italy, India and Russia, I have provided a snap shot of what is going on with our peer countries. See the table below.

In forty percent of the top ten countries, the consumers have a lack of confidence in their home economy.

	Consumer Confidence	YoY Stock Market Return May '15 – May '16
China	Neutral	Negative
Japan	Lack of Confidence	Negative
Germany	Confidence	Negative
United Kingdom	Lack of Confidence	Negative
France	Lack of Confidence	Negative
Brazil	Confidence	Negative
Italy	Confidence	Negative
India	Confidence	Negative
Russia	Lack of Confidence	Positive

In nine of the top ten economies in the world, the 2016 year-over-year performance of their respective stock markets have a negative return, including the United States.

This current growth rate for the U.S. economy in 2016 has been down-graded twice over the past year. In October of 2015 the 2016 growth rate was projected at 2.7 percent. It was then down-graded to 2.6% in January of this year and in April of this year was down-graded further to 2.4%.

The U.S. is now expected to grow at the same rate as we did in both 2015 and 2014. So we are not looking at an improvement in the U.S. economy growth rate over the past two years.

So there is weakness in the economy, regardless of what you may be hearing in the media.

These projections are in line with what consumers are projecting for the year, slower growth. That's where we are at right now. The same growth rate as the past two years. This is a sluggish economy.

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Market Intelligence
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Marketing Analytics
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