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Federal Reserve System and Private Indicators
“The GDPNow model forecast for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2016 is **2.4 percent** on July 15, up from 2.3 percent on July 12. The forecast for second-quarter real consumer spending growth increased from 4.3 percent to 4.5 percent after this morning’s retail sales release from the U.S. Census Bureau and this morning’s Consumer Price Index release from the U.S. Bureau of Labor Statistics.” – Pat Higgins, Economist, The Federal Reserve Bank of Atlanta
The Federal Reserve Bank of Atlanta

“Kennesaw State University's Southeast Purchasing Managers Index (PMI), a composite index that measures the region's manufacturing sector based on key sector indicators, rose 3.0 points in June, to 51.8. The increase was driven by increases in nearly all underlying components. A reading over 50 indicates that manufacturing is expanding, while below 50 means the industry is contracting.” – The Federal Reserve Bank of Atlanta

Source: https://www.frbatlanta.org/economy-matters/regional-economics/data-digests; 7/5/16
Financial Conditions Continue to Edge Tighter in Week Ending July 8

“The NFCI increased for the sixth straight week, ticking up to −0.57 in the week ending July 8.

The risk, credit and leverage subindexes all increased slightly from the previous week, while the nonfinancial leverage subindex was unchanged.”

The Federal Reserve Bank of Chicago

“The ANFCI edged up to 0.11 from the previous week. The current level of the ANFCI indicates that financial conditions in the latest week were roughly consistent with what would typically be suggested by current economic conditions as captured by the three-month moving average of the Chicago Fed National Activity Index (CFNAI-MA3) and three-month total inflation according to the Price Index for Personal Consumption Expenditures (PCE).”


Source: https://www.chicagofed.org/publications/nfci/index; 7/13/16
Chicago Fed: National Activity Index

The index’s three-month moving average, CFNAI-MA3, decreased to −0.36 in May from −0.25 in April. May’s CFNAI-MA3 suggests that growth in national economic activity was somewhat below its historical trend. The economic growth reflected in this level of the CFNAI-MA3 suggests subdued inflationary pressure from economic activity over the coming year.

The CFNAI Diffusion Index, which is also a three-month moving average, moved down to −0.30 in May from −0.23 in April. Twenty-eight of the 85 individual indicators made positive contributions to the CFNAI in May, while 57 made negative contributions. Twenty-eight indicators improved from April to May, while 56 indicators deteriorated and one was unchanged. Of the indicators that improved, 12 made negative contributions.” – Laura LaBarbera, Media Relations, The Federal Reserve Bank of Chicago

Source: https://www.chicagofed.org/publications/cfnai/index; 6/23/16
The Midwest Economy Index (MEI) decreased to +0.12 in May from +0.28 in April. The relative MEI declined to +0.53 in May from +0.71 in April. May’s value for the relative MEI indicates that Midwest economic growth was somewhat higher than what would typically be suggested by the growth rate of the national economy.

The manufacturing sector’s contribution to the MEI was –0.01 in May, down from +0.04 in April. The pace of manufacturing activity decreased in Iowa and Wisconsin, but increased in Michigan and was unchanged in Illinois and Indiana. Manufacturing’s contribution to the relative MEI ticked up to +0.13 in May from +0.12 in April.

The construction and mining sector made a neutral contribution to the MEI in May, down from +0.04 in April. The pace of construction and mining activity was lower in Indiana, Michigan, and Wisconsin, but higher in Iowa and unchanged in Illinois. Construction and mining’s contribution to the relative MEI was +0.11 in May, down from +0.15 in April.

The service sector’s contribution to the MEI decreased to +0.06 in May from +0.12 in April. The pace of service sector activity was down in Indiana and Michigan, while up only slightly in Illinois, Iowa, and Wisconsin. The service sector’s contribution to the relative MEI declined to +0.21 in May from +0.35 in April.” – Laura LaBarbera, Media Relations, Federal Reserve Bank of Chicago
The Texas economy overall presents a befuddled picture. On the upside, employment growth bounced back in April after nearly halting in March but slowed again in May. Oil prices have increased, the rig count ticked up in early June and Texas exports rose strongly in the first quarter. The Texas Leading Index, which forecasts employment growth for the state, also saw broad-based improvement.

Despite the silver lining, dark clouds remain on the horizon. April exports data showed a decline, and the May Texas Business Outlook Surveys (TBOS) headline indexes weakened from their April readings. Moreover, we are seeing layoffs in Houston — ground zero of the energy bust — affect other sectors of the metro’s economy, particularly its residential and office markets.” – Laila Assanie, Business Economist, and Emily Gutierrez, Research Analyst, The Federal Reserve Bank of Dallas.
Services Expand, Manufacturing Activity Falters Following Recent Stabilization

“The Texas Service Sector Outlook Survey (TSSOS) headline index fell from 10.6 to 5.8, suggesting a positive but slower pace of growth in services. Manufacturing activity contracted in May, according to the Texas Manufacturing Outlook Survey (TMOS). The production index plunged to its lowest level in a year after two months of positive readings, and the new orders index turned negative in May. Somber outlooks and persistently feeble demand suggest further weakness looms ahead.”

– Laila Assanie, Business Economist, and Emily Gutierrez, Research Analyst, The Federal Reserve Bank of Dallas

Texas Manufacturing Activity Declines Again

“Texas factory activity declined again in June, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, posted a second consecutive negative reading but rose from -13.1 to -7.0, suggesting the pace of contraction eased somewhat from May.

Other measures of current manufacturing activity also reflected continued declines this month. The new orders index held steady at -14.2, while the growth rate of orders index fell four points to -18.6. The capacity utilization and shipments indexes remained negative for a second month but edged up, coming in at -9.3 and -8.6, respectively.

Perceptions of broader business conditions stayed pessimistic in June. The general business activity index has been negative since January 2015 and came in at -18.3 this month, up slightly from its May reading. The company outlook index posted a seventh consecutive negative reading but rose 5 points to -11.0.” – Emily Kerr, Business Economist, The Federal Reserve Bank of Dallas
Regional factory activity posted a positive reading for the first time since January 2015, as energy prices have stabilized somewhat and orders have increased. Additionally, firms continue to expect further improvements for the months ahead.” – Megan Williams, Survey Manager and Associate Economist, The Federal Reserve Bank of Kansas City

“Tenth District manufacturing activity increased slightly, posting a positive reading for the first time in eighteen months. Expectations for future activity remained generally solid, and most price indexes rose modestly. The improvement came from both durable and nondurable goods-producing plants, particularly aircraft, food, plastics, and electronic equipment. Most month-over-month indexes increased markedly. The production index jumped from -11 to 12, shipments, news orders, and order backlog indexes also rose considerably. The employment index edged up from -13 to -4, its highest level in over a year. The finished goods inventory index edged up from -12 to -5, while the raw materials inventory index was unchanged.” – Pam Campbell, Federal Reserve Bank of Kansas City
The New England economy continues to improve, but lags the nation in most measures

The New England region continues to experience moderate growth across many economic measures. Employment growth continues at a modest pace while unemployment rates continue to fall. Home prices continue to make modest gains, albeit at a slower pace than in recent quarters. Similarly, through Q4 2015 wage and salary income is up from one year earlier, but the rate of growth of such income is noticeably slower than it was one year ago. Across all metrics, except unemployment rates, New England is trailing the nation.

The Federal Reserve Bank of New England

Employment growth continues at a modest pace

“The region continued to post decent job growth into early 2016, with payroll employment increasing 1.6 percent between February 2015 and February 2016 (Exhibit 1). This rate of growth is an improvement relative to year-over-year gains in the past six months, when New England’s employment increased at a more modest pace of 1.0 to 1.2 percent. Nationally, payroll employment growth continues to exceed regional growth, increasing 1.9 percent through February 2016.”

Construction leads industry employment gains

“New England reported employment gains in 9 out of 10 supersectors between February 2015 and 2016 (Exhibit 2). Manufacturing was the only sector to report job losses, falling a slight 0.02 percent in New England but experiencing a modest 0.1 percent increase nationwide. This was the fourth consecutive month in which Manufacturing employment in the region declined on year-over-year basis. The strongest job growth in the region came in the Construction industry, where employment increased 8.3 percent year-over-year through February 2016.”
New England Labor Market Indicators

<table>
<thead>
<tr>
<th>Change Previous</th>
<th>Average of Monthly Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 Months</td>
<td>Q2-15</td>
</tr>
<tr>
<td>Total Nonfarm:</td>
<td>76.9</td>
</tr>
</tbody>
</table>

Source: http://economicindicators.bostonfed.org/EconIndicators/index.html; 6/20/16
“The June 2016 Empire State Manufacturing Survey indicates that business activity expanded modestly for New York manufacturers. The headline general business conditions index climbed fifteen points to 6.0. The new orders index and the shipments index rose from negative values to 10.9 and 9.3, respectively – a sign that orders and shipments were increasing after last month’s decline. The inventories index fell to -15.3, indicating that inventories were lower, and the employment index was zero, signaling that employment counts were unchanged. The prices paid index held steady at 18.4, suggesting that moderate input price increases were continuing, and the prices received index was near zero, indicating that selling prices were stable. Firms were more optimistic about the six-month outlook this month, and capital spending plans picked up.” – The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/survey/empire/empiresurvey_overview; 6/16/16
Empire State Manufacturing Survey

“Business activity expanded modestly for New York manufacturing firms, according to the June 2016 survey. After dipping below zero in May, the general business conditions index advanced fifteen points to 6.0. Twenty-eight percent of respondents reported that conditions had improved over the month, while 22 percent reported that conditions had worsened. The new orders index also rose above zero, its sixteen-point climb to 10.9 pointing to an increase in orders. Shipments were higher, with the shipments index rising to 9.3, while the unfilled orders index fell to -10.2. The delivery time index moved up to -2.0, and at -15.3, the inventories index indicated that firms drew down inventories in June.” – The Federal Reserve Bank of New York

Greater Optimism about the Six-Month Outlook

“Indexes for the six-month outlook suggested that respondents were more sanguine about future conditions. The index for future business conditions rose six points to 34.8, reaching its highest level of 2016. Indexes for future new orders and shipments also increased, and firms expected employment levels and the average workweek to hold steady in the coming months. After a sharp decline last month, the capital expenditures index rose eight points to 11.2, and the technology spending index edged down to 4.1.” – The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/survey/empire/empiresurvey_overview; 6/16/16
FRBNY Nowcast – 2016: The Nowcast is slightly above 2% for both 2016:Q2 and 2016:Q3, little changed over the past week.
May’s Indexes of Coincident Economic Indicators Show Economic Growth Moderating across the Region

“The May Indexes of Coincident Economic Indicators (CEIs) show some slowing in economic growth across the region – in part reflecting the Verizon strike (which has since been settled), as well as somewhat weaker economic fundamentals. … New York City continues to be the strongest engine of growth in the region, by far, though there too, we have seen some deceleration.

All in all, May’s report shows that the pace of growth in economic activity has slowed thus far in 2016, though the sluggish growth in May was likely driven, at least in part, by the telecom strike. Updates to the regional CEIs are provided on a monthly basis.”

The Federal Reserve Bank of Philadelphia

June 2016 Manufacturing Business Outlook Survey

“Firms responding to the Manufacturing Business Outlook Survey reported little growth this month. Though the indicator for general activity was positive in June, other broad indicators continued to reflect general weakness in business conditions. The indicators for both employment and work hours remained negative. Forecasts of future activity weakened from last month but continued to suggest that manufacturers expect growth over the next six months.

This month’s Manufacturing Business Outlook Survey suggests tepid growth of the region’s manufacturing sector. The survey’s indicator for general activity returned to positive territory, but indicators for new orders, shipments, and employment remained negative. Though indicators for future conditions fell from last month’s readings, firms continued to expect future growth.” – Federal Reserve Bank of Philadelphia

GDP Growth

GDPplus is a measure of the quarter-over-quarter rate of growth of real GDP in annualized percentage points. GDP_E and GDP_I are quarter-over-quarter rates of growth of expenditure and income-side measures of real GDP in annualized percentage points, respectively.

Source: https://philadelpiafed.org/research-and-data/real-time-center/gdpplus/; 5/28/16
Fifth District manufacturing activity weakened in June, according to the most recent survey by the Federal Reserve Bank of Richmond. New orders and shipments declined this month, while backlogs decreased further compared to last month. Manufacturing employment softened, while firms continued to increase wages. Prices of raw materials rose somewhat more slowly this month and finished goods prices rose slightly faster in June, compared to last month.

Manufacturers' positive expectations faded in June. Producers anticipated mild growth in shipments and in the volume of new orders in the next six months. Compared to last month's outlook, backlogs and capacity utilization were expected to level off. Firms looked for vendor lead times to lengthen slightly during the six months ahead.

Looking ahead, more survey participants expected slower growth in the number of employees and a shorter average workweek. However, an increasing number of firms anticipated wage increases. Producers expected faster growth in prices paid and received.” – Jeannette Plamp, Economic Analyst, The Federal Reserve Bank of Richmond
Current Activity

“Overall, manufacturing conditions weakened in June. The composite index for manufacturing dropped to a reading of −7. The indicators for shipments and order backlogs remained in negative territory this month. Those indexes ended at readings of −3 and −17, respectively. The volume of new orders dropped sharply in June; the index lost 14 points, ending at −14. Additionally, the third component of the composite index, the employment index, flattened this month. That indicator moved down five points to end −1.” – Jeannette Plamp, Economic Analyst, The Federal Reserve Bank of Richmond

Source: https://www.richmondfed.org/research/regional_economy/surveys_of_business_conditions/manufacturing/2016/mfg_06_28_16
“The U.S. Bureau of Economic Analysis (BEA) recently bumped up its estimate of real GDP growth in the first quarter of 2016 to 0.8%, at an annual pace, from the initial estimate of 0.5%. Even with this upward adjustment, San Francisco Fed research suggests that inadequate accounting for first-quarter seasonal factors indicates the BEA estimate significantly understates the economy’s underlying growth momentum. Smoothing through such seasonal fluctuations, we see GDP growth hovering around 2% on a four-quarter basis. This pace is consistent with an ongoing moderate expansion, which we expect to continue over the next few years.” – Nicolas Petrosky-Nadeau, Research Advisor, The Federal Reserve Bank of San Francisco

The Federal Reserve Bank of San Francisco

Total Factor Productivity

“Over the past four quarters ending in the first quarter of 2016, Total Factor Productivity grew at a rate of 0.53% and Utilization-adjusted Total Factor Productivity grew at rate of 0.75%.”
May Architecture Billings Index

Business conditions at architecture firms continue to improve in May

“Business conditions at design firms have hovered around the break-even rate for the better part of this year. Demand levels are solid across the board for all project types at the moment. Of particular note, the recent surge in design activity for institutional projects could be a harbinger of a new round of growth in the broader construction industry in the months ahead.” – Kermit Baker, Hon. AIA, Chief Economist, AIA

Source: http://new.aia.org/pages/13716-business-conditions-at-architecture-firms-continue-to-improve-in-may; 6/22/16
Private Indicators: AIA

“Business conditions improved at firms in all regions of the country in May, with the exception of a minute downtown for firms located in the Midwest. Billings continue to strengthen at firms in the Sunbelt regions of the South and West, while they continue to increase at a modest pace at firms located in the Northeast.” – Kermit Baker, Hon. AIA, Chief Economist, AIA

Source: http://new.aia.org/pages/13716-business-conditions-at-architecture-firms-continue-to-improve-in-may; 6/22/16
“Architecture firm billings also increased at firms of all specializations in May, most notably at firms with residential and institutional specializations. Firms with an institutional specialization continue to recover from a modest downturn during the first quarter of 2016, while billings have held steady at a relatively slow pace of growth at firms with a commercial/industrial specialization.” – Kermit Baker, Hon. AIA, Chief Economist, AIA

Source: http://new.aia.org/pages/13716-business-conditions-at-architecture-firms-continue-to-improve-in-may; 6/22/16
Private Indicators

BuildFax Residential New Construction Index
“Residential new construction authorized by building permits in the United States in May were at a seasonally-adjusted annual rate of 1,229,013. This is 4% below the revised April rate of 1,274,472 and is 3% above the revised May 2015 estimate of 1,194,042. BuildFax reports on total new residential projects, this is unlike the U.S. Census that reports total number of housing units.”

Regional Residential New Construction
“Seasonally-adjusted annual rates of residential new construction across the country in May 2016 are estimated as follows: Northeast, 56,554 (up 1% from April and up 60% from May 2015); South, 660,964 (down 4% from April and down 6% from May 2015); Midwest, 235,588 (down 1% from April and up 21% from May 2015); West, 256,045 (down 11% from April and up 2% from May 2015).”

Source: www.buildfax.com/public/indices/bfrni.html; 6/20/16
Private Indicators

**BuildFax Residential Remodeling Index**

“Residential remodels authorized by building permits in the United States in May were at a seasonally-adjusted annual rate of 9,097,841. This is 7% below the revised April rate of 9,801,592 and is 3% below the revised May 2015 estimate of 9,344,896.”

**Regional Residential Remodeling**

“Seasonally-adjusted annual rates of residential remodelling across the country in May 2016 are estimated as follows: Northeast, 804,206 (down 3% from April and up 16% from May 2015); South, 4,367,661 (down 4% from April and down 4% from May 2015); Midwest, 1,885,356 (down 9% from April and down 3% from May 2015); West, 2,101,403 (down 10% from April and down 6% from May 2015).”

Source: www.buildfax.com/public/indices/bfrmi.html; 6/20/16
June Chicago Business Barometer
Up 7.5 Points to 56.8

“The MNI Chicago Business Barometer rose 7.5 points to 56.8 in June from 49.3 in May, the highest since January 2015, led by strong gains in New Orders and Production. June’s rebound was just enough to offset the previous two months of weakness, leaving the Barometer broadly unchanged over the quarter at an average of 52.2 in Q2 compared with 52.3 in Q1.”

New Orders Increase to the Highest Since October 2014

“New Orders increased sharply on the month to the highest since October 2014, while Order Backlogs rose to the highest since March 2011, breaking a 16-month run of below 50 readings. Production also increased significantly to the highest since January 2016.

From November 2015 through to May 2016 firms ran down inventory levels. June, however, saw a double digit increase from May’s 6½ year low, ending a seven month run in contraction, with an equal number of firms increasing inventories as decreasing them.”

“June’s sharp increase in the MNI Chicago Business Barometer needs to be viewed in the context of the weakness seen in April and May. Looking at the three-month average provides a better guide this month to the underlying trend in the economy with activity broadly unchanged between Q1 and Q2. Still, on a trend basis activity over the past four months is running above the very low levels seen around the turn of the year.” – Philip Uglow, Chief Economist, MNI Indicators
The Conference Board Leading Economic Index® (LEI) for the U.S. Declined

The Index declined 0.2 percent in May to 123.7

“The US LEI declined in May, primarily due to a sharp increase in initial claims for unemployment insurance. The growth rate of the LEI has moderated over the past year. Research at The Conference Board. While the LEI suggests the economy will continue growing at a moderate pace in the near term, volatility in financial markets and a moderating outlook in labor markets could pose downside risks to growth.” – Ataman Ozyildirim, Director of Business Cycles and Growth Research, The Conference Board

“The Conference Board Leading Economic Index® (LEI) for the U.S. declined 0.2 percent in May to 123.7 (2010 = 100), following a 0.6 percent increase in April, and a 0.1 percent increase in March.

The Conference Board Coincident Economic Index® (CEI) for the U.S. was unchanged in May, remaining at 113.5 (2010 = 100), following a 0.2 percent increase in April, and no change in March.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.3 percent in May to 121.9 (2010 = 100), following a 0.2 percent increase in April, and a 0.6 percent increase in March.

Source: https://www.conference-board.org/data/bcicountry.cfm; 6/23/16
Scenarios

“There are plenty of reasons why actual economic growth might be better or worse than Deloitte’s forecasted baseline. Our forecast, therefore, includes four different scenarios to illustrate possible future paths of the US economy. Deloitte’s forecasting team places subjective probabilities on each of the four potential scenarios.

The baseline (55 percent probability): Weak foreign demand weighs on growth. US domestic demand is strong enough to provide employment for workers returning to the labor force for a couple of years, and the unemployment rate remains about 5 percent. GDP annual growth hits a maximum of 2.5 percent. In the medium term, low productivity growth puts a ceiling on the economy, and by 2019 US GDP growth is below 2 percent, despite the fact that the labor market is at full employment. Inflation remains subdued.

Recession (5 percent): China’s financial problems create a drag on its economy, and growth slows substantially. This triggers a financial panic in East Asia, as investors in countries connected by supply chains to China seek to reduce risk. Volatility in Europe increases, as does market valuation of the riskiness of euro assets, adding to the panic. Several US financial institutions find themselves long on euro- and China-related assets at the wrong time. The result: a global financial panic. Capital flows into the United States to avoid risk in Europe and Asia, and the US dollar climbs even higher. The financial panic throws the US economy into recession. Timely Fed action offsets the financial crisis after several months, leading to relatively fast growth during the recovery.” – Dr. Daniel Bachman, Senior Manager, US Macroeconomics, Deloitte Services LP
Private Indicators

**Deloitte**  
**United States Economic Forecast**

**Scenarios**

**Slower growth (25 percent):** Weak economic conditions abroad, financial turmoil, and flight from risky assets cuts demand below the level required for labor market equilibrium. Although the participation rate climbs slightly, hoped-for jobs disappear and the unemployment rate rises. Despite that increase, the Fed slowly raises interest rates, helping to keep a cap on inflation. GDP growth stays below 2 percent for the foreseeable future.

**Coordinated global boom (15 percent):** Terrorism and refugee problems prove to be only minor obstacles for European economies, and the continent finally begins to pull out of the doldrums. Emerging markets also pick up momentum as China resolves its financial problems, and India and Brazil start to adopt more reforms. Capital flows out of the United States and into Europe and the developing world, pushing the dollar lower, further enhancing US exports. Lower US energy prices make the United States even more competitive. At home, the resolution of budget issues at both the federal and state levels allows more money to flow into infrastructure investment, creating short-term demand and long-term productivity growth.” – Dr. Daniel Bachman, Senior Manager, US Macroeconomics, Deloitte Services LP

Private Indicators

Deloitte
United States Economic Forecast
2nd Quarter 2016

Housing

“Every year, thousands of young Americans abandon the nest, happy to leave home and start their own households. But more than usual stayed put during the recession: The number of households didn’t grow nearly enough to account for all the newly minted young adults. We expect those young adults would prefer to live on their own and create new households; as the economy recovers, they will likely do exactly that – as previous generations have.

This likely means some positive fundamentals for housing construction in the short run. Since 2008, the United States has been building fewer new housing units than the population would normally require; in fact, housing construction was hit so hard that the oversupply turned into an undersupply. But the hole isn’t as large as you might think. Several factors offset each other:

• If household size returns to mid-2000s levels, we would need an additional 3.2 million units.

• On the other hand, household vacancy rates are much higher than normal. Vacancy returning to normal would make available an additional 2.5 million units – which would fill 78 percent of the pent-up demand for housing units.

• But are the existing vacant houses in the right place or condition, or are they the right type, for that pent-up demand? The future of housing may look very different than in the past. Growth in new housing construction has been concentrated in multifamily units. If that continues, we may find it is related to young buyers’ growing reluctance to settle in existing single-family units.” – Dr. Daniel Bachman, Senior Manager, US Macroeconomics, Deloitte Services LP

Private Indicators

**Housing**

“In developing our housing forecast, we assumed that the demand for housing (in the form of the average household’s size decreasing) picks up in 2016, vacancy rates gradually drop, and household depreciation begins falling after new renters and buyers remove about 2.5 million housing units from the nation’s housing surplus. Slowing population growth suggests that we will have a short-lived housing boom in which starts hit the 1.3–1.4 million level, followed by a period of contraction until starts reach the level of long-run demand. We estimate this to be about 1.0 million units in the medium term. Housing will likely contribute to GDP growth in 2016 but subtract from GDP growth by 2018 as the pent-up demand goes away. In the long run, the slowing population suggests that housing will not be a growth sector (although specific segments, such as housing for elderly residents, might well be very strong).

Tight housing credit may be a key culprit in keeping individual purchases of single-family houses low, although there are some signs that credit is loosening. Young adults also seem to be showing a preference for living in urban rather than suburban communities. There may be some significant changes from the post–World War II model of single-family home ownership in store.” – Dr. Daniel Bachman, Senior Manager, US Macroeconomics, Deloitte Services LP

Private Indicators

Deloitte North American CFO Survey
CFO Signals™

What North America’s top finance executives are thinking—and doing
Less concern about capital markets; more concern about oil and politics
2nd Quarter 2016

Findings at a glance

“Perceptions
How do you regard the current and future status of the North American, Chinese, and European economies? Forty percent of CFOs describe the North American economy as good or very good (41% last quarter), and 39% expect better conditions in a year (up from 35% last quarter). Nine percent regard China’s economy as good (same as last quarter), and 10% expect improvement (down from 11%). Six percent describe Europe’s economy as good (up from 5%), and only 15% see it improving in a year (down from 17%). Page 8.

What is your perception of the capital markets? Fifty-six percent of CFOs say US equity markets are overvalued (up dramatically from 30% last quarter). Eighty percent say debt is currently an attractive financing option (up from 68%), and 30% of public company CFOs view equity.

Priorities
What is your company’s business focus for the next year? Companies are more biased toward growing revenue and investing cash (versus reducing costs and returning cash) than they have been in several quarters. The bias toward current markets over new ones continues, but it is less pronounced than last quarter’s survey high. Page 10.” – Sanford Cockrell, Greg Dickinson, and Ajit Kambil; Deloitte LLP

Private Indicators

Deloitte
Deloitte North American CFO Survey
CFO Signals™

What North America’s top finance executives are thinking—and doing
Less concern about capital markets; more concern about oil and politics
2nd Quarter 2016

Findings at a glance

“Expectations
Compared to the past 12 months, how do you expect your key operating metrics to change over the next 12 months? Revenue growth expectations rose from 3.3% to 4.0%, but are still among their survey lows. Earnings growth expectations rose to 7.7% from last quarter’s survey-low 6.0%. Capital spending expectations rebounded strongly from last quarter’s survey-low 1.7% to 5.4%. Domestic hiring growth expectations rose to 1.1% from last quarter’s survey-low 0.6%. Pages 11-13.

Sentiment
Compared to three months ago, how do you feel now about the financial prospects for your company? This quarter’s net optimism of +30 is up sharply from last quarter’s +1.7 and marks the fourteenth consecutive net-positive reading. Forty-nine percent of CFOs express rising optimism (up from 33% last quarter), and the proportion citing declining optimism fell from 31% to 19%. Page 14.

Overall, what external and internal risks worry you the most? CFOs indicate less concern about equity markets and consumer demand than they did last quarter, but rising worries about oil prices, the US economy, and the impact of US elections. Page 15.” – Sanford Cockrell, Greg Dickinson, and Ajit Kambil; Deloitte LLP
Private Indicators

CFO Signals™
Business Outlook Highlights | 2nd Quarter 2016?

Less concern about capital markets; more concern about oil and politics

CFOs' assessments of the current North American economy are about even with last quarter, though predictions for a year out rebounded slightly. But equity markets and consumer confidence have improved substantially, and this seems to have fueled a reversal in several of last quarter’s downward trends.

**Lingerin Economic Concerns Present Even Before “Brexit” Vote?**
- **40%** of surveyed CFOs describe North American conditions as good, and **39%** expect better conditions in a year.
- **6%** describe Europe’s economy as good, and **15%** see it improving in a year.
- **9%** regard China’s economy as good, but only **10%** expect improvement.

**Better (But Not Good) Expectations?**
- Revenue growth expectations up from 3.3% last quarter.
- Earnings growth expectations up from last quarter’s 6.0%.
- Capital spending growth expectations up from last quarter’s 1.7%.
- Domestic hiring growth expectations up from last quarter’s 0.8%.

**Sharp Rebound in CFOs’ Optimism Regarding Companies’ Prospects**
- Net optimism up 30.0%, a distinct reversal in sentiment from last quarter’s 1.7%.
- 49% of surveyed CFOs express rising optimism, compared to 33% in 1Q16.
- 19% of surveyed CFOs now cite declining optimism, falling from last quarter’s 31%.

Private Indicators

Summary of CFO sentiment and growth expectations

<table>
<thead>
<tr>
<th>Private Indicators</th>
<th>Development since 1Q16 survey²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy optimism – North America</td>
<td>China’s government announced 4.7 trillion renminbi (US$722.5 billion) in infrastructure projects over the next three years, sparking concerns about Chinese debt levels.</td>
</tr>
<tr>
<td>Economy optimism – Europe</td>
<td>British manufacturing indicated its sharpest decline in three years; economists and officials continued to debate the impact of a potential UK exit from the EU.</td>
</tr>
<tr>
<td>Economy optimism – China</td>
<td>US retail sales grow strongly in April, with the University of Michigan’s consumer sentiment index rising to its highest level since June 2015.</td>
</tr>
<tr>
<td>Own-company optimism (Net optimism)</td>
<td>The US Federal Reserve released meeting minutes containing expectations of better second quarter growth and two 2016 rate hikes (with the first taking place in June).</td>
</tr>
<tr>
<td>Revenue growth (YOY)</td>
<td>Oil prices approached $50/bbl; US inflation rose on higher energy prices, but remains low.</td>
</tr>
<tr>
<td>Earnings growth (YOY)</td>
<td>Donald Trump effectively secured the Republican Presidential nomination after his rivals dropped out; Hillary Clinton’s lead for the Democratic Presidential nomination expanded.</td>
</tr>
<tr>
<td>Capital investment growth (YOY)</td>
<td>US equity markets bounced back strongly between surveys. The S&amp;P 500 fell almost 8% between 4Q15 and 1Q16, but it bounced back nearly 10% between 1Q16 and 2Q16.</td>
</tr>
<tr>
<td>Domestic employment growth (YOY)</td>
<td></td>
</tr>
</tbody>
</table>

Key Charts: Expectations

CFOs’ expected year-over-year increases in key metrics

Consolidated expectations

CFOs’ expected year-over-year growth in key metrics (compared to the value of the S&P 500 index at the survey midpoint)
Private Indicators

Key Charts: Sentiment
Sentiment regarding the health of major economic zones, industries, and capital markets

Economic optimism
Average rating based on five-point scales for current state ("very bad" to "very good") and expected state one year from now ("much worse" to "much better")

<table>
<thead>
<tr>
<th>North America</th>
<th>Europe</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very good</td>
<td>Very good</td>
<td>Very good</td>
</tr>
<tr>
<td>Much better</td>
<td>Much better</td>
<td>Much better</td>
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<tr>
<td>Neutral</td>
<td>Neutral</td>
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<tr>
<td>Now</td>
<td>Same in a year</td>
<td>Same in a year</td>
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<tr>
<td>Very bad</td>
<td>Very bad</td>
<td>Very bad</td>
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<tr>
<td>Much worse</td>
<td>Much worse</td>
<td>Much worse</td>
</tr>
</tbody>
</table>

Own-company optimism
Difference between the percent of CFOs citing higher and lower optimism regarding their company’s prospects compared to the previous quarter

Net optimism

Equity market sentiment
Percent of CFOs saying US equity markets are "overvalued" or "very overvalued"; S&P 500 price at survey midpoint

Risk appetite
Percent of CFOs saying it is a good time to be taking greater risk

Private Indicators

May Construction Starts Rise 5 Percent

“At a seasonally adjusted annual rate of $636.7 billion, new construction starts in May increased 5% from April, according to Dodge Data & Analytics. Much of the growth came from the nonbuilding construction sector (public works and electric utilities….) Residential building edged up slightly in May, as multifamily housing bounced back from its subdued April performance. However, nonresidential building in May retreated, sliding for the second month in a row after the elevated activity reported in March. During the first five months of 2016, total construction starts on an unadjusted basis were $256.7 billion, down 12% from the same period a year ago.

The May statistics raised the Dodge Index to 135 (2000=100), up from 129 in April. The Dodge Index had shown moderate improvement during February and March, averaging 141, before slipping back in April.”

“The construction start statistics have shown annual increases since 2010, including a 10% gain in 2015, although the month-to-month pattern has been frequently uneven. This up-and-down behavior continues to be present in 2016, with May seeing a partial rebound after the setback in April. In addition, the year-to-date comparisons in early 2016 relative to last year have been complicated by the fact that the first half of 2015 witnessed elevated levels arising from a number of exceptionally large projects (defined as projects valued at $1 billion or more). There were considerably fewer such projects during the second half of 2015, and this lower base should enable the year-to-date comparisons to improve as 2016 proceeds. The environment for construction still carries a number of positives – long term interest rates remain low, commercial development is being financed from multiple sources, construction bond measures are being passed at the state level, and the new multiyear federal transportation bill is in place. On the cautionary side, bank lending standards for commercial real estate loans began to tighten during the second half of 2015, and this trend has continued into 2016.” – Robert Murray, Chief Economist, McGraw Hill Construction

“Residential building,” at $272.5 billion (annual rate), improved 1% in May. The multifamily side of the housing market provided the upward push, increasing 15%. There were eight multifamily projects valued at $100 million or more that reached groundbreaking in May, compared to five such projects in April. … Through the first five months of 2016, New York NY continued to be the leading metropolitan area in terms of the dollar amount of multifamily starts, followed by Miami FL, Chicago IL, Boston MA, and Los Angeles CA. Metropolitan areas ranked 6 through 10 during this period were San Francisco CA, Washington DC, Denver CO, Atlanta GA, and Dallas-Ft. Worth TX. Of these ten metropolitan areas, eight showed double-digit gains compared to a year ago, while two showed declines – New York NY, down 16%; and Washington DC, down 25%. Single family housing in May slipped 4%, not yet able to re-establish an upward trend in a sustainable manner despite continued low mortgage rates. By major region, single family housing in May showed this pattern compared to April – the Midwest, down 7%; the South Atlantic, down 6%; the West, down 4%; the South Central, no change, and the Northeast, up 3%.” – Robert Murray, Chief Economist, McGraw Hill Construction
U.S. Weekly Leading Index Ticked Down

“The U.S. Weekly Leading Index (WLI) ticked down to 136.4 from 136.5. The growth rate little changed at 7.1%. The U.S. economic slowdown is set to continue, as the latest WLI upturn is not sufficiently pronounced, pervasive and persistent— the three P’s— to qualify as a true cyclical upturn. Rather, it partly reflects the run-up in the markets as the early-2016 recession fears among the consensus faded, with the Fed backing off its rate hike plans, the dollar weakening, and some data beating significantly lowered expectations.” – Lakshamn Achuthan, Chief Operations Officer, ECRI

Source: https://www.businesscycle.com/ecri-news-events/news-details/economic-cycle-research-ecri-u-s-weekly-leading-index-ticked-down-1; 6/24/16
U.S. Gallup Good Jobs Rate Edges to New High in June

- Highest Gallup Good Jobs rate in six years of measurement
- Unemployment down to 5.3%, lowest in any June since 2010
- Workforce participation at 67.5%

“The Gallup Good Jobs (GGJ) rate in the U.S. was 46.0% in June. This is up nominally from May (45.5%) and stands as the highest monthly rate Gallup has recorded since measurement began in 2010. The current rate is also half a percentage point higher than in June 2015, suggesting an underlying increase in full-time work beyond seasonal changes in employment.” – Ben Ryan, Consultant Specialist, Gallup

Source: http://www.gallup.com/poll/193496/gallup-good-jobs-rate-edges-new-high-june.aspx; 7/2/16
U.S. Economic Confidence Index Steady in June at -14

- June's index average matched that of April and May
- Confidence higher in the first half of the month, fell in second half
- Economic outlook component remains lowest since November 2013

“Gallup's U.S. Economic Confidence Index averaged -14 in June, the same reading as in April and May. Confidence ticked slightly higher earlier in the month -- with the index averaging -12 each of the first two weeks -- but retreated near the end, with subsequent weekly readings of -15 and -17.

As economists ponder the long-term effect of the United Kingdom's decision on June 23 to exit the European Union, Gallup's June data show no immediate effect on Americans' confidence in the U.S. economy. The referendum did cause instantaneous turmoil in U.S. markets, which have since recovered, but the long-term effect of Brexit on the U.S. economy -- and by extension, Americans’ confidence in it -- is unclear.” – Justin McCarthy, Journalist/Analyst, Gallup
Private Indicators

June 2016 Manufacturing ISM® Report On Business®
PMI® at 53.2%

New Orders, Production and Employment Growing –
Inventories Contracting - Supplier Deliveries Slower

“Economic activity in the manufacturing sector expanded in June for the fourth consecutive month, while the overall economy grew for the 85th consecutive month, say the nation’s supply executives in the latest Manufacturing ISM® Report On Business®.

June PMI® = 53.2 percent, an increase of 1.9 percentage points from the May reading of 51.3 percent.

New Orders = 57 percent, an increase of 1.3 percentage points from the May reading of 55.7 percent.

Production = 54.7 percent, 2.1 percentage points higher than the May reading of 52.6 percent.

Employment = 50.4 percent, an increase of 1.2 percentage points from the May reading of 49.2 percent.

Inventories of raw materials = 48.5 percent, an increase of 3.5 percentage points from the May reading of 45 percent.

Prices = 60.5 percent, a decrease of 3 percentage points from the May reading of 63.5 percent, indicating higher raw materials prices for the fourth consecutive month.

Manufacturing registered growth in June for the fourth consecutive month, as 12 of our 18 industries reported an increase in new orders in June (down from 14 in May), and 12 of our 18 industries reported an increase in production in June (same as in May).” – Bradley Holcomb, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

Source: https://www.instituteforsupplymanagement.org/ismreport/mfgrab.cfm; 7/1/16
Manufacturing PMI edges up to a three-month high in June

- Renewed rise in production volumes
- Sharpest increase in new business since March
- Moderate expansion of payroll numbers

"U.S. manufacturers indicated a slight rebound in production volumes during June, helped by the fastest rise in new work since March. However, the latest survey signalled that growth momentum remained relatively subdued in comparison to its post-crisis trend, which contributed to cautious job hiring and further efforts to reduce inventories in June."

“The seasonally adjusted final Markit U.S. Manufacturing Purchasing Managers’ Index™ (PMI™) registered 51.3 in June, up from 50.7 in May and the highest reading for three months. The earlier ‘flash’ reading for June was 51.4. Higher levels of production, new orders and employment all helped to boost the headline index, while an accelerated fall in stocks of purchases was the only negative influence.

Although the manufacturing PMI ticked higher in June, the latest reading rounds off the worst quarter for goods producers for six years. The lacklustre performance of the manufacturing economy adds to signs from the flash services PMI surveys that the underlying pace of economic growth in the second quarter remained subdued after a disappointing start to the year.

Producers are struggling in the face of the strong dollar, the energy sector decline and presidential election jitters. With companies craving certainty, heightened tensions between the UK and the European Union are likely to unsettle the global business environment further in coming months, and therefore risk dampening growth in the US and export markets. "The data flow in the next two months will therefore be critical to policymakers in gauging the appropriate outlook for interest rates." – Chris Williamson, Chief Economist, Markit®
“June data highlighted a sustained rise in business activity across the U.S. service sector, helped by the fastest expansion of new work since the start of 2016. However, growth momentum remained weak in comparison to its post-crisis trend, which contributed to a slowdown in job creation for the third month running in June. Business expectations for the year ahead also continued to soften, with service providers indicating the lowest degree of optimism since the survey began in October 2009.

At 51.4 in June, up fractionally from 51.3 in May, the seasonally adjusted Markit U.S. Services Business Activity Index signalled a further marginal expansion of service sector output. On average over the second quarter of 2016, the headline index was up fractionally from the previous quarter (rising to 51.8 in Q2 from 51.4 in Q1). Survey respondents commented on generally improving client spending, but there were also reports that subdued business confidence and heightened economic uncertainty had acted as a brake on growth in June.” – Chris Williamson, Chief Economist, Markit®
"The final seasonally adjusted Markit U.S. Composite PMI™ Output Index registered 51.2 in June, unchanged from the earlier flash figure, to signal a further marginal expansion of private sector output. The latest reading was up from 50.9 in May but still well below the post-crisis average."

"Rebound, what rebound? The final PMI numbers confirm the earlier flash PMI signal that the pace of US economic growth remained subdued in the second quarter. While volatile official GDP numbers are widely expected to show a rebound from a lacklustre start to the year, the PMIs suggest the underlying malaise has not gone away. The surveys point to an annualized pace of economic growth of just 1% in the second quarter.” – Chris Williamson, Chief Economist, Markit®

Source: https://www.markiteconomics.com/Survey//PressRelease.mvc/bb8b2e3e686e48698948c7ac6ab4108; 7/6/16
“That nice little run of steady improvement in NACM’s Credit Managers’ Index seems to have come to an end, or at least it has stalled. Although there has been no collapse, as the overall numbers in June remained in the expansion zone, they are falling again. The combined reading for the CMI slipped from May’s 53.8 to 52.7, the lowest it has been since November’s 52.6. Since data have all been collected prior to the Brexit vote explosion, all eyes will be on the data coming in a month or so.”

“The dark clouds on the manufacturing horizon include a decline in the sales of new cars and the potential drop in export demand as the dollar gains a lot more strength against the pound and the euro. How this will all play out remains to be seen. Year-over-year numbers have not been encouraging of late. The service sector is leading that decline after some months of good news. The summer has not yet been a positive experience, and global issues are depressing the average business and consumer even more.” – Chris Kuehl, Ph.D, Economist, NACM

Source: http://web.nacm.org/CMI/PDF/CMIcurrent.pdf;6/29/16
Small Business Optimism Sees Third Month Of Modest Gains

“The Index of Small Business Optimism rose seven-tenths of a point in June to 94.5, a negligible increase showing no real enthusiasm for making capital outlays, increasing inventories, or expanding, according to the National Federation of Independent Business (NFIB).

At 94.5, the Index remains well below the 42-year average of 98. Four of the 10 Index components posted a gain, three declined, and three were unchanged.”

“The biggest increase was Expected Business Conditions, which rose four points, a good sign, but more owners still expect conditions to be worse than expect improvement. Owners are still reporting that they cannot find qualified workers and cite it as their third “Single Most Important Business Problem.” Job openings and capital spending plans both increased to “expansion” high readings, but remain historically low for a growth period. Weak capital spending remains one of the main causes for slow GDP growth. And the political climate continues to be the second most frequently cited reason for why owners think the current period is a bad time to expand.”

“Small business optimism did not go down, which is good, but small businesses are in maintenance mode experiencing little growth. Uncertainty is high, expectations for better business conditions are low, and future business investments look weak. Our data indicate that there will be no surge from the small business sector anytime soon and prospects for economic growth are cloudy at best.” – William Dunkelberg, Chief Economist, National Federation of Independent Business

Source: http://www.nfib.com/assets/SBET-June-2016.pdf; 8/12/16
“The housing sector continues to turn in a strong price performance with the S&P/Case-Shiller National Index rising at a 5% or greater annual rate for six consecutive months. The home price increases reflect the low unemployment rate, low mortgage interest rates, and consumers’ generally positive outlook. One result is that an increasing number of cities have surpassed the high prices seen before the Great Recession. Currently, seven cities – Denver, Dallas, Portland OR, San Francisco, Seattle, Charlotte, and Boston – are setting new highs. However, the outlook is not without a lot of uncertainty and some risk. Last week’s vote by Great Britain to leave the European Union is the most recent political concern while the U.S. elections in the fall raise uncertainty and will distract home buyers and investors in the coming months.” – David Blitzer, Managing Director and Chairman of the Index Committee, S&P Dow Jones

“You are going to see tepid GDP growth ... (and) the odds of a recession occurring are higher.” – Bill Phelan, president of PayNet

“U.S. GDP probably rebounded in the second quarter after two tepid prior quarters, buoyed by consumer spending, estimates show. But slowing momentum in the labor market, and tighter financial conditions after the Brexit vote, have convinced many traders that the Federal Reserve will keep policy on hold for many months to come. Small business borrowing is a key barometer of growth because little firms tend to do much of the hiring that drives economic gains.” – Ann Saphir, PayNet

Source: http://www.reuters.com/article/usa-economy-lending-idUSL1N19L1K4/; 6/30/16
Politics Heightens Uncertainty, but Outlook Mostly Unchanged

“Global output growth (excluding the U.S.) ticked up to 2.6 percent year over year in the first quarter (Chart 1). The outlook remains broadly unchanged, with a slow expansion expected over the next two years. Emerging-market growth increased to 4.2 percent despite Brazil’s continued deep recession and China’s slowdown. Advanced economies (excluding the U.S.) grew 1.3 percent due to slow but stable expansion in the euro area, increased economic activity in Canada and weak growth in Japan.

Global risks include low inflation in advanced economies and uncertainty surrounding the upcoming U.K. referendum to decide whether to exit the European Union (Brexit).” – Valerie Grossman, Senior Research Analyst, The Federal Reserve Bank of Dallas.
Caixin China General Manufacturing PMI™

PMI sinks to four-month low at end of second quarter

“Chinese manufacturers reported the sharpest deterioration in operating conditions for four months in June, with output falling at the quickest rate since February amid a further drop in new work. Consequently, companies continued to pare back their staff numbers at a solid pace, while trimming their inventory holdings of inputs and finished goods further. Prices data indicated a renewed fall in cost burdens faced by Chinese goods producers, while output charges were left broadly unchanged after a three-month sequence of inflation.”

- June data signals faster contractions of output and new orders
- Further solid reduction in staff numbers
- Renewed fall in average input costs

“The Caixin China General Manufacturing PMI for June came in at 48.6, down 0.6 points from the May reading. It was the index’s third monthly decline in a row, and marked the steepest deterioration in manufacturing sector conditions since February. The index’s output category recorded the sharpest decline in four months, with new orders dipping further into contraction. Overall, economic conditions in the second quarter were considerably weaker than in the first quarter, which means there has been no easing of the downward pressure on growth. Against the backdrop of a turbulent external environment, and in order to avert a sharp economic decline, the government must strengthen its proactive fiscal policy while continuing to follow prudent monetary policy.” – Dr. He Fan, Chief Economist, Caixin Insight Group

Source: https://www.markiteconomics.com/Survey//PressRelease.mvc/2f42a97a9d79446f80212705b32854d0; 7/1/16
Markit Eurozone PMI®

Eurozone second quarter growth weakest since end of 2014

- Final Eurozone Composite Output Index: 53.1 (Flash 52.8, May 53.1)
- Final Eurozone Services Business Activity Index: 52.8 (Flash 52.4, May 53.3)

“... After rising slightly from the earlier flash estimate of 52.8, the final Markit Eurozone PMI® Composite Output Index posted 53.1, unchanged from May.”

“June saw the growth rate of eurozone economic output hold steady at a moderate pace. After rising slightly from the earlier flash estimate of 52.8, the final Markit Eurozone PMI® Composite Output Index posted 53.1, unchanged from May.

This left the average reading for the headline index for the second quarter a shade below that for the opening quarter (53.1 versus 53.2) and at its lowest level since the final quarter of 2014.

The eurozone economy failed to gain momentum in June, rounding off a disappointing second quarter. Faster manufacturing growth was countered by a slowdown in the service sector, leaving the overall pace of expansion of business activity unchanged since May.

The survey is signalling GDP growth of just 0.3%, similar to the sluggish trend recorded over the past year. The data suggest that the strong upturn seen in the official GDP data at the start of the year will have overstated the underlying health of the economy, and that growth will have slowed in the second quarter.” – Chris Williamson, Chief Economist, Markit®
Markit Eurozone PMI
Eurozone industrial production drop adds to signs of second quarter slowdown

“Euro area factories saw output fall in May in a further sign of the single currency area failing to maintain growth momentum this year. The disappointing data follow survey evidence showing business optimism in the currency bloc sliding to the lowest since 2014 as political uncertainty intensified in June”

“Industrial production has now fallen in five of the past seven months, with the three-month trend rate – a better guide to underlying trends than the volatile monthly data – slipping to the weakest since August 2014.

A 1.2% drop in industrial production in May reversed much of the 1.4% rise seen in April, leaving output running 0.4% lower so far in the second quarter compared with the first quarter. The potential contraction of the industrial sector in the second quarter therefore means the economy is likely to struggle to see anything like the 0.6% expansion of GDP recorded in the opening three months of the year.

An upturn is signalled for June, with Markit’s Eurozone PMI pointing to a modest revival in the rate of factory output growth to the strongest seen so far this year, which suggests May’s fall in production may overstate the current weakness of the industrial sector. But the business outlook has since deteriorated, in part due to uncertainty created by the UK’s EU referendum.” – Chris Williamson, Chief Economist, Markit®
The JPMorgan Global PMI™, compiled by Markit from its worldwide business surveys, held steady at 51.1 in June, rounding off the weakest quarter since the fourth quarter of 2012.

“The JPMorgan Global PMI™, compiled by Markit from its worldwide business surveys, held steady at 51.1 in June, rounding off the weakest quarter since the fourth quarter of 2012.”

“The data point to global GDP rising at market prices at an annual rate of just 1.5%, below the long-run average of 2.3%. Emerging markets remained in an overall state of stagnation, continuing the trend seen over much of the past year. Developed world growth meanwhile slipped to the second-lowest in just over three years, maintaining the sluggish growth profile seen since February.

The PMI surveys again showed the lack of any global growth drivers in June. Rising political uncertainty has played a key role in subduing rates of expansion in the US and UK compared to earlier in the year, the latter hit in particular by uncertainty regarding the country’s EU referendum. A struggling recovery in the eurozone and renewed downturn in Japan meanwhile coincided with an ongoing near-stagnation of the emerging markets. Brighter news came out of Russia and Brazil, however, where stronger growth and a slower rate of decline were seen respectively.” – Chris Williamson, Chief Economist, Markit®
Home Ownership

Freddie Mac
Will the homeownership rate fall below 50 percent?

“We have been saying 2016 will be the best year for housing in a decade. This month's forecast continues on that same theme with home sales and national house prices projected to reach their highest levels since 2006. Despite a generally weak economy, we expect housing to be an engine of growth. Residential investment will directly boost growth, and higher home equity will bolster consumer confidence, which should lead to higher consumer expenditures.

Yet even if our forecasts are met or exceeded, the outlook for homeownership is mixed. The national homeownership rate declined precipitously over the past decade. After reaching a peak of 69 percent the homeownership rate has plummeted, falling to a 40-year low a few quarters ago and remaining below 64 percent for the past several quarters. Looking ahead many analysts expect to see the homeownership rate fall even further.” – Sean Beckett, Chief Economist; Leonard Kiefer, Deputy Chief Economist; Penka Trentcheva, Statistician; Travell Williams, Statistician; and Genaro Villa, Financial Analyst, Economic & Housing Research Group, Freddie Mac

Source: http://www.freddiemac.com/finance/report/20160628_will_homeownership_rate_fall.html; 6/28/16
Home Ownership

Freddie Mac: Will the homeownership rate fall below 50 percent?

“But how far? Could the homeownership rate fall below 50 percent?

Most analysts do not expect the U.S. homeownership rate to fall below 50 percent, but there are a range of plausible scenarios where that could happen. Recently, in a series of provocative articles¹,²,³,⁴, several prominent housing economists analyzed whether the U.S. homeownership rate would fall below 50 percent by 2050. They agreed that a 20 percentage point decline in the homeownership rate was not the most likely scenario, but a variety of factors could made that scenario plausible.

The focal point of the discussion was if the homeownership rate could fall — if at all — as much as 20 percentage points. Acolin, Goodman, and Wachter believe it is plausible in a market where rents and house prices increase somewhat faster than inflation. The paper points to California as a representative of what the nation could become.

Ultimately, Acolin, Goodman, and Wachter conclude the long term outlook is the home-ownership rate will continue to decrease. Some experts agreed with the qualitative outcome but differed on the severity and emphasized different drivers. Nelson (2016) believes that home-ownership rates will continue to decrease, and the current trends driving down home-ownership will be difficult to reverse. Similarly, Myers and Lee (2016) believe the effects of the Great Recession will echo forward for decades driving down home-ownership. However, they believe a major decrease in home-ownership is unlikely. Myers and Lee state that a major cataclysmic event such as a 35-year perpetual recession would be necessary for a 20 percentage point decrease.

Haurin (2016) contends that a 20 percent decrease in homeownership is unlikely. Haurin does acknowledge that homeownership may experience another one to two-point decrease by 2020, but suggests that a gradual increase should occur after 2020, countering the decline debate. He explains that a 20 percent decline would require a combination of plunging rents, surging user costs of ownership (e.g. higher house prices and/or mortgage rates), and adverse demographic changes, all of which Haurin argues are unlikely to occur. Furthermore, he contends that in about a decade, potential homeowners will have adjusted to the need for higher credit and larger down payments.” – Beckett et al., Economic & Housing Research Group, Freddie Mac

Source: http://www.freddiemac.com/finance/report/20160628_will_homeownership_rate_fall.html; 6/28/16
## Home Ownership

### Drivers of homeownership

<table>
<thead>
<tr>
<th>Factor</th>
<th>Acolin et al</th>
<th>Nelson</th>
<th>Meyers, Lee</th>
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<tbody>
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<td>Limited income growth</td>
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<td>✓</td>
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<tr>
<td>Constrained credit</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>Higher rent and housing costs</td>
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<td>Less confident in wealth attainment via homeownership</td>
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<td>Desired mobility</td>
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Home Ownership

Freddie Mac: Will the homeownership rate fall below 50 percent?

Factors driving the homeownership rate

“Income growth
Median household income growth has been weak throughout the economic recovery. In 2014, after adjusting for inflation, real median household income in the United States is at about the same level as in 1996. Lack of income growth hinders homeownership by constraining homebuyer affordability.

Higher rents and housing costs
Housing cost burdens continue to increase. The Joint Center for Housing Studies' State of the Nation's Housing has documented the rapid increase in housing cost burdens, particularly for renter-households. High renter-cost burdens make it difficult for prospective homebuyers to save up for a down payment and other expenses related to a home purchase. High home prices make the entry point into homeownership difficult for prospective home buyers.

High student loan debt
As documented by the New York Federal Reserve Bank of New York and others, outstanding student debt burdens have risen substantially. The evidence on how much student debt has hindered homeownership has been mixed, but certainly rising debt burdens are a major issue, and rising debt burdens could weigh on the homeownership rate.” – Becketti et al., Economic & Housing Research Group, Freddie Mac

Source: http://www.freddiemac.com/finance/report/20160628_will_homeownership_rate_fall.html; 6/28/16
Home Ownership

Freddie Mac: Will the homeownership rate fall below 50 percent?

Factors driving the homeownership rate

“Constrained credit

Credit conditions have tightened over the past decade, reducing access to credit. Last decade households could attain a mortgage with weak credit, little to no money down, and without documenting income. For good reasons, credit conditions have tightened following the Great Recession. However, most believe credit conditions have swung too far in the other direction. Moreover, new regulations have increased the cost of originating a mortgage from $4,700 in 2008 to $7,000 in 2015 according the Mortgage Banker Association's Annual Mortgage Bankers Performance Report.

Higher origination and servicing costs have left many lenders cautious about lending to only those with pristine credit scores. Another concern among lenders has been mortgage repurchases – a last resort if a quality control review finds a mortgage didn't meet Freddie Mac's underwriting requirements at the time of sale. However, one of the industry's best-kept secrets is the steady decline in mortgage repurchase activity, at least for the mortgages Freddie Mac buys. The number of loans Freddie Mac has required seller/servicers to repurchase has come down dramatically over the last four years. Completed repurchases have dropped from a peak of $4.2 billion in 2010 to about $400 million in 2015, a 95% drop. This downward repurchase trend is good for seller/servicers, Freddie Mac and taxpayers. It's also good for borrowers. When seller/servicers sell Freddie Mac loans with greater certainty, they are more likely to make loans that take advantage of the full extent of our credit box, and thereby increasing access to credit.” – Becketti et al., Economic & Housing Research Group, Freddie Mac

Source: http://www.freddiemac.com/finance/report/20160628_will_homeownership_rate_fall.html; 6/28/16
Home Ownership

Freddie Mac: Will the homeownership rate fall below 50 percent?

Factors driving the homeownership rate

“Loss of confidence in wealth attainment via homeownership

Traditionally, homeownership has been viewed as an important channel for wealth attainment for many households, particularly low-income households. Following the Great Recession that perception might have changed. If households do not view homeownership as a means to wealth attainment, then the desirability of homeownership will be reduced, particularly in the face of:

Desired mobility

Because of the high transaction costs involved with buying a selling a home, desired mobility will decrease the desirability of homeownership. The Millennial generation has been more likely to move into urban areas than earlier generations were. Also, Millennials have tended to marry later and have children later.

Age cohort momentum

Housing analysts have known for a long time that cohort momentum is important in understanding homeownership. Cohorts who come of age during a recession carry the effects of the recession throughout the rest of their lives and may only gradually — if ever — see their cohort homeownership rates match that of more fortunate cohorts who came of age in an economic expansion. Looking ahead to the evolution of the homeownership rate, cohort effects are likely to be a major contributor to housing market dynamics.” – Beckett et al., Economic & Housing Research Group, Freddie Mac

Source: http://www.freddiemac.com/finance/report/20160628_will_homeownership_rate_fall.html; 6/28/16
Home Ownership

Freddie Mac: Will the homeownership rate fall below 50 percent?

Factors driving the homeownership rate

“Change in demographic composition

The shifting demographic composition of the U.S. will have profound impacts on the homeownership rate. The U.S. population is becoming more diverse, with proportionally fewer Non-Hispanic White households who have traditionally had a higher homeownership rate than other ethnic and racial groups. The extent to which minority households close the homeownership gap will have a major impact on the future of the homeownership rate.

Multigenerational housing

Due to rising cost burdens, an aging population, and the demographic shift in the ethnic and racial composition of U.S. households, multigenerational housing may rise in importance. A record number of young adults are now living at home with parents; living at home with parents is the most common living arrangement for 18- to 34-year olds. If these living arrangement persists, homeownership rates could suffer. Our recent research on the attitudes of homeowners and renters ages 55+ sheds some light on likely trends in multigenerational housing. According to our research, only 4 percent of homeowners say it is very likely, and 8 percent say it is somewhat likely, to have an adult child move in with them in the next five years.

One or more of these factors were explicitly considered by the researchers projecting the homeownership rate.” – Becketti et al., Economic & Housing Research Group, Freddie Mac

Source: http://www.freddiemac.com/finance/report/20160628_will_homeownership_rate_fall.html; 6/28/16
Home Ownership

Comparative Homeownership Projections

<table>
<thead>
<tr>
<th>Year</th>
<th>Acokin, Goodman, Wachter (Scenario*)</th>
<th>Acokin, Goodman, Wachter (Baseline)</th>
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<th>Nelson</th>
<th>Haurin</th>
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<td>61.0</td>
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<td>60.7-62.7</td>
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<td>66.0-68.0</td>
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</tbody>
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*Based on slow California scenario

Freddie Mac

Will the homeownership rate fall below 50 percent?

“As seen above, there are widely varying opinions for the future of homeownership rate. This is largely because the projection of homeownership rates requires making predictions about the effects of many uncertain parameters. The wide variations in plausible scenarios make it difficult to say with much confidence how the homeownership rate will evolve. We're presently conducting our own research into the factors that will drive the homeownership rate. In future articles, we plan to weigh in with additional details on how these factors might affect homeownership and the future of the housing market.” – Becketti et al., Economic & Housing Research Group, Freddie Mac
Increased Living with Parents among 18-34 Year Olds and the Implications for Future Housing Demand

“… one might conclude that as long as the rate of young adults living with their parents remains high, household growth will continue to be depressed. But even as the rate of adults living with parents continues to grow, the Census Bureau’s Housing Vacancy Survey also reported that household growth again increased in 2015 and has been accelerating since 2012. If young adults — who are responsible for the majority of new household formation — are still living with parents at ever higher rates, how is it that household growth is picking up? The answer lies in the shifting age distribution of millennials, who have now begun to exit the time of life where living with parents is most common and enter older ages where living with parents is less common. With this shift, we can maintain today’s higher levels of living with parents among young adults and still have an acceleration of household growth.

The 18-34 year old age group is also a very wide grouping for looking at living with parents, as the rate drops sharply across these ages. Rates start at 50 percent among adults age 20-24 and drop down to 15 percent for adults age 30-34 (Figure 1). This pattern basically mirrors the growth in headship rates (rates of being the head of an independent household) that rise most steeply for adults in their 20s.

In addition to being higher, rates of living with parents have also increased much more for the younger set of adults aged 18-34 (Figure 2). According to tabs of the ACS, rates of living with parents in 2008-2014 grew most for 20-24 and 25-29 year olds, each up by roughly 6 percentage points. Increases taper off with age from there, dropping to 4 percentage points for those age 30-34 and 2.5 percentage points for the age 35-39 year old age group. Similarly, household headship rates dropped most for the younger age groups under age 30 and less for those older than age 30.” – Daniel McCue, Senior Research Associate, Joint Center for Housing Studies at Harvard
Demographics

Figure 1: Rates of Living with Parents Drop Precipitously within the 18-34 Year Old Age Group, Mirroring Growth in Living as Head of Household


Figure 2: Recent Changes in Rates of Household Headship and Living with Parents by Age Group

Increased Living with Parents among 18-34 Year Olds and the Implications for Future Housing Demand

Over the next 10 years, the aging of the millennial generation will shift the bulk of population growth from the 20-24 and 25-29 year old age groups to the 30-34, 35-39, and 40-44 year old age groups (Figure 3). At these older age groups, changes in rates of living with parents and overall household headship have been much more moderate and remain closer to recent historical levels. This all suggests that future expected population growth in the 30-44 year old age groups will translate more directly into household growth over the next decade, even if living with parents continues to remain high for 20-somethings. The pick-up in annual household growth levels since 2012 as reported by the Housing Vacancy Survey is a sign that this has begun.” – Daniel McCue, Senior Research Associate, Joint Center for Housing Studies at Harvard
Urban Legends: Baby Boomer Mass Migration, Fact or Fiction?

Just as millennials were painted with a broad urban brush, so too now are baby boomers: But is this “trend” for real?

“… For a few years now, we’ve heard that the nation’s second-largest generation [Baby Boomers] is preparing to downsize all the way from a white picket fence to a luxury box in the sky. And the new-construction pipeline in many urban areas – so heavily concentrated in Class A luxury – reflects this leap of faith.

Our brethren in the single-family world are in a similar situation, as the costs of land, labor, and materials – especially labor – likewise force many home builders to aim at a wealthier clientele.

But here’s the question that should concern any developer or financier banking on this trend: Where is the evidence of this long-term mass boomer urban migration?

Census figures paint a much more nuanced picture than headlines will allow. The 2014 American Community Survey data show exurbs and suburbs to be growing at a faster pace, while domestic net migration trends show a shrinking “urban core” across all demographics.

In fact, since 2010, the senior population in core cities has risen by a paltry 621,000 compared with the suburbs, where the senior population has spiked by 2.6 million, according to demographer Joel Kotkin in an analysis of Census data.” – Jerry Ascierto, Editor at Large, Residential Construction Group at Hanley Wood
Demographics

Urban residents are moving away again

Domestic net migration measures people who change homes within the U.S. from one year to the next. After the housing bust, fewer people were leaving cities, but now that trend is reversing.

Counts in metro areas with 500,000 people or more are categorized.

Source: http://www.multifamilyexecutive.com/business-finance/commentary/urban-legends-baby-boomer-mass-migration-fact-or-fiction_0; 6/8/16
More older Americans are working, and working more, than they used to

“More older Americans – those ages 65 and older – are working than at any time since the turn of the century, and today’s older workers are spending more time on the job than did their peers in previous years, according to a new Pew Research Center analysis of employment data from the federal Bureau of Labor Statistics.” – Drew DeSilver, Senior Writer, Pew Research Center

Source: http://www.pewresearch.org/fact-tank/2016/06/20/more-older-americans-are-working-and-working-more-than-they-used-to/; 6/20/16
More older Americans are working, and working more, than they used to

“In May, 18.8% of Americans ages 65 and older, or nearly 9 million people, reported being employed full- or part-time, continuing a steady increase that dates to at least 2000 (which is as far back as we took our analysis). In May of that year, just 12.8% of 65-and-older Americans, or about 4 million people, said they were working.

Not only are more older Americans working, more of them are working full-time. In May 2000, 46.1% of workers ages 65 and older were working fewer than 35 hours a week (the BLS’ cutoff for full-time status). The part-time share has fallen steadily, so that by last month only 36.1% of 65-and-older workers were part-time.

The share of both older men and older women who are working has grown over time, but working during what are commonly thought of as retirement years remains a largely male phenomenon: Although less than 45% of the total 65-and-older population are men, they represent more than 55% of older workers. Older Asians (20.2%) and whites (19%) are somewhat more likely to be working than older blacks (16.7%).

Older Americans work in the various sectors of the U.S. economy in broadly similar patterns as the workforce as a whole, with a few notable exceptions. For instance, they’re less likely to work in the accommodations/food service sector (only 3.4% did so last year, versus 7.1% of all workers). And older workers are more likely to be in management, legal and community/social service occupations than the overall workforce, and less likely to be in computer and mathematical, food preparation, and construction-related occupations.” – Drew DeSilver, Senior Writer, Pew Research Center

Source: http://www.pewresearch.org/fact-tank/2016/06/20/more-older-americans-are-working-and-working-more-than-they-used-to/; 6/20/16
55+ Renters: A Tale of Growing Demand

“Much of the conversation regarding affordable rental housing tends to focus on younger households – in particular, Millennials. However recent findings from our first Freddie Mac 55+ Survey suggest that shifting housing choices by the Baby Boomers and those older may significantly exacerbate the already acute shortage of affordable housing in the years to come.

… we learned that an estimated 6 million homeowners and nearly as many renters prefer to move again and rent at some point. Of those homeowners and renters that expect to move again, over 5 million indicate they are likely to rent by 2020.

We believe these numbers may be understated as both homeowners and renters tend to overestimate their ability to age in place. For example, among those not retired, 56 percent of homeowners and 34 percent of renters predict they will age in place in retirement. However, of those already retired, only 12 percent of homeowners and 7 percent of renters are currently aging in place.” – David Brickman, EVP Multifamily Business, Freddie Mac
Demographics

55+ Renters: A Tale of Growing Demand

“They value affordability in the decision to move. Sixty percent of 55+ renters cite affordability as "very important" in deciding whether to move and where to live. This is not surprising when nearly half of the current 55+ renter population is struggling financially. Specifically, 47 percent of 55+ renters live payday to payday and 13 percent say they sometimes can't afford basics like food and housing, until their next paycheck.

They plan to rent versus buying their next home. Among those 55+ renters who plan to move again, 71 percent plan to rent their next home. Some of these households are making a renter-by-choice decision as 38 percent of all 55+ respondents say they have enough extra money to go beyond each payday including for savings. Further, more than half (59 percent) think it makes financial sense for people their age to be renters. This view is held by 67 percent of multifamily renters.

They don't want to move far. Ideally, 55+ renters who plan to move again would like to relocate to a different neighborhood in the same city (31 percent) or a different property in the same neighborhood (23 percent) compared to those who would like to move to a different city (18 percent) or a different state (24 percent).

They want family near (or in) their next home. When asked to predict their retirement housing situation, nearly six out of 10 55+ renters say they prefer to either move closer to their families or in with them. Hispanic single-family renters (44 percent) were most likely to predict they will move closer to family, while multifamily Asian-American renters (40 percent) were most likely to predict they will move in with their children.” – David Brickman, EVP Multifamily Business, Freddie Mac

Demographics

Population Trends by Race and Hispanic Origin: 2010 to 2015

“The U.S. population grew by 12.1 million between 2010 and 2015, according to the Census Bureau. Non-Hispanic Whites accounted for just 5 percent of the gain, and the nation's minorities accounted for the other 95 percent. In 2015, the minority share of the population climbed to 38.4 percent, up from 36.2 percent in 2010. Here are the 2015 estimates by race and Hispanic origin...

Total population: 321,418,820
The U.S. population grew by 3.9 percent between 2010 and 2015, a gain of 12.1 million.

Non-Hispanic Whites: 197,970,812 (61.6%)
The non-Hispanic White population grew by a minuscule 0.3 percent between 2010 and 2015, a gain of only 583,195. The non-Hispanic White share of the population fell from 63.8 to 61.6 percent during those years.

Hispanics: 56,592,793 (17.6%)
The Hispanic population grew by 11.5 percent between 2010 and 2015, a gain of 5.8 million. Hispanics accounted for 48 percent of the nation's population growth between 2010 and 2015.

Blacks (alone or in combination): 46,282,080 (14.4%)
The Black population grew by 7.1 percent between 2010 and 2015, a gain of 3.1 million.

Asians (alone or in combination): 20,994,374 (6.5%)
The Asian population grew by 18.8 percent between 2010 and 2015, a gain of 3.3 million.” – Cheryl Russell, Demographer and Editorial Director, New Strategist Press

Source: http://demomemo.blogspot.com/; 6/28/16
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