

*Economic Data
and
Interest Rate Forecast*
January 2018

(Data through January 08, 2018)

D.J.'s ECONOMIX

California NEVADA
CREDIT UNION LEAGUE CREDIT UNION LEAGUE



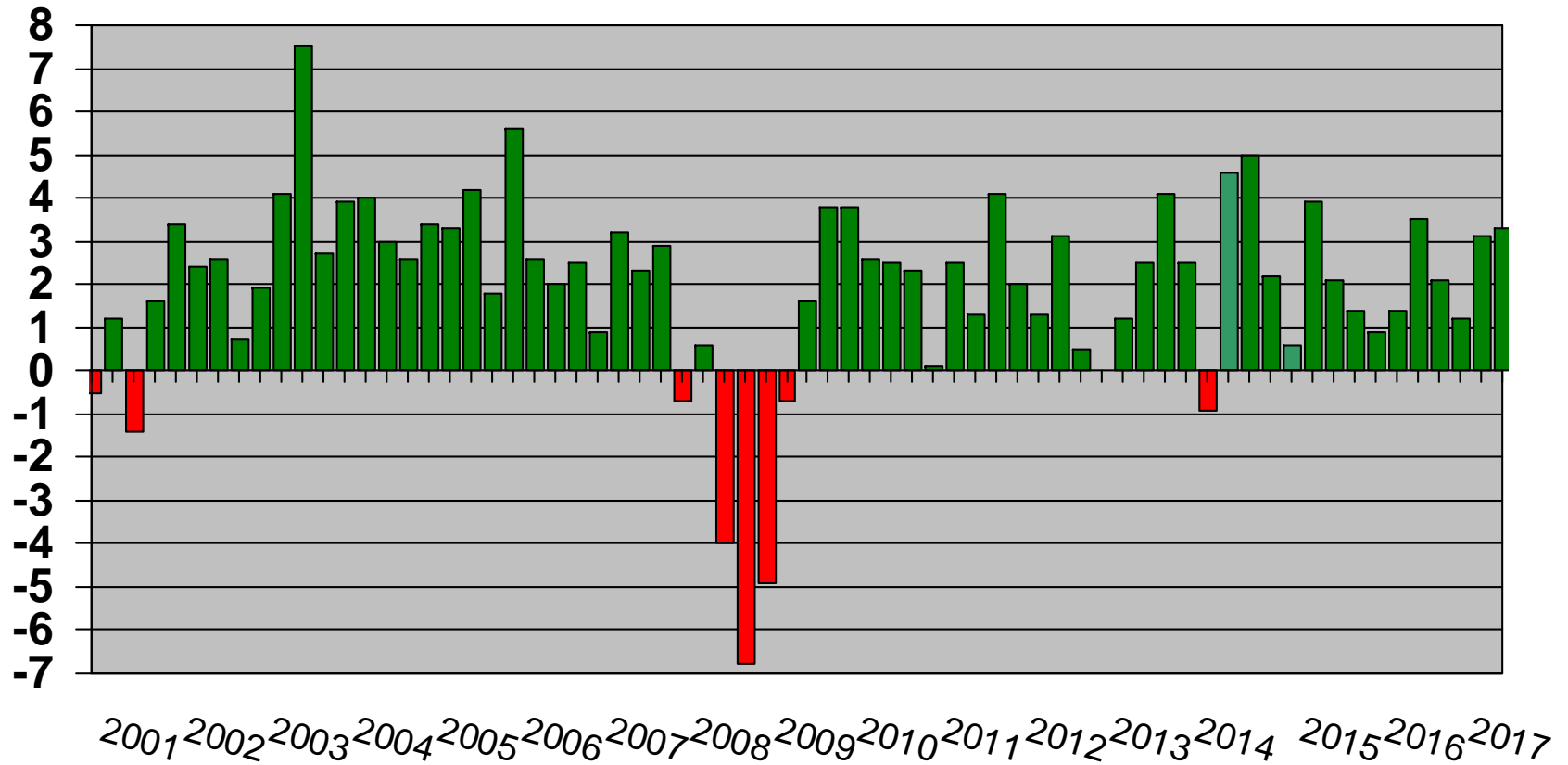
Monthly highlights

- Nonfarm Payroll growth records solid 2017
- Most economic indicators set multi-year highs in 2017
- Auto sales 4th best year on record
- Christmas sales looked very strong
- Tax reform bill will be boost to business spending but weak impact on consumers

Real GDP—

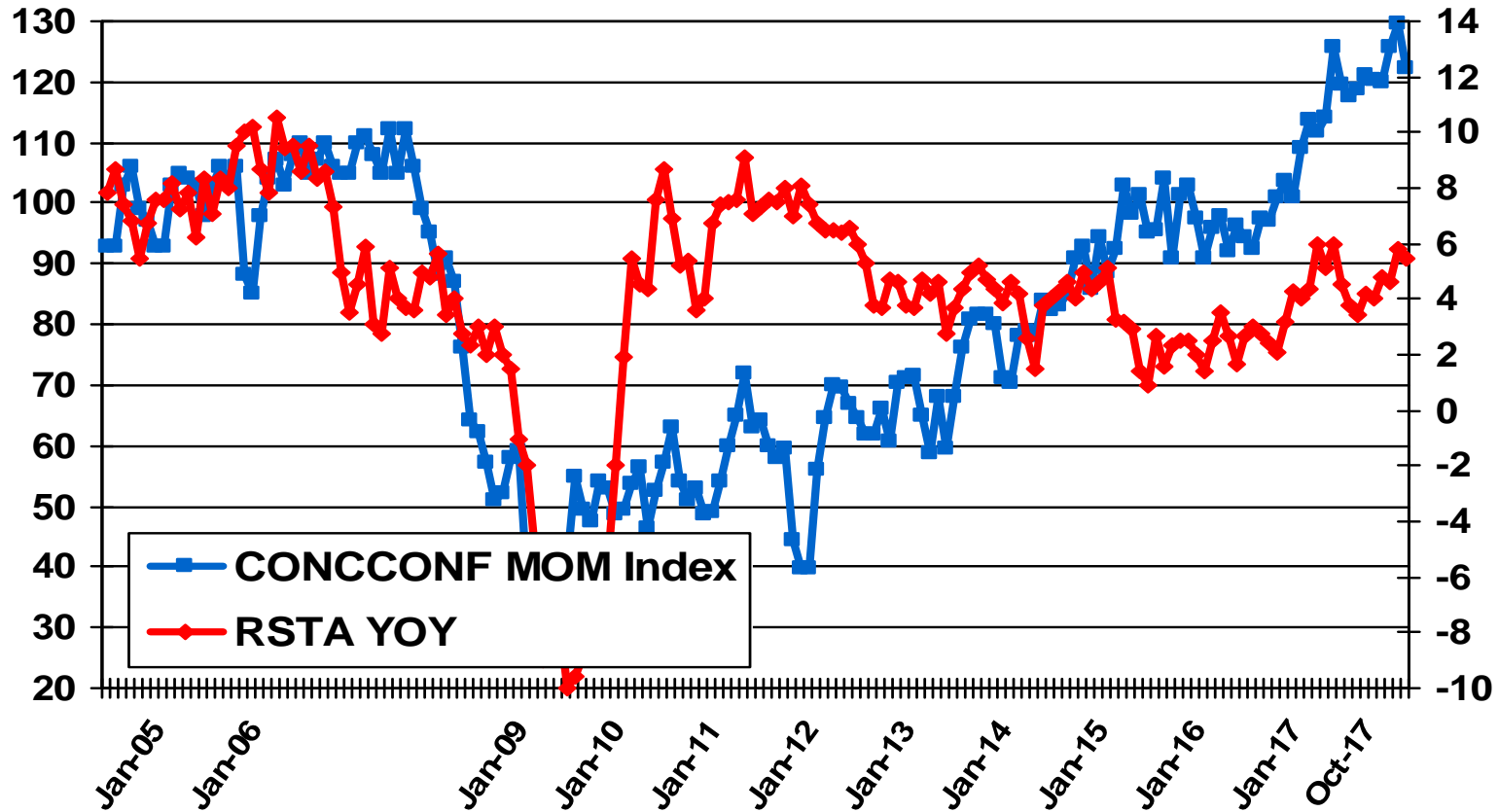
Full year estimated to be 2.6-2.8%

Percent



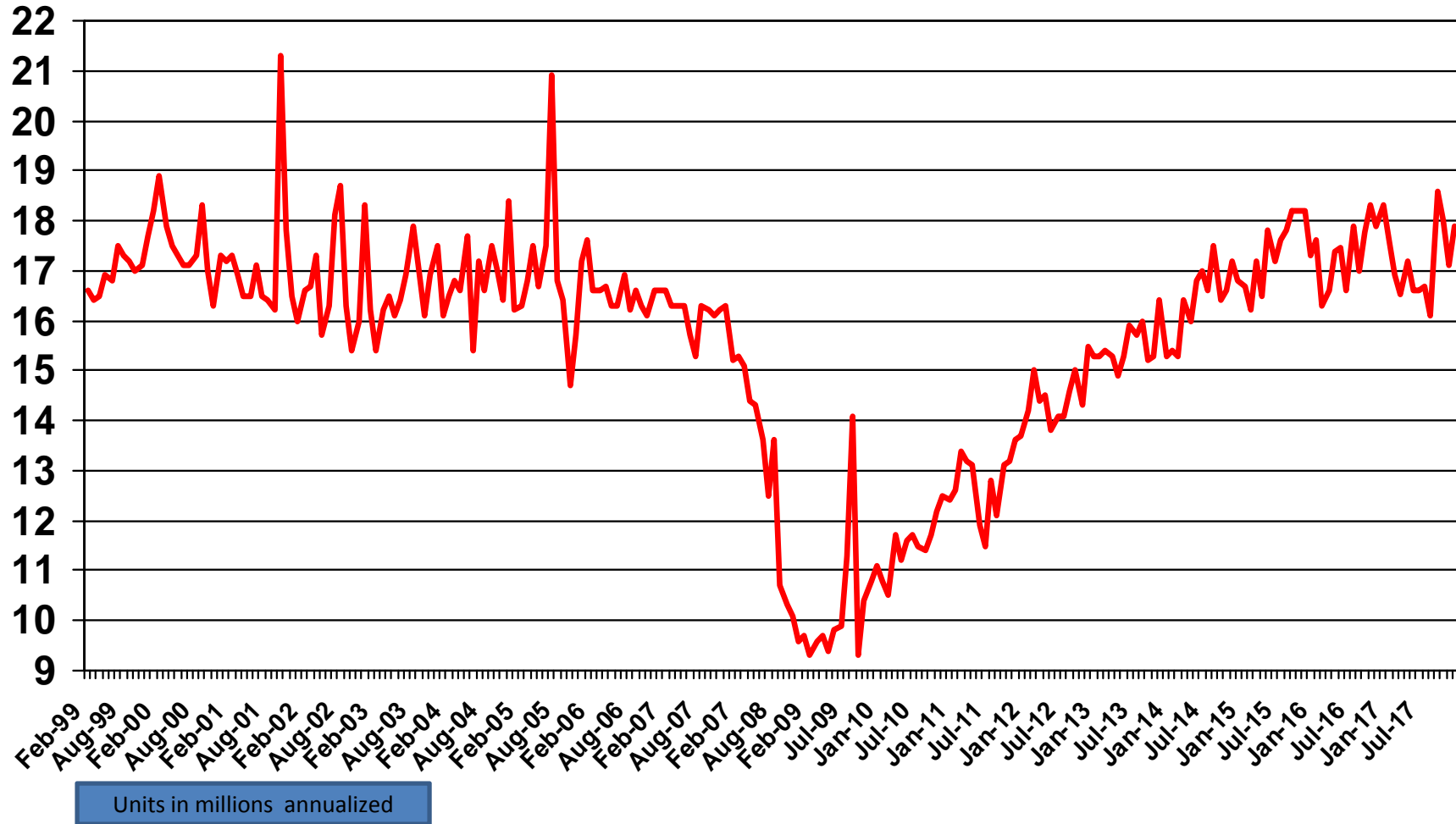
Retail Sales & Confidence —

On track for a strong Christmas sales season



Total Vehicle Sales

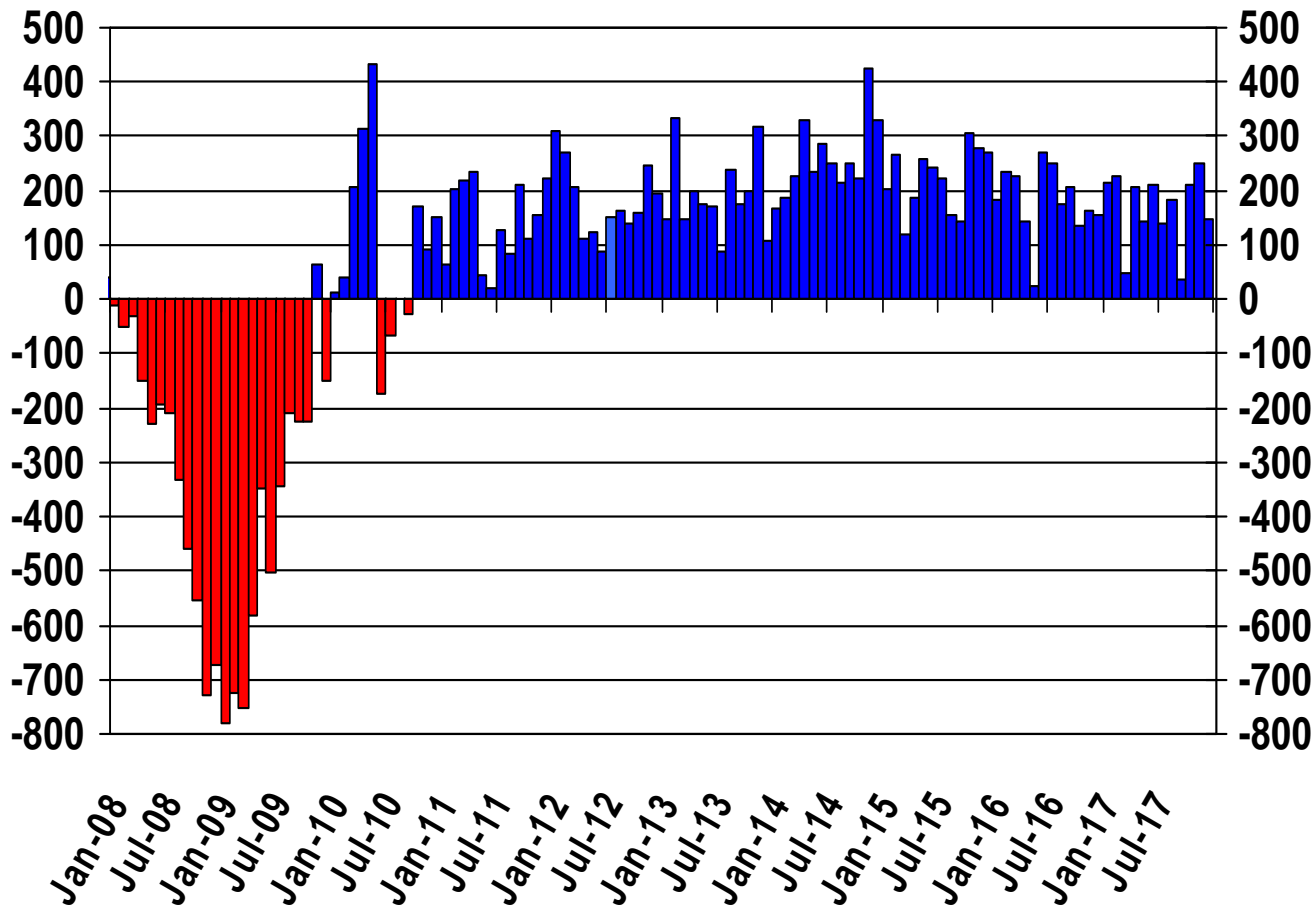
Auto sales strong for 2017



Consumers continue to spend at solid pace

- Year-over-year Retail Sales ex-autos and gasoline tracking higher – Christmas sales strong
- Auto sales for year 17.2 million vs. 17.6 million in 2015 and 2016 — still 4th best on record
- Consumer Confidence remains at lofty levels
- Tax bill unlikely to do much for consumers directly
- Jobs and confidence should continue to support growth in consumer sector

Nonfarm Payrolls



Payroll Growth

Solid growth for year

- December Nonfarm Payrolls up 148k – BLS seasonal adjustment factor could have a lowered number
- Unemployment Rate steady at 4.1%
- Average monthly gain for 2017 171k vs. 183k for 2016
- Hourly wage remains at 2.5%
- With tax reform passing, job growth should remain strong on business spending through first half of 2018

Hiring pace picks up in California

	Pre-recession High (2006)	Low (2009- 2011)	Current
NFP Payrolls	15,440	13,845	16,864
Construction	945	545	829
Manufacturing	1495	1230	1297
Trade/Transp	2920	2600	3034
Bus & Prof	2270	2030	2553
Government	2525	2360	2579
Leisure/Hosp	1580	1484	1956
Educ/Health	1992	2050	2638

Source BLS –November

Job Highlights for California

- Nonfarm payroll numbers recover after weak first six months of 2017
- Average growth through November for last three years, 320k; through November 2017, 280k
- Unemployment rate falls to 4.6% — the lowest rate since the '70's
- Tax bill good for tech area and producers of business goods and services
- Trump trade policies still a threat to California, but no definitive actions taken yet

Nevada — Large sectors

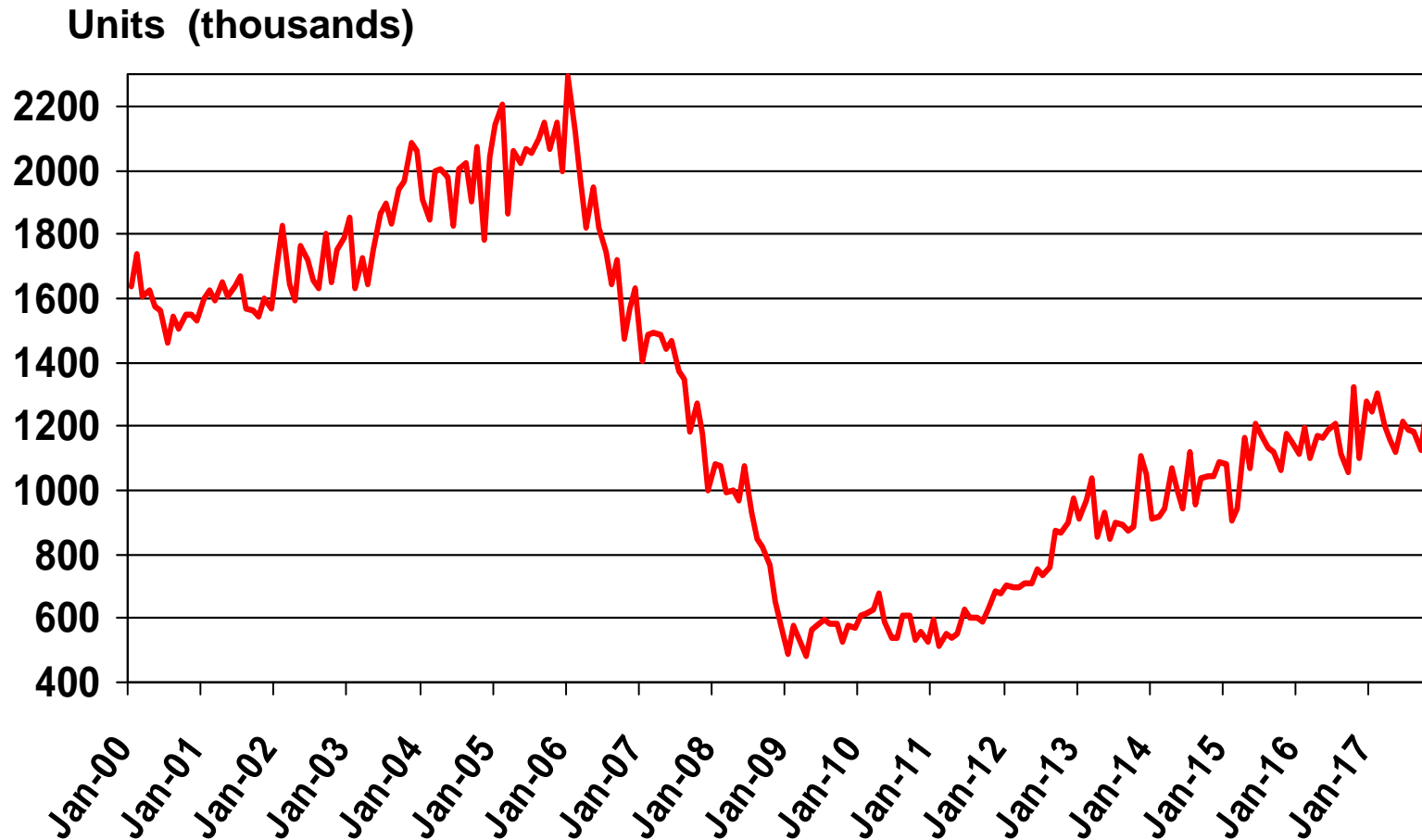
	High (2006)	Low (2009-2011)	Current
Nonfarm Payrolls	1,300	1,110	1,354
Construction	146	47	90
Travel/leisure	340	302	350
Trade/Transp.	233	204	243
Bus. & Professional	162	133	190
Government	162	146	165

Source BLS – November data

Nevada payrolls edge higher

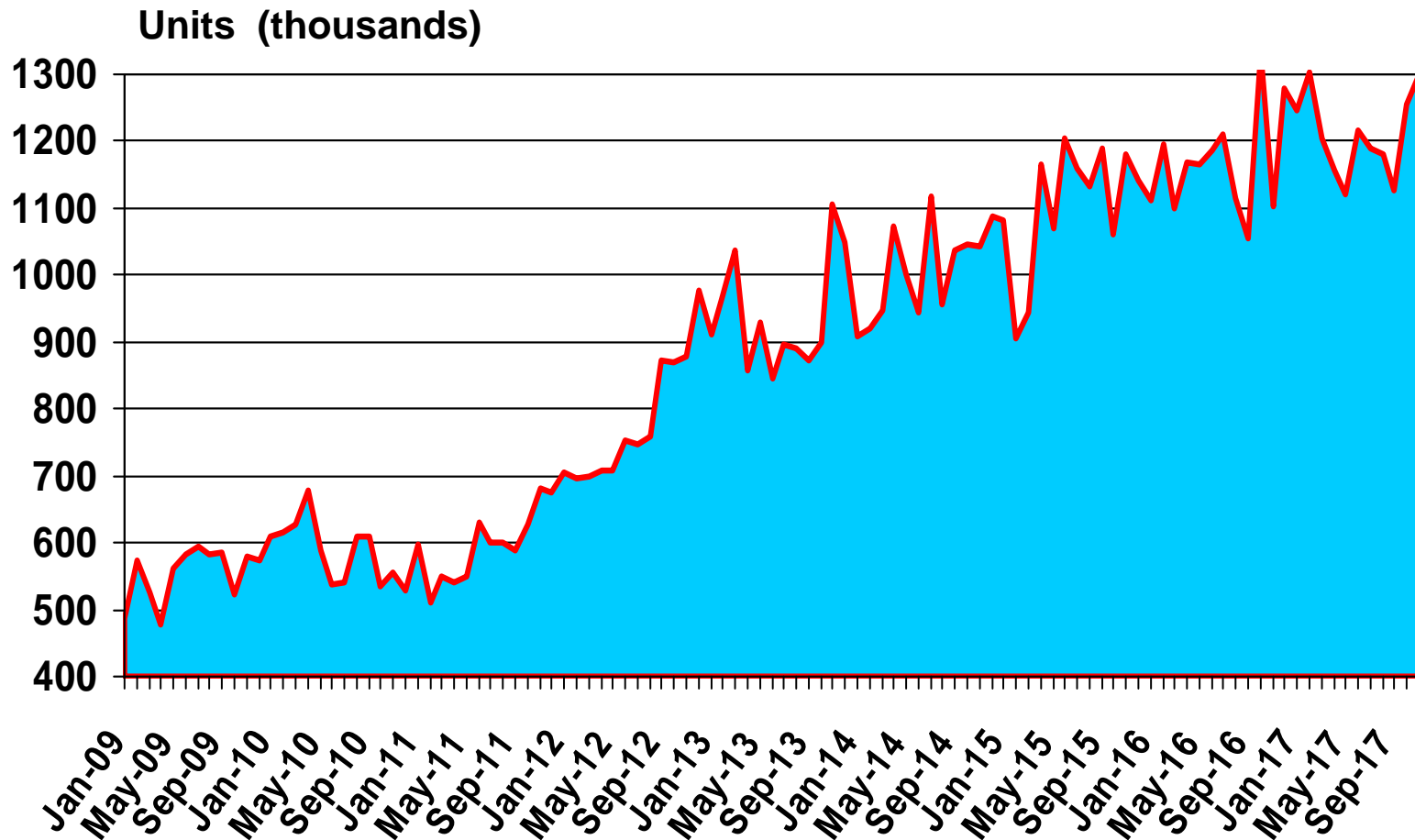
- Nonfarm Payrolls up 3k in November
- Unemployment Rate 5.0%
- Outlook still positive for slow and steady growth
- Tax cut could provide slight lift to leisure spending
- Biggest risk — Trump on trade and foreign travel

Housing Starts — (November)



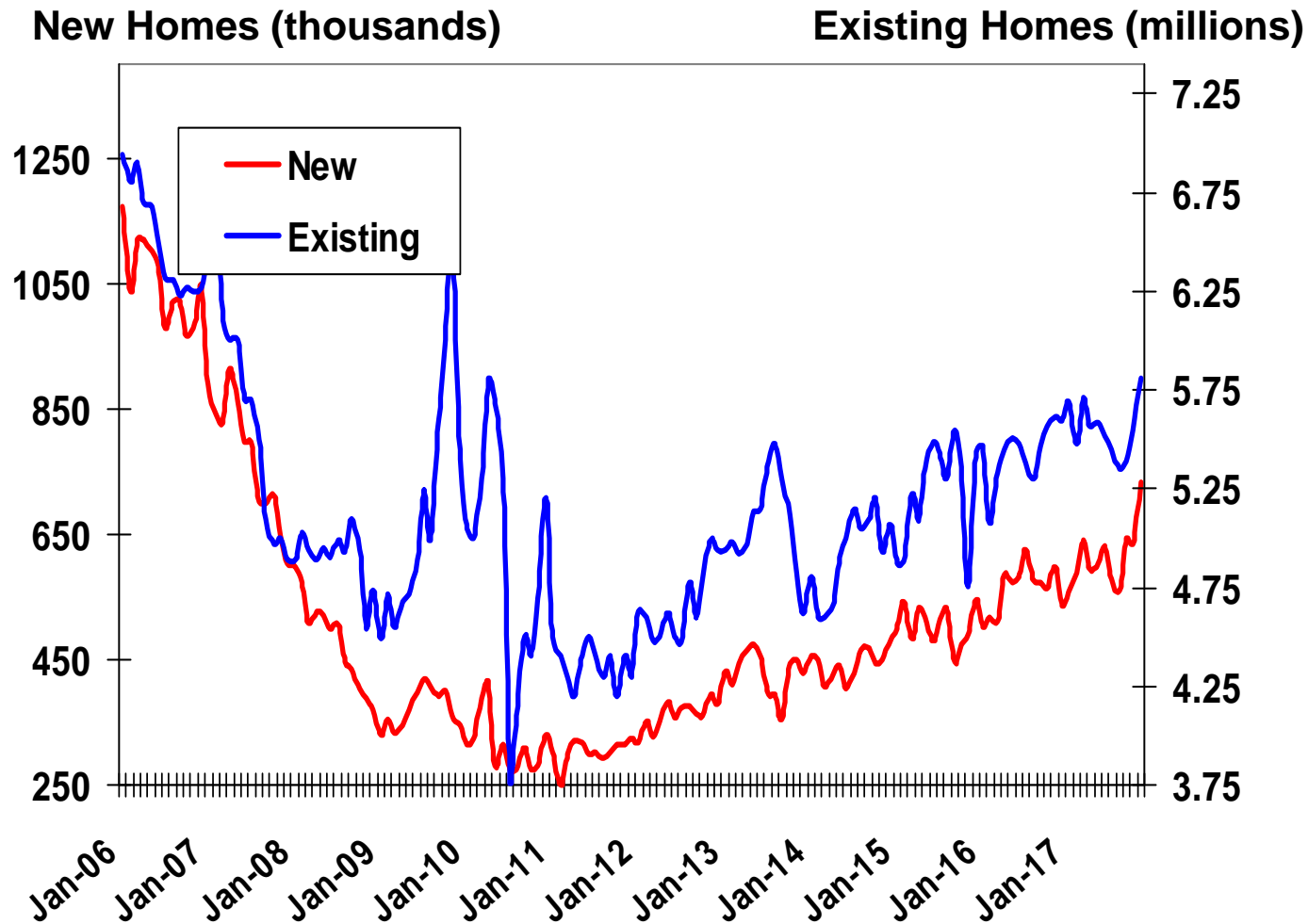
Housing Starts — (November)

(Builders not concerned)



Home Sales — (November)

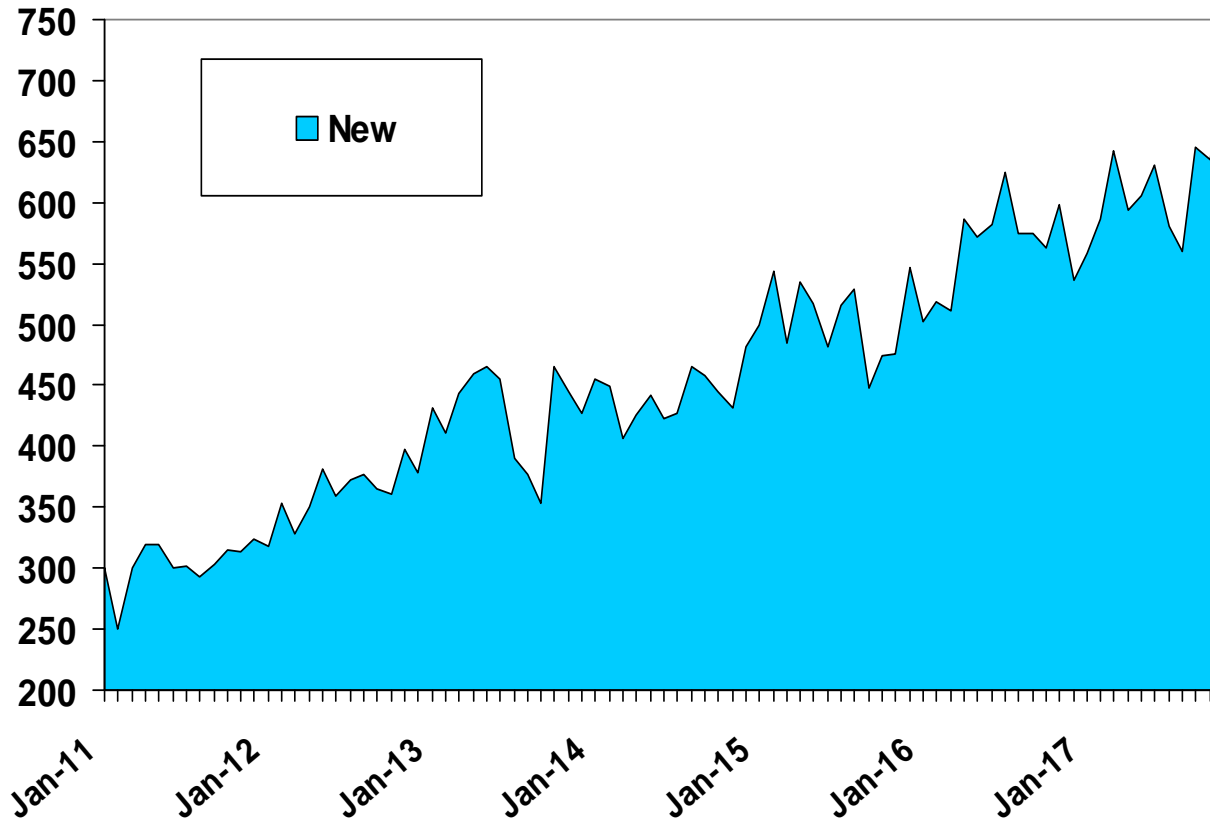
A late surge in sales



New Home Sales — (November)

Highest since 2007 but volatile series

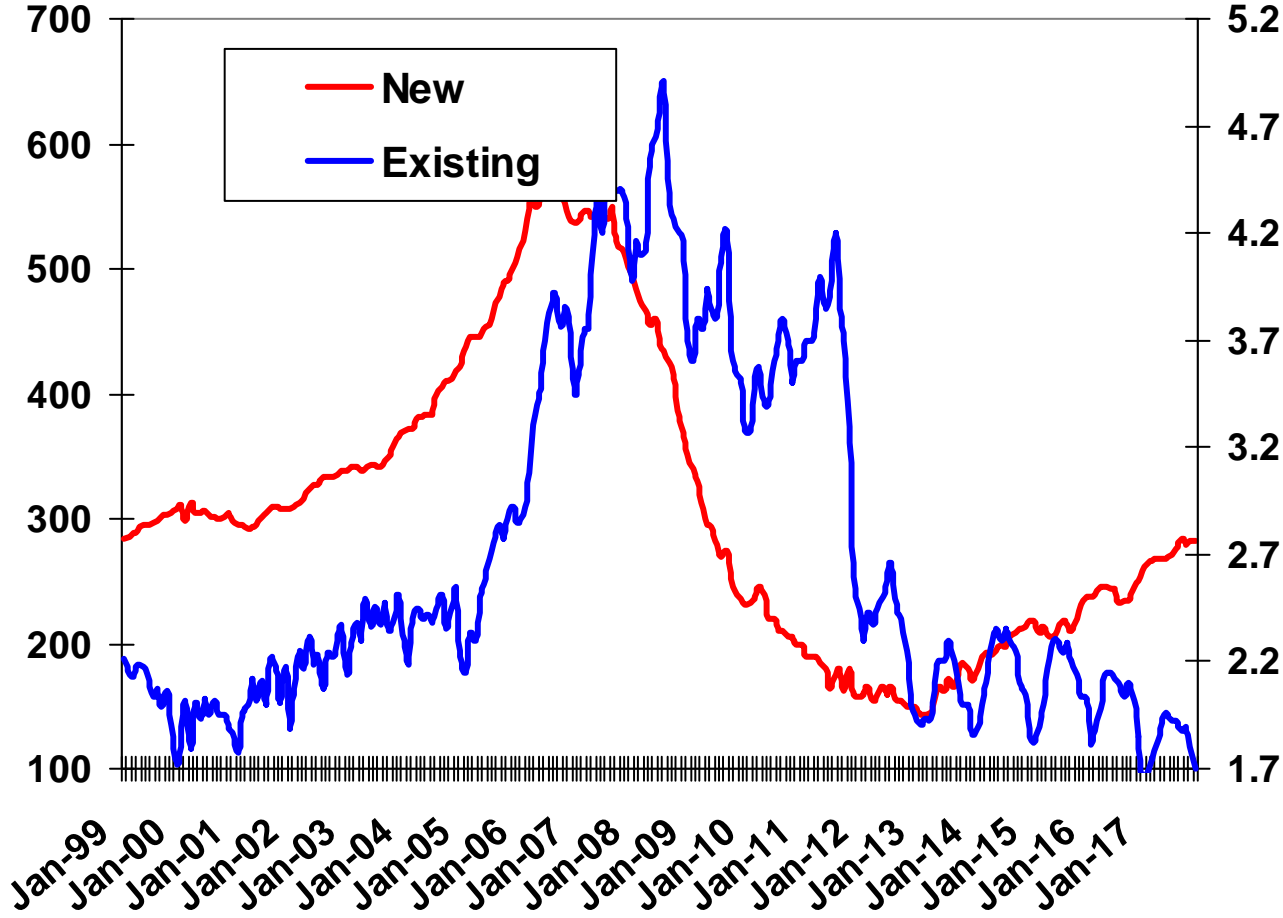
New Homes (thousands)



Home Inventories — Single Family

New Homes (thousands)

Existing Homes (millions)



California/Nevada y-o-y median home price

	November 2016	November 2017	% gain
LA County	\$530,000	\$567,000	7.0%
San Diego Co	\$495,000	\$540,000	6.1%
Orange	\$660,000	\$700,000	9.1%
River.	\$340,000	\$365,000	7.4%
Bay Area	\$699,000	\$787,000	12.6%
Sacramento	\$310,000	\$335,000	8.1%
Fresno	\$245,000	\$260,000	6.1%
Las Vegas	\$240,000	\$261,000	8.8%

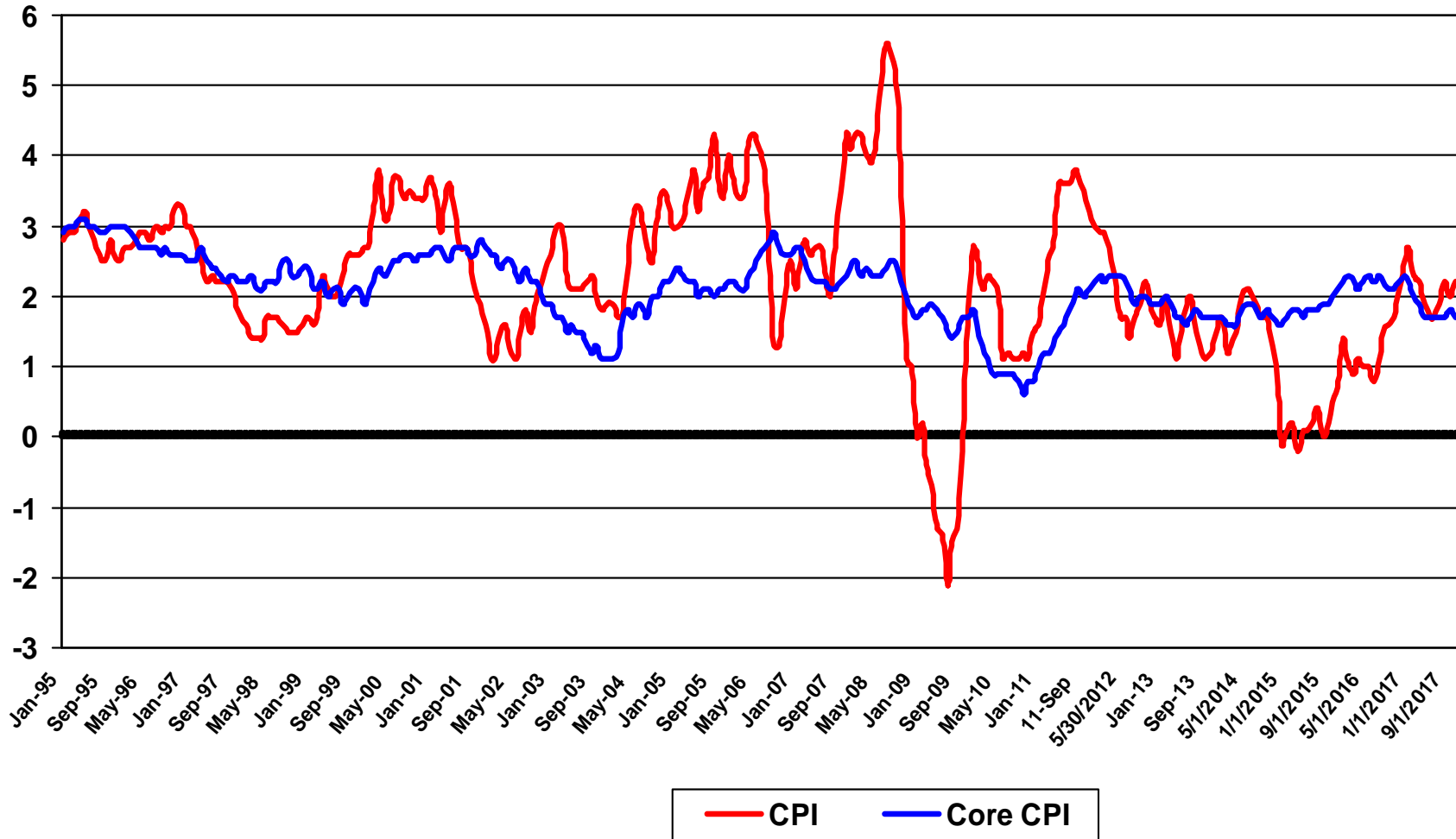
Sources: CoreLogic and GLVBR

Housing — current state

- Strong demand and low supply continue to plague existing home sales
- Median home prices down on month in most areas but up on year; few sales in lower-priced homes flatters median
- Affordability a growing issue in some areas — mortgage rates hold the key
- Housing looks solid longer-term with big rental pool
- Tax bill changes on mortgages mostly inconsequential
- ***Major tax bill implication for California is less supply***

CPI & Core CPI Year-over-year

Core inflation rate steady



General outlook still positive into 2018

- Stock market inspires confidence in businesses and consumers
- Job growth should be steady to improved in first half of 2018 but filling jobs will become more problematic
- Wage gains should become more apparent in 2018
- European and Chinese economies performing above expectations
- Corporate tax cuts should boost business spending in 2018 but individual tax cuts to have little impact on consumers
- Businesses must drive growth; a fade in second half of 2018 possible

Interest Rate Forecast

January 2018

D.J.'s ECONOMIX

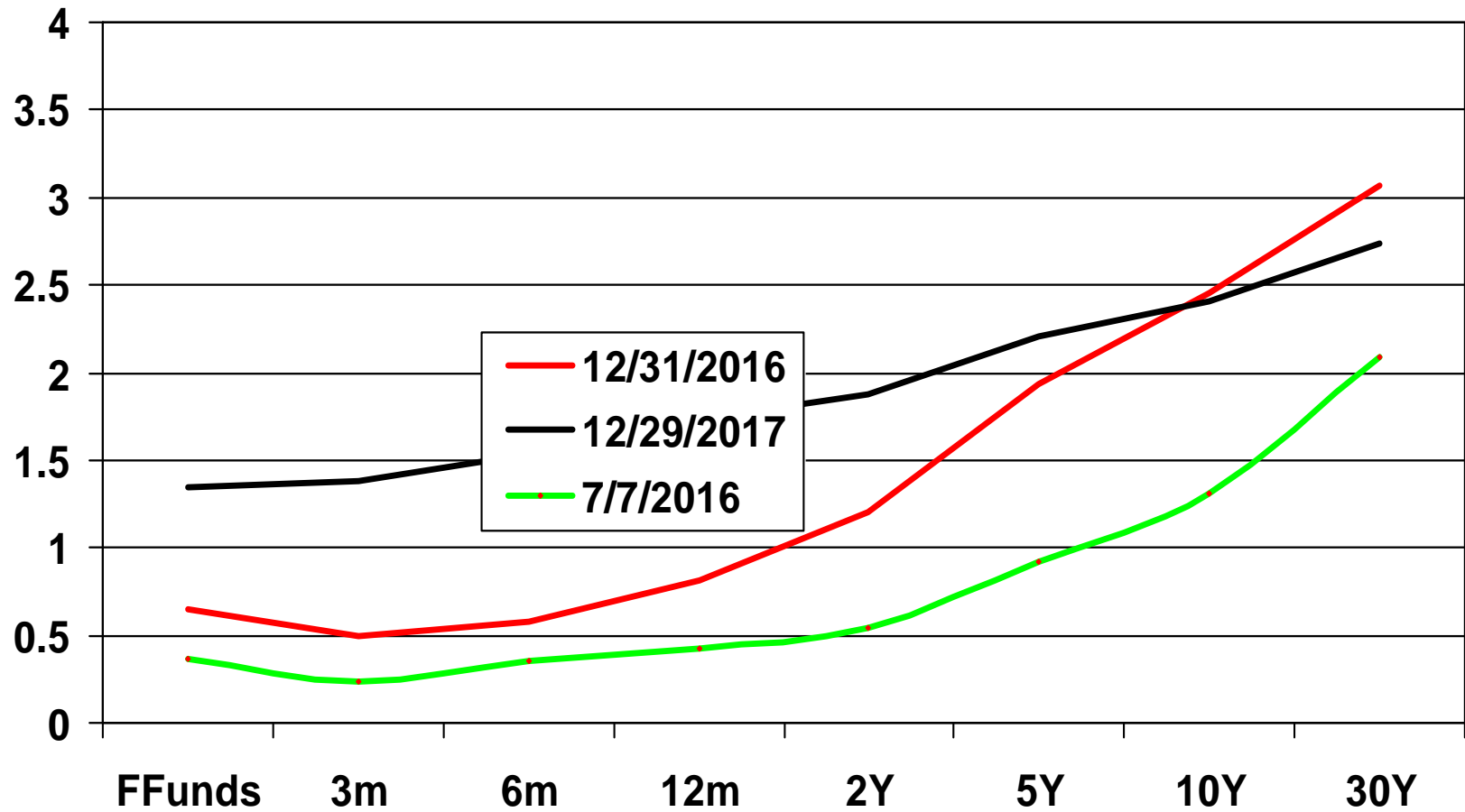
California CREDIT UNION LEAGUE NEVADA CREDIT UNION LEAGUE



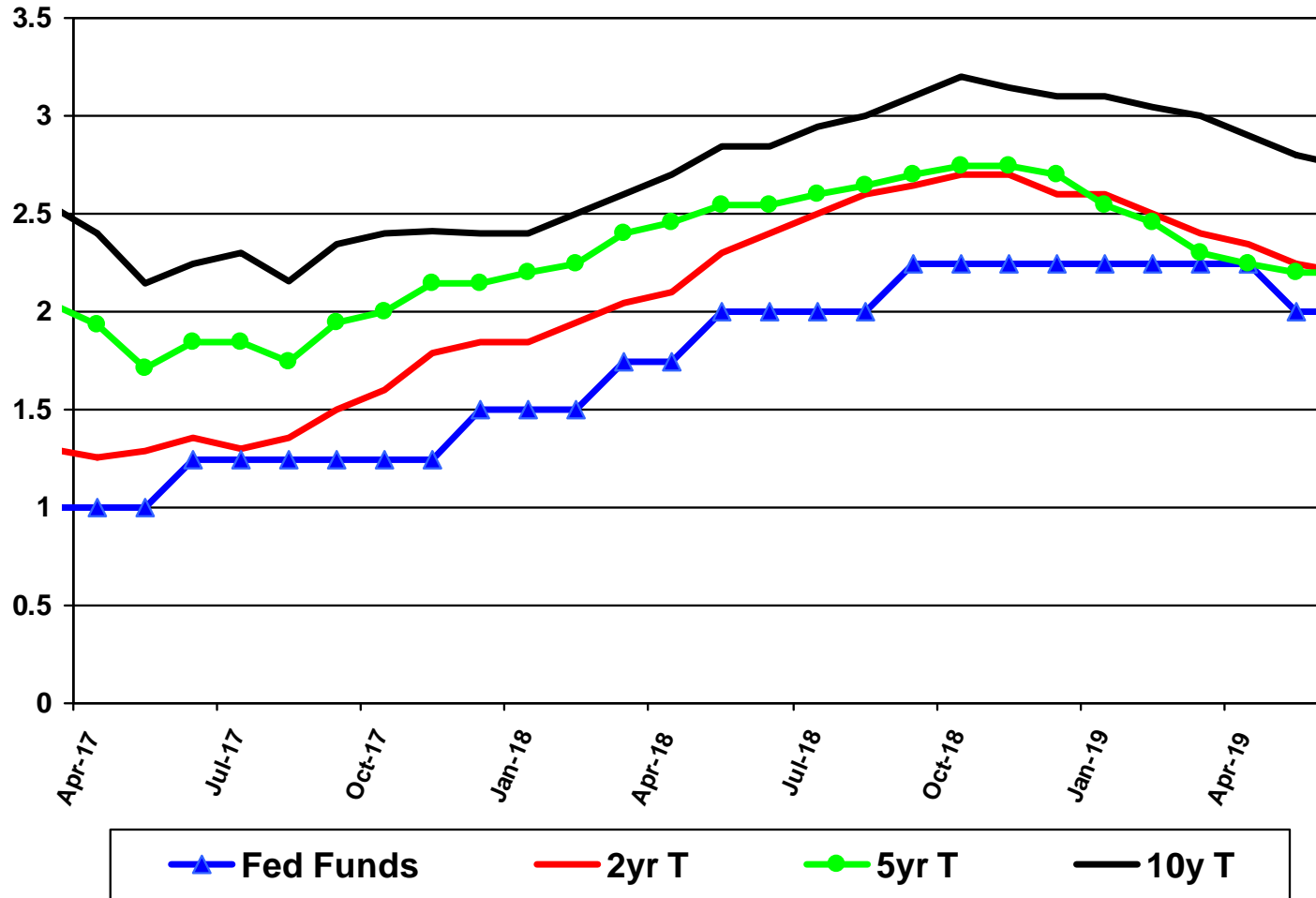
Highlights

- Flattening trend intact as short-term rates rise
- “Old” Fed raises funds rate and forecasts three increases in 2018
- “New” Federal Reserve Board make-up will make rate path less clear
- Tax reform could impact Fed policy, but inflation is still the key

Yield curve shift

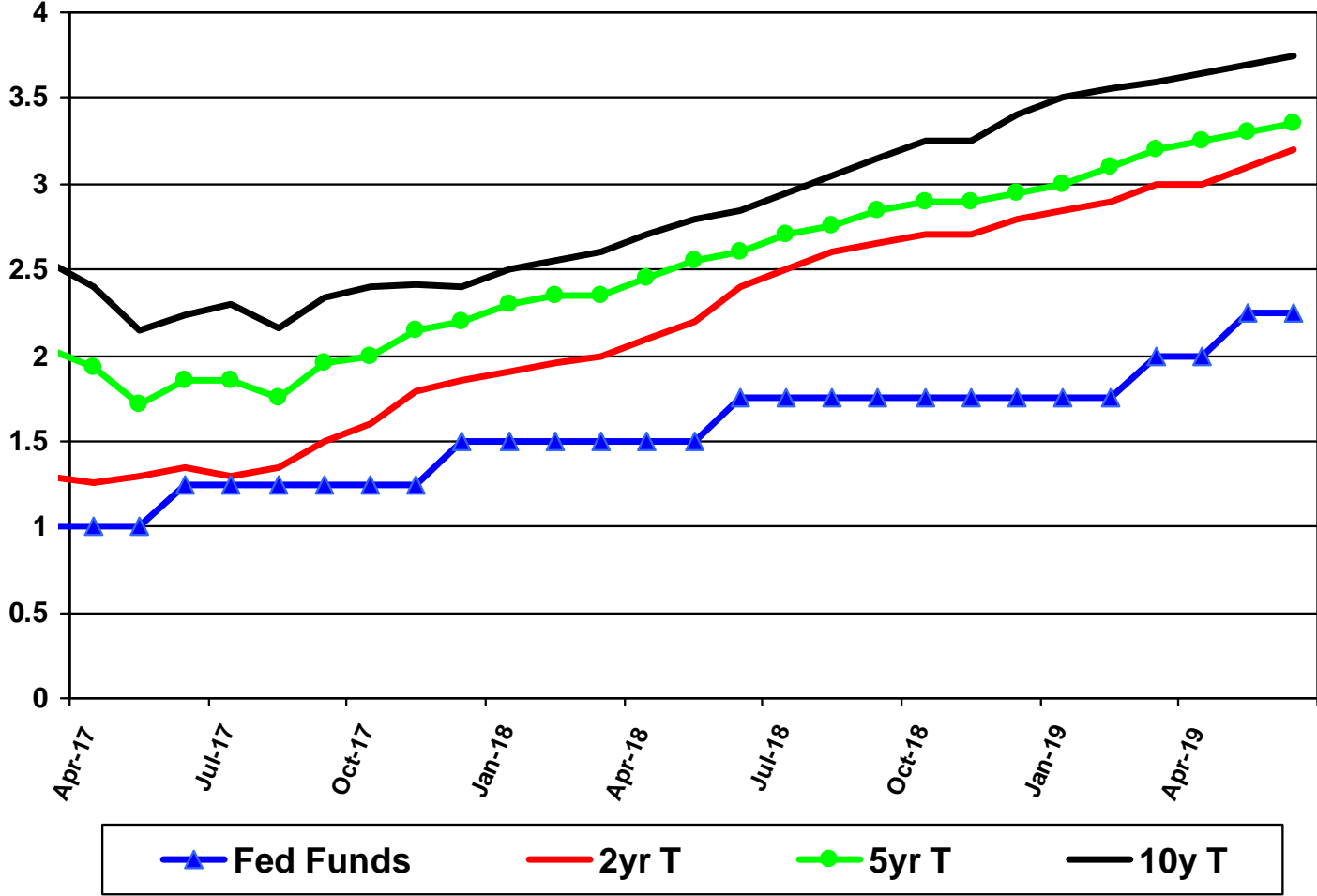


Interest Rate Forecast — D.J.'s Economix — If Fed stays on course



Interest Rate Forecast —

D.J.'s Economix – If Fed slow to act due to inflation and politics



Range of Expectations for Q4 2018

(November 2017 Bloomberg poll — 76 economists)

	Median
GDP	2.30%
UR	3.90%
Core PCE	1.80%
Fed Funds	2.00- 2.25%
2-Year	2.33%
10-Year	2.92%

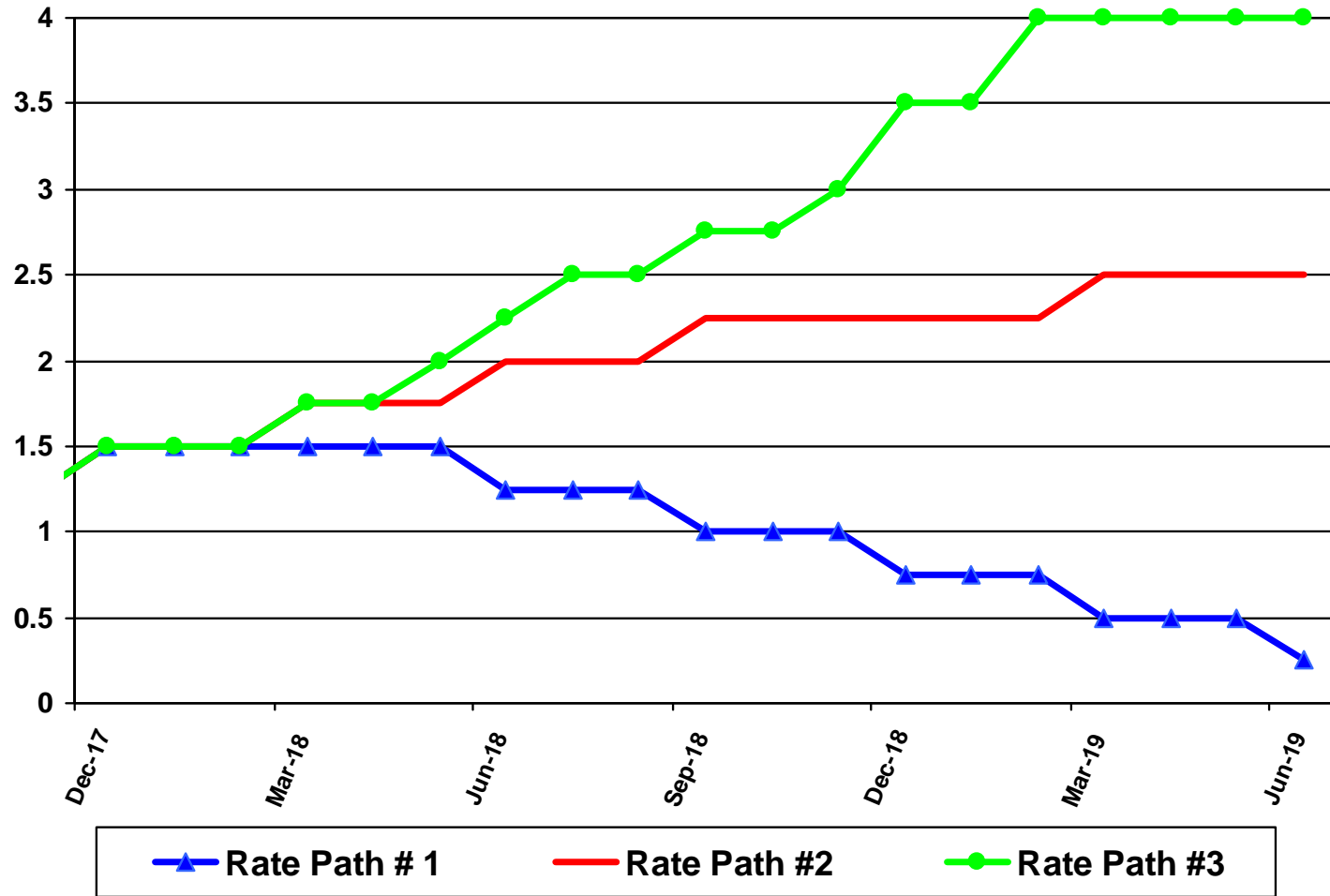
Prior format showing ranges no longer published

Three Wall Street Scenarios

- **Low rate view** – Tax reform doesn't deliver for economy; Trump starts trade problems; economy weakens and stock market falls
- **Consensus** – Tax reform drives business growth; wages higher ; moderate rise in rates; global growth accelerates
- **Inflation Case** – Monetarist case; wages rise more than expected; inflation expectations turn sharply higher; series of liquidations of major bond positions roil bond market

Fed Funds Scenarios

(Rate is high end of Fed range)



Ten-year Note Scenarios

