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AIER American Institute for Economic Research

BUSINESS CONDITIONS MONTHLY

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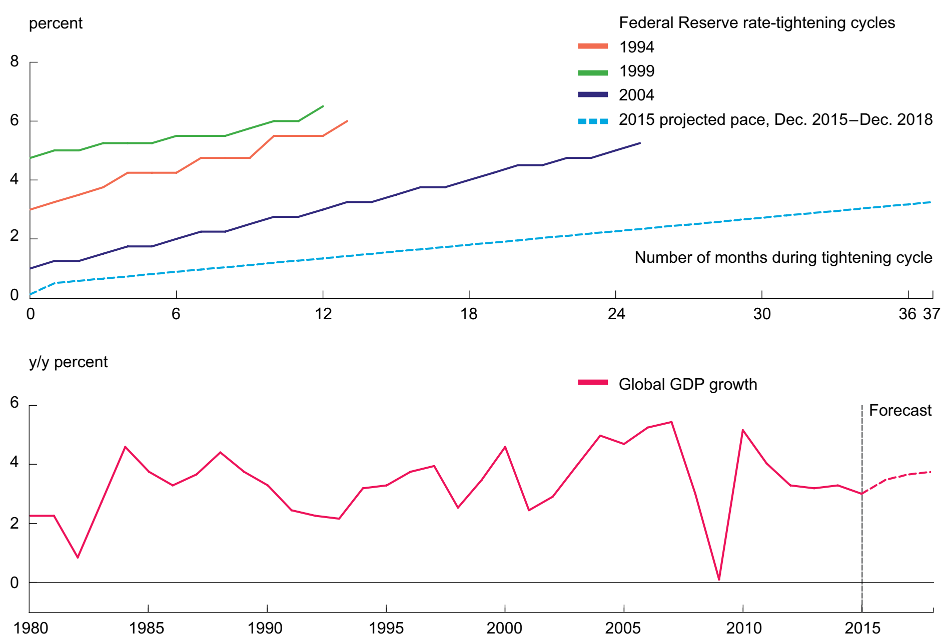
Despite some risks, the U.S. economic outlook for 2016 appears favorable.

The 45th president of the United States will be elected in 2016. Along with death and taxes, the one thing we can be sure of is a long and contentious campaign season full of claims and counterclaims. At AIER, our goal is to provide an unbiased and accurate evaluation of the economy. In this issue we present our outlook for the U.S. economy in 2016. Overall, our assessment is that the economy is in relatively good shape though there are a number of risks and uncertainties.

The current expansion began in July 2009, making it 78 months old, well above the average age of post-World War II business cycle upturns. Yet, there are few signs of imbalances or overheating. To the contrary, the economy has yet to regain significant momentum in a number of areas.

While there are important aspects of the economy that we will be watching carefully in 2016 (Table 1, page 2), the two most important will be Federal Reserve policy on interest rates and global growth (Chart 1).

Chart 1. **The pace of Fed interest-rate increases (top, dotted line) and the strength of economic growth worldwide (bottom) are critical to the outlook for the U.S. economy.**



Note: (Top) Projected pace assuming an increase in the target for the federal funds rate to 0.5 percent in Dec. 2015.

Sources: Federal Reserve Board, IMF, AIER.

Inside this issue

The Fed and global growth are the main themes for 2016.

As of early December, the Fed had given strong indications that it would likely begin raising short-term interest rates this month by pushing up the federal funds target rate. Starting the credit-tightening cycle is an important milestone in the economic expansion. However, more important for future economic performance is the pace of rate increases.

In many of their public statements, Fed policy makers have stressed their intention to increase rates gradually to avoid undermining growth. Infrequent and small rate increases will be more easily absorbed by consumers and businesses. Higher borrowing costs tend to restrain consumer spending and business investment. Slower rate increases may also soften the upward pressure on the dollar from the policy liftoff. The rising dollar already has had a negative effect on U.S. exports and imports as well as global commodities.

Global growth is the second area that could significantly affect the American economy. While the U.S. depends less on exports than some other developed markets, the combination of a rising dollar and weak international economies can still have consequences. The secondary effects on global commodities and capital flows, as well as overseas profits earned by U.S. multinational companies, can also influence U.S. economic activity.

Ongoing economic struggles in Europe, compounded by the Nov. 13 terrorist attacks in Paris, the ongoing refugee crisis, stagnation in Japan, difficulties in emerging markets across Latin America and Asia, and the recent slowdown in China can all have a negative influence on the U.S. Forecasts from the International Monetary Fund suggest global economic growth could remain weak next year (Chart 1), leaving the U.S. to rely even more on internal growth drivers, particularly consumer spending and business investment.

We will be watching a range of other key indicators that reflect the evolution of the current business cycle. The most important ones are shown in Table 1.

Table 1. What to expect for the U.S. economy

Jobs	Continued employment growth will bolster consumer sentiment and spending.
Wages	A tighter labor market should eventually push up average wages, supporting consumer spending.
Consumer credit	Credit expansion may provide another boost to spending.
Consumer debt service	Rising interest rates will boost interest costs for variable-rate debt, such as unpaid balances on credit cards and home-equity credit lines.
Energy prices	Continued low energy prices tend to strengthen consumer sentiment.
Asset prices	Rising home prices and stock market gains tend to boost consumer sentiment.
Single-family home building	Higher mortgage rates may hurt a still-soft construction market.
Business investment	Weakness in energy, agriculture, and construction investment may dissipate.
Corporate bond spreads	Narrowing bond spreads may reflect more confidence in the economic outlook.
Profit margins	Corporate earnings may come under pressure from rising wages.
Productivity	A reacceleration in productivity would allow faster wage growth while protecting profitability.

ECONOMIC OUTLOOK

Coming in January: a new Business-Cycle Conditions model

In our November evaluation, 56 percent of our leading indicators were trending higher, up from 50 percent in October. November marks the 75th consecutive month at or above 50 percent. With our Leaders' index rising to 56 percent and our cyclical score holding at 70, we see little recession risk over the next six to 12 months.

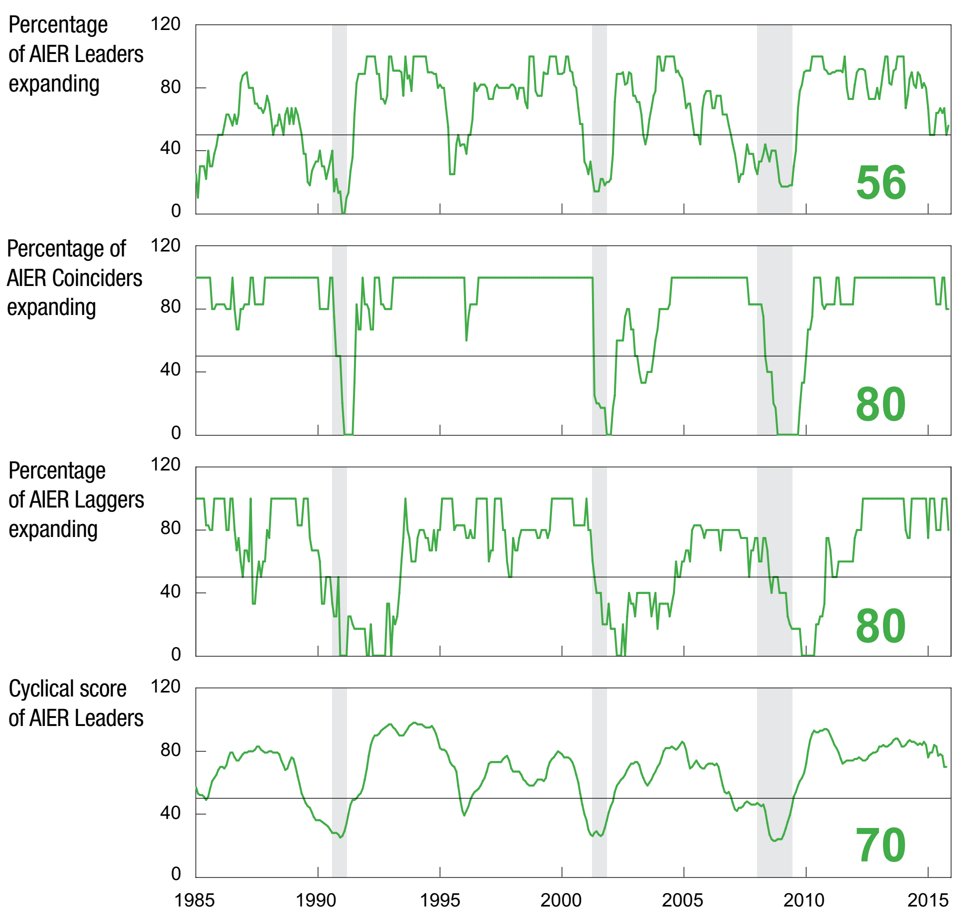
The proportion of expanding coincident indicators held at 80 percent in November, reflecting some ongoing weakness in the economy. Among our six coincident indicators, four were viewed as clearly expanding while one was viewed as probably contracting. One was evaluated as having an indeterminate trend. All four expanding indicators reached new cyclical highs.

The proportion of lagging indicators judged to be expanding dropped to 80 percent in November from 100 percent in October. Four indicators were expanding and hit new cycle highs, while one had an indeterminate trend and the sixth was probably contracting. Overall, the percentage of expanding leading indicators and the cyclical score for our leading indicators suggest an expanding economy and a relatively low probability of recession (Chart 2).

Next month AIER will introduce an updated version of our Business-Cycle Conditions model. One of the most important changes is moving the subjective element from the model calculation to the model interpretation. Under our current model AIER researchers review each indicator qualitatively and evaluate the trends. In the new model trends are assessed quantitatively. Researchers then will use their knowledge of the economy to interpret their meaning. We are confident that the new model will offer new insights into business-cycle trends.

Chart 2. Indicators at a glance

Shaded areas denote recessions.
A score above 50 indicates expansion.



Source: AIER.

SCORECARD

After falling for two consecutive months, the latest AIER Inflationary Pressures Scorecard indicates a neutral level for the months ahead (Table 2). Although 10 indicators suggest increasing inflation, up from seven last month, 11 out of 23 point to falling pressure.

Our analysis of demand and supply supports this reading. Higher growth in average hourly earnings was offset by a slowdown in personal income, which includes not only wages but also other forms of income, such as interest, dividends, rents, and so on. Weakened retail sales, which restrain inflation, were offset by slower gains in industrial production, which reduces supply growth and increases pressure.

Money/credit indicators, from interest rates to the money supply to consumer credit, have not changed from last month in their effect on inflation.

The producer price index, a measure of prices received by producers, fell for all goods and services, restraining inflationary pressure. But this was offset by higher wage growth and lower productivity gains, both pointing to rising pressure.

AIER INFLATIONARY PRESSURES SCORECARD

We track 23 indicators and evaluate their performance over the past three months compared with the prior three months. That is, we compute moving averages of the monthly changes for two consecutive, non-overlapping three-month periods. Finally, we evaluate the inflationary pressure of each indicator through the framework of supply, demand, money/credit, and costs and productivity, and show whether the monthly change points to rising or falling inflationary pressure or stability.

Table 2. Inflationary pressure rose this month, but the outlook is neutral

	3-MTH. AVERAGE CHANGE		INFLATION
	Previous	Latest	PRESSURE
DEMAND AND SUPPLY			
Demand			
Average hourly earnings (Oct.)	1.9%	3.1%	Rising
Nonfarm payrolls, total mil. (Oct.)	141.9	142.4	Rising
Personal income (Oct.)	6.2%	4.0%	Falling
Retail sales (Oct.)	7.9%	0.1%	Falling
Supply			
Ind. prod. - consumer goods (Oct.)	5.0%	1.1%	Rising
Manufacturing utilization (Oct.)	76.1%	76.3%	Rising
Retail inventory/sales ratio (Sept.)	1.46	1.47	Falling
MONEY, BANKING, AND CREDIT			
Fed funds rate (Oct.)	0.13%	0.13%	Stable
Interest on excess reserves (Oct.)	0.25%	0.25%	Stable
Money supply (M2) (Oct.)	5.0%	5.3%	Rising
Money velocity (Sept.)	0.0%	-2.5%	Falling
Revolving consumer credit (Sept.)	9.0%	6.7%	Falling
COSTS AND PRODUCTIVITY			
Producer Price Index (Oct. 2015)			
Final demand	3.7%	-3.6%	Falling
- Food	6.3%	-5.0%	Falling
- Energy	35.8%	-31.4%	Falling
- Goods less food and energy	1.8%	-1.8%	Falling
- Services	1.5%	-1.1%	Falling
Import Price Index (Oct. 2015)			
Autos	0.0%	-1.4%	Falling
Consumer goods ex. autos	-0.7%	0.7%	Rising
Commodity prices (Oct. 2015)			
S&P GSCI Commodity Index	-48.0%	-14.9%	Rising
Wages and productivity			
Private compensation (Q3–2015)	0.0%	2.6%	Rising
Nonfarm business productivity (Q3–2015)	3.5%	1.6%	Rising
Nonfarm business unit labor costs (Q3–2015)	-1.8%	1.4%	Rising

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, U.S. Census Bureau, Federal Reserve Board, Standard & Poor's, AIER (Haver Analytics).

CONSUMER PRICE INDEX ANALYSIS

The Consumer Price Index's 0.2 percent rise in October came mainly from a 0.3 percent increase in energy prices. Energy rose after falling 4.7 percent in September and 2 percent in August. Over the longer term, however, the trend in energy prices remained mostly unchanged. Energy prices dropped 23.1 percent on an annual basis over the three months through October and were 17.1 percent lower than a year ago (Table 3).

Food prices continued to climb, but at a slower 0.1 percent pace compared with a 0.4 percent September gain. Households have been paying steadily higher prices for food since March. Over the past five years, food prices have increased at an annualized 2.5 percent rate, even surpassing services (excluding energy), which posted an annualized growth rate of 2.4 percent.

The core CPI, which excludes volatile food and energy prices, shows more stability than the overall CPI. It advanced 0.2 percent in October and has not had a monthly decline since January 2010. Over the longer term, from three months to 20 years, core CPI grew at a fairly constant rate, between 1.9 and 2 percent (Table 3).

Core goods, excluding food and energy, fell 0.1 percent in October. The main driver was apparel, which slid 0.8 percent, the biggest monthly drop this year. The next most significant factor was new vehicle prices, which slipped 0.2 percent, the fourth straight monthly decline.

Core services, which account for 59.1 percent of the CPI, rose faster than core goods, the core CPI, and the overall CPI not only over short term but also over the long run. Core services have been growing since the beginning of 2010. Medical care posted the largest gain for the month at 0.8 percent. In a longer-term perspective, however, education costs climbed at the fastest pace of all CPI components, rising 5.1 percent annually over the past 20 years.

Table 3. Energy prices stopped plummeting, leading to an increase in the monthly CPI.

Data for October 2015	Share	m/m%	3-mth.*	12-mth.*	5-yr.*	20-yr.*
Consumer Price Index	**100.0**	**0.2**	**-0.1**	**0.2**	**1.7**	**2.2**
Food	14.3	0.1	3.1	1.6	2.5	2.6
Energy	7.4	0.3	-23.1	-17.1	-1.7	3.3
CPI excl. food and energy	78.4	0.2	2.0	1.9	1.9	2.0
Goods excl. food and energy	**19.3**	**-0.1**	**-0.8**	**-0.7**	**0.3**	**0.2**
Apparel	3.4	-0.8	-3.1	-1.9	1.0	-0.3
New vehicles	3.5	-0.2	-1.1	0.1	1.2	0.2
Medical-care commodities	1.8	0.2	1.3	2.8	2.4	2.8
Services excl. energy	**59.1**	**0.3**	**2.9**	**2.8**	**2.4**	**2.8**
Shelter	33.2	0.3	3.2	3.2	2.5	2.6
Medical-care services	6.0	0.8	4.4	3.0	3.0	3.8
Transportation services	3.8	0.2	0.3	1.8	2.2	2.5
Education	3.2	0.4	2.5	3.7	3.8	5.1
AIER'S EPI	**35.9**	**-0.6**	**-8.2**	**-3.0**	**1.2**	**2.7**

*=annualized rate
Sources: Bureau of Statistics, AIER (Haver Analytics).

Everyday Price Index

AIER's Everyday Price Index (EPI) fell 0.6 percent in October after dropping 1 percent in September. Over the past 12 months the EPI has fallen 3 percent while the broader Consumer Price Index has risen 0.2 percent. The difference stems from the drop in energy prices. The EPI assigns a greater weight to energy.

Energy costs have fallen as commodity prices have weakened over the past year. Crude oil, the main input for gasoline, has plunged 44.7 percent, helping to drive gas prices down 27.8 percent. The cost of staying warm is falling, as well, with home heating oil sliding 32.9 percent. Natural gas prices have dropped even more, 34.4 percent, helping to push gas utility prices down 11 percent.

Grocery prices have also been restrained by commodity declines over the past year. Agriculture and livestock prices have fallen 10.9 percent, helping to hold groceries to a modest 0.7 percent gain. On the other hand, restaurants have not passed on lower input costs, instead raising prices 2.9 percent.

https://www.aier.org/epi

MONETARY POLICY

An interest rate hike is expected this month, but bigger changes may be afoot.

Debate over the Fed's plan for raising short-term rates seems to have reached a consensus—the central bank will most likely raise its federal funds target range at the Dec. 15–16 meeting of its policy-making Federal Open Market Committee. The market expects that only an extraordinary deterioration in economic conditions would make the Fed stand pat. Given that U.S. gross domestic product growth was recently revised higher for the third quarter and the Labor Department reported a healthy increase in nonfarm jobs last month, we expect the Fed will lift rates for the first time in almost a decade.

If the liftoff occurs, it is expected to be a small move, and the market should be able to absorb it easily. If the Fed raises the target range, say by 0.25 percentage point (to a 0.25 – 0.5 percentage-point range from 0 – 0.25 percent presently), the effective rate may stay below 0.5 percentage points and the spillover effect on longer-term borrowing costs would be very limited.

However, guessing over the Fed's plan illustrates just how important the central bank can be to market participants and how much uncertainty often surrounds the Fed's intentions. Legislation that recently passed the House of Representatives takes aim at unknown drivers of the strategy behind decisions that affect the economy.

The Fed Oversight Reform and Modernization act would require the central bank to make public and explain its strategy for the systematic quantitative adjustments of its policy instruments. The bill would let the Fed deviate from its announced strategy, but it would have to tell Congress why it did. Even though the legislation would let the Fed choose its policy instruments, having to publicly explain to Congress its strategy and the reasons for any changes are substantially new requirements. The Fed has not previously had to detail its strategy or explain deviations from it.

The FORM act is far from becoming law, since it is unlikely to pass the Senate. Nevertheless, it already has generated controversy. Federal Reserve Board Chair Janet Yellen sent a letter to House Speaker Paul Ryan warning that the bill, by requiring the Fed to follow a pre-set strategy, could "severely impair the Federal Reserve's ability to carry out its congressional mandate." Yet not all economists agree.

Should policy makers have discretion or follow a rules-based strategy?

Some advocate for a rules-based strategy for monetary policy. Best known among them is John B. Taylor, professor of economics at Stanford University and a senior fellow at the Hoover Institution. In the 1990s he developed his Taylor rule of monetary policy, which calls for adjusting the fed funds rate in response to two factors: deviation of inflation from its target (taken as 2 percent), and deviation of GDP from potential output. Chart 3 shows what the fed funds rate would have been under the Taylor rule compared with the actual rate. In some periods the two coincide, but they deviate significantly in others.

Taylor's critics argue that policy makers should have discretion to respond to extraordinary events, such as the 2008–2009 financial crisis. But Taylor says discretion in monetary policy was partly responsible for the severity of the crisis. After 2002, interest rates were kept too low for too long, which spurred excessive risk-taking and helped over-inflate housing prices. According to Taylor, had monetary policy followed a well-formulated rule, the crisis may have been less severe.

A rules-based policy would work well, Taylor argues, by reducing uncertainty and the chances for damaging mistakes. Empirical evidence suggests that when monetary policy was mostly rules based, as in the late 1980s and 1990s, the economy performed well. When the policy was more discretionary, as it was after 2002, economic performance suffered.

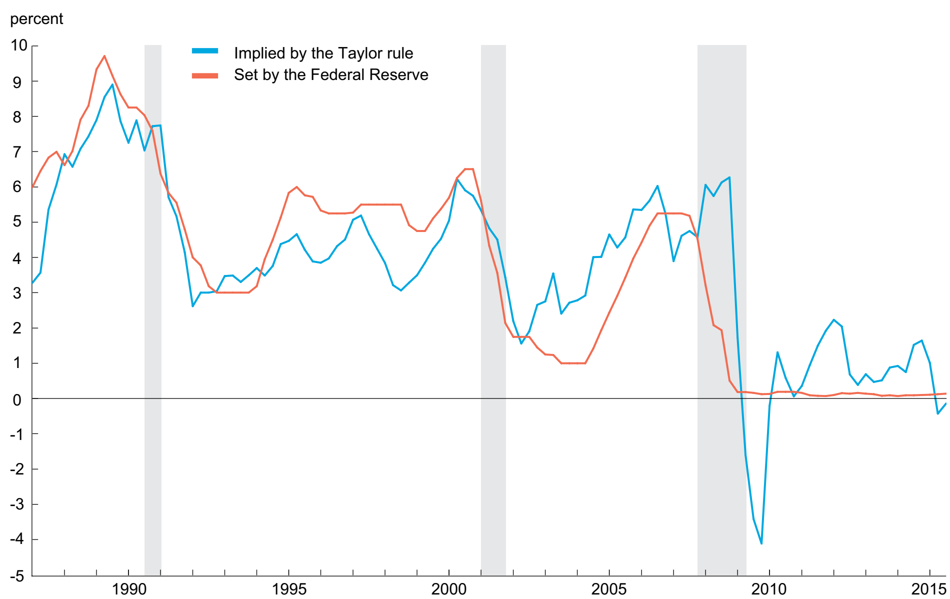
Why, then, does the Fed object to the legislation that would compel the central bank to follow a rules-based strategy of its own choosing? It may have more to do with central bank independence than with the rules-based policy debate.

To successfully control inflation, a central bank should be insulated from political pressure. It should not be controlled by those responsible for fiscal policy, or the temptation to use money creation to finance government operations or to channel credit to favored industries would become irresistible. The Fed was designed to be independent.

The FORM act, as proposed, would not limit the Fed's independence. It would require the central bank to disclose its strategy, but it would not give Congress the power to mandate Fed policy. The choice of strategy would remain solely with the Fed.

However, Yellen might justifiably worry that in the future, should lawmakers be dissatisfied with the Fed's strategy or its reasons for deviating from it, there may be calls for empowering Congress to set monetary policy rules. And that would erode the Fed's independence and possibly damage the economy. The Fed understandably objects to any movement toward giving Congress more power in overseeing monetary policy decisions.

Chart 3. Rule vs. reality: What the federal funds rate would have been with the Taylor rule



Notes: Shaded areas denote recessions. Blue: Taylor rule computed using Federal Reserve's estimate for potential GDP through 2009 as reported at the time. Congressional Budget Office estimate used after 2009. Personal Consumption Expenditure deflator used as a measure of inflation. Red: Target federal funds rate up to 2008; effective rate after 2008.

Sources: Federal Reserve, Bureau of Economic Analysis, AIER.

FIXED INCOME

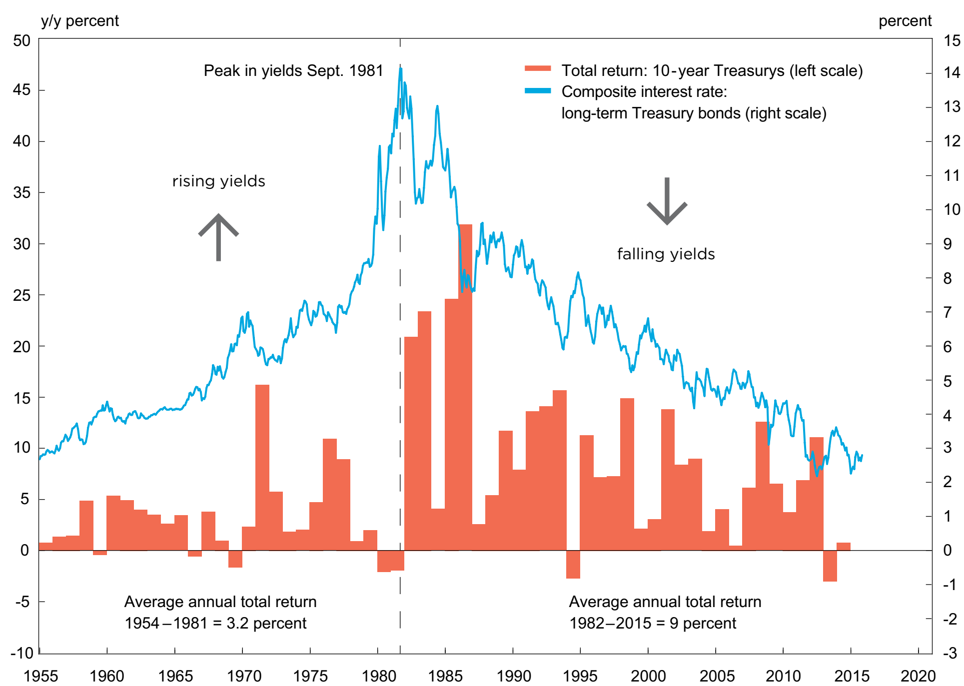
Investing is all about the future. When allocating assets, investors balance expected future returns and risks of different asset classes, such as bonds, equities, and commodities. These expectations are typically based on historical performance.

Preparing for 2016, we are taking a long-term look back at interest rates and bond returns in the U.S. There are two important, somewhat contradictory considerations. First, the future is unknown—anything can happen—so investors should consider all available history when weighing possible investment outcomes. Conversely, the world changes over time. The economy evolves, innovation causes changes, and experience builds knowledge. This leads to the difficult question: Do we blindly accept that history may repeat itself or do we have some level of confidence that we have learned from history and are less likely to repeat the worst mistakes?

When considering the 2016 outlook for bonds, particularly in the context of the history of economic performance over the past 65 years, what are prudent expectations? In Chart 4, we show long-term U.S. Treasury yields and annual total returns back to 1950. From 1950 through 1981, yields were rising as inflation rose and the U.S. suffered through the Korean War, the Vietnam War, questionable fiscal and monetary policies, the Arab oil embargo, and price controls, just to name a few. During that time, returns on bonds averaged just 3.2 percent. Since peaking in September 1981, Treasury yields and inflation have fallen. Average returns over 1982–2015 have been a much more robust 9 percent.

This raises an important question for investors: Is it prudent to expect high single-digit returns on bonds given that current yields are already at multi-decade lows? Our view is that low single-digit returns are more likely over the coming years and that investors should be careful when making bond allocations.

Chart 4. Bond returns are likely to be low in coming years, not matching their 1982-2015 levels.



Note: Composite interest rate is the average of Treasury bonds due in ten years or longer.

Sources: U.S. Treasury (Haver Analytics).

U.S. EQUITIES

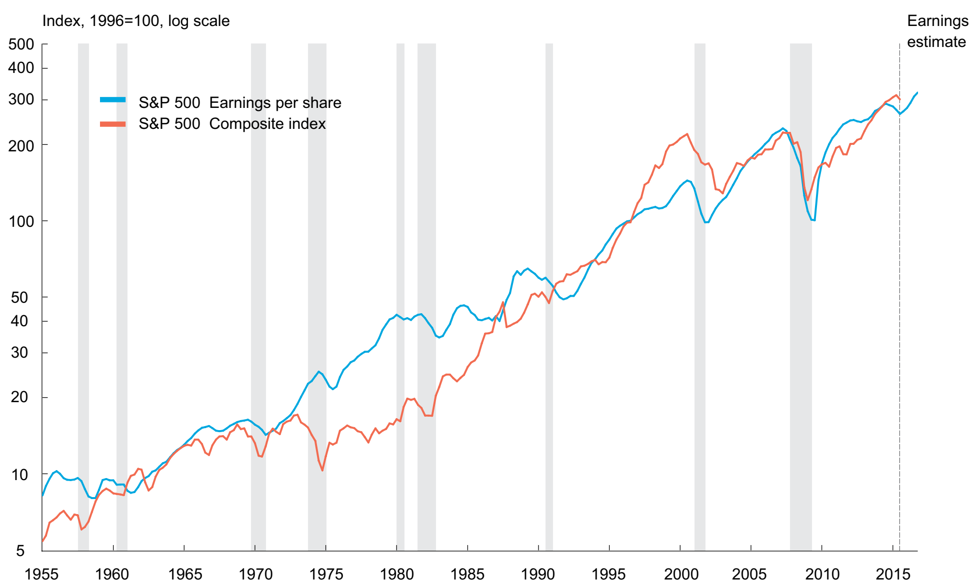
A healthy economy should provide a solid foundation for sales and earnings growth. With our Leaders index moving back into positive territory, the risk of recession remains low. However, with the global economy weak and the dollar relatively strong, the U.S. increasingly depends on domestic sources, primarily consumer spending and business investment, to drive growth. That makes policy tightening as we head into 2016 a bit of a risk. Despite that, we see the underlying economic fundamentals generally supporting future sales and earnings gains.

Our view seems to be shared by equity analysts. Consensus 2016 earnings estimates for the companies represented in the Standard & Poor's 500 index of stocks are a combined $126.55 per share. That represents an 18.6 percent increase over the $106.69 per share expected for 2015. Over the long term, operating earnings for the S&P 500 have grown around 7 percent annually, about the same as the long-term price appreciation for the index (Chart 5).

The other major component in our analysis is valuation. While there are many ways to value equities, one of the simplest and most common is the price-to-earnings (P/E) ratio. By our calculation, the current P/E for the S&P 500 is 19.5. Since 1985, the P/E ratio has ranged between 11 and 30, with an average of 18.2 and a median of 17.2. If we exclude months where inflation was above 3 percent (high inflation tends to depress valuations), the average rises to 19.1, while the median increases to 17.8. That suggests that in the current low-inflation, moderate-growth environment, the S&P 500 is close to its historical average valuation.

Overall, we see the prospects for equities as neutral to mildly positive based on a P/E ratio close to the long-term average and continued growth in earnings, supported by moderate economic expansion.

Chart 5. Earnings are expected to rebound in 2016, setting the stage for gains in stock prices.



Notes: Shaded areas denote recessions. Prior to the third quarter of 1988, S&P 500 earnings per share are reported earnings. After the third quarter of 1988, S&P 500 earnings are operating earnings. Earnings estimate is from Standard & Poor's. Earnings are four-quarter moving totals.

Sources: Standard & Poor's (Haver Analytics).

PULLING IT ALL TOGETHER

THE ECONOMY…

Despite some risks, the U.S. economic outlook for next year appears favorable. Consumer fundamentals continue to improve while household and corporate balance sheets are generally healthy. However, the prospect of rising interest rates poses a risk. Fed policy makers have indicated a gradual path is likely for future rate increases, suggesting a keen awareness of the risks to growth from overly aggressive tightening.

Global economic expansion is also a concern. While the U.S. depends less on exports than many other nations, the combination of slow growth and a strong dollar weighs on some sectors.

Our Leader's index rose to 56 in the latest month from 50 in the prior month. Combined with our cyclical score of 70, we see the probability of recession in the next six to twelve months as relatively low.

…INFLATION…

The CPI rose in October after falling in the previous two months, helped by a slight increase in energy prices. The latest AIER Inflationary Pressures Scorecard points to a neutral reading, with 10 indicators supporting rising inflationary pressure and 11 suggesting pressure is falling. Two are stable. The major change this month came from wages and productivity. Rising private compensation levels and higher labor costs, along with lower growth in productivity, put upward pressure on inflation. But this was offset by a decrease in other producer costs. Overall, there is no evidence that inflation will change significantly in either direction in the coming months.

…POLICY…

The Fed is expected to raise its target for the overnight lending rate between banks by a small amount this month, the first increase in almost a decade. Since this move is widely anticipated, it is unlikely to have significant economic effect.

At the same time, legislation pending before Congress would impose a new requirement that the Fed publicly disclose its interest-rate strategy and its reasons for any deviations. The bill, which has passed the House and is unlikely to pass the Senate, raised objections from the Fed, which is worried about its independence.

…INVESTING

With bond yields near 60-year lows, it's difficult to justify expected total returns in the high single-digit range, as we have seen since 1982 for this asset class. Investors should carefully review asset allocations and be prudent in estimating future gains.

U.S. equities have struggled this year as the effects of falling commodity prices and slow global growth weigh on the economy and earnings for some sectors. However, earnings are expected to rebound in 2016. Valuations remain close to the long-term average, especially given the low inflation environment. Overall, that suggests a neutral to slightly positive outlook for stocks. Investors may look to maximize exposure to domestic sources of growth such as consumer spending and capital investment outside of commodity-related industries.

AIER Reader Satisfaction Survey

The purpose of this questionnaire is to get feedback on how well AIER is doing with its monthly publication: Business Conditions Monthly.

We want to be your source for timely, factual, and unbiased economic analysis and information. You could help us significantly in these efforts by taking a few minutes to answer the following questions. For your anonymity and convenience, please use the attached envelope to return your completed questionnaire.

Thank you for taking the time to provide us with this useful information.

Sincerely,

Rosalind Greenstein, PhD
Director of Research and Education

1. When I receive Business Conditions Monthly

a. I read it regularly, cover to cover.

b. I skim for items of interest.

c. I read it occasionally.

d. I don't read it at all. (› **Skip to Q6**)

2. Given my level of economic understanding, I find that Business Conditions Monthly is

a. written below my level of economic and financial understanding.

b. written at just about my level of economic and financial understanding.

c. written above my level of economic and financial understanding.

3. At 16-pages the length of Business Conditions Monthly is

a. too short.

b. about right.

c. too long.

4. How do you use the information in the BCM—personally and professionally?

5. Please tell us whether you agree or disagree with the following statements about Business Conditions Monthly:

	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
a. The BCM includes interesting and engaging analysis.					
b. The BCM provides practical and helpful information.					
c. I find the information in the investing section useful for my own investment decisions.					
d. I find the information in the policy section to be informative regarding national economic policy.					
e. I find the inflation and consumer price section to be useful for my own household finance decision making.					
f. I am satisfied with the overall content.					
g. The charts and exhibits are easy to read.					
h. The BCM is easy to read.					
i. I am satisfied with the quality of the writing.					
j. I am satisfied with the layout and format.					
k. I look forward to getting the next BCM.					
l. I find myself thinking about BCM articles when I see other economic or financial publications (books, magazines, and newspapers) or programs.					

6. The three things that AIER is doing well are:

a.

b.

c.

7. The three things I'd like AIER to do less of are:

a.

b.

c.

8. What topics would you like to see covered in AIER publications in the future?

CAPITAL MARKET PERFORMANCE

(Percent change)

	Nov. 2015	Latest 3M	Latest 12M	Calendar Year 2014	2013	2012	Annualized 3-year	5-year	10-year
Equity Markets									
S&P 1500	0.2	5.3	0.8	10.9	30.1	13.7	13.7	12.0	5.5
S&P 500 - total return	0.3	6.1	2.7	13.7	32.4	16.0	16.1	14.4	7.5
S&P 500 - price only	0.1	5.5	0.6	11.4	29.6	13.4	13.7	12.0	5.2
S&P 400	1.2	3.2	1.3	8.2	31.6	16.1	13.5	11.4	7.1
Russell 2000	3.1	3.3	2.1	3.5	37.0	14.6	13.4	10.5	5.9
Dow Jones Global Index	1.1	-0.8	-3.0	11.9	16.1	-0.3	8.0	5.2	3.4
Dow Jones Global ex. U.S. Index	-0.4	-2.9	-7.2	7.1	13.0	-6.7	2.6	0.1	1.4
STOXX Europe 600 Index	2.7	6.2	11.0	4.4	17.4	14.4	11.8	8.0	2.6
Bond Markets									
Ryan Labs Treasury index total return	-0.5	-0.6	0.8	9.6	-6.6	2.9	0.7	3.8	5.0
Dow Jones corporate bond index total return	-0.3	0.9	0.5	7.2	-1.9	11.1	2.1	4.9	6.3
Commodity Markets									
Gold	-6.2	-1.8	-7.4	-10.3	-15.5	6.4	-14.1	-4.5	8.7
Silver	-7.8	0.0	-7.7	-13.3	-36.3	1.6	-24.0	-11.7	7.0
CRB all commodities	-3.0	-5.5	-15.4	1.1	-3.1	-9.6	-6.9	-4.7	2.6

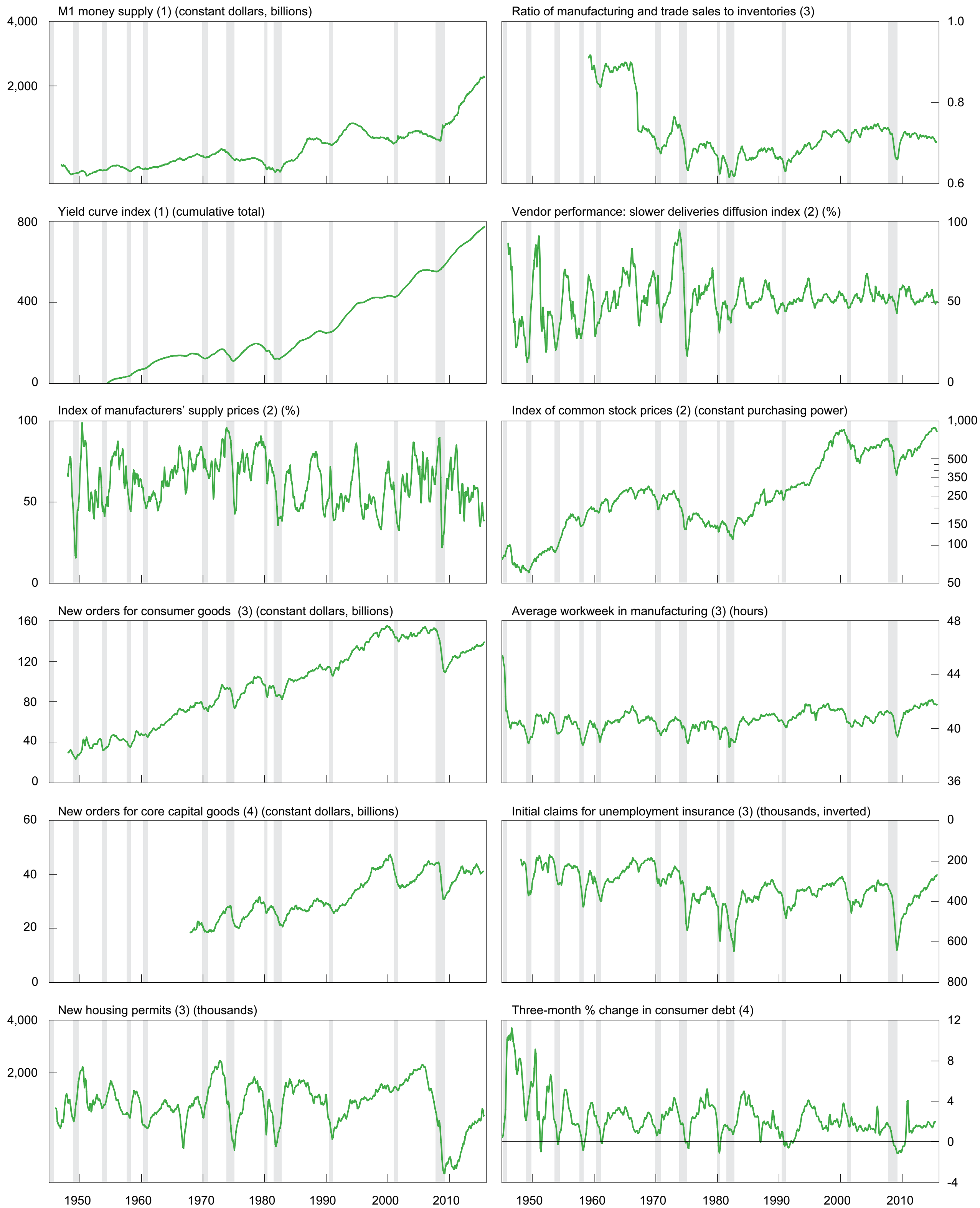
CONSUMER FINANCE RATES

(Percent)

	Oct. 2015	Latest 3M	Latest 12M	Average For Year 2014	2013	2012	Average Over Period 3-year	5-year	10-year
30-yr. fixed mortgage	4.0	3.9	3.9	4.3	4.2	3.8	4.1	4.2	4.9
15-yr. fixed mortgage	3.1	3.1	3.2	3.4	3.3	3.2	3.3	3.4	4.3
5-yr. adjustable mortgage	3.6	3.4	3.4	3.6	3.4	3.0	3.5	3.4	#N/A
Home-equity loan	4.6	4.5	4.4	4.7	5.1	4.7	4.7	4.8	5.5
48-month new car loan	3.2	3.2	3.0	3.1	2.7	3.3	2.9	3.3	5.1

Sources for tables on this page: Barron's, Commodity Research Bureau, Dow Jones, Frank Russell, Standard & Poor's, STOXX Europe 600, Wall Street Journal (Haver Analytics).

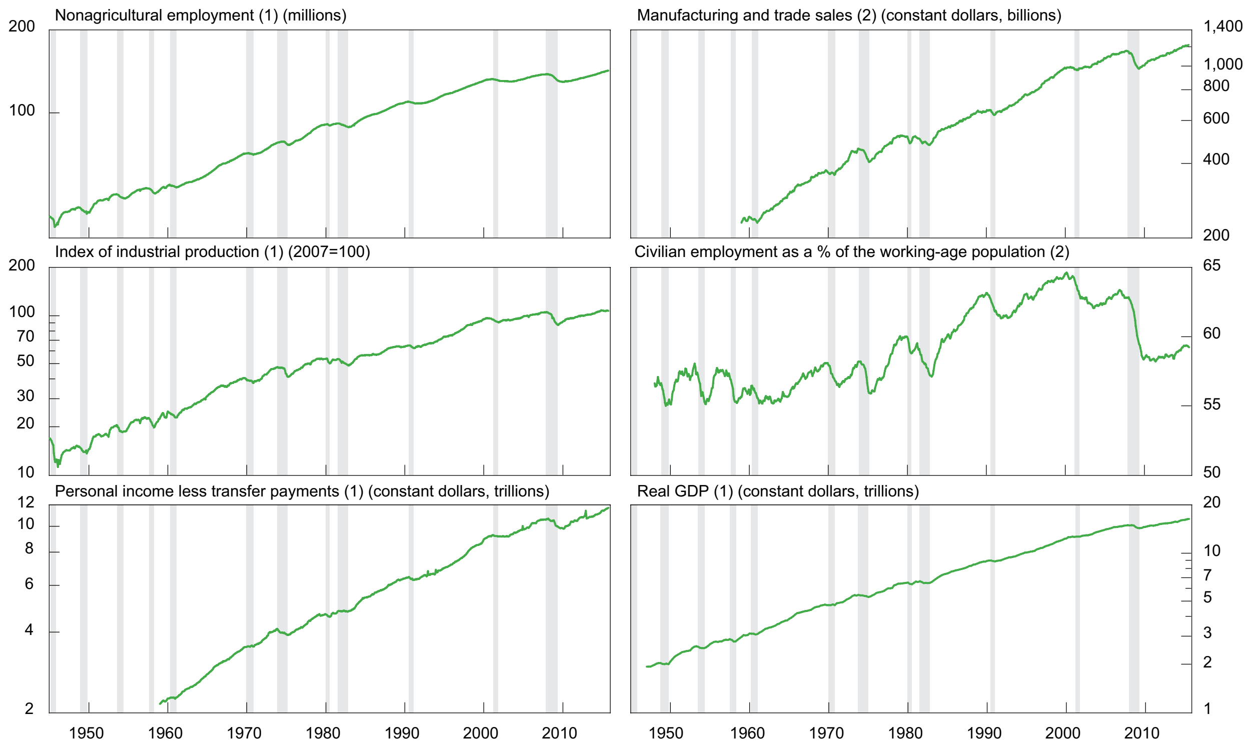
LEADERS



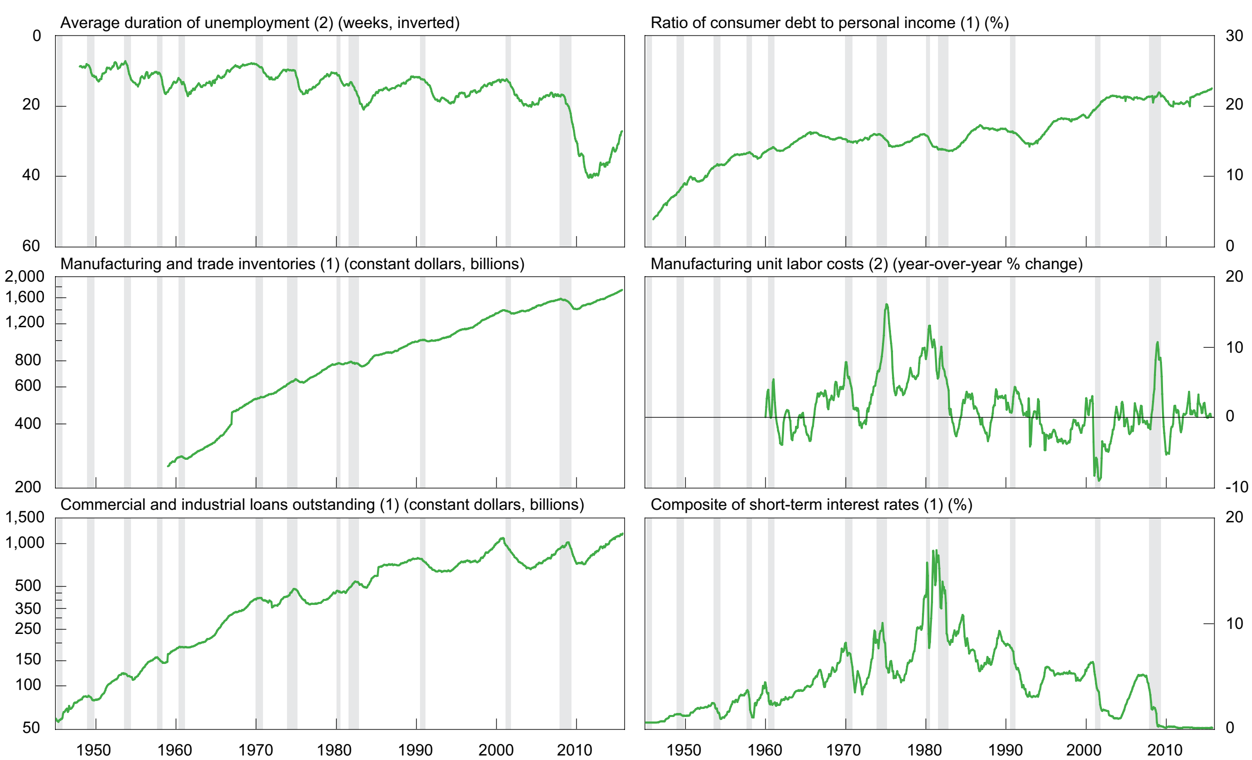
Sources for Appendix: Federal Reserve Board, Institute for Supply Management, Census Bureau, Bureau of Economic Analysis, The Conference Board, Standard & Poor's, Department of Labor, Bureau of Labor Statistics, AIER (Haver Analytics).

Note: Shaded areas denote recessions.

COINCIDERS



LAGGERS



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