

*Economic Data
and
Interest Rate Forecast*
February 2018

(Data through February 14, 2018)

D.J.'s ECONOMIX

California NEVADA
CREDIT UNION LEAGUE CREDIT UNION LEAGUE

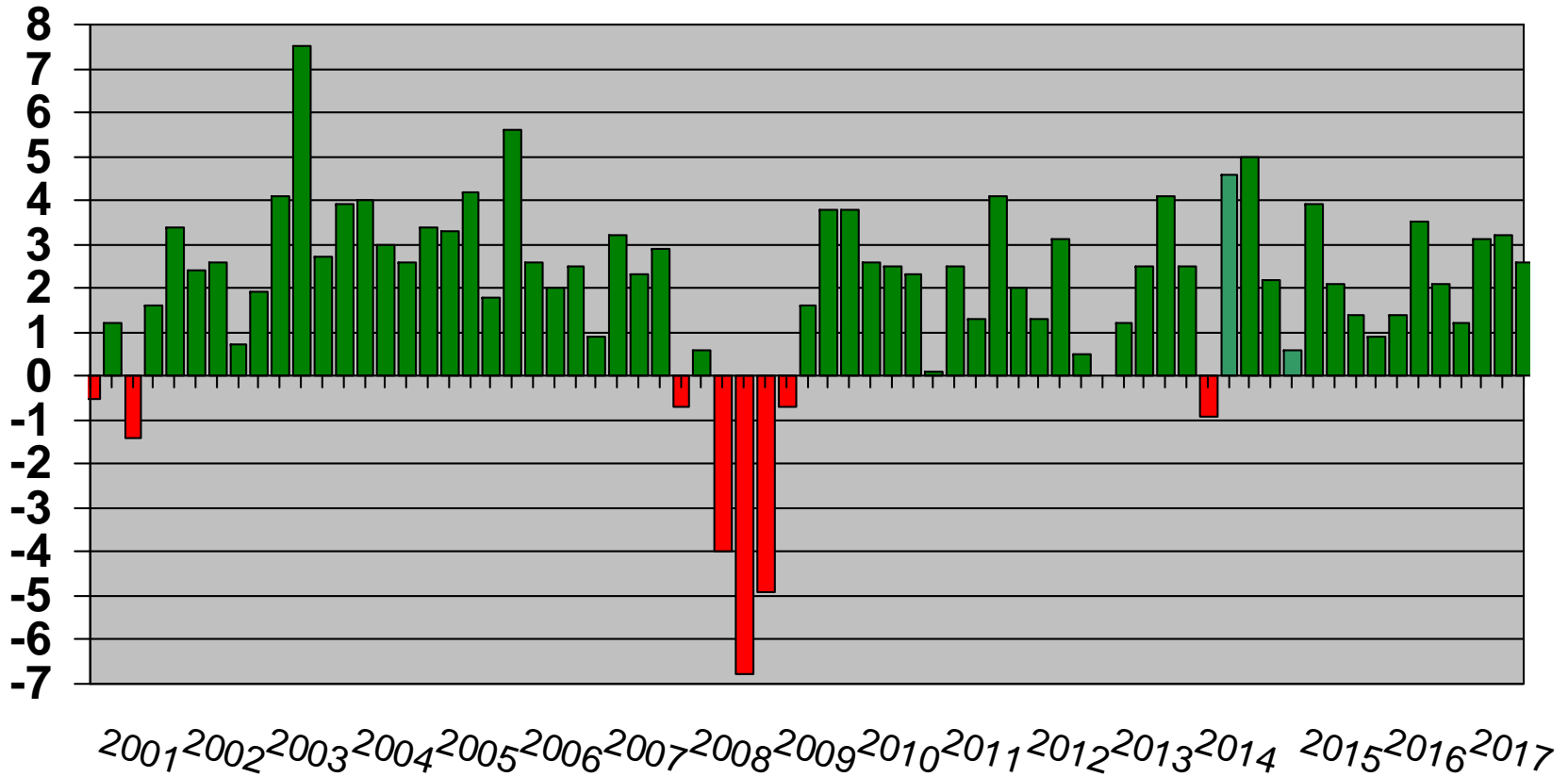


Monthly highlights

- Nonfarm Payroll off to solid start in 2018
- Year-over-year wage growth jumps
- Manufacturing sector off to a good start
- Auto sales start the year at the same pace as 2017
- Retail Sales off on the wrong foot
- Tax reform bill will be boost to business spending but weak impact on consumers

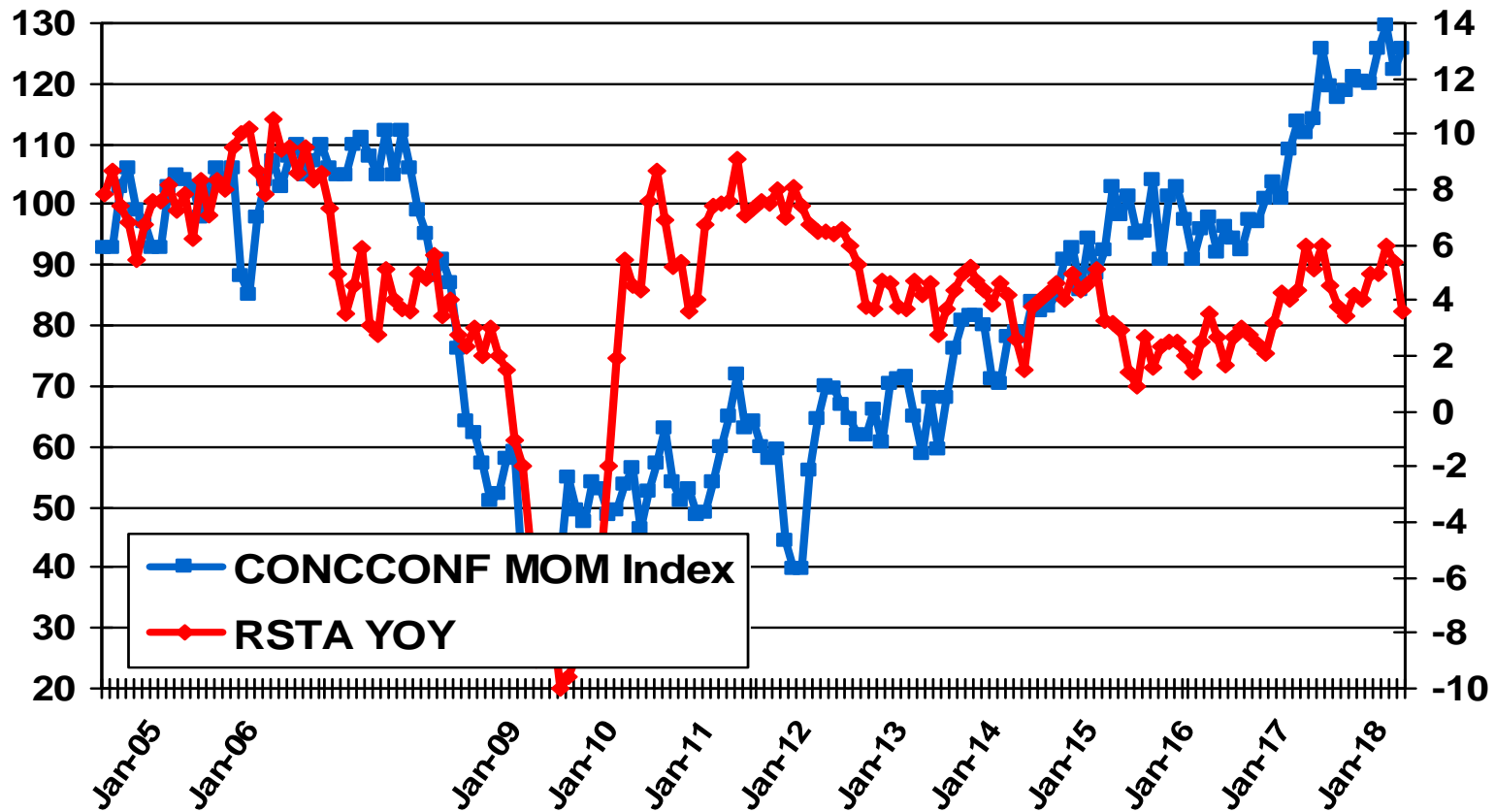
Real GDP— A solid year

Percent



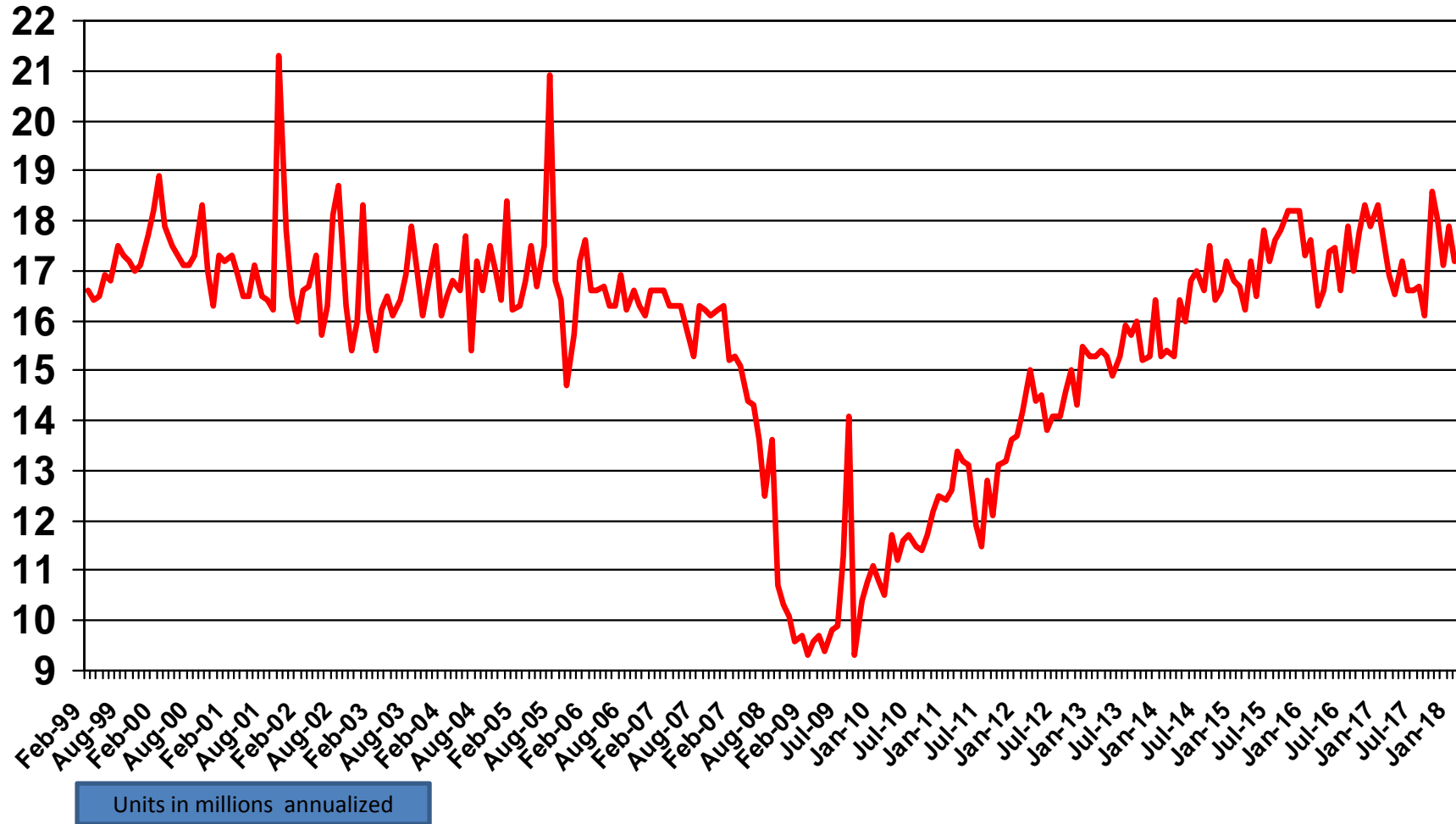
Retail Sales & Confidence —

Consumers still in the game



Total Vehicle Sales

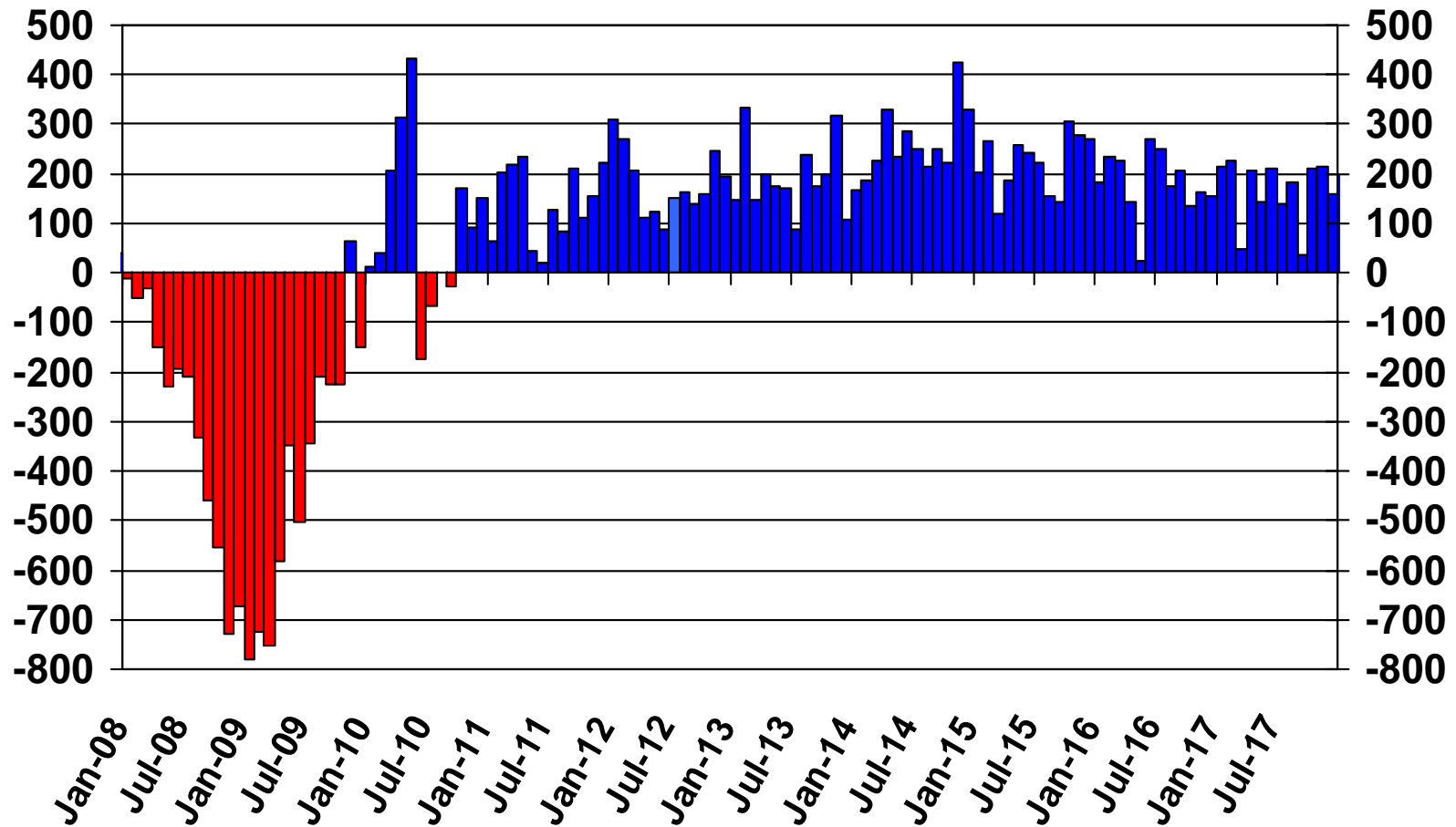
A solid start to 2018



Consumers continue to spend at solid pace

- 4th quarter GDP 2.6% but was 3.6% without drag of businesses inventories and trade balance.
- Year-over-year Retail Sales drop to 3.6% on weak January number but data highly questionable
- Year-over-year Retail Sales average 5.4% for last four months of 2017—strongest growth rate since 2011
- Auto sales for 2017, 17.2 million; January 17.2 annualized
- Consumer Confidence remains at lofty levels
- Tax bill unlikely to do much for consumers directly
- Jobs and confidence should continue to support growth in

Nonfarm Payrolls



Payroll Growth

Solid growth to start the year

- January payrolls up 200m; gains spread across multiple sectors
- Unemployment Rate steady at 4.1%
- Average monthly gain for 2017 171k vs. 183k for 2016
- Year-over-year hourly wage jumps from 2.6% to 2.9%—
Not a trend yet
- With tax reform passing, job growth should remain strong on business spending through first half of 2018

Strong second half comeback in California jobs

| | Pre-recession High (2006) | Low (2009- 2011) | Current |
|-----------------------|------------------------------|---------------------|---------------|
| NFP Payrolls | 15,440 | 13,845 | 16,980 |
| Construction | 945 | 545 | 840 |
| Manufacturing | 1495 | 1230 | 1302 |
| Trade/Transp | 2920 | 2600 | 3037 |
| Bus & Prof | 2270 | 2030 | 2577 |
| Government | 2525 | 2360 | 2594 |
| Leisure/Hosp | 1580 | 1484 | 1985 |
| Educ/Health | 1992 | 2050 | 2650 |

Source BLS –December

Job Highlights for California

- 1st half of 2017—63k jobs added; 2nd half of 2017, 272k
- Payrolls up 53k in December and 342k for 2017, in line with the prior three years
- Unemployment rate falls to 4.3% — the lowest rate on record
- Tax bill good for tech area and producers of business goods and services
- Lack of workers a growing issue but higher wages a positive consequence
- Trump trade policies still a threat to California

Nevada — Large sectors

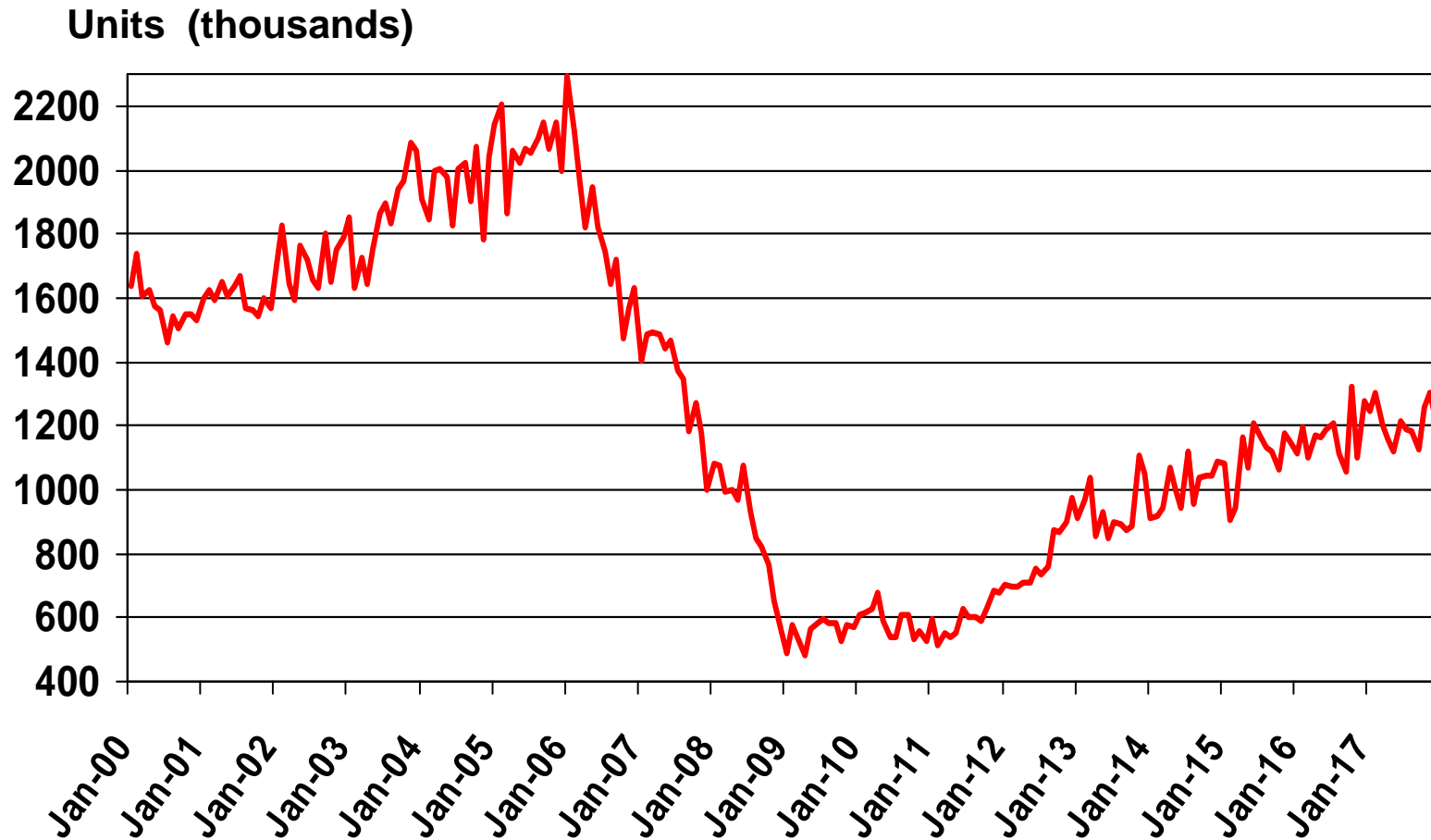
| | High (2006) | Low (2009-2011) | Current |
|--------------------------------|-------------|-----------------|--------------|
| Nonfarm Payrolls | 1,300 | 1,110 | 1,365 |
| Construction | 146 | 47 | 92 |
| Travel/leisure | 340 | 302 | 351 |
| Trade/Transp. | 233 | 204 | 249 |
| Bus. & Professional | 162 | 133 | 191 |
| Government | 162 | 146 | 166 |

Source BLS – December data

Nevada payrolls steady

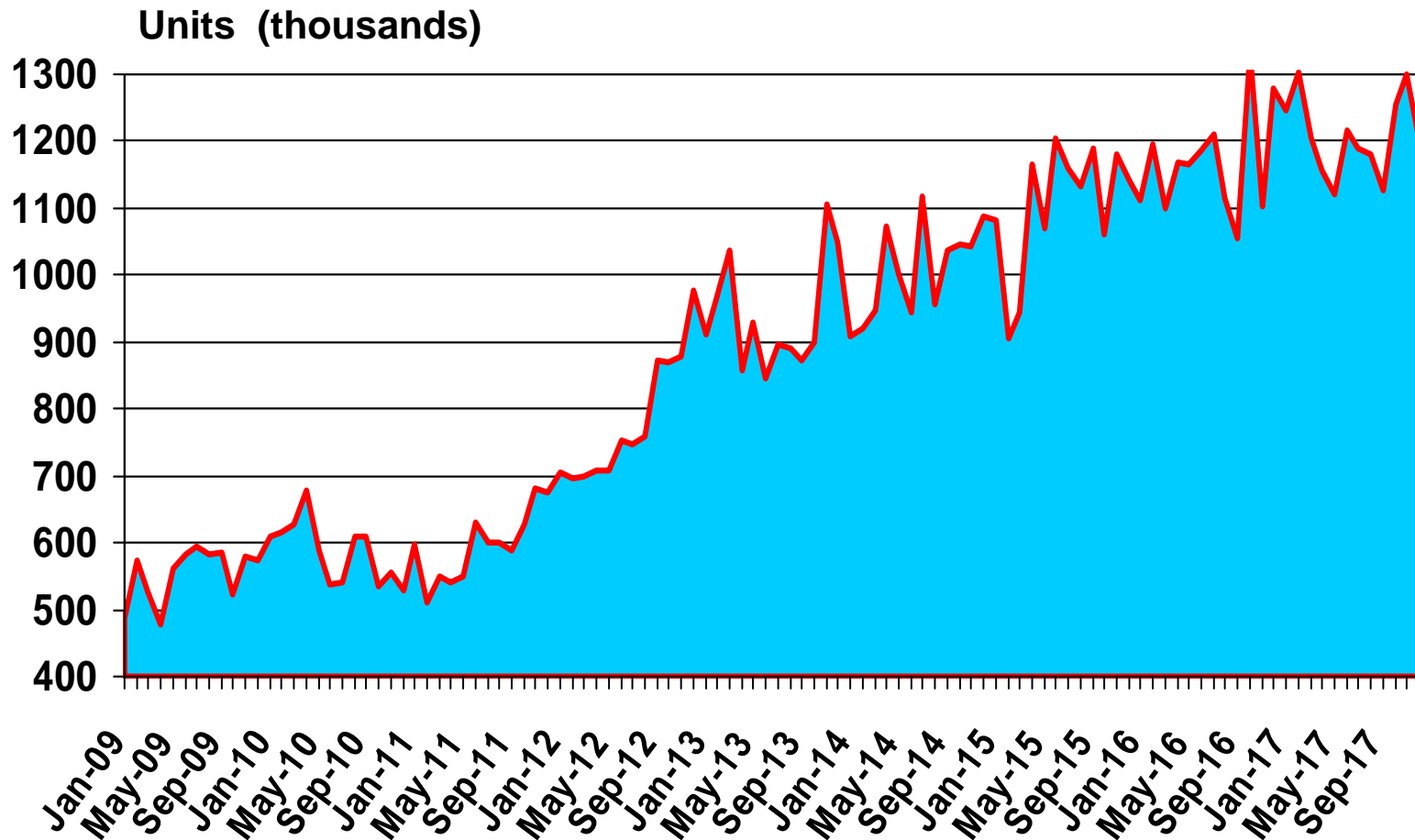
- Nonfarm Payrolls up 7k in December
- Payrolls +33k for 2017 – consistent since 2011
- Unemployment Rate steady 5.0%
- Outlook still positive for slow and steady growth
- Tax cut could provide slight lift to leisure spending
- Biggest risk — Trump on trade and foreign travel

Housing Starts — (December)



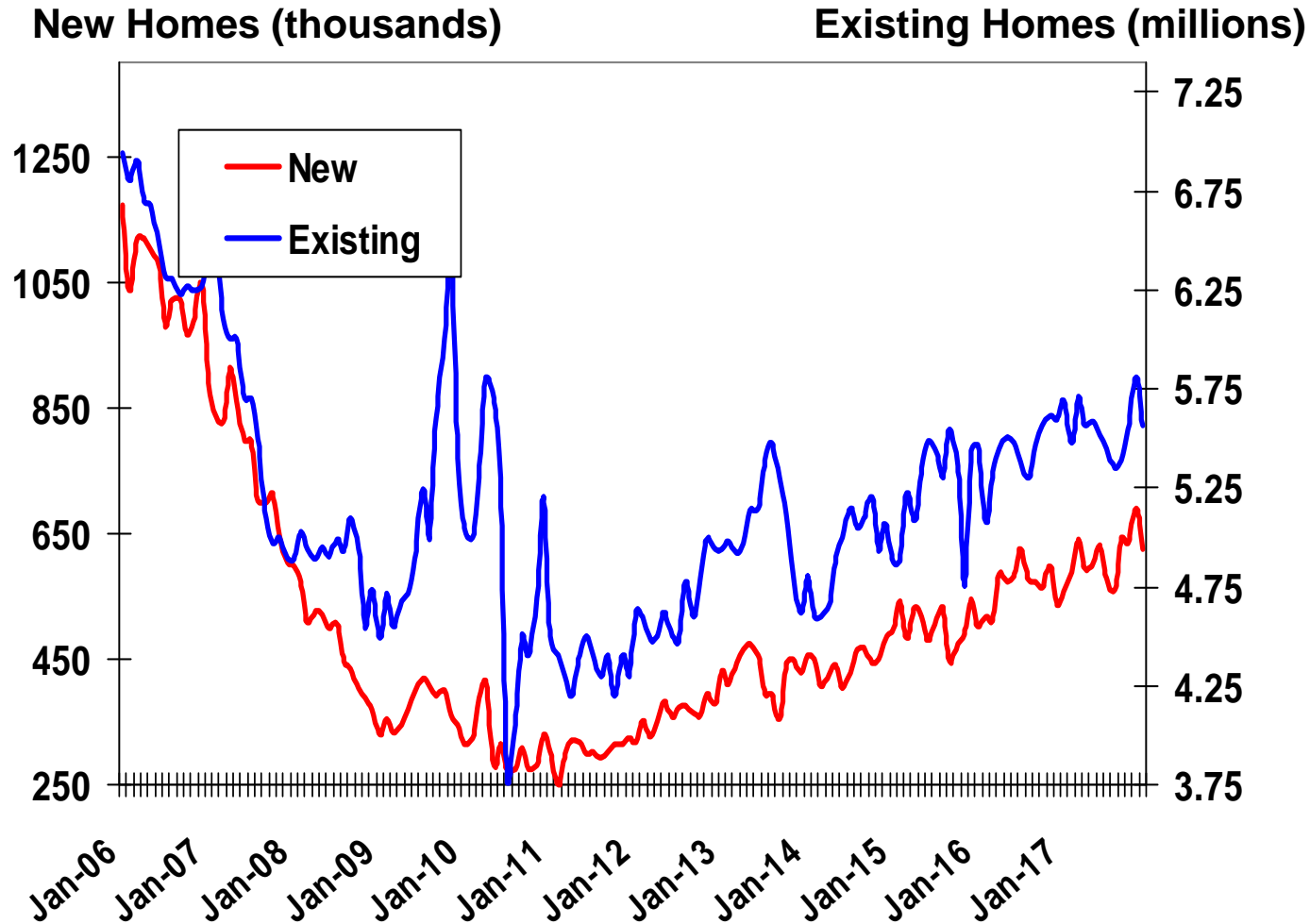
Housing Starts — (December)

(A solid year for builders)



Home Sales — (December)

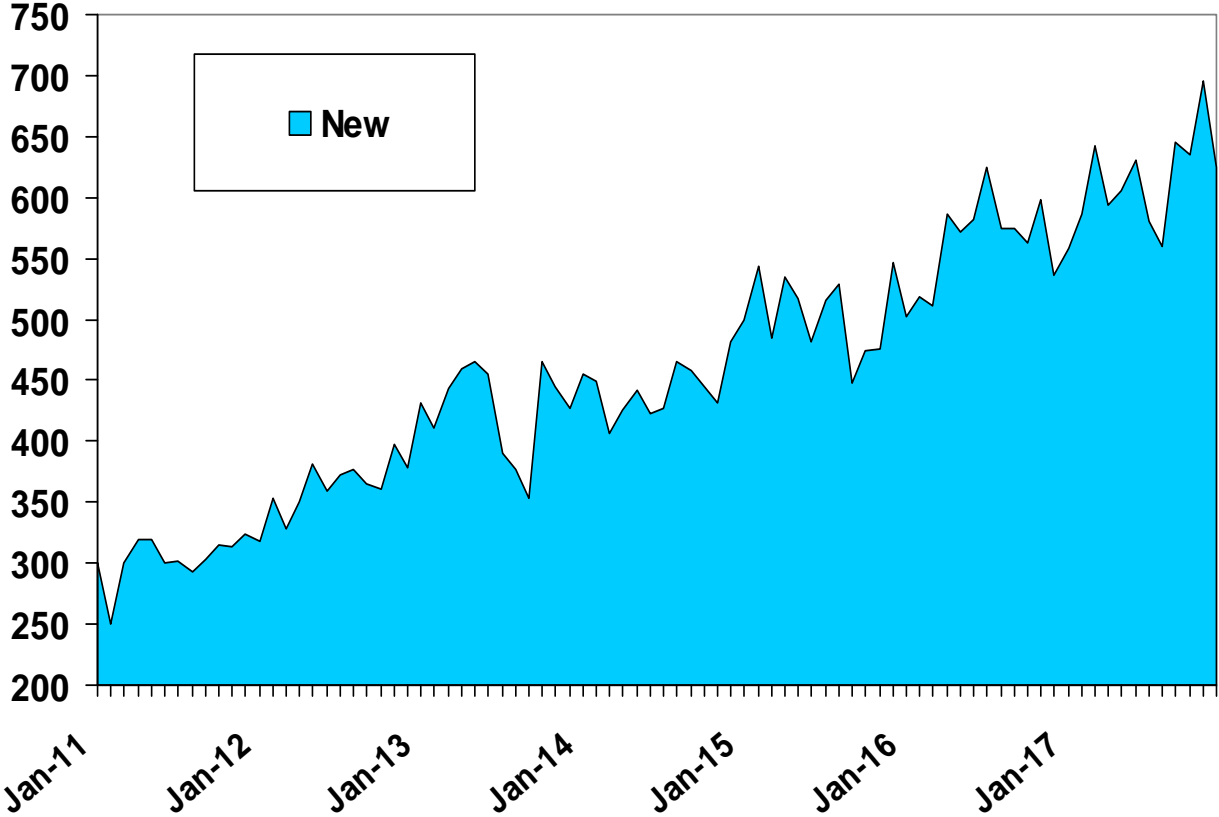
Typical December retreat in sales



New Home Sales — (December)

Strong year

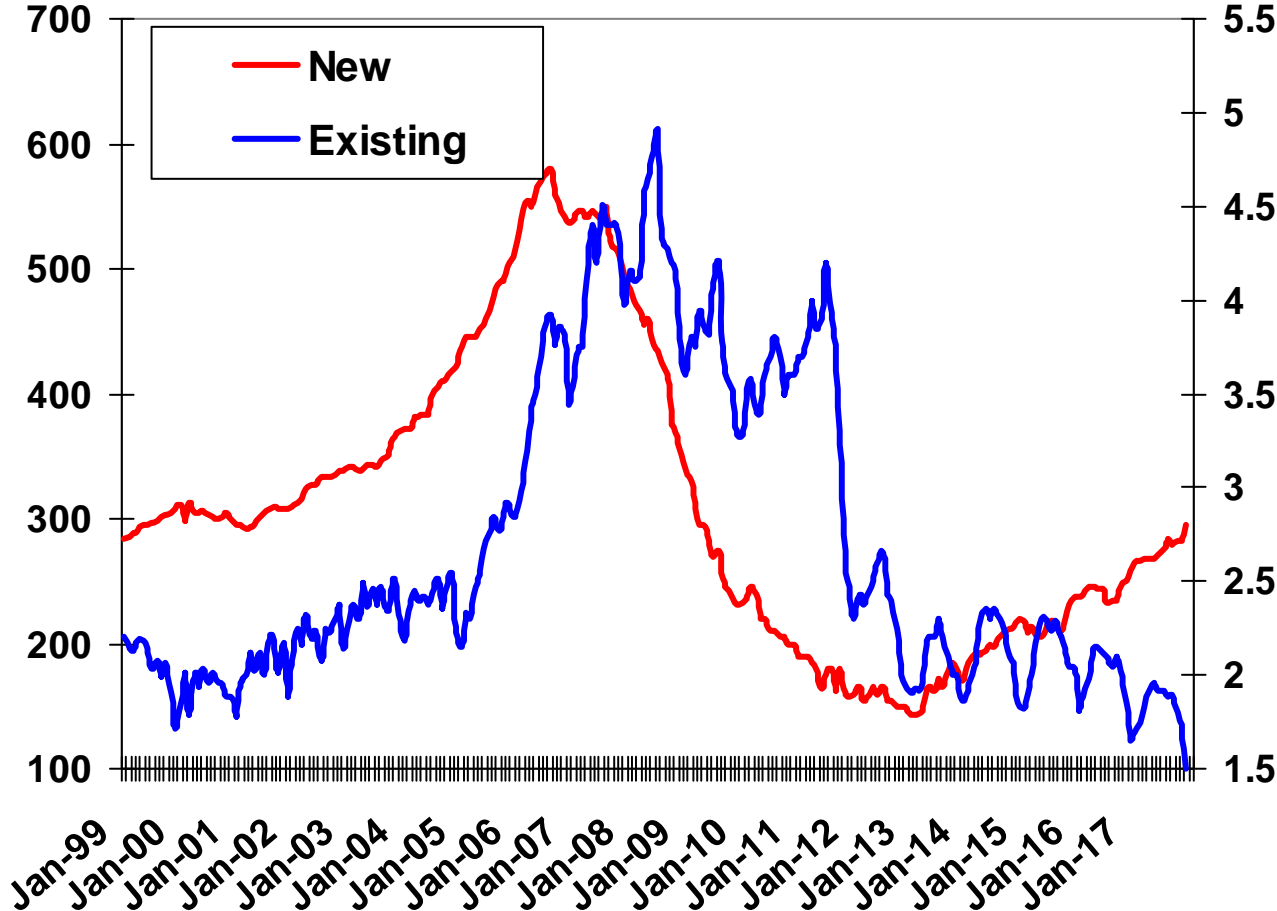
New Homes (thousands)



Home Inventories — Record low for existing homes

New Homes (thousands)

Existing Homes (millions)



California/Nevada y-o-y median home price

| | December 2016 | December 2017 | % gain |
|--------------|---------------|---------------|--------|
| LA County | \$520,000 | \$570,000 | 9.6% |
| San Diego Co | \$495,000 | \$540,000 | 9.1% |
| Orange | \$667,500 | \$697,500 | 4.5% |
| River. | \$345,000 | \$365,000 | 5.8% |
| Bay Area | \$670,000 | \$750,000 | 12.1% |
| Sacramento | \$302,000 | \$340,000 | 8.1% |
| Fresno | \$245,000 | \$260,000 | 12.6% |
| Las Vegas | \$240,000 | \$261,000 | 8.8% |

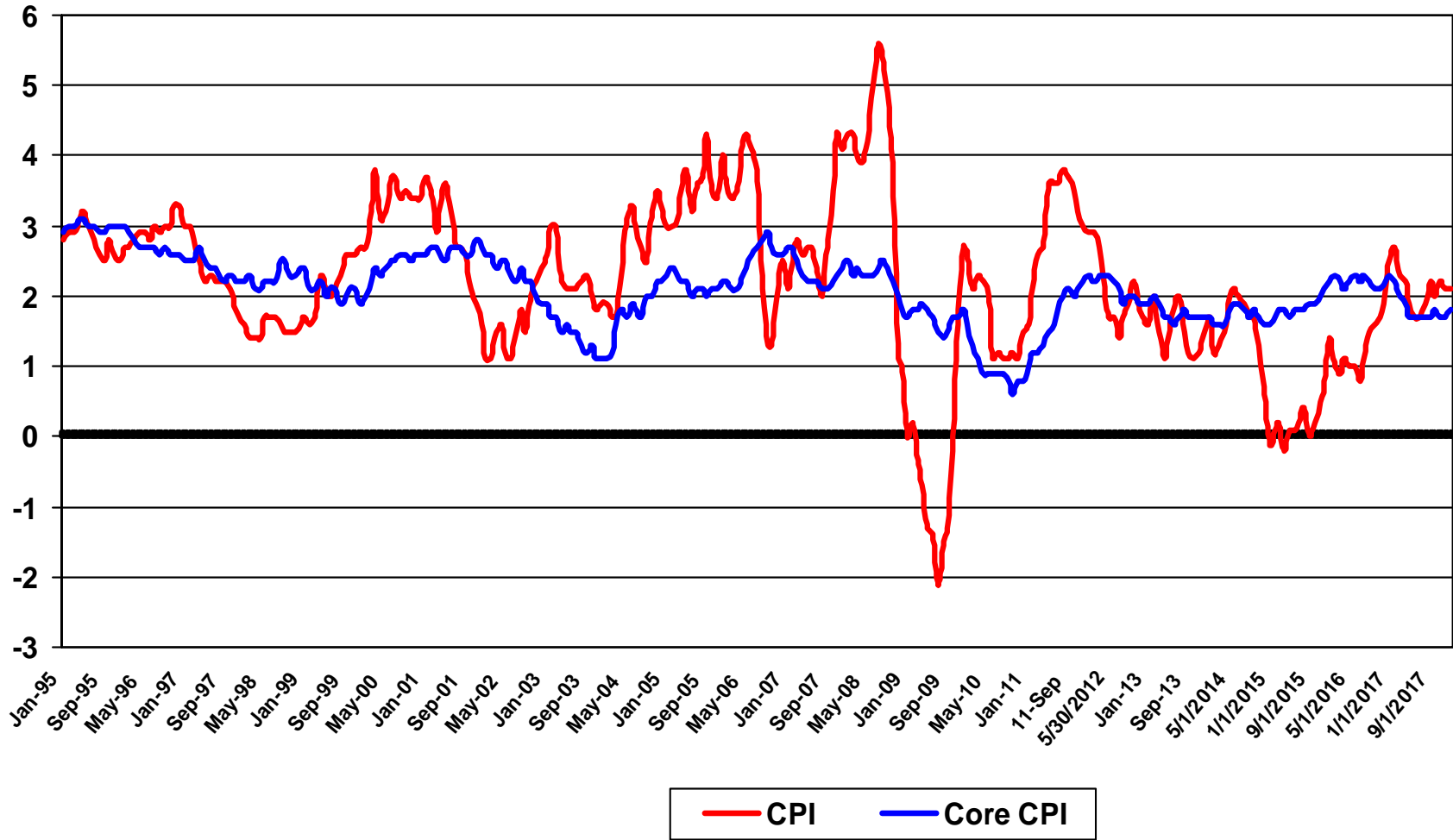
Sources: CoreLogic and GLVBR

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 despite January bump



General outlook still positive into 2018

- Stock market stabilizes and confidence of businesses and consumers maintained
- 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

February 2018

D.J.'s ECONOMIX

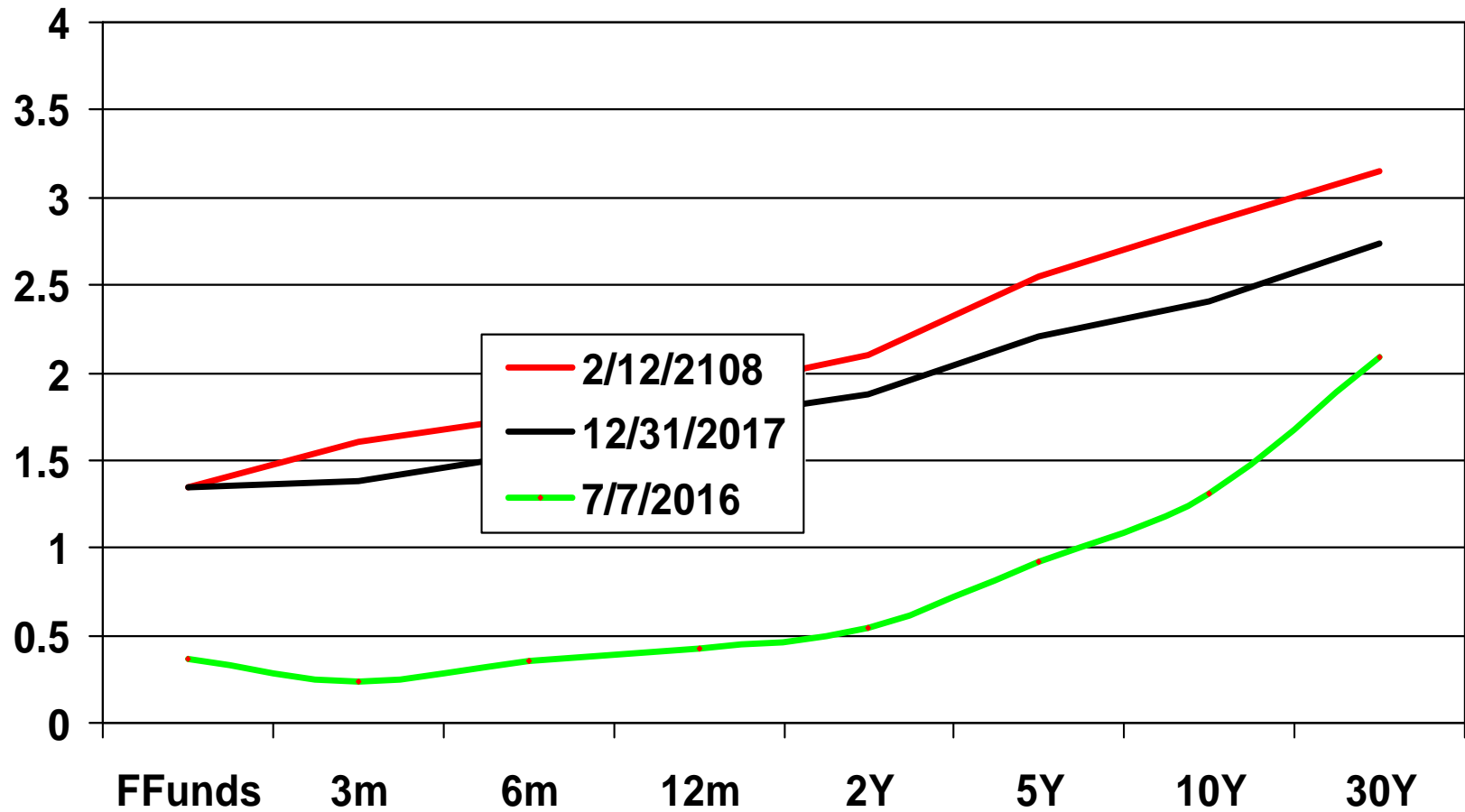
California CREDIT UNION LEAGUE NEVADA CREDIT UNION LEAGUE



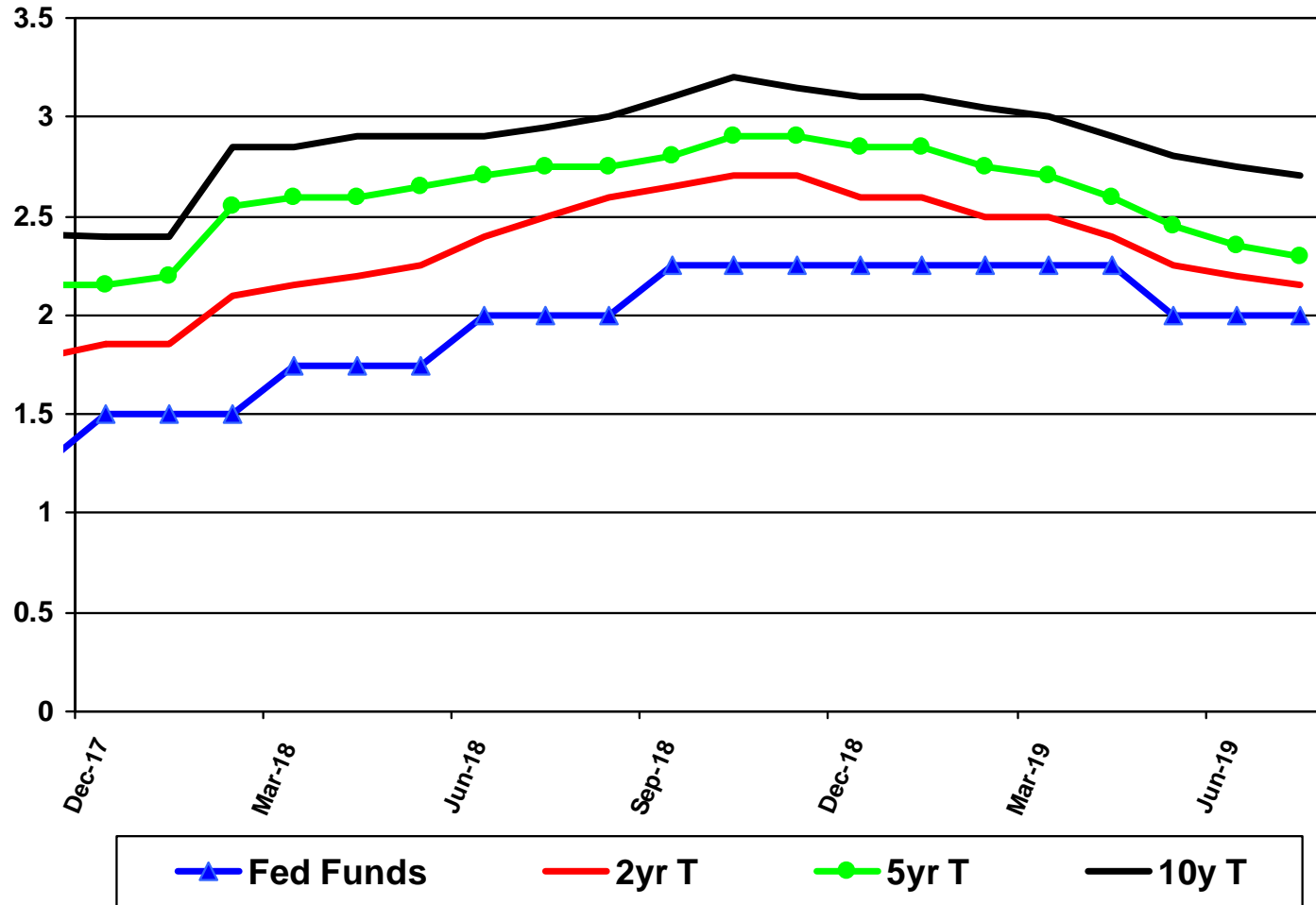
Highlights

- Stock market turmoil fails to lower bond yields
- Longer-term yields rise as big bond accounts grow less certain on inflation
- Sharp steepening in yield curve since year-end
- “Old” Fed raises funds rate and forecasts three increases in 2018
- “New” Federal Reserve Board make-up will make rate path less clear
- Rise in longer-term rates could cause Fed to pause
- Tax reform could impact Fed policy, but inflation is still the key

Yield curve shifts steeper

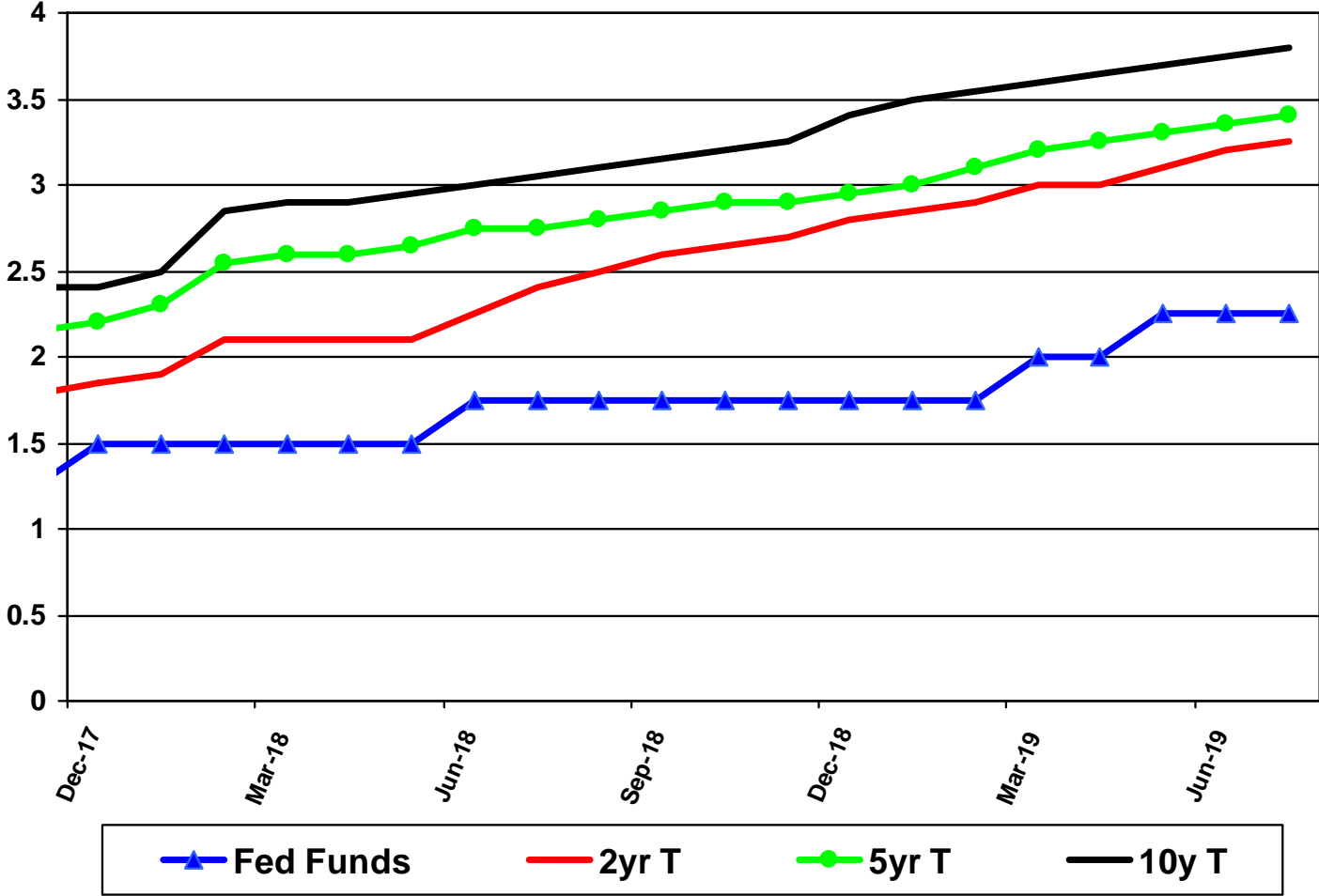


Interest Rate Forecast — D.J.'s Economix — If Fed stays on course



Interest Rate Forecast —

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



Range of Expectations for Q1 2019

(January 2018 Bloomberg poll — 91 economists)

| | Median |
|------------------|------------------------|
| GDP | 2.40% |
| UR | 3.80% |
| Core PCE | 1.90% |
| Fed Funds | 2.00- 2.25% |
| 2-Year | 2.57% |
| 10-Year | 3.00% |

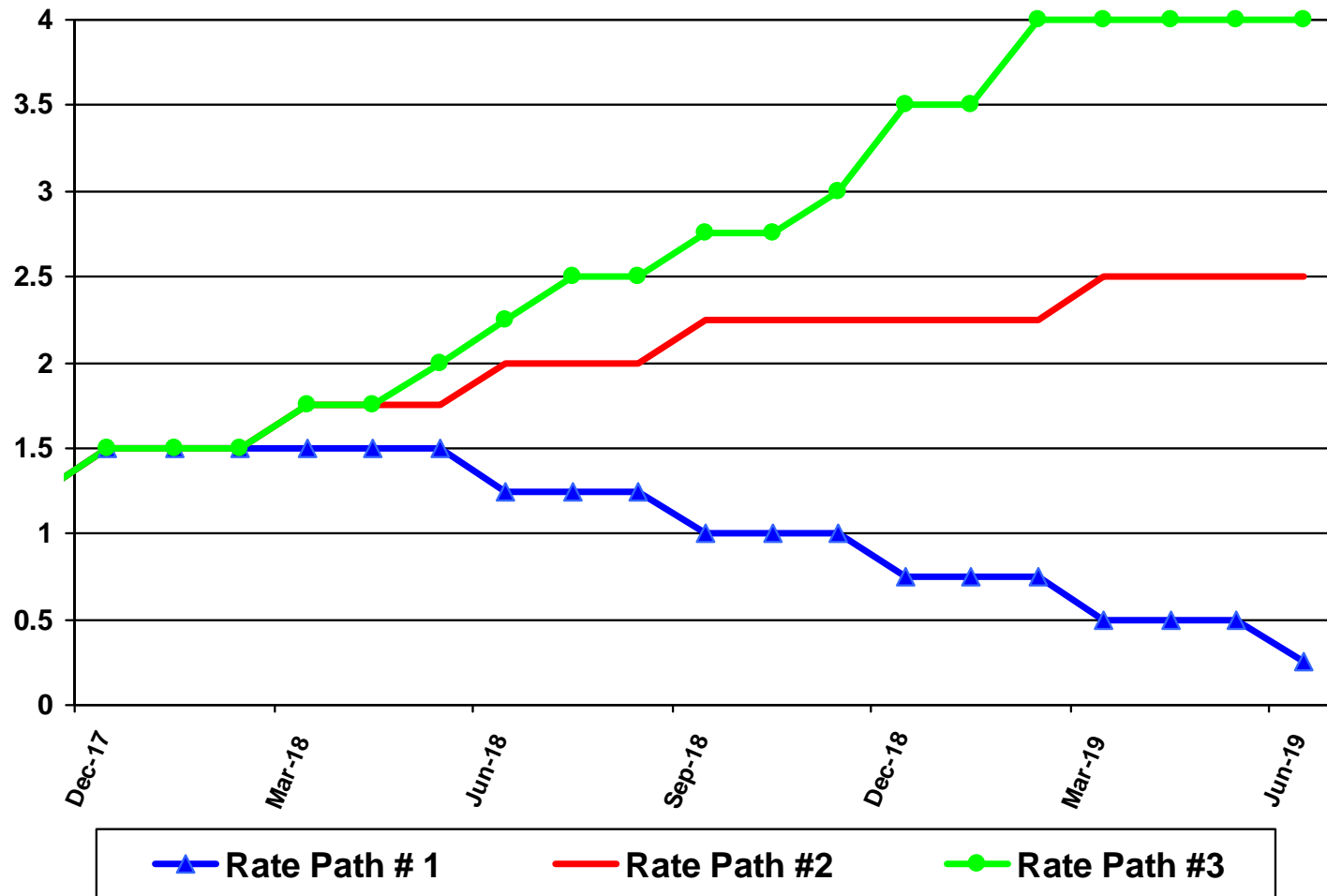
Prior format showing ranges no longer published

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

