



**The Economy in 2015:
Presentation to the Construction
Financial Management Association
of Central Ohio**

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Economy Trends

- Modest acceleration in economic growth as long as fiscal headwinds, euro zone crisis and geopolitical stresses remain contained
- Highly accommodative monetary policy expected to provide plentiful support worldwide
- U.S. consumer gradually improving on stronger finances and job growth. Business balance sheets are healthy, but risk appetite is cautious.
- Housing recovery expected to continue. Exports likely to pick up.
- Inflation and market interest rates expected to trend upwards but volatility likely to remain high

Factors driving the economy

Positives:

- Low interest rates / plentiful liquidity + QE3
- Improving consumer finances help release pent-up demand
- Export growth this year and in long-term
- Business spending on equipment strong during cycle
 - Solid aggregate profits and cash flows
- Inventory levels lean
- Strong manufacturing resurgence in long-term
- Recovering housing markets
- Energy Boom

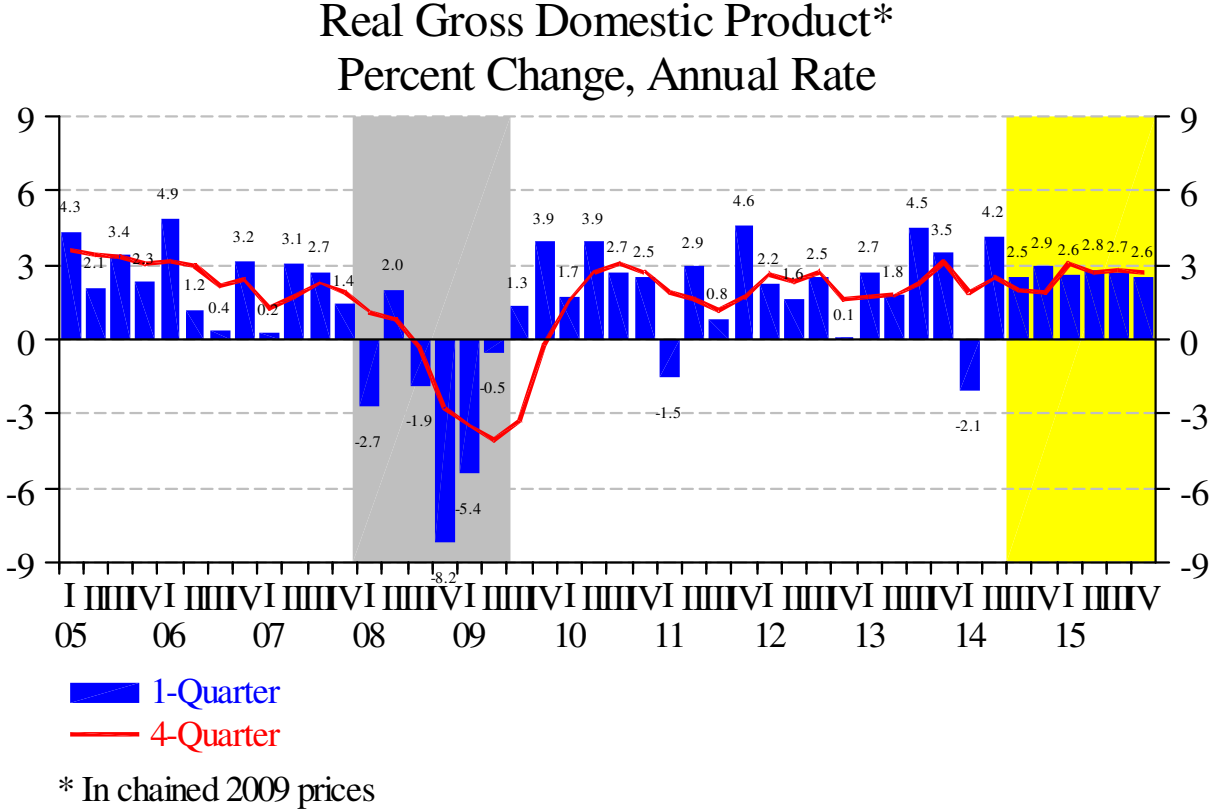
Negatives:

- U.S. federal debt concerns and fiscal uncertainties
- Higher taxes & regulation
- Euro-zone sovereign debt danger
- Slow real disposable personal income growth
- State and local fiscal woes
- Risks in global economies
- Long-term inflation risks
- Geo-political risks
- Prices for energy and other commodities

Swing:

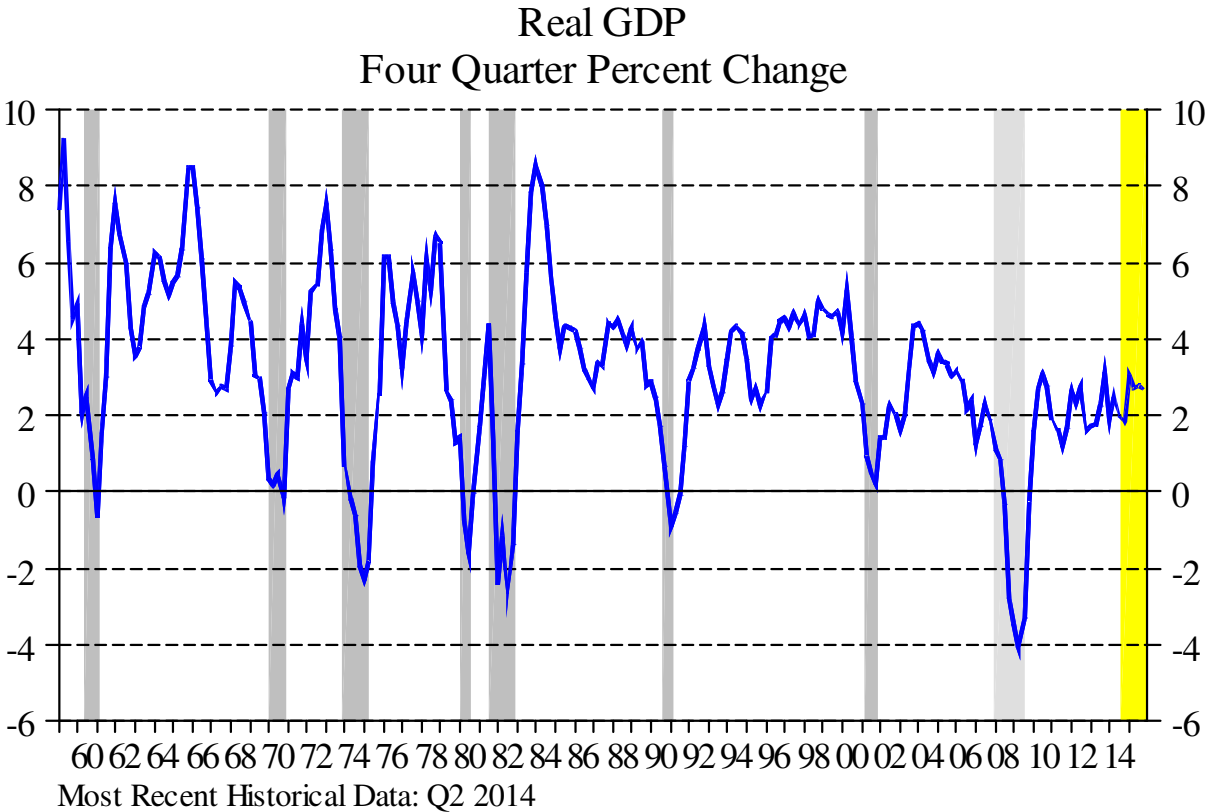
- Confidence

Gradually accelerating growth forecast: 2.1% in 2014, 2.7% in 2015



Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.

Slow growth relative to previous economic cycles

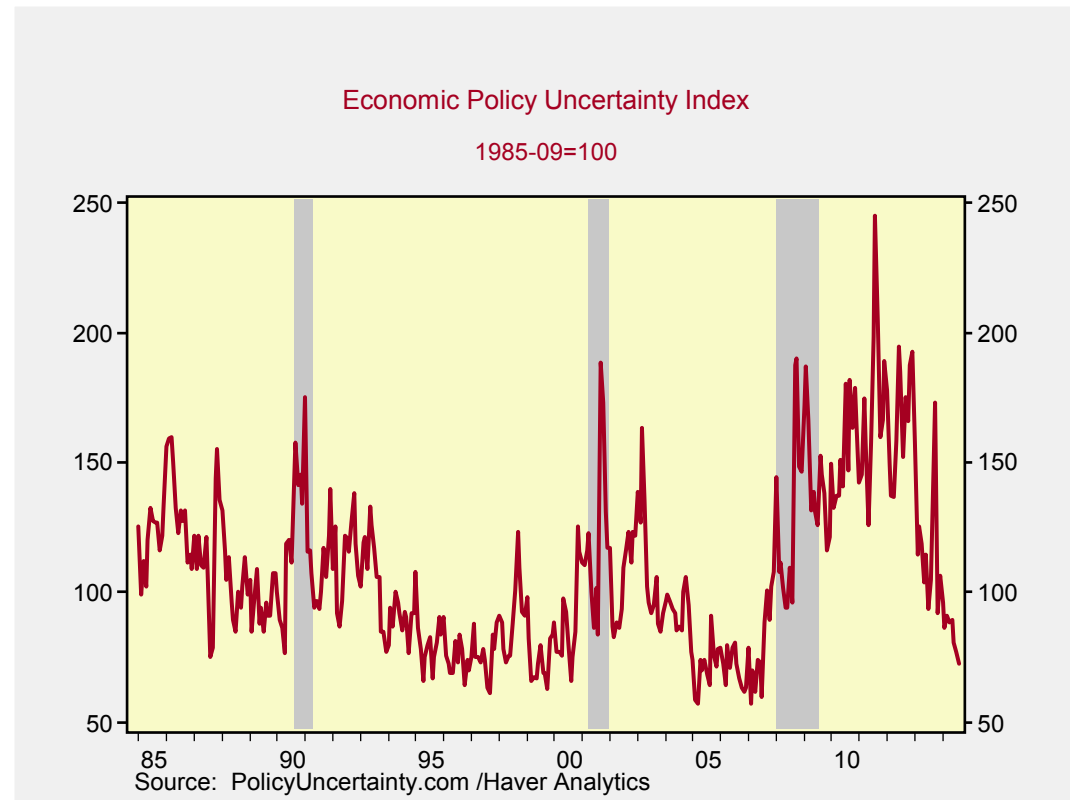


Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.

Economic policy uncertainty has probably weighed on economic growth, but has declined in the last year

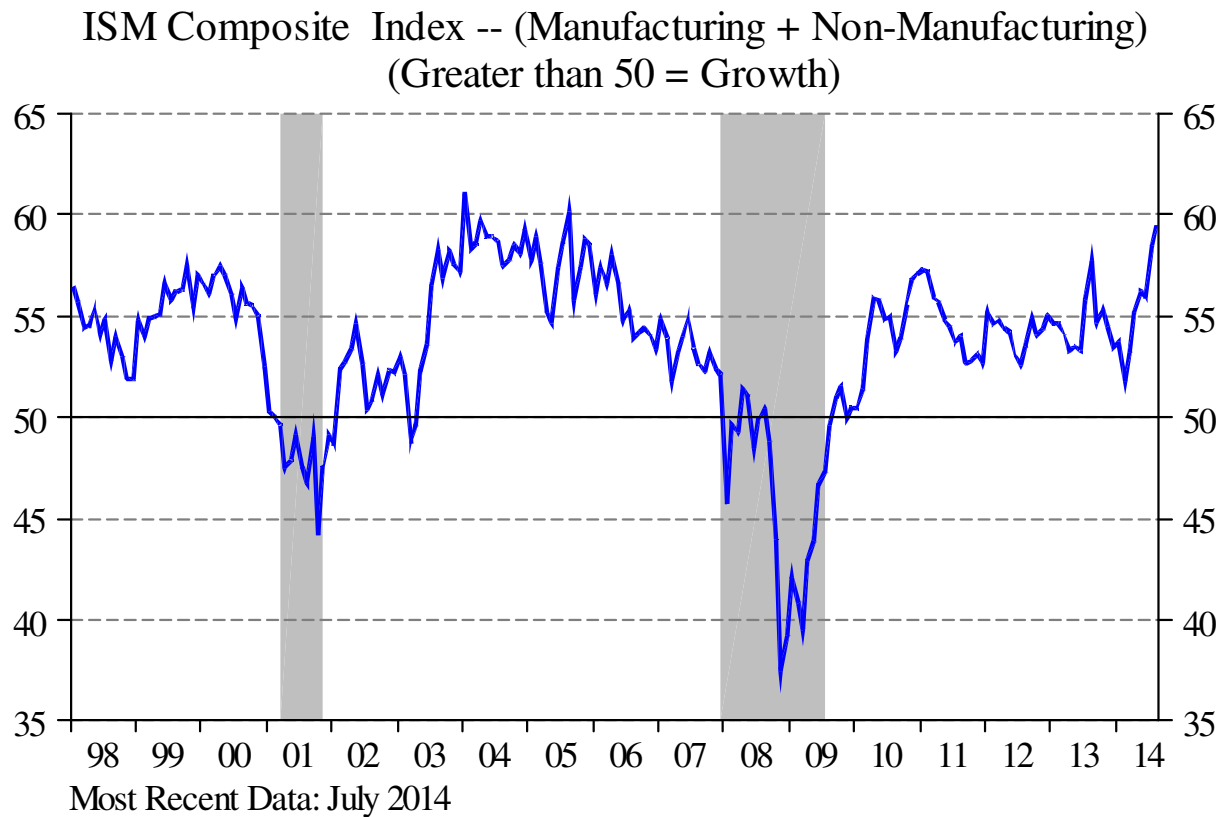
The monthly economic policy uncertainty index is made up of three components which measure economic policy uncertainty:

1. the frequency of references to economic uncertainty and policy in the Google news media catalog,
2. the number of Federal tax code provisions set to expire in future years, and
3. the extent of disagreement among economic forecasters over future Federal government purchases and the future CPI price level.



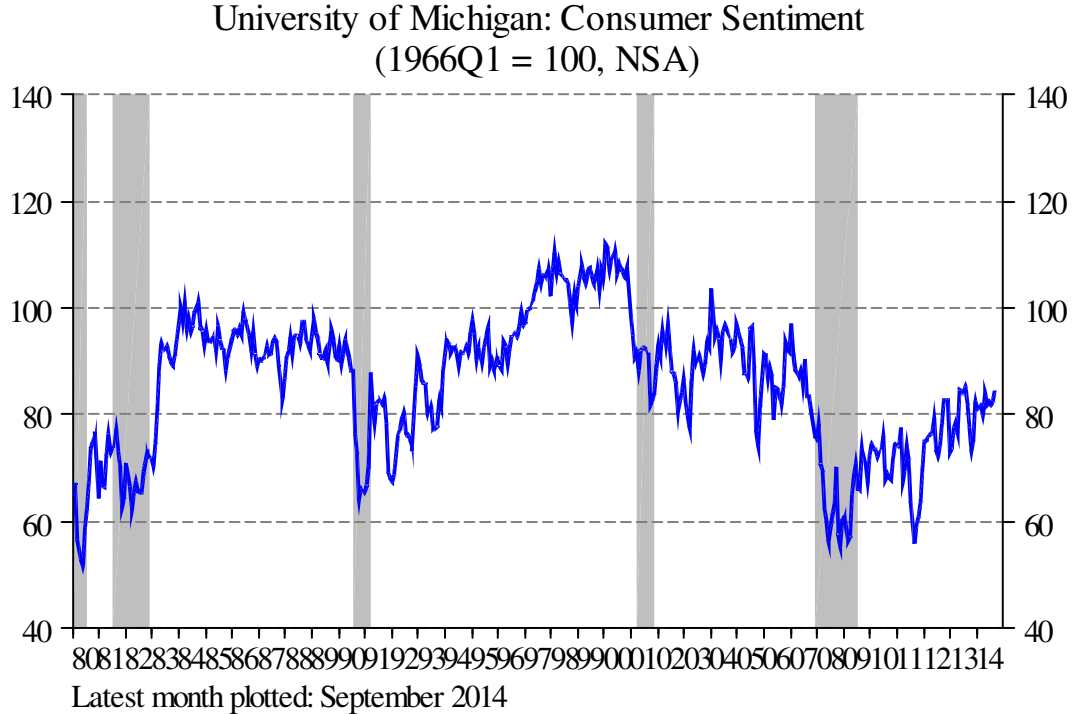
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Economic activity highest since 2005 according to ISM survey of businesses



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Consumer Confidence has been low, but on a gradually rising trend



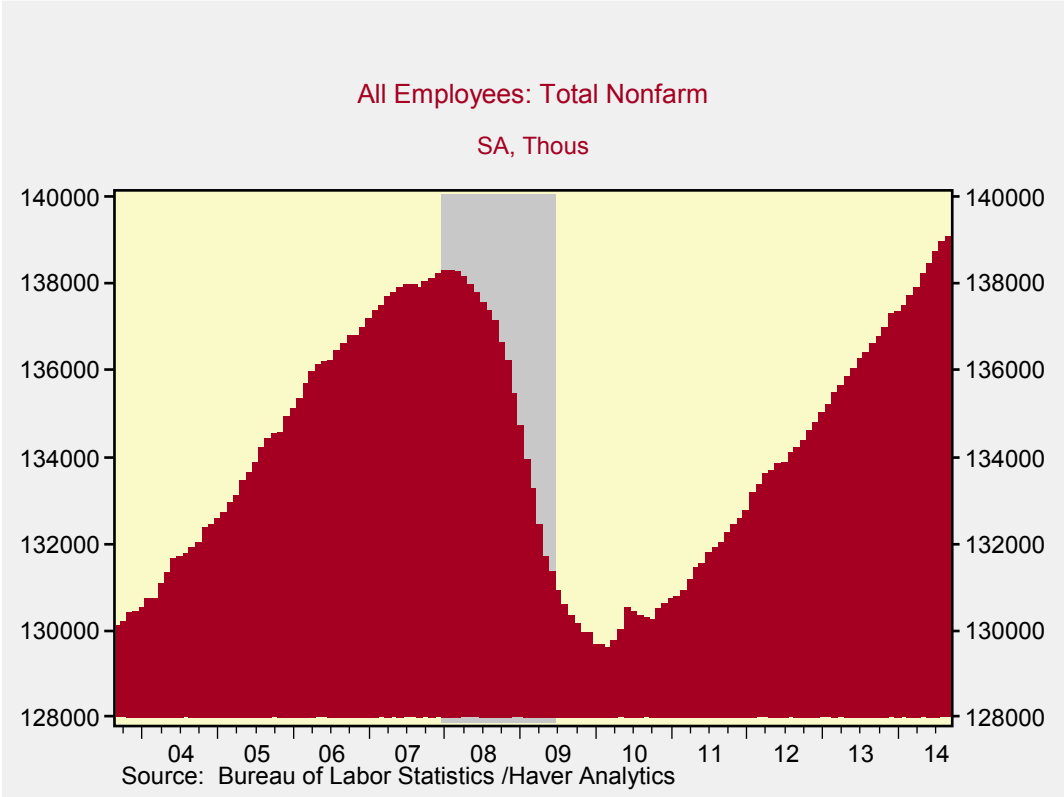
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Consumer fundamentals have steadily improved:

- Full time jobs grew 2.0% in last year, total payrolls rose 1.8%. Job growth expected to continue at steady pace through 2015
- Wages and Salaries in aggregate rose 5.3% in the last year. Private wages and salaries rose 6.0%. Compensation is expected to reach more consumers in the coming year
- Lower commodity prices giving consumer purchasing power an added boost this year
- Low long-term and short-term interest rates expected to reduce borrowing costs and support housing markets
- Consumer balance sheets are expected to continue to improve from rising wealth, debt repayments and higher savings

Employment is forecasted to gradually increase with economic growth

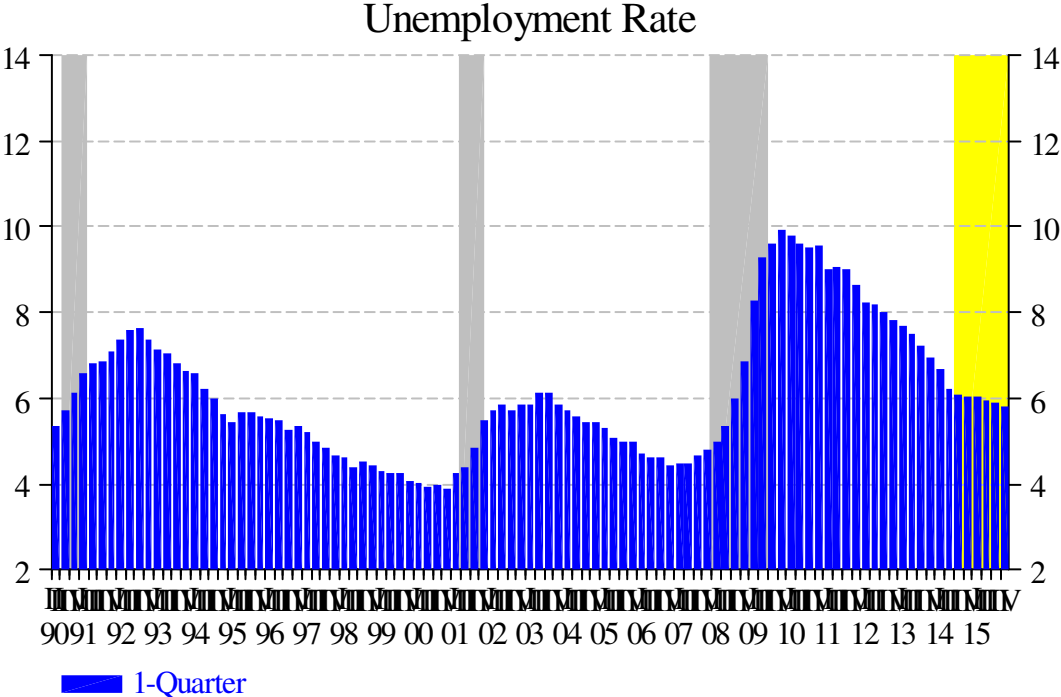
Despite underwhelming GDP growth, employment has exceeded pre-recession high and is expected to climb higher



Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.

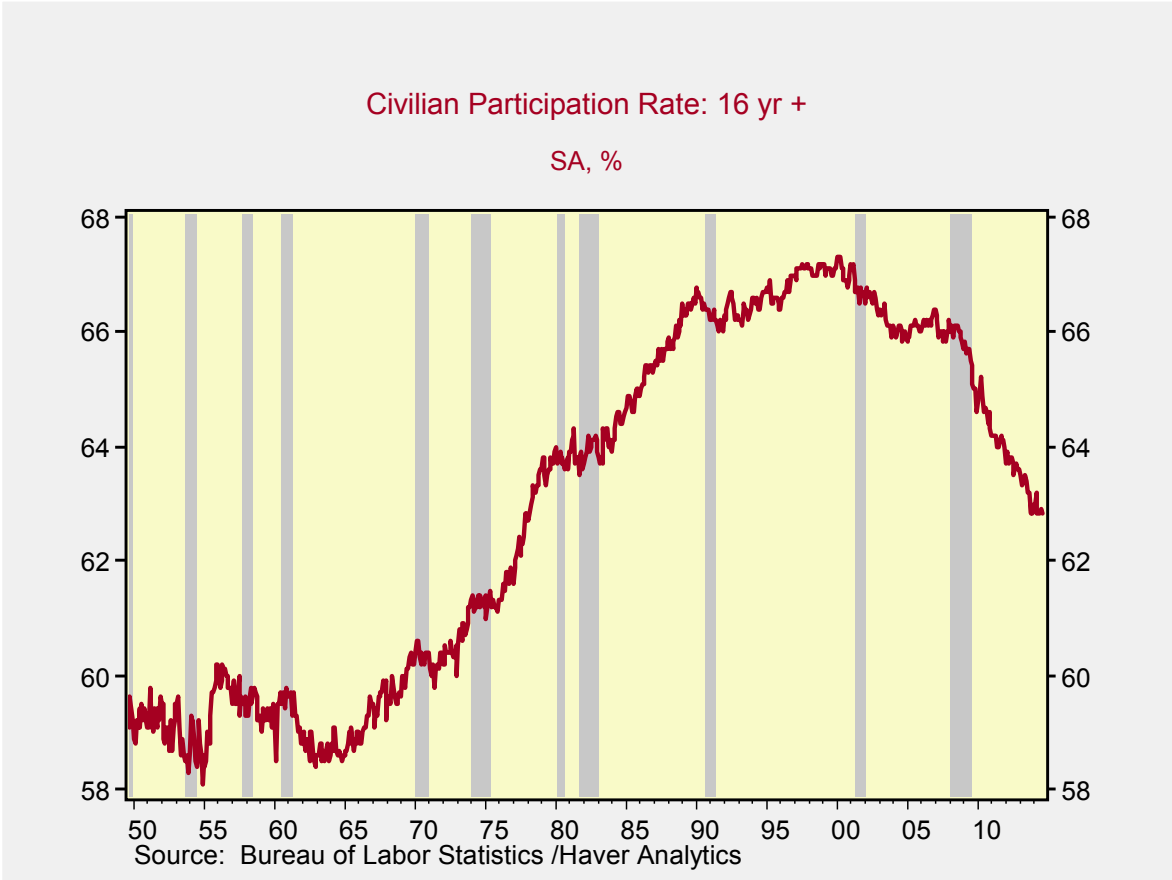
Unemployment rate is forecasted to decline gradually

Higher long-term structural unemployment remains a risk.



Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.

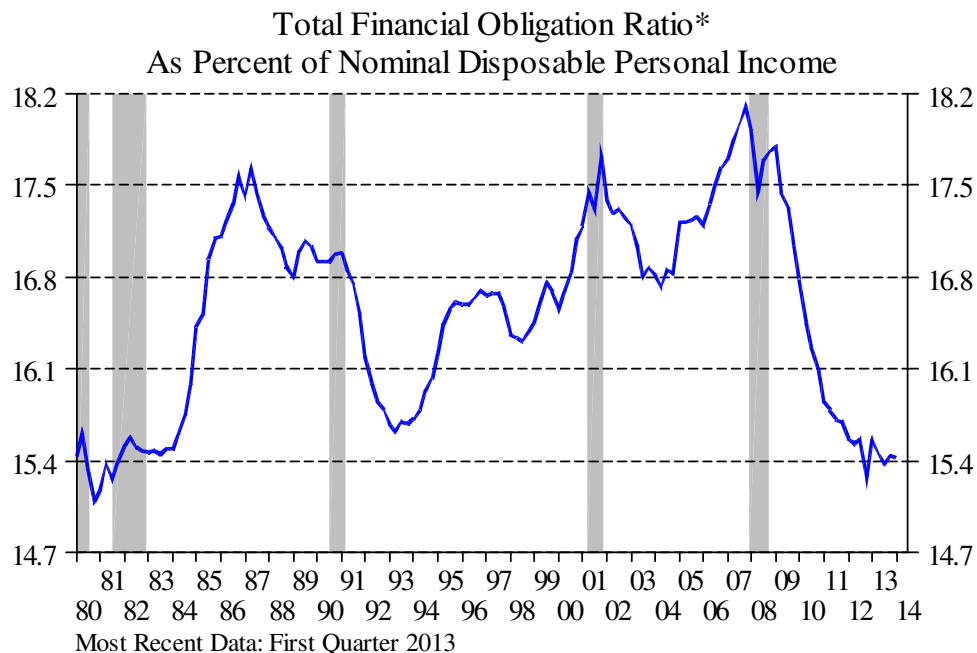
Labor Force Participation on Declining Trend



Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.

Financial obligations have fallen to the lowest rate since the early 1980s

Debt levels are still high, but financial obligations have fallen for the time being on historically low interest rates.

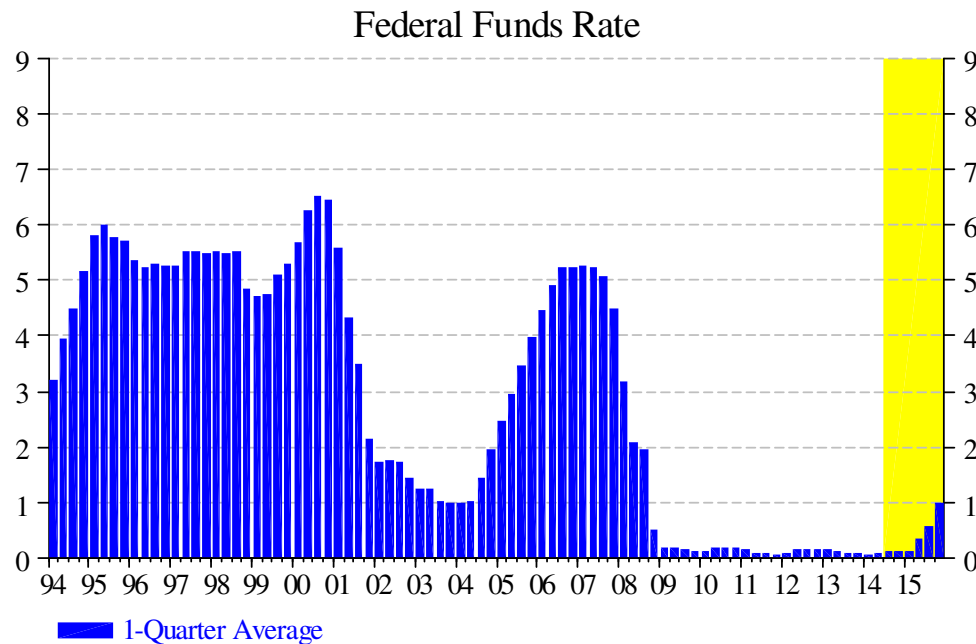


**Financial Obligations Ratio (FOR) is an estimate of the ratio of financial obligations payments to disposable personal income. It's a broader measure than the debt service ratio and includes automobile lease payments, rental payments on tenant-occupied property, homeowners' insurance and property tax payments.*

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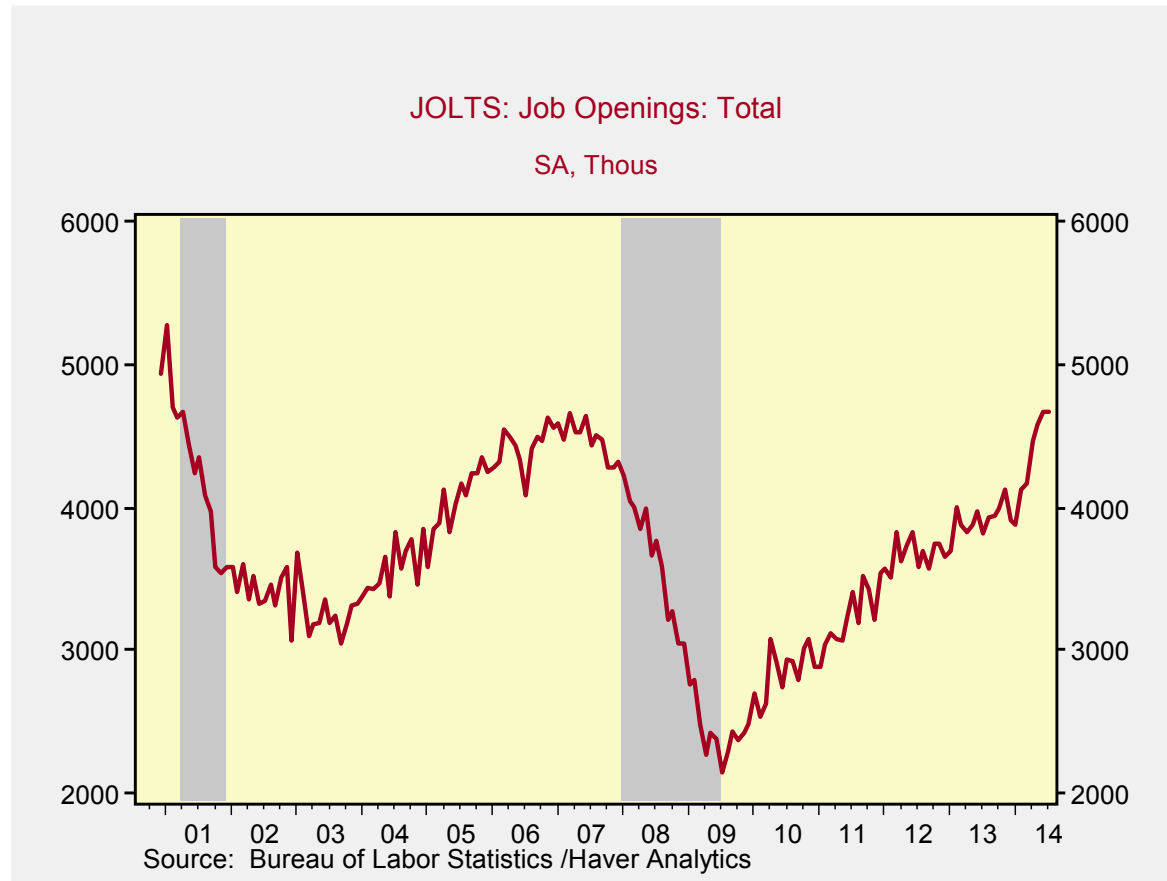
Federal Reserve policy rates likely to remain low relative to history

However, first Fed Funds rate target increase forecasted in the second quarter of 2015



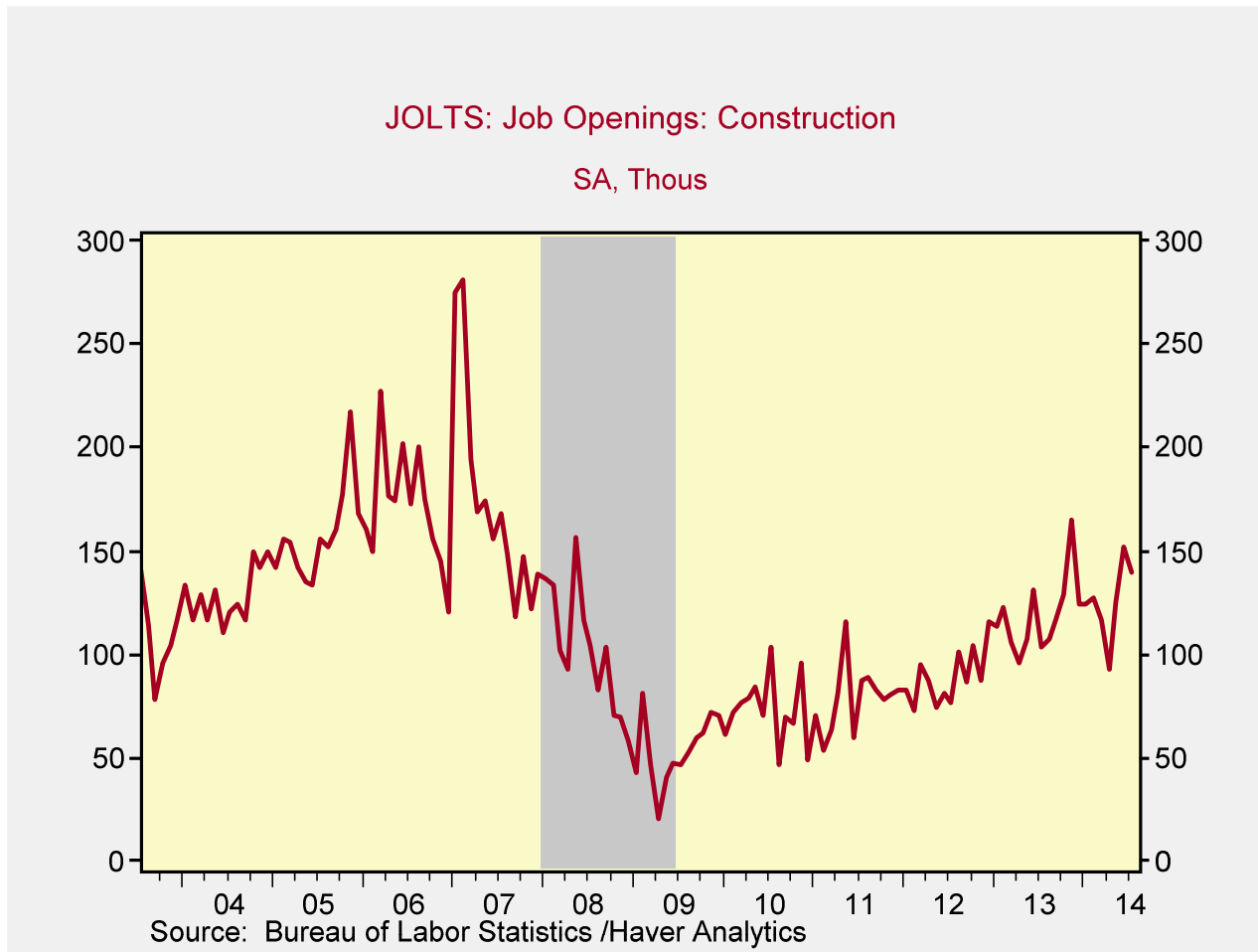
Historical Data Source: Haver Analytics, Inc.

Job openings have increased to their highest in the recovery



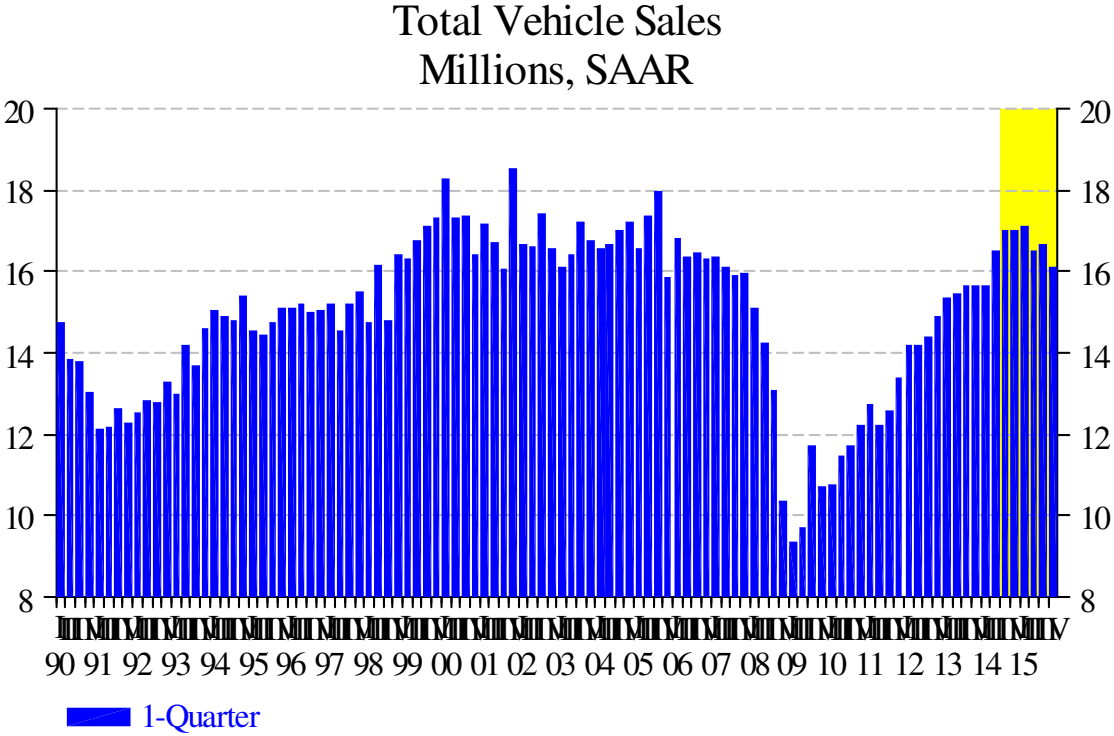
Recessions shown in gray.

Construction job openings have been rising, but still below pre-recession peaks



Recessions shown in gray.

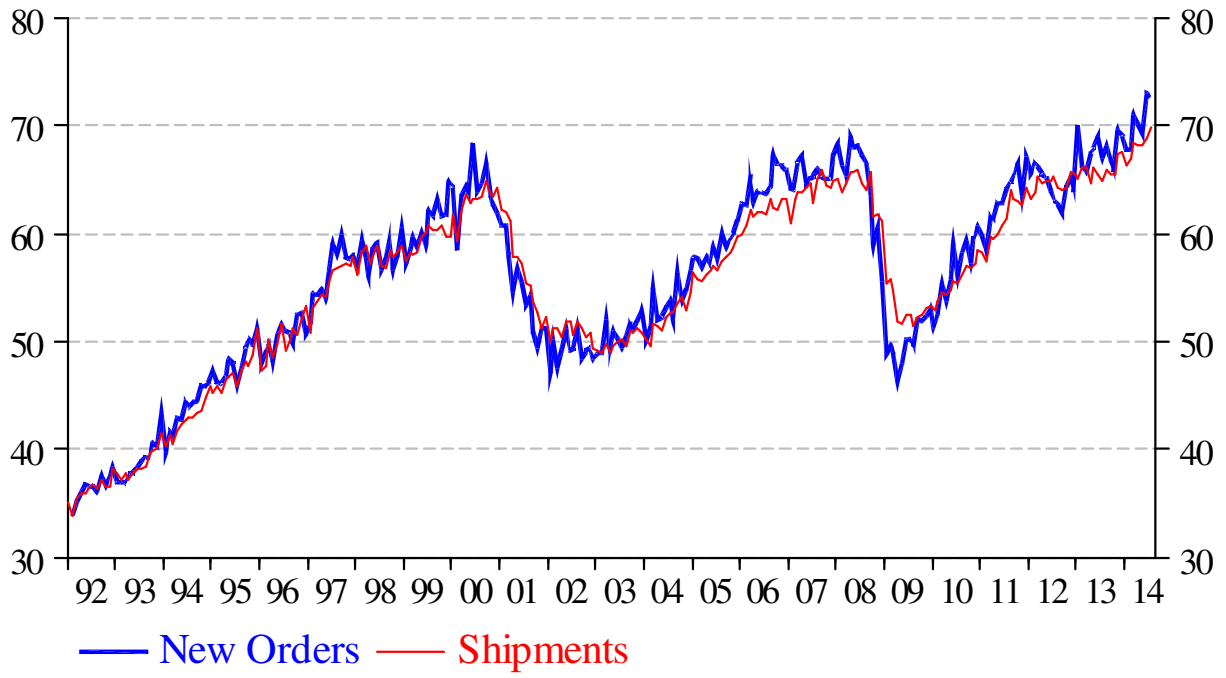
Vehicle Sales return to pre-recession levels



Historical Data Source: Haver Analytics, Inc.

Business investment expected to continue to rise steadily

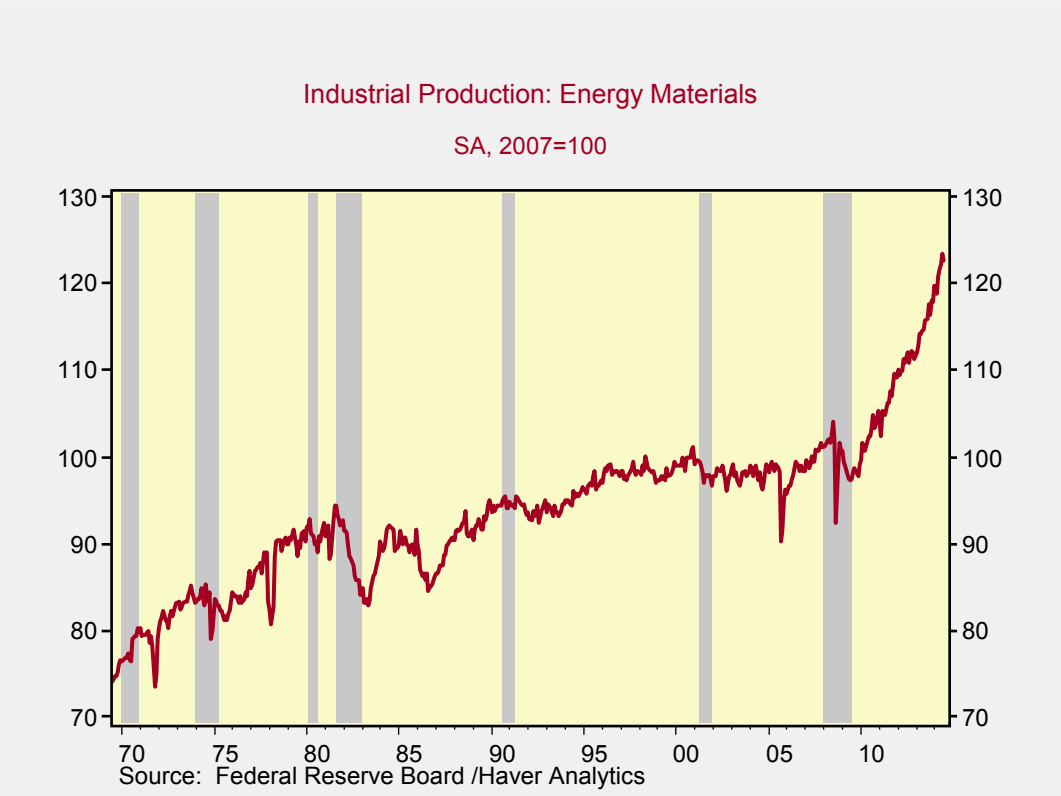
Non-Defense Capital Goods Excluding Aircraft
SA - Billions of Dollars



Latest month plotted: July 2014

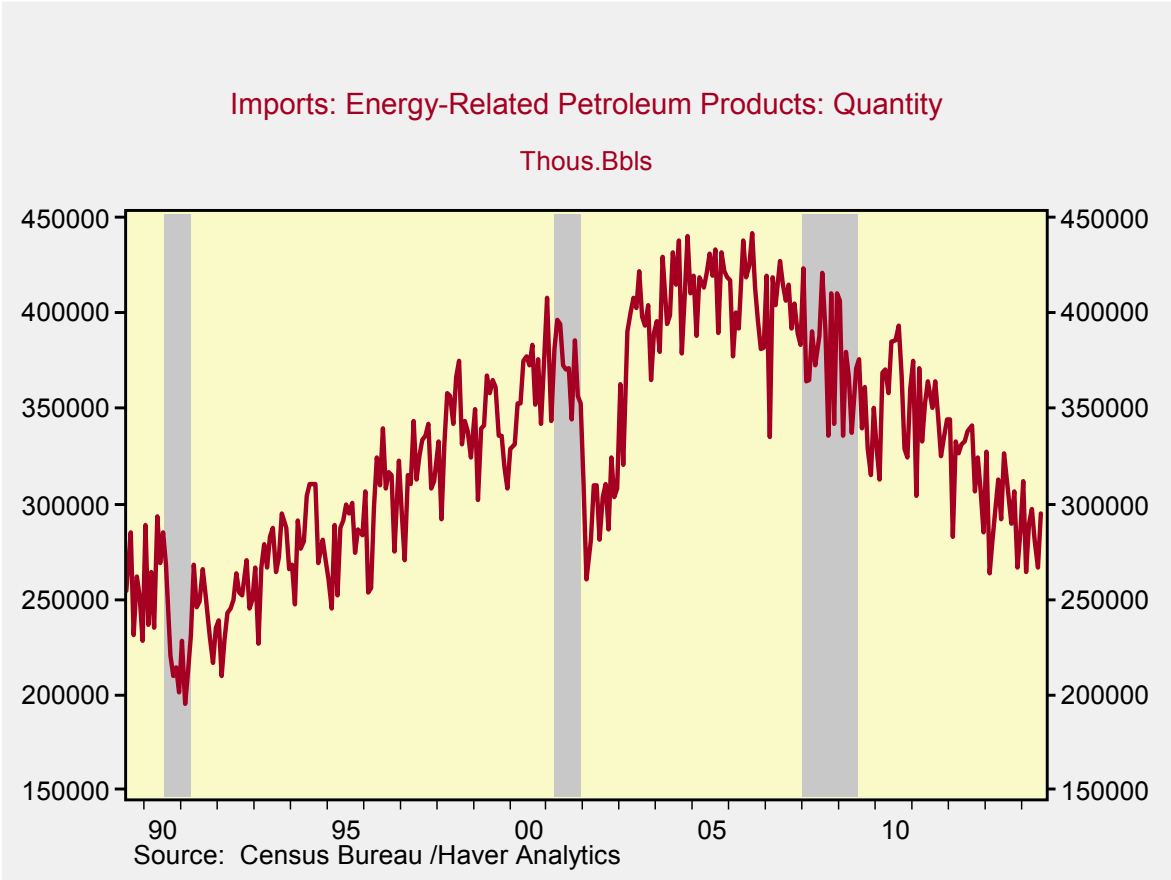
Historical Data Source: Haver Analytics, Inc.

New Technologies spur likely beginnings of revolution in energy production



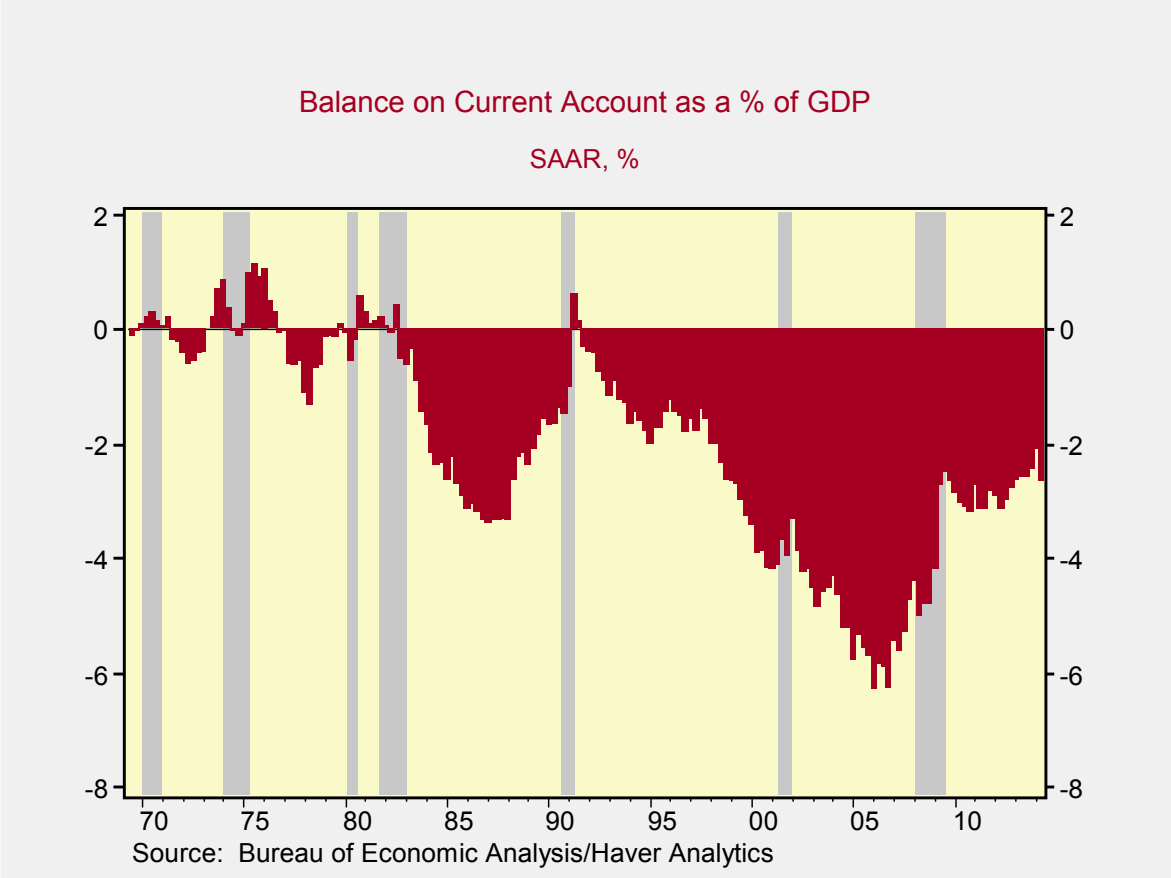
Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.

Rising domestic energy production reduces need for petroleum imports



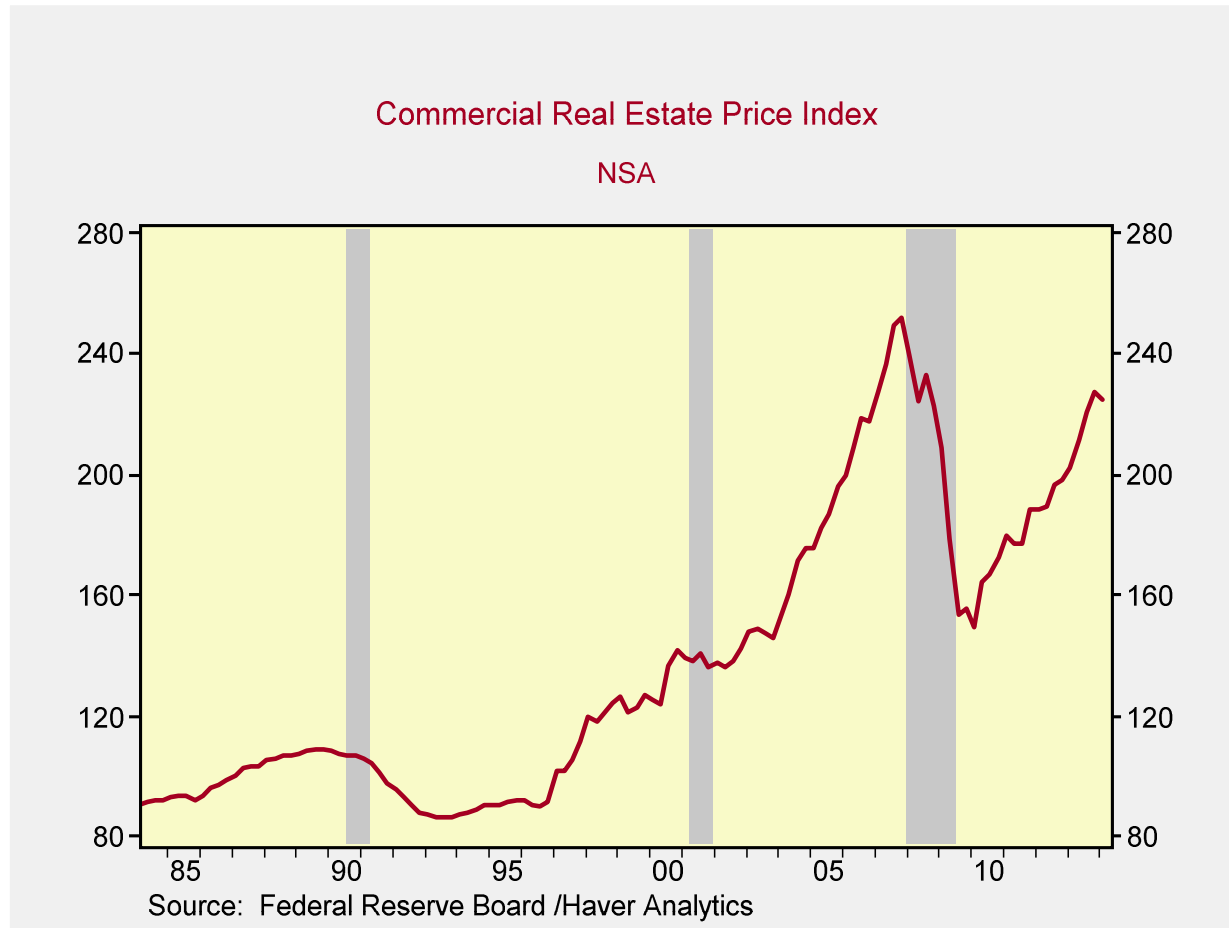
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Current Account Deficit contained under 3% of GDP by trade balance improvements



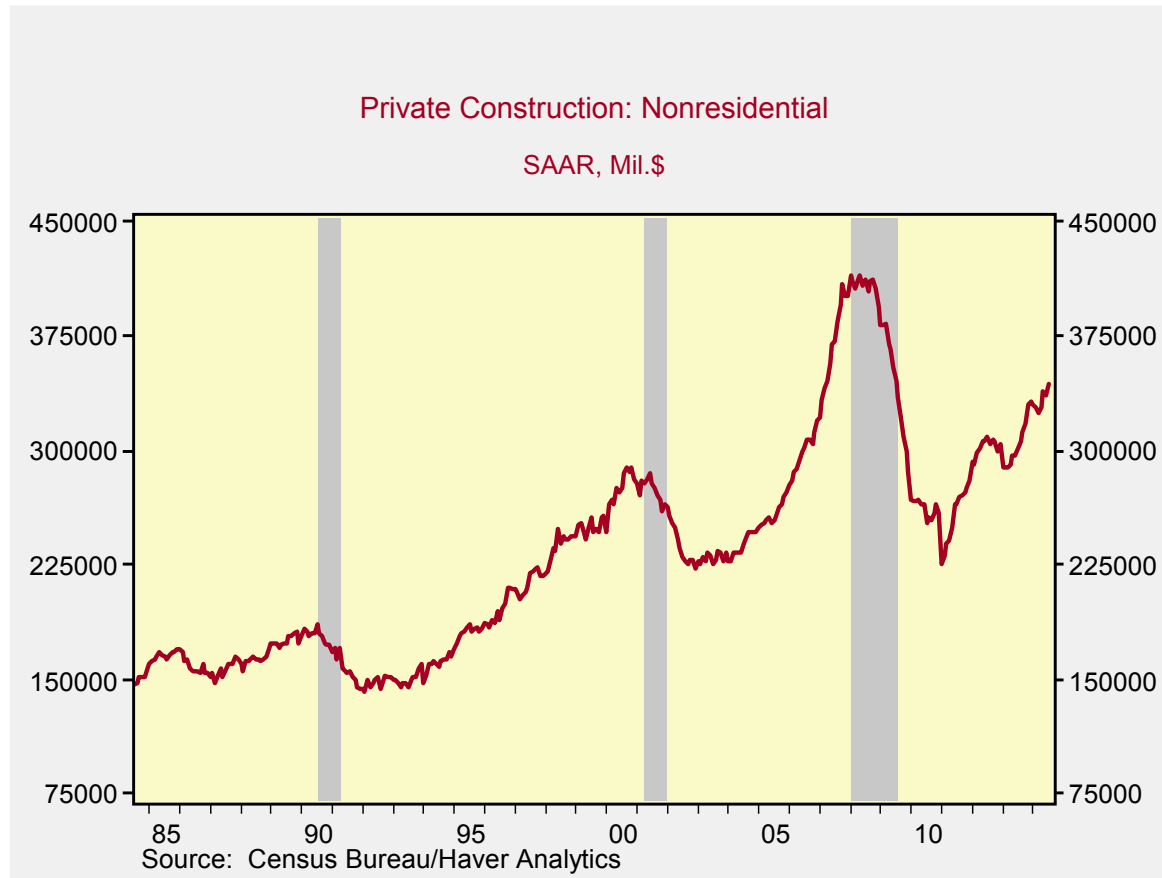
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Commercial Real Estate Prices expected to continue recovery



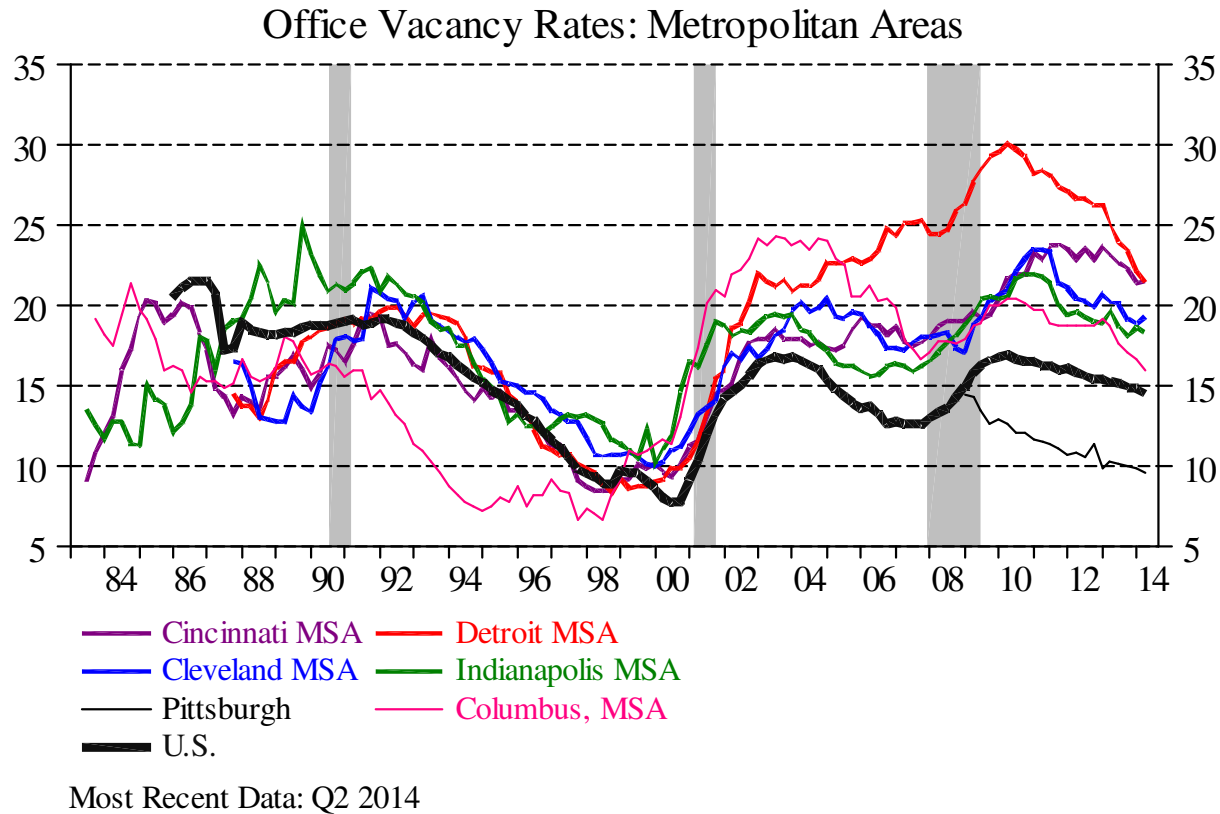
Recessions shown in gray.

Private Non-Residential Construction on the Rise Again; should continue and broaden in 2015



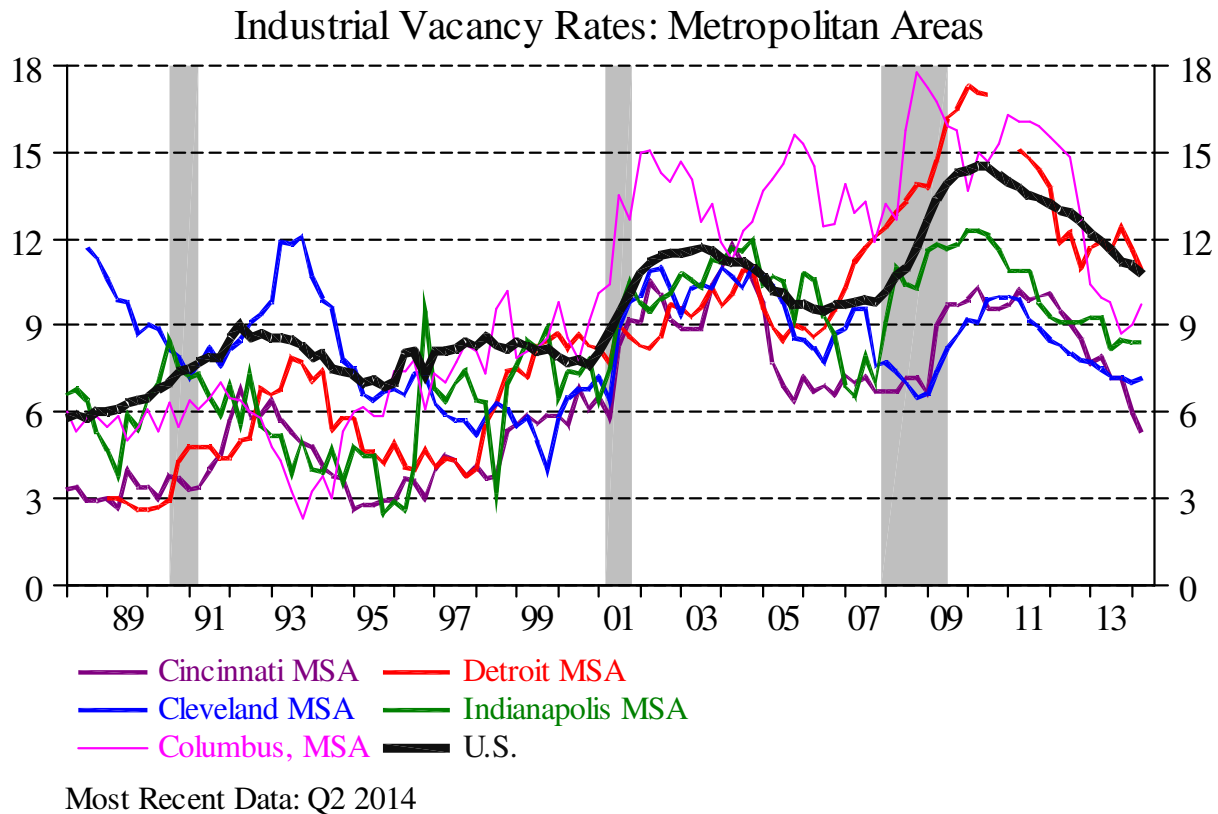
Recessions shown in gray.

Columbus office vacancy rate has declined towards national rate as office markets improve



Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.

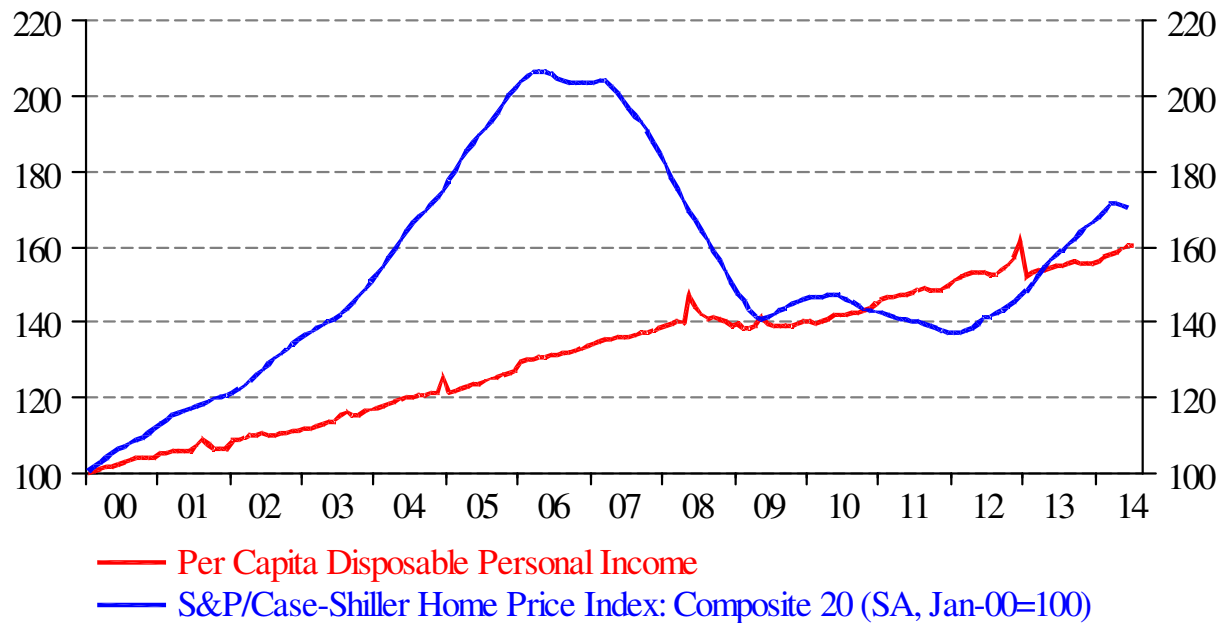
Columbus MSA industrial vacancy rate dropped to its lowest since 2000



Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.

U.S. home price appreciation has probably returned to long-term trend growth in line with disposable personal income growth

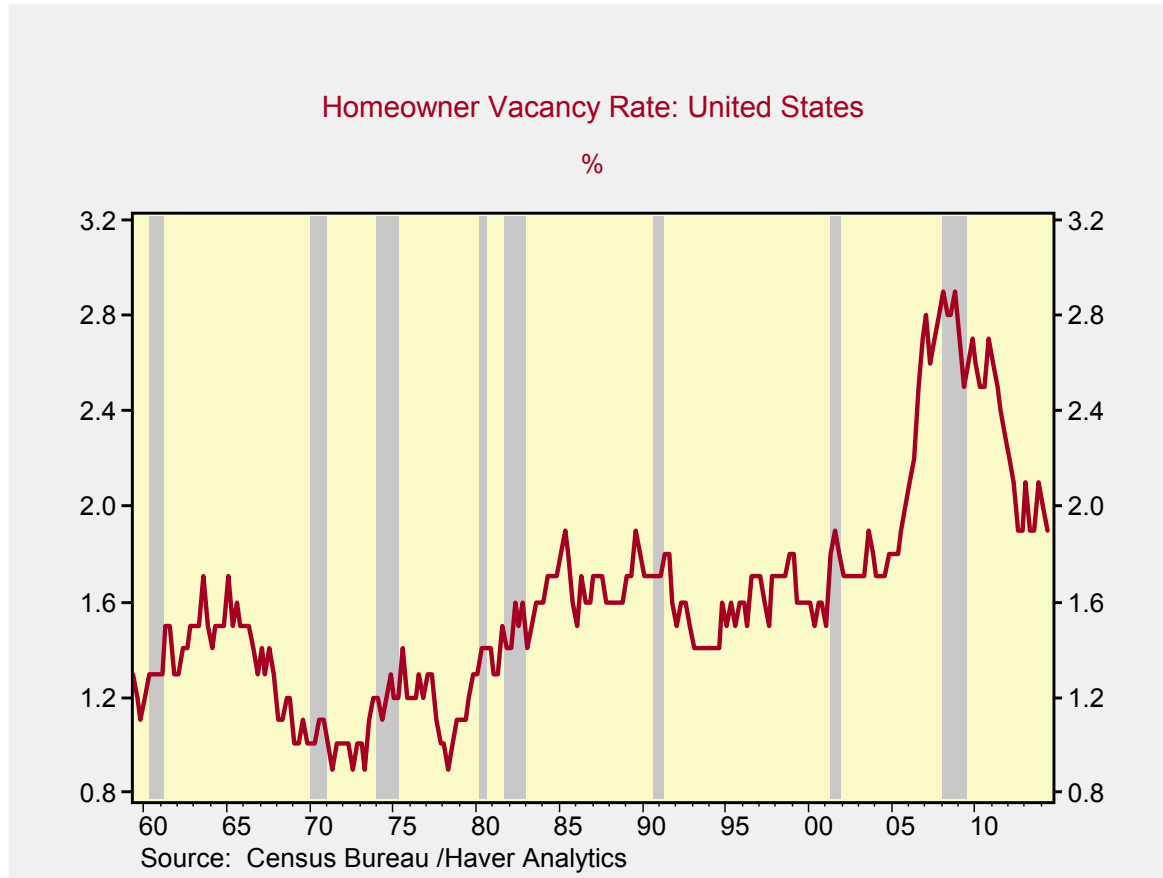
Housing Prices Compared with Per Capita Disposable Personal Income
January 2000 = 100



Latest month plotted: July 2014 (Home Prices)

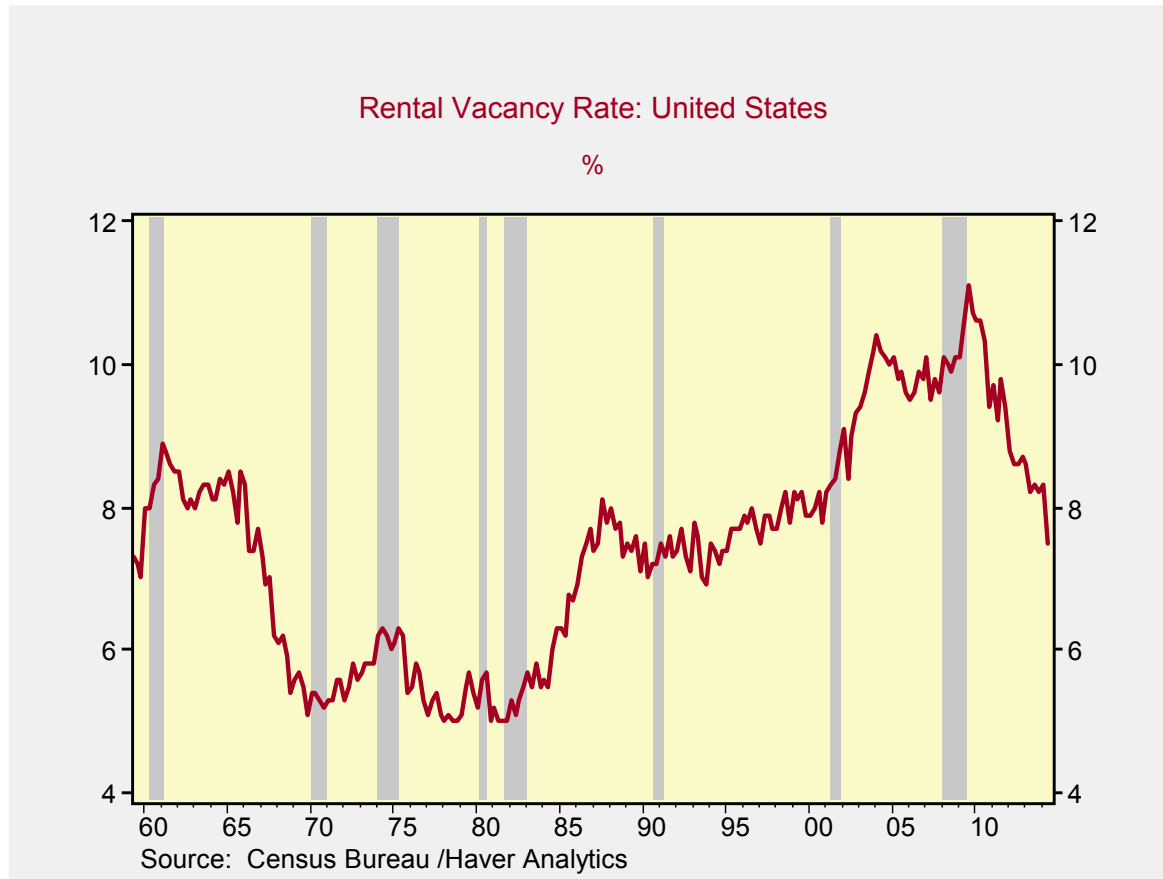
Historical Data Source: Haver Analytics, Inc.

Homeowner Vacancy Rates decline to rates just above long-term averages



Historical Data Source: Haver Analytics, Inc.

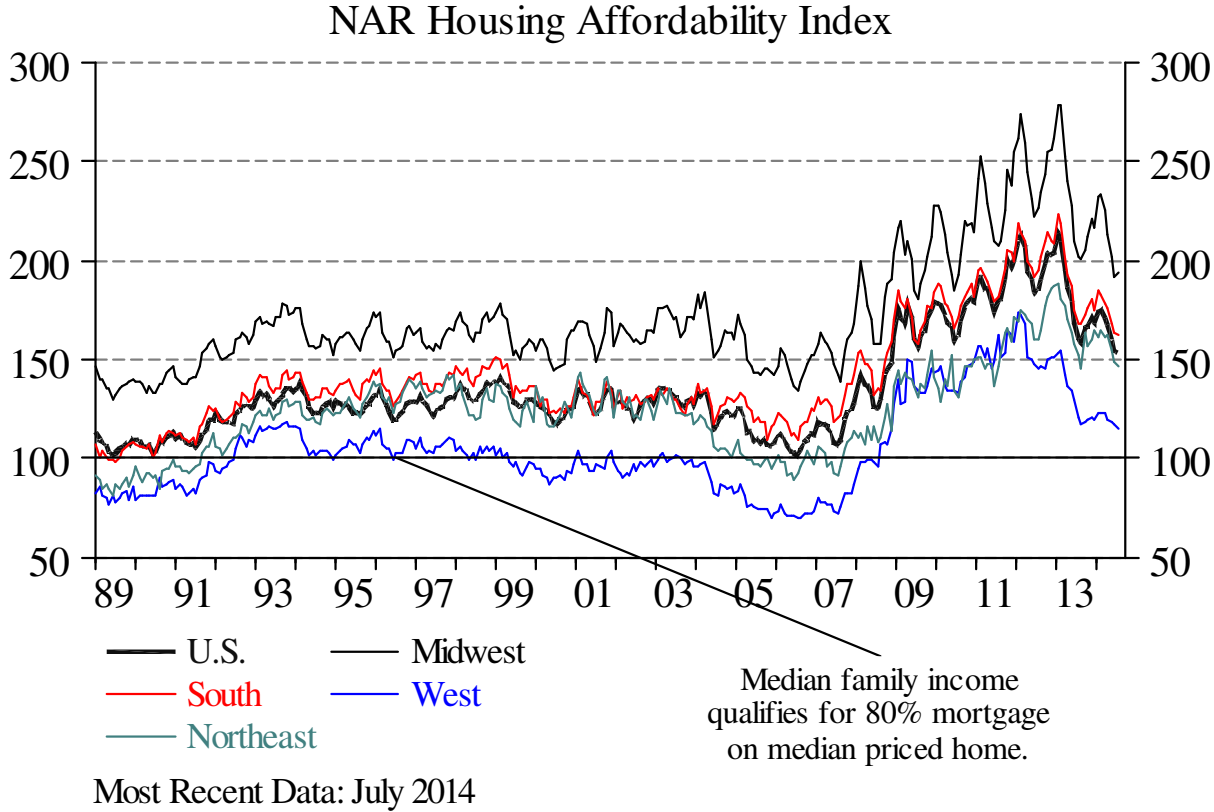
Rental Vacancy Rates declined to their lowest in nearly 2 decades as more householders chose to rent their homes.



Historical Data Source: Haver Analytics, Inc.

Housing affordability high, but past peak

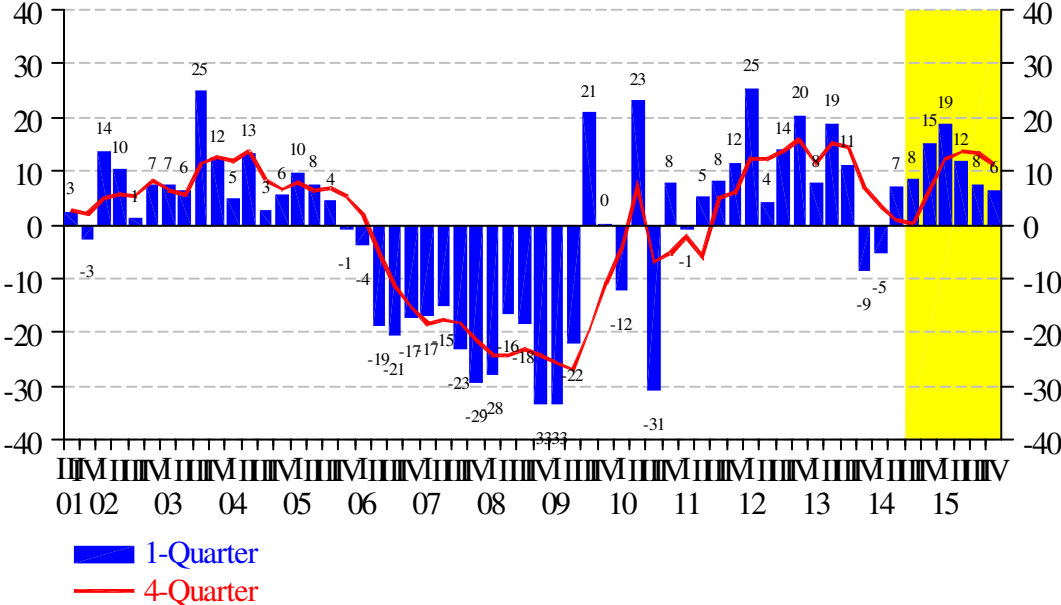
Rising home prices temper affordability



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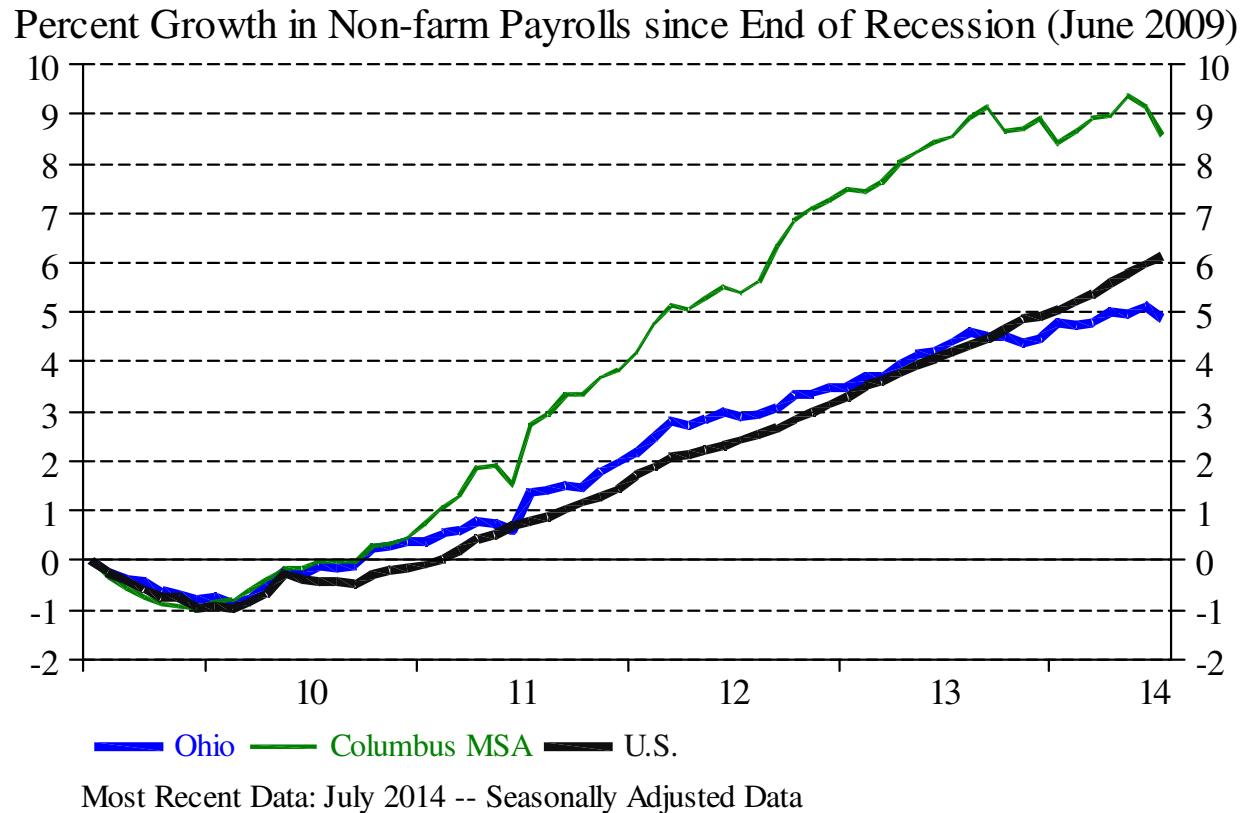
Residential investment, overall home prices and sales forecasted to rise

Residential Investment (Chained 2009 Dollars)
Percent Change, Annual Rate



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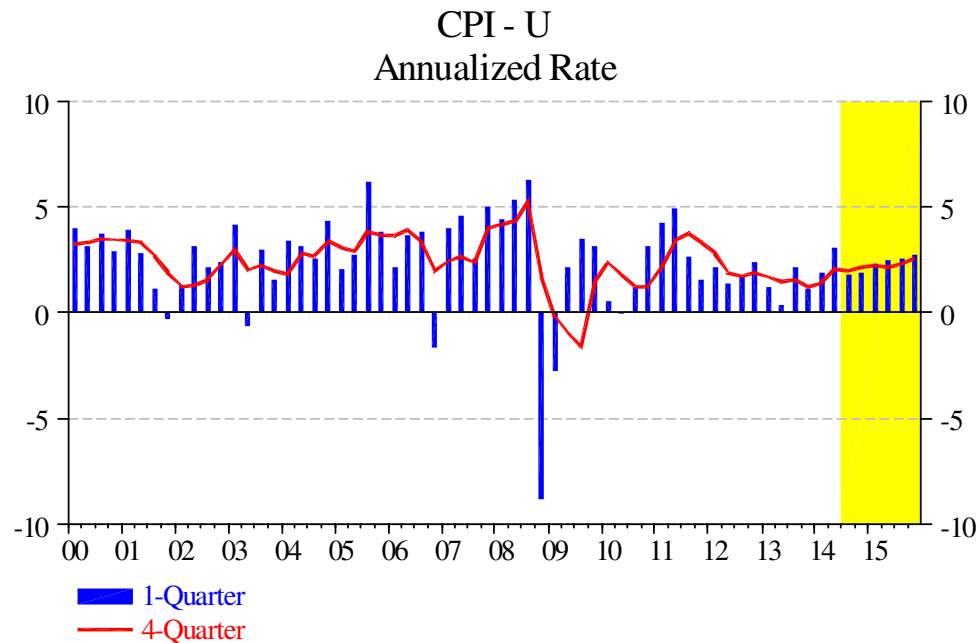
Employment growth in the Columbus MSA outperforms the nation and state during the economic recovery



Historical Data Source: Haver Analytics, Inc.

Inflation forecasted to rise gradually next year

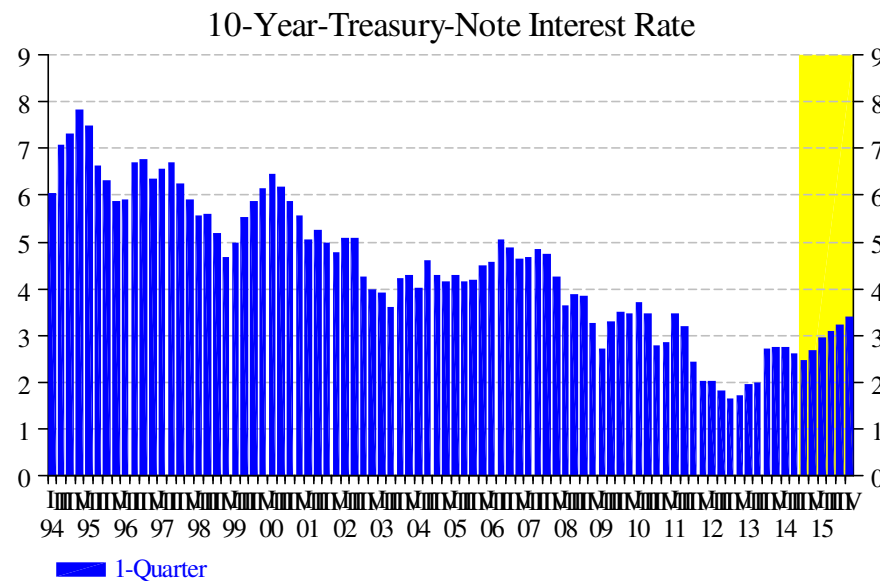
After near-term slowdown, inflation is forecasted to accelerate gradually in 2015. Rising prices for rents, commodities in short supply, skilled workers and services in general are forecasted to put upward pressures on producer prices and consumer prices. However, strength of international economy next year could be key to overall inflation performance.



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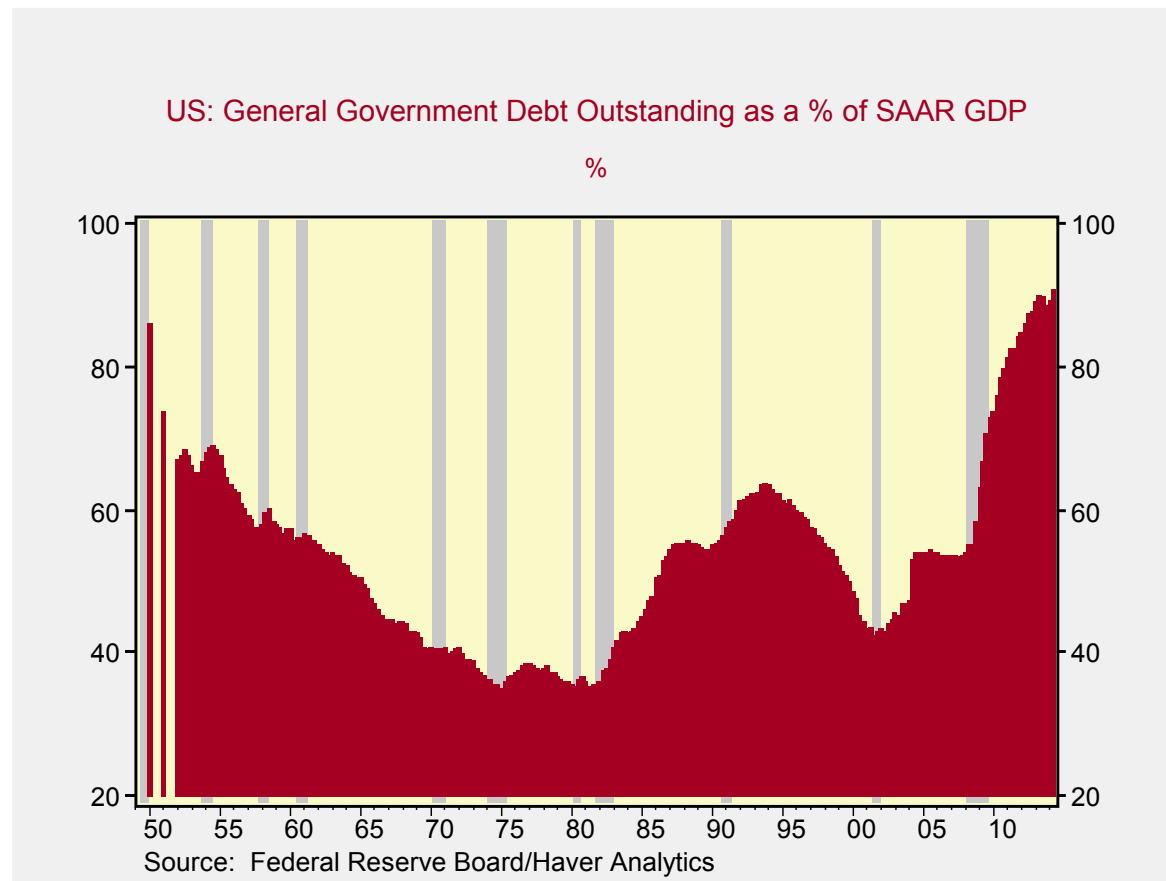
Long-term interest rates forecasted to rise

Long-term interest rates have been suppressed by QE in the U.S., a weak international economy, geopolitical uncertainties, China's strong Treasury bond demand and activist central bank policies by Japan, the U.K., and most recently the European Central Bank. However, strengthening economic U.S. economic growth and coinciding inflationary pressures are expected to move long-term interest rates in a sustained upward trend in 2015.



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Government debt has been stabilizing at high levels



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Data Sources: Haver Analytics

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