



Business Valuation
& Advisory

Market Report

Economic Update

Q2' 2015



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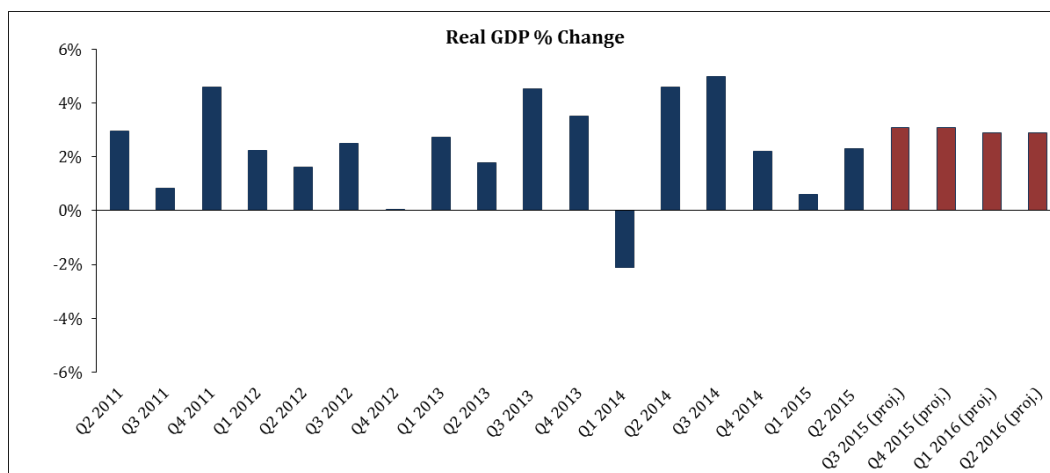
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Second Quarter GDP Beats Estimates

- Preliminary real GDP growth for the second quarter measured 2.3%, largely spurred by an increase in consumer spending. Additionally, first quarter real GDP estimates were revised upward and measured 0.6% following an earlier estimate of a 0.2% contraction. Looking ahead, U.S. real GDP is expected to grow at annualized rates of approximately 3.1% during the second half of 2015 and 2.9% during the first half of 2016.
- Consumer confidence improved in the second quarter as the Thomson Reuters/University of Michigan Consumer Sentiment Index increased to 96.1 in June 2015. The index remains at a historically high level, especially relative to levels during the recession as the index plunged to 55.3 in late 2008. Confidence has been on the rise due to steady improvement in unemployment coupled with continued record low interest rates, which have both served to strengthen the housing market.

After a sluggish start to 2015, real GDP growth accelerated in Q2 and is expected to continue at a steady pace for the next several quarters...

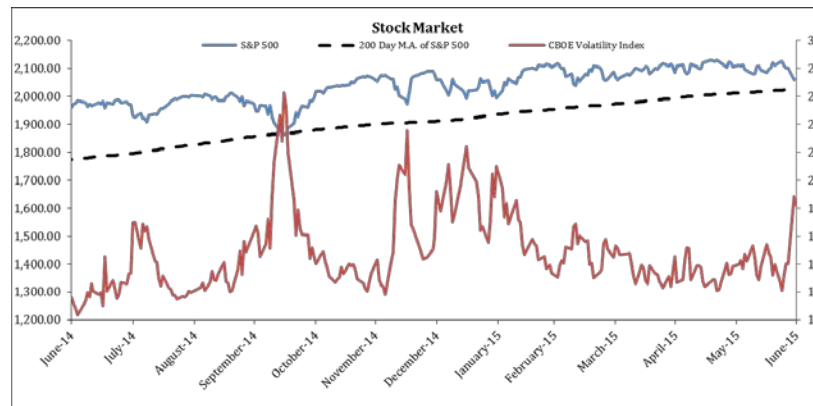


Sources: Bureau of Economic Analysis: "Table 1.1.6 Real Gross Domestic Product, Chained 2009 Dollars, Quarterly, Seasonally Adjusted and Annualized Data."
Federal Reserve Bank of Philadelphia: *The Livingston Survey*, June 2015

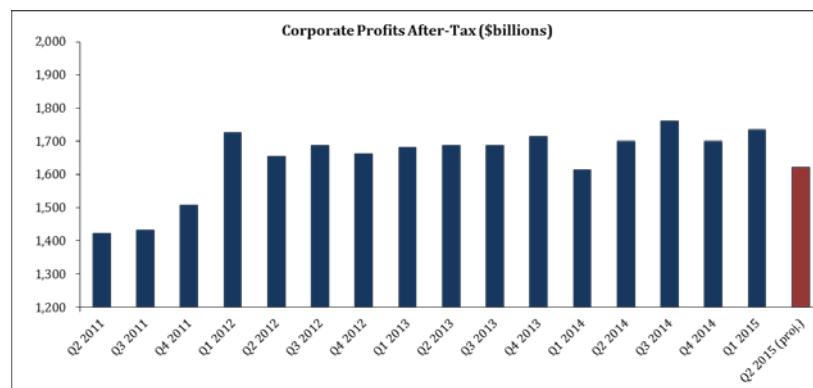
Corporate Profits Expected to Fall

- After an impressive increase in the first quarter of 2015, forecasts indicate corporate profits will fall in the second quarter as the strength of the U.S. dollar is expected to decrease demand for U.S. exports.
- The S&P 500 remained roughly flat during the second quarter as optimism regarding the overall U.S. economy was offset by the ongoing Greek debt crisis. Furthermore, experts have reason to believe the first quarter slowdown was only temporary as a result of harsh winter weather conditions.
- Federal Reserve Chair Janet Yellen indicated that the central bank is on track to gradually increase interest rates in 2015. According to Federal Open Market Committee minutes released in June, *“the Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term.”*

The S&P 500 remained roughly flat for the second quarter of 2015...



...while corporate profits are estimated to decrease by approximately 6.5%...



Sources: S&P Capital IQ
 Chicago Board Options Exchange. "New Methodology: VIX Data for 2004 to Present"
 Federal Reserve Bank of St. Louis: FRED© Economic Data, "Corporate Profits After Tax"
 Bloomberg

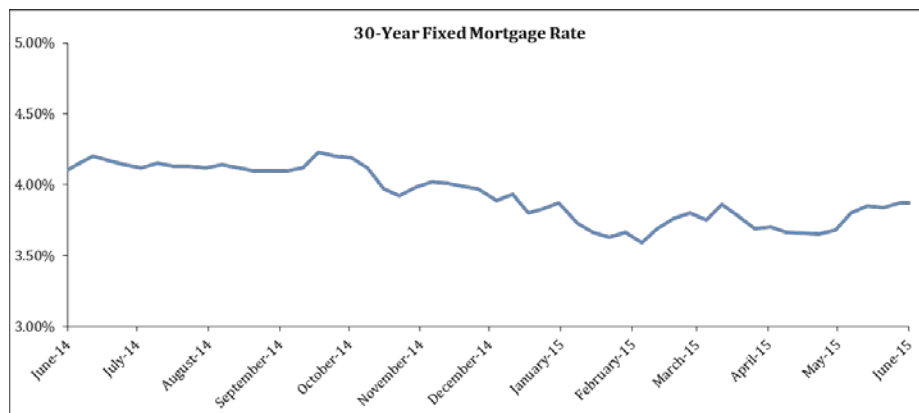
Housing Market Flourishes

- The housing market bounced back during the first quarter of 2015 after a sluggish 2014. Activity continued to accelerate in the second quarter as existing-home sales reached their highest level in nearly eight years. Despite a slight increase in the 30-year fixed mortgage rate, interest rates remain at historically low levels providing the backdrop for a strong housing market.
- According to Lawrence Yun, chief economist of the National Association of Realtors, housing activity improved due to a number of factors in June: *“Buyers have come back in force, leading to the strongest past two months in sales since early 2007. This wave of demand is being fueled by a year-plus of steady job growth and an improving economy that’s giving more households the financial wherewithal and incentive to buy. June sales were also likely propelled by the spring’s initial phase of rising mortgage rates, which usually prods some prospective buyers to buy now rather than wait until later when borrowing costs could be higher.”*

Housing activity accelerated in the second quarter...



...as mortgage rates remain near historic lows...

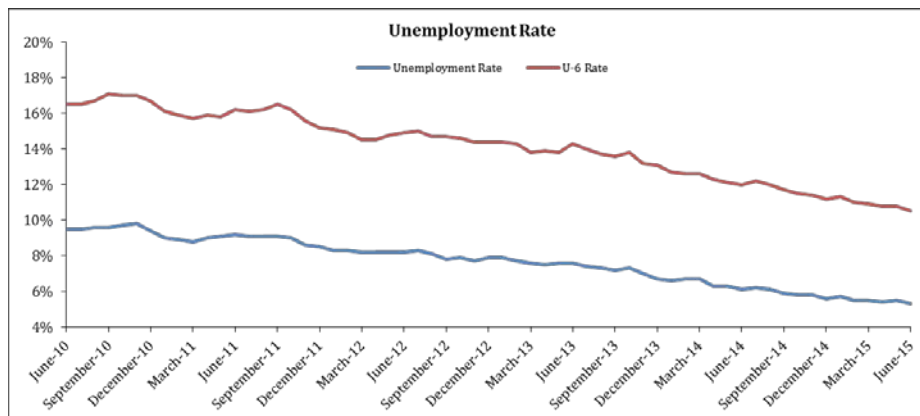


Source: Federal Reserve Bank of St. Louis: FRED® Economic Data, “Existing Home Sales, Monthly, Seasonally Adjusted Annual Rate” and “Thirty Year Fixed Rate Mortgage Average in the United States”

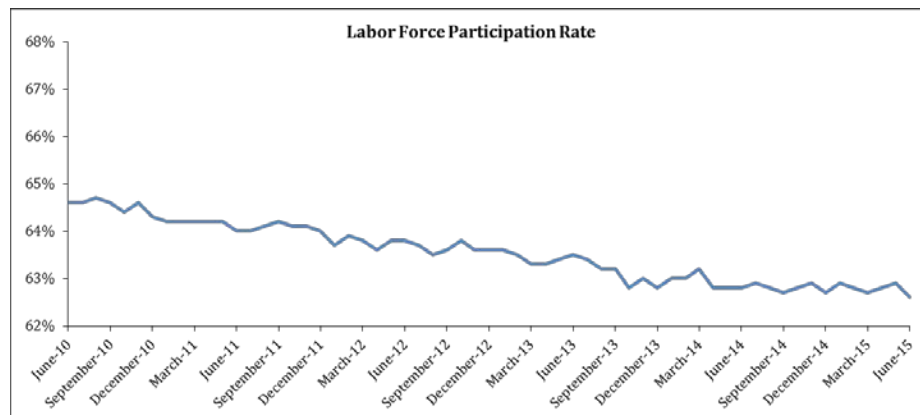
Labor Market Dissonance

- Along with the overall economic growth, Q2 experienced continued positive momentum in the labor market. The unemployment rate continued its decline and registered 5.3%, down from 5.5% in March 2015. The unemployment rate is now at its lowest level in seven years. Additionally, the U-6 rate, a broader measure that includes discouraged workers and part-time workers desiring full-time work, declined from 10.9% in March 2015 to 10.5% in June 2015.
- Despite the positive momentum in measures of unemployment, the economy's greatest conundrum remains: U.S. labor force participation. Only 62.6% of the working-age population was working or actively seeking work in June, the lowest level since 1978. Weak labor force participation levels place a ceiling on the economy's expansion potential.

The official unemployment rate continued to fall and registered at 5.3% at the end of Q2...



...however, the labor force participation rate remains at historically low levels...

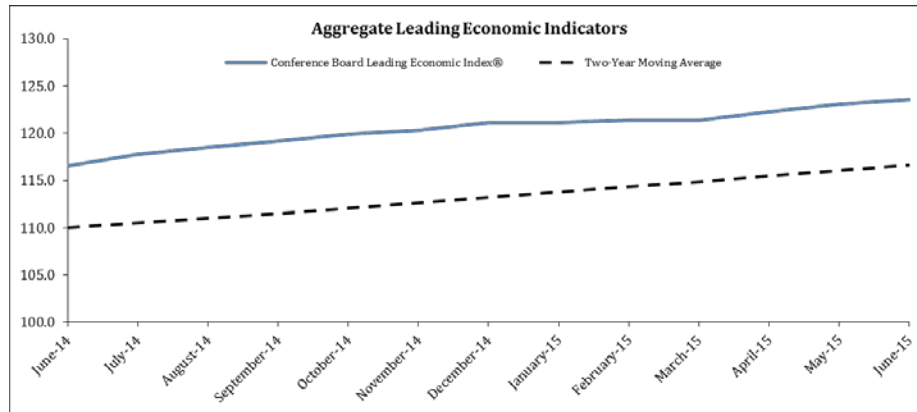


Sources: Bureau of Labor Statistics: Employment Situation News Release
Federal Reserve Bank of St. Louis: FRED© Economic Data, "Civilian Labor Force Participation Rate, Monthly, Seasonally Adjusted"

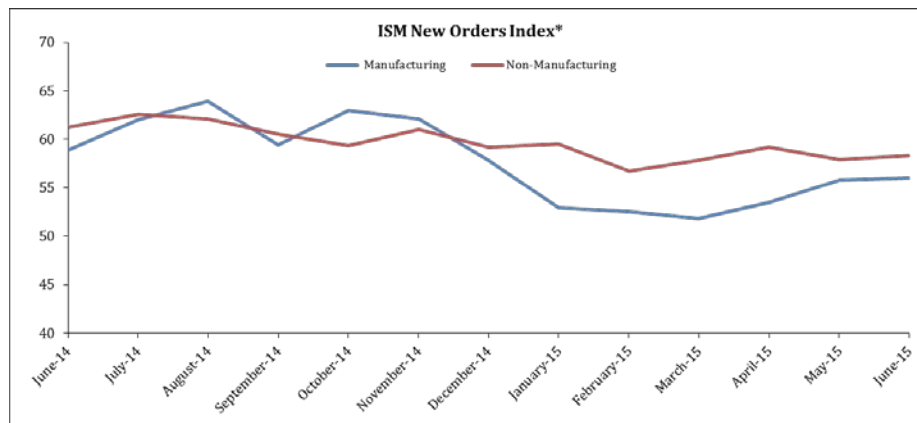
Outlook

- Economic forecasters generally remain optimistic about U.S. growth prospects going forward. Federal Reserve Board members and Federal Reserve Bank presidents together project real GDP growth of 2.6%-3.0% for 2015. The estimates are substantiated by generally positive leading economic indicators.

The Conference Board's Leading Economic Index, a composite index of ten leading indicators, has remained well above its two-year moving average over the last year...



...while manufacturing and non-manufacturing new orders, proxies for future activity, remain in expansion territory...

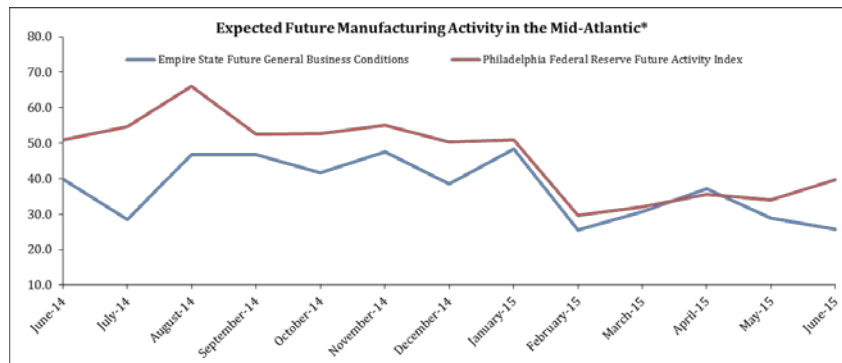


*Readings above 50 indicate expansion. Readings below 50 indicate contraction.

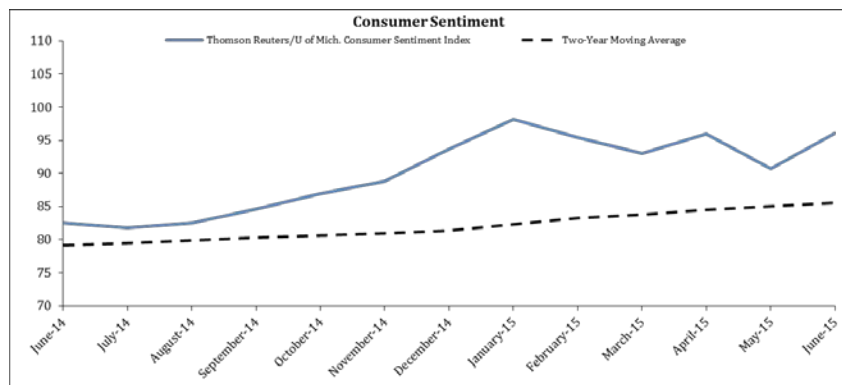
Sources: Bloomberg
Federal Reserve Bank of St. Louis: FRED© Economic Data: "ISM Manufacturing: New Orders Index", "ISM Non-Manufacturing: New Orders Index"

Outlook (continued)

The New York regional index fell in Q2, indicating contraction in the region, while the Philadelphia regional index increased in Q2, indicating growth in the region...



...while consumer confidence, a predictor of future consumer spending, remained strong and measured 96.1 in the second quarter...



New housing starts and building permits surged in the second quarter of 2015...

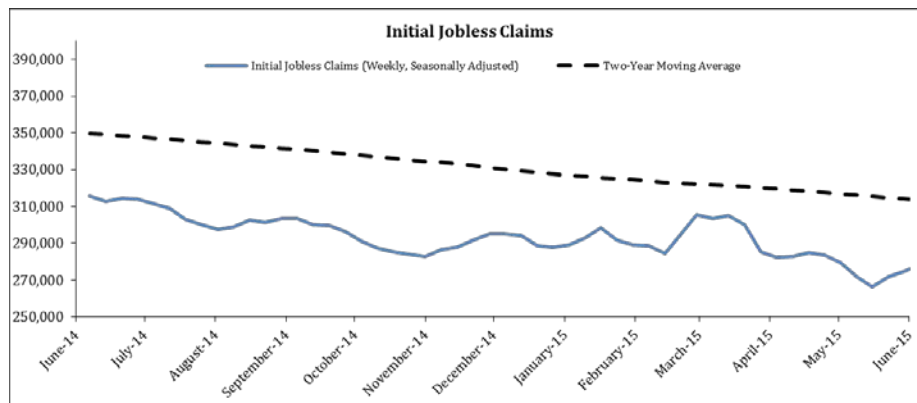


Sources: Federal Reserve Bank of Philadelphia: “Business Outlook Survey Historical Data”
 Federal Reserve Bank of New York: “Empire State Manufacturing Survey”
 Federal Reserve Bank of St. Louis: FRED® Economic Data, “University of Michigan: Consumer Sentiment”
 Federal Reserve Bank of St. Louis: FRED® Economic Data, “Housing Starts Total: New Privately Owned Housing Units Started” and “New Private Housing Units Authorized by Building Permits”

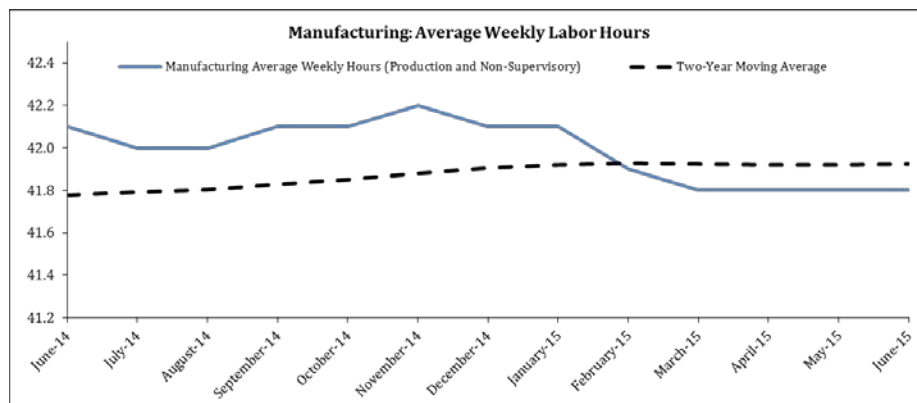
Outlook (continued)

- Corresponding to estimates of economic growth, Federal Reserve officials project a continued gradual decline in the unemployment rate to 4.8%-5.3% by the fourth quarter of 2015. Other leading labor market indicators exhibited positive signs in Q2.

Initial jobless claims remained below the two-year moving average over the past year...



...while manufacturing weekly hours stayed level at 41.8 in Q2, registering below the two-year moving average...



Sources: Federal Reserve Bank of St. Louis: FRED© Economic Data, "Initial Claims"
Federal Reserve Bank of St. Louis: FRED© Economic Data, "Average Weekly Hours of Production and Nonsupervisory Employees: Manufacturing"

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