Market Report

Economic Update

Q3 2015

New York   Chicago   Boston   Hartford   Orlando   Princeton   www.mpival.com

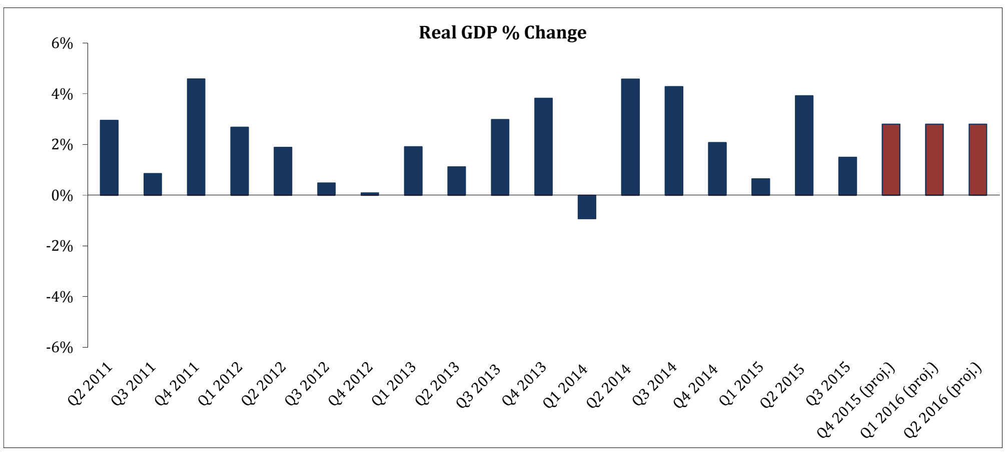
Table of Contents*

* This publication is also available in soft copy on the MPI website: http://www.mpival.com/resources.html.

Real GDP Growth Slows

- Preliminary real GDP growth for the third quarter measured 1.5%, yet again fueled by strong consumer spending. Second quarter real GDP estimates were revised upward and measured 3.9% following an original estimate of 2.3%. Looking forward, U.S. real GDP is expected to grow at an annualized rate of 2.8% in the fourth quarter of 2015 and first half of 2016.
- Consumer confidence weakened in the third quarter as the Thomson Reuters/University of Michigan Consumer Sentiment Index steadily decreased to 87.2 in September 2015, after measuring as high as 98.1 in the first quarter. The lower consumer confidence measure reflects recent volatility and uncertainty in the stock markets. Nevertheless, the index remains at a relatively high level, especially with respect to levels during the recession when the index plunged to 55.3 in late 2008.

After a strong second quarter, real GDP growth slowed in Q3 but is expected to rebound to a steady pace for the next several quarters…

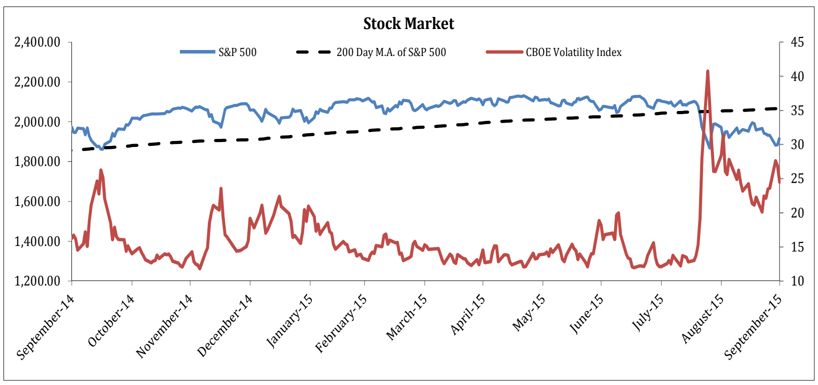


Sources: Bureau of Economic Analysis: "Table 1.1.6 Real Gross Domestic Product, Chained 2009 Dollars, Quarterly, Seasonally Adjusted and Annualized Data."
Federal Reserve Bank of Philadelphia: "Third Quarter 2015 Survey of Professional Forecasters."

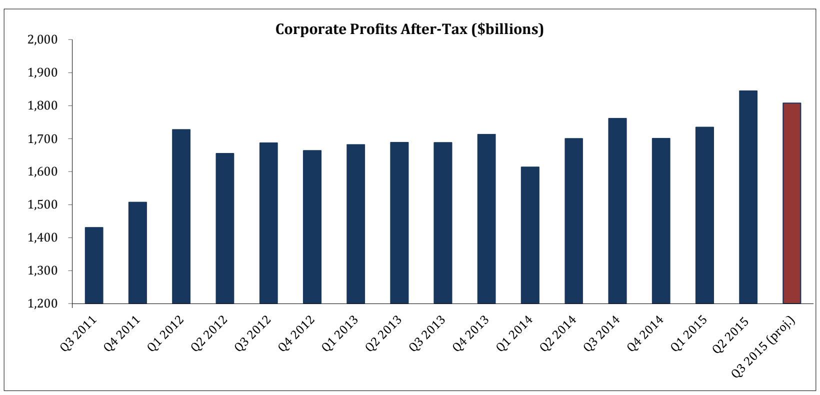
Stock Market Turbulence

- The S&P 500 was rattled in the third quarter as it fell below 1,900 points for the first time since 2014. Stocks tumbled in late August due to China's unexpected move to devalue its currency.
- After an impressive increase in the first quarter of 2015, corporate profits further increased over 6% in the second quarter of 2015. Based on a survey of professional forecasters, corporate profits are expected to decrease between 1.0% and 2.0% in the third quarter of 2015.
- Federal Reserve Chair Janet Yellen indicated that the central bank is on track to increase interest rates in late 2015, assuming economic growth continues. In a September 2015 speech in Amherst, Massachusetts, Janet Yellen stated, *"Most FOMC participants, including myself, currently anticipate that achieving these conditions will likely entail an initial increase in the federal funds rate later this year, followed by a gradual pace of tightening thereafter. But if the economy surprises us, our judgments about appropriate monetary policy will change."*

The S&P 500 declined and the CBOE Volatility Index briefly skyrocketed before falling modestly in Q3...



…while corporate profits are estimated to remain near a four-year high…

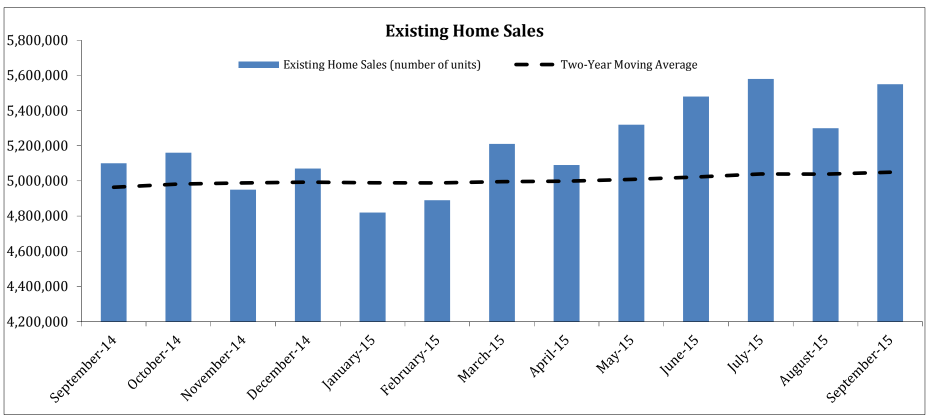


Sources: S&P Capital IQ
Chicago Board Options Exchange. "New Methodology: VIX Data for 2004 to Present"
Federal Reserve Bank of St. Louis: FRED© Economic Data, "Corporate Profits After Tax (without IVA and CCAdj)"
Bloomberg

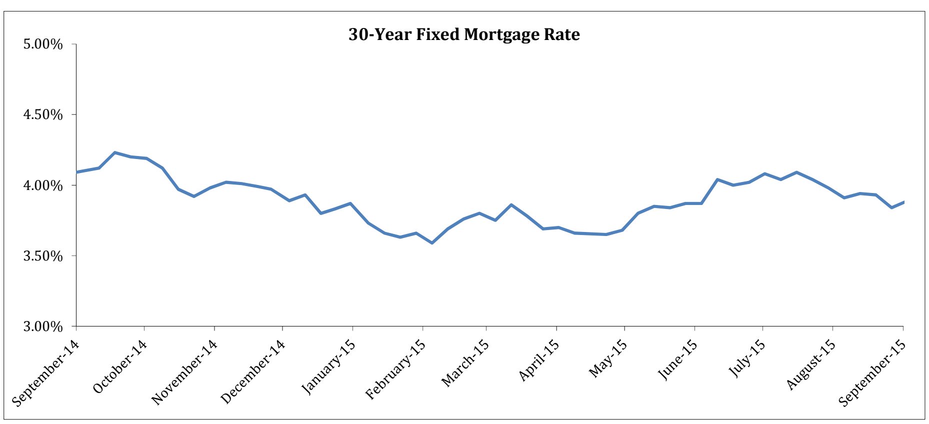
Housing Market Continues to Flourish

- Activity within the housing market continued to post strong results in the third quarter of 2015 after a sluggish start to the year. Existing home sales slowed in August due to market instability and fears over a potential interest rate hike, but rebounded in September. The 30-year fixed mortgage rate remained relatively flat during the third quarter, which bolstered existing home sales to their highest level in eight years.
- According to Lawrence Yun, chief economist of the National Association of Realtors, housing activity improved due to a number of factors in September: *"September home sales bounced back solidly after slowing in August and are now at their second highest pace since February 2007. While current price growth around 6 percent is still roughly double the pace of wages, affordability has slightly improved since the spring and is helping to keep demand at a strong and sustained pace."*

Existing home sales continued to thrive in the third quarter…



…as mortgage rates continue to remain near historic lows…

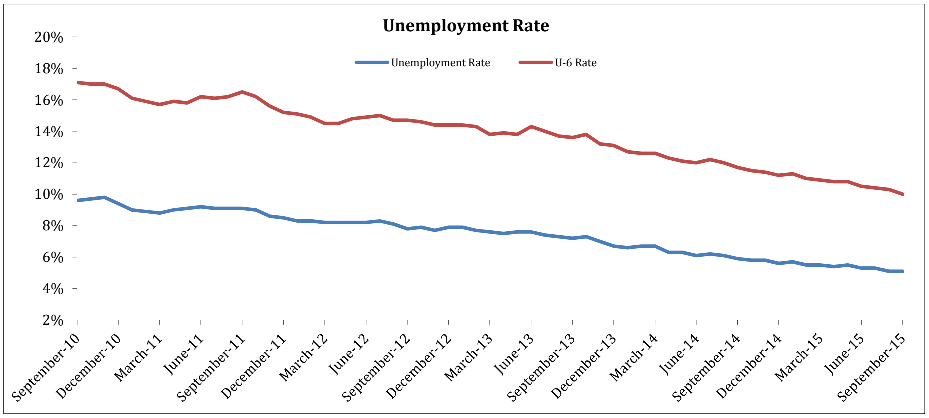


Source: Federal Reserve Bank of St. Louis: FRED© Economic Data, "Existing Home Sales, Monthly, Seasonally Adjusted Annual Rate" and "Thirty Year Fixed Rate Mortgage Average in the United States"

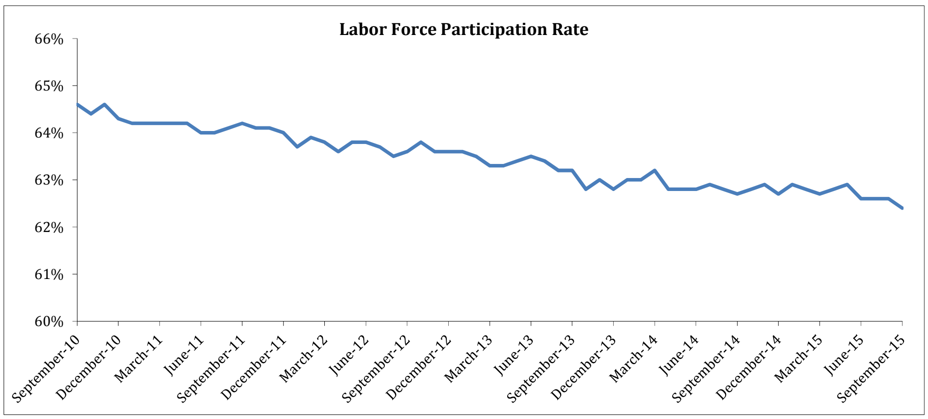
Labor Market Dissonance

- Along with the overall economic growth, Q3 experienced continued positive momentum in the labor market. The unemployment rate continued its decline and registered 5.1%, down from 5.3% in the second quarter. The unemployment rate is now at its lowest level since 2008. Additionally, the U-6 rate, a broader measure that includes discouraged workers and part-time workers desiring full-time work, declined from 10.5% in the second quarter to 10.0% in the third quarter.
- Despite the positive momentum in measures of unemployment, the economy's greatest conundrum remains: U.S. labor force participation. Only 62.4% of the working-age population was working or actively seeking work in September, 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 5.1% at the end of Q3…



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

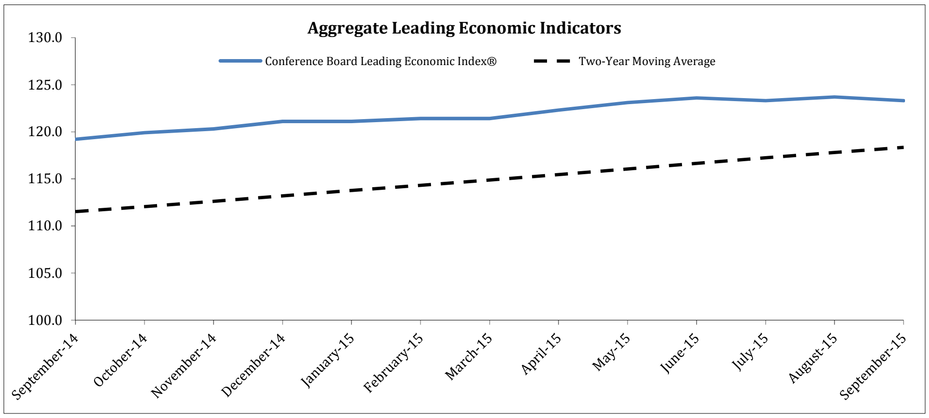


Sources: Bureau of Labor Statistics: Employment Situation News Release
Federal Reserve Bank of St. Louis: FRED© Economic Data, "Civilian Labor Force Participation Rate, Monthly, Seasonally Adjusted"

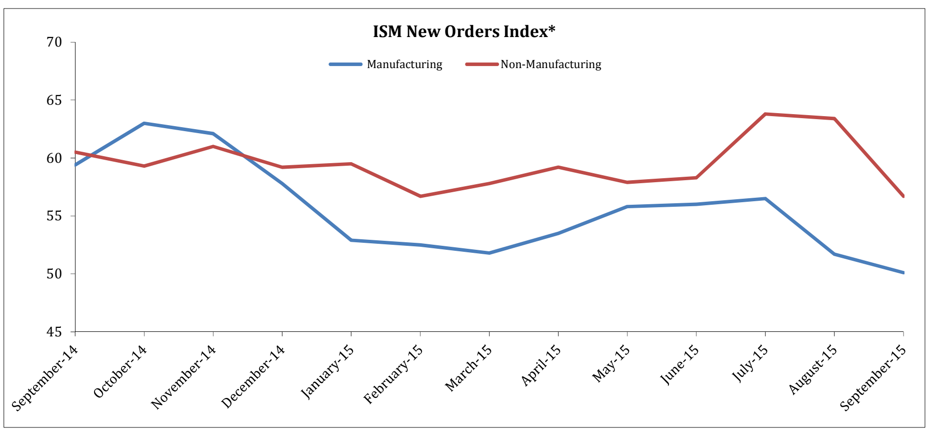
Outlook

- Economic forecasters generally remain optimistic about U.S. growth prospects going forward. As previously mentioned, economists are forecasting a real GDP growth rate of 2.8% through the first half of 2016. 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, fell sharply in September, but still remained in expansion territory…

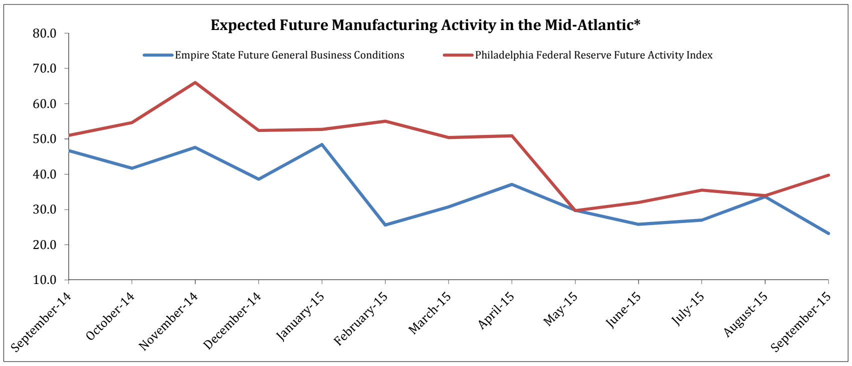


*Readings above 50 indicate expansion. Readings below 50 indicate contraction.

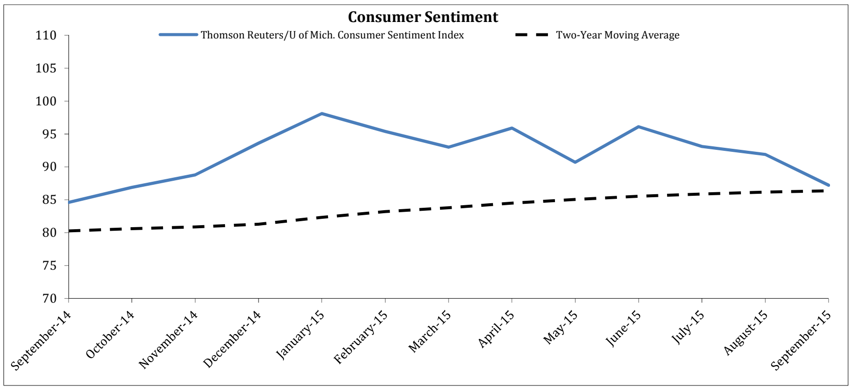
Sources: Bloomberg
Federal Reserve Bank of St. Louis: FRED© Economic Data: "ISM Manufacturing: New Orders Index", "ISM Non-Manufacturing: New Orders Index"

Outlook (continued)

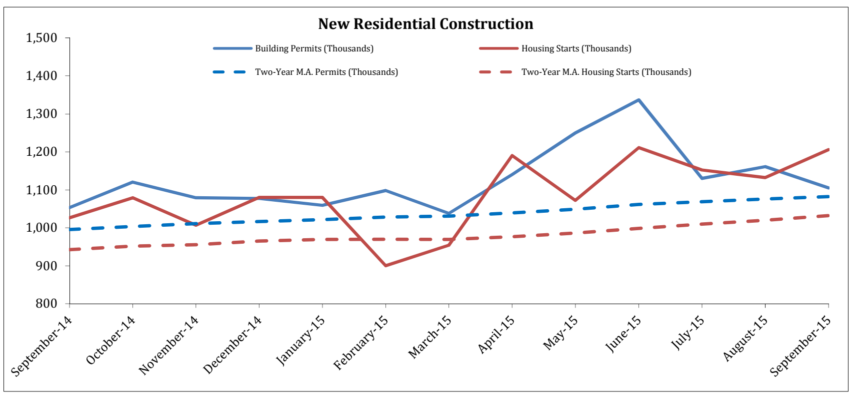
The New York regional index fell in Q3, indicating contraction in the region, while the Philadelphia regional index increased in Q3, indicating growth in the region…



…while consumer confidence, a predictor of future consumer spending, decreased but remained historically strong and measured 87.2 in the third quarter…



New housing starts and building permits stabilized in the third quarter of 2015…

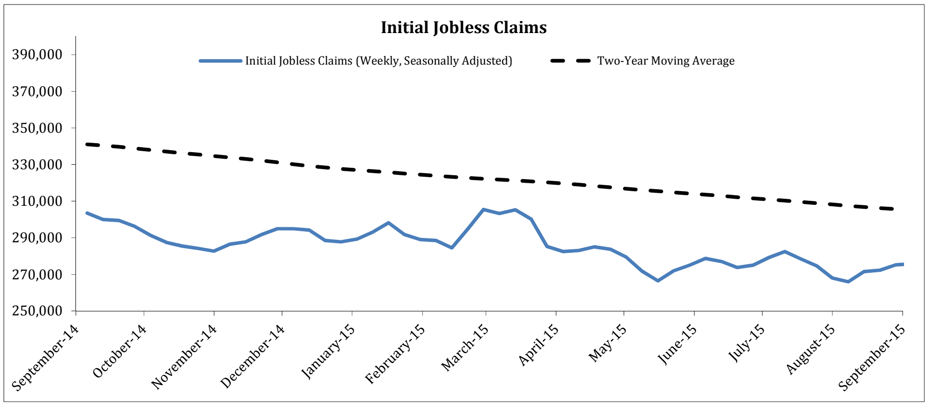


Sources: Federal Reserve Bank of Philadelphia: "Business Outlook Survey Historical Data"
Federal Reserve Bank of New York: "Empire State Manufacturing Survey"
Federal Reserve Bank of St. Louis: FRED® Economic Data, "University of Michigan: Consumer Sentiment"
Federal Reserve Bank of St. Louis: FRED®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

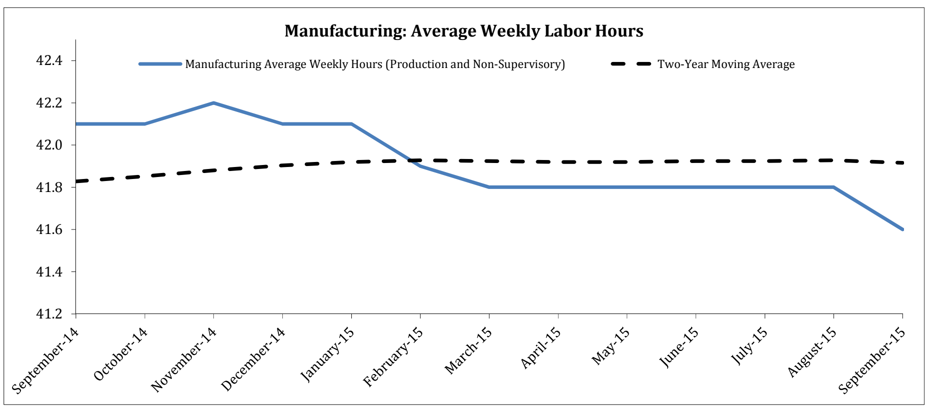
Outlook (continued)

- Corresponding to estimates of economic growth, Federal Reserve officials project a continued gradual decline in the unemployment rate to 5.0% by the end of 2015. Other leading labor market indicators exhibited positive signs in Q3.

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



…while manufacturing weekly hours declined to 41.6 in Q3, 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"

About MPI

MPI is a business valuation and advisory firm that was founded in 1939. MPI provides tax-based valuations, business appraisals, financial reporting valuations, fairness opinions, sell-side and corporate advisory services, and litigation support. MPI's senior professionals have extensive experience presenting and defending work product in front of financial statement auditors, management teams, corporate boards and fiduciaries, the IRS, other government agencies, and in various courts.

For additional information pertaining to MPI or MPI Securities, Inc. and our valuation and advisory services, visit http://www.mpival.com.

Contacts For This Report:

Todd G. Povlich, CFA, ASA
Partner
(212) 390-8310
tpovlich@mpival.com

Christopher J. Botsakos, CFA
Assistant Vice President
(212) 390-8397
cbotsakos@mpival.com

New York City Office:
750 Third Ave, 9th Floor
New York, NY 10017
(212) 935-4422