# PA HealthCare Credit Union

## 2016
## Economic and Financial Forecast

**The PA HealthCare Credit Union is making your financial health better.**





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# Welcome & Introduction

- The PA HealthCare Credit Union is proud to sponsor this event to better educate members and non-members on the 2016 economic and financial environment which impact these indicators.

- Paul Fero is the CEO of the PA HealthCare Credit Union and is also part of the Adjunct Faculty of La Roche College and formerly with Robert Morris University, and the University of Phoenix teaching in areas of Economics and Finance.

- Follow Paul on Twitter @PaulFero for periodic updates.

*DISCLAIMER:* The views and comments, are solely the views of the presenter and do not necessarily reflect the views of the PA HealthCare Credit Union. The content provides general information only and does not take into account any individual objectives, financial situations or needs. You should assess whether the information is appropriate for you and talk with your financial or other professional advisor before making an investment or financial decision. Reliance upon any such information or opinion is at your own risk.





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# What we said was going to happen…

- "Economic growth as measured by Real GDP will continue to be somewhat "anemic" by conventional standards and should total about 2%. Just mediocre and muddling through."
- "Look for new monthly job gains of about 150,000 a month on average".
- "Unemployment rate will slowly decline as the participation rate declines as baby boomers leave the workforce."
- "Look for the stock market to be flat overall."
- "Look for interest rates to decline a bit more then move to flat with Fed raising Fed Funds finally in September."
- "Economic flare-ups could occur in China."

Pretty spot on…the Fed would have raised in September until China ruined that in August but contributed to the last point. Admittedly, our stock mark forecast was same past couple of years.  (As they say on Wall Street, being early is still wrong.)

# Economic Forecast - Overview

- Economic growth as measured by Real GDP start the year very weak and only just break out to slightly positive.  While not technically a recession it will seem like it anyway, at least the 1H2016.

- Unemployment rate will tick up just a shade as well as some move from the U-3 category to the U-6 category. (That is, more marginally attached to the workforce and/or part-time for economic reasons.) The participation rate will continue declining as well with more leaving the workforce.

- Inflation levels will remain below the Feds target level of 2%. Given commodity prices have plunged by 50% as measured by the CRB index, this isn't a surprise.  And, I'm not going to complain of cheap gas.

- Globally speaking, economic and financial flare-ups continue to abound in China while Europe continues to economically muddle through.

# Economic Forecast - Indicators

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Average or |
| | Forecast | Forecast | Forecast | Forecast | Annualized |
| Oil per barrel * | $30 | $35 | $35 | $35 | $35 |
| CPI - Urban - Annual | 1.0% | 1.2% | 1.5% | 1.7% | 1.4% |
| Unemployment Rate (U-3) | 5.1% | 5.2% | 5.2% | 5.3% | 5.2% |
| Unemployment Rate (U-6) | 10.2% | 10.3% | 10.5% | 10.5% | 10.3% |
| GDP (annualized rate) | -1.0% | 0.0% | 1.0% | 1.0% | 0.5% |
| | | | | | |
| Fed Funds Rate | 0.25%-0.50% | 0.25%-0.50% | 0.50%-0.75% | 0.75%-1% | 0.25%-0.50% |
| 10 Year US Treasury Yield | 1.85% | 2.00% | 2.20% | 2.40% | 2.10% |
| S&P 500 Index | 1675 | 1750 | 1850 | 1880 | 1800 |

* West Texas Intermediate / Light Sweet Crude

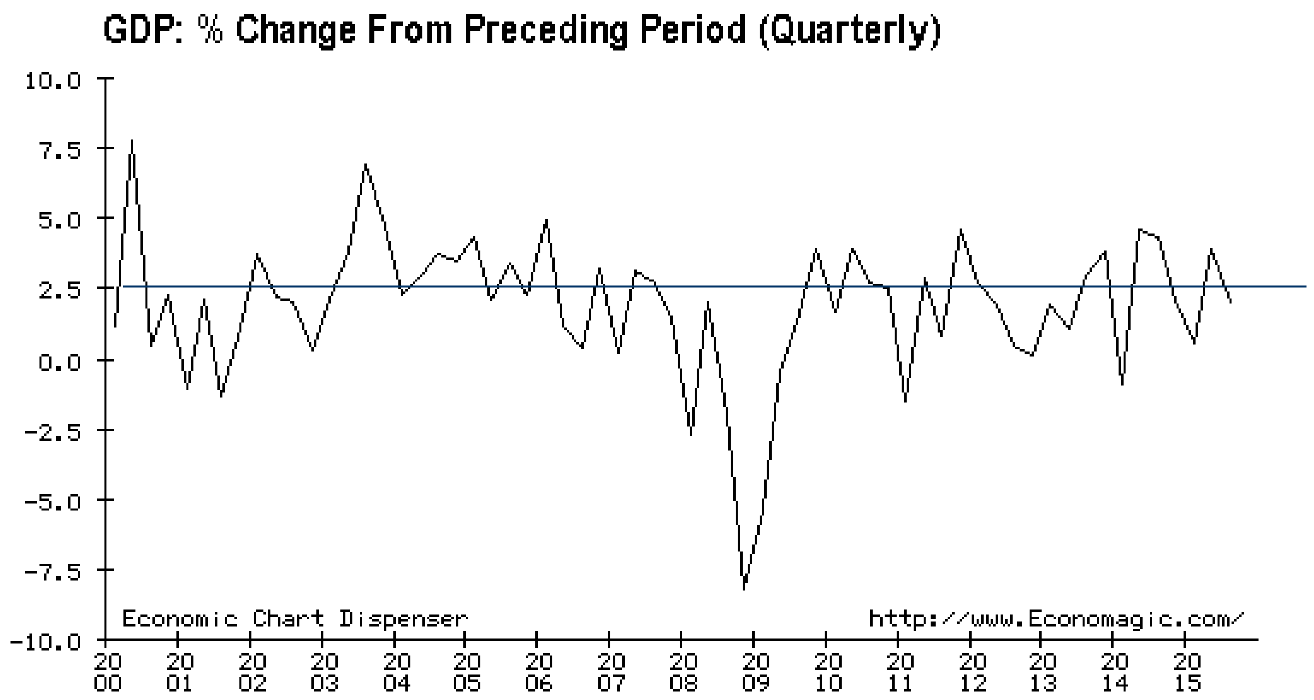
# U.S. Unemployment Rate


U-6 Rate

U-3 Rate

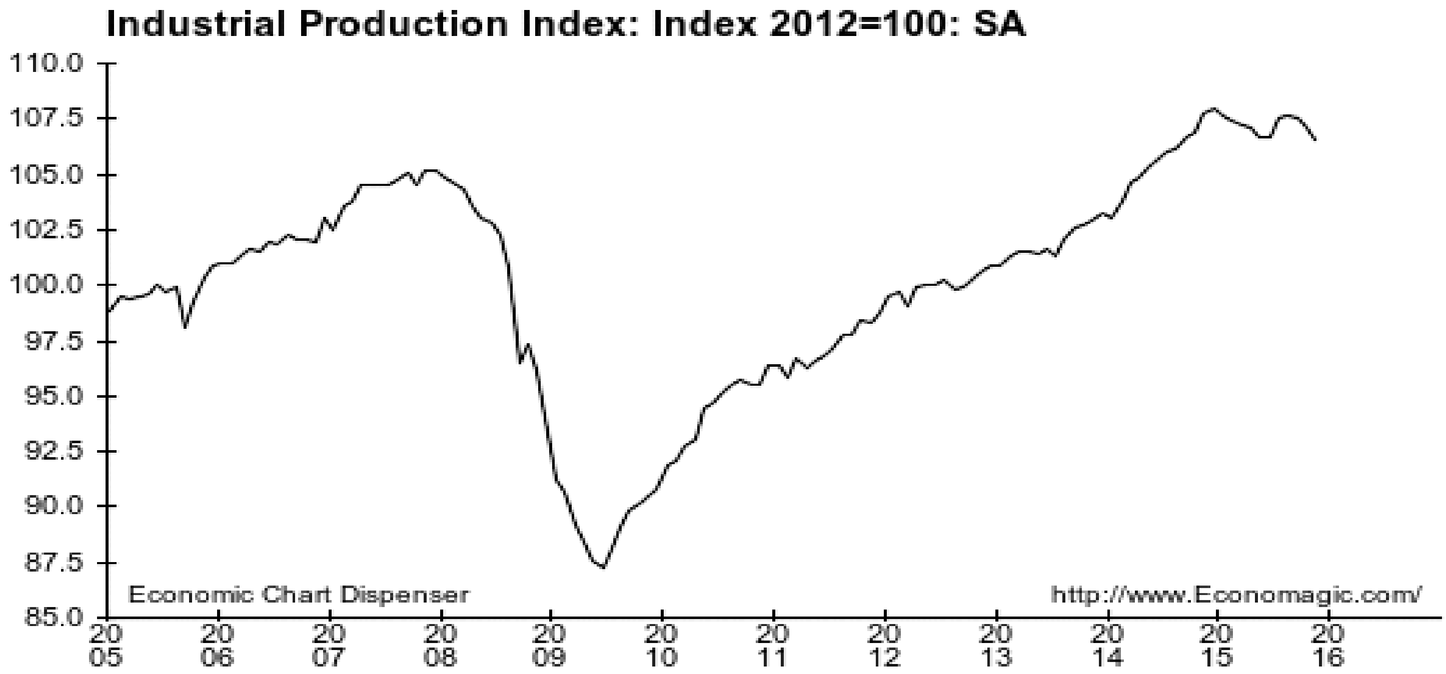
Shaded bar areas highlight recession periods.

# Gross Domestic Product - GDP




Historical average growth @ 2.5%

# Industrial Production – Key indicator of the future?



# Interest Rate Forecast

- Short term interest rates, as controlled by the Fed, will see two 25 basis point increases but not until the second half of the year.  The delay will be due to the weak economic statistics and subsequent financial (stock market) fallout during the first quarter and subsequent partial recovery.

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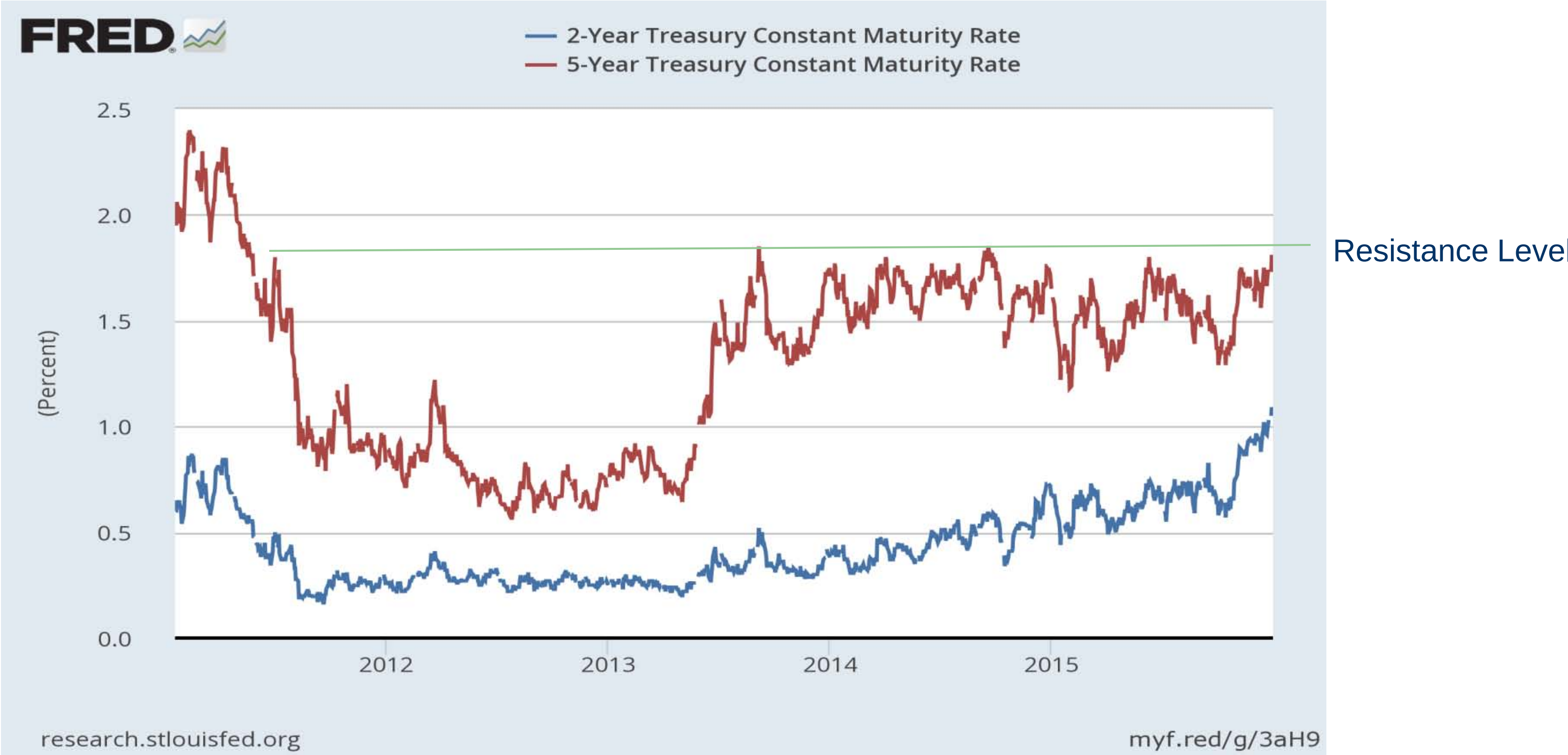
- Mid-term yields of the 2 year and 5 year will move around 25-40 basis points throughout the year with an initial drop in to start the year and sequent recovery.

- Longer term yields of the 10 year will move around 50 basis points throughout the year with an initial drop in to start the year and sequent recovery. The spread between the 10 year US Treasury and the 2 year has widened to levels not seen in a few years. Therefore, look for the 10 year US Treasury to hit a low of 1.85% the slowly creep upward to 2.40% by the end of the year.

# Interest Rate Forecast – Mid Term Rates





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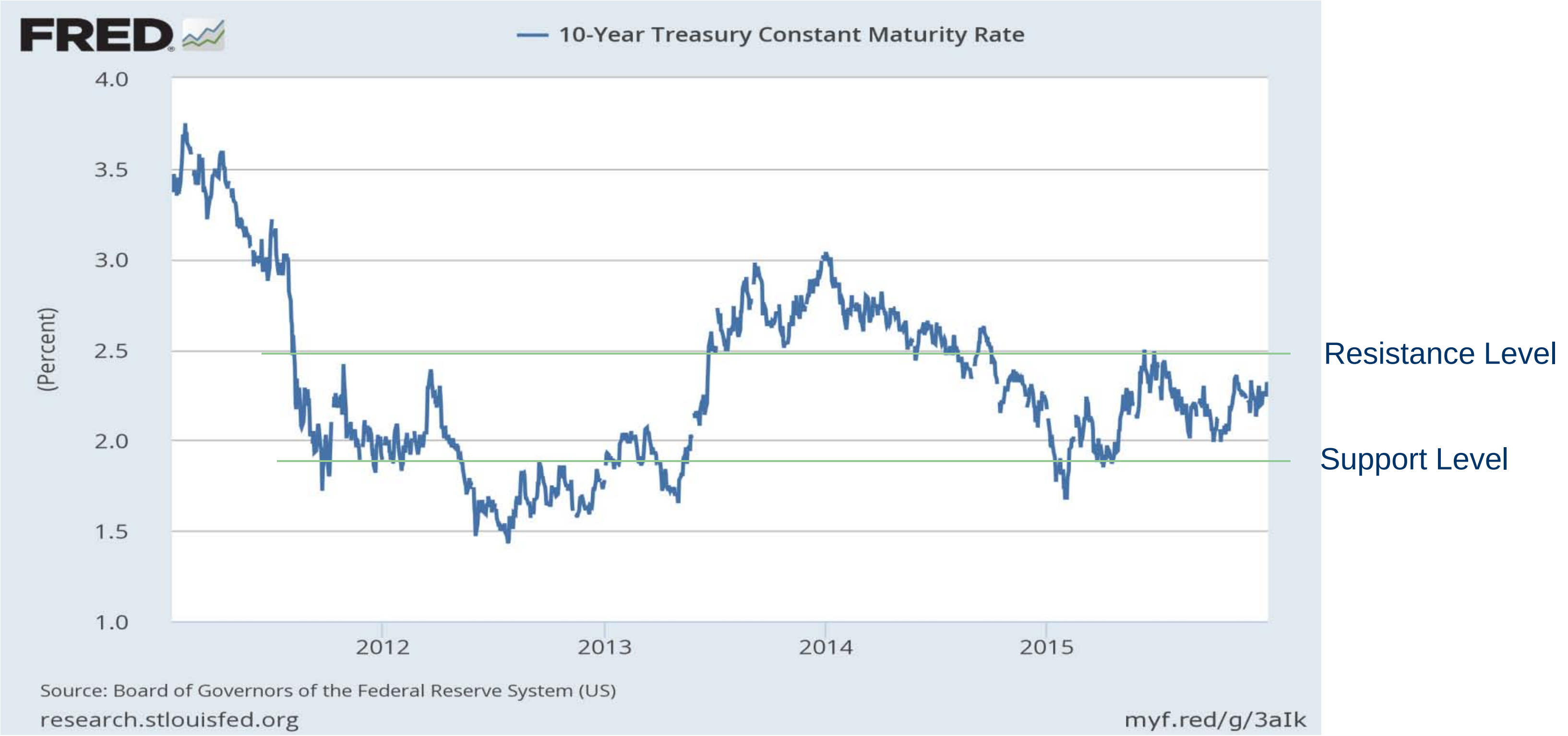
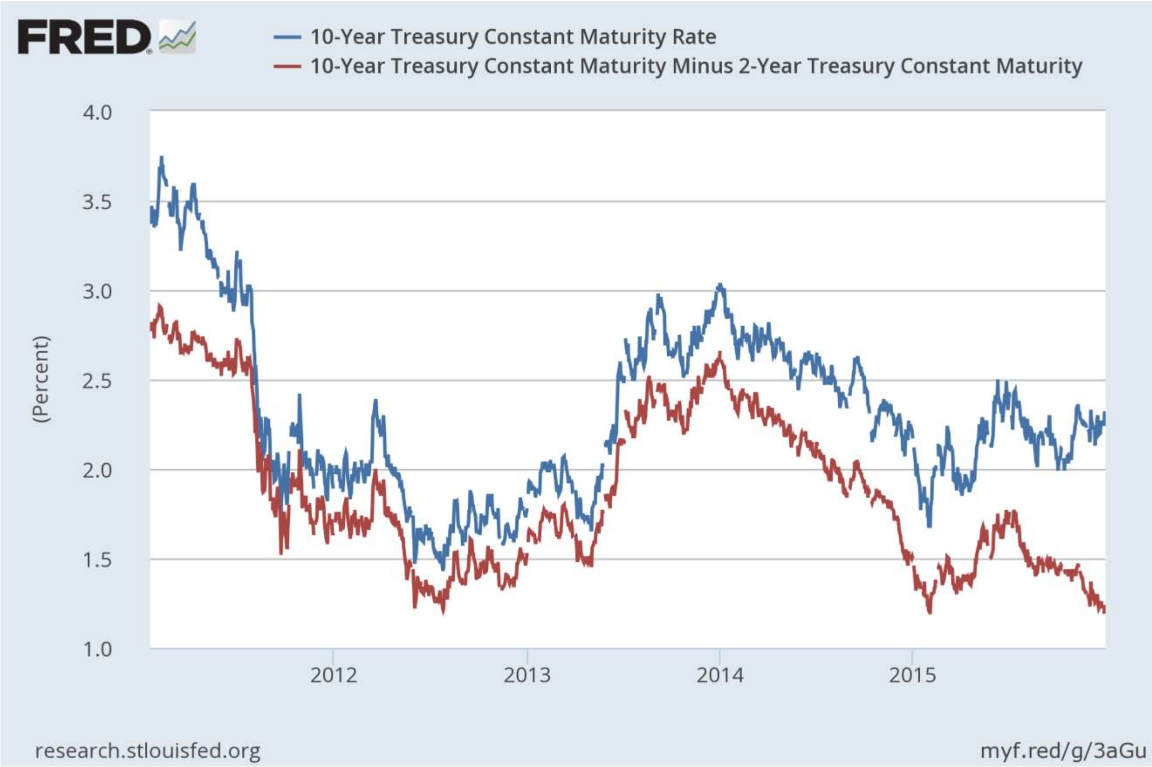
# Interest Rate Forecast – Long Term Rates



# Yield Curve (Spreads) widening




Spreads begin to widen





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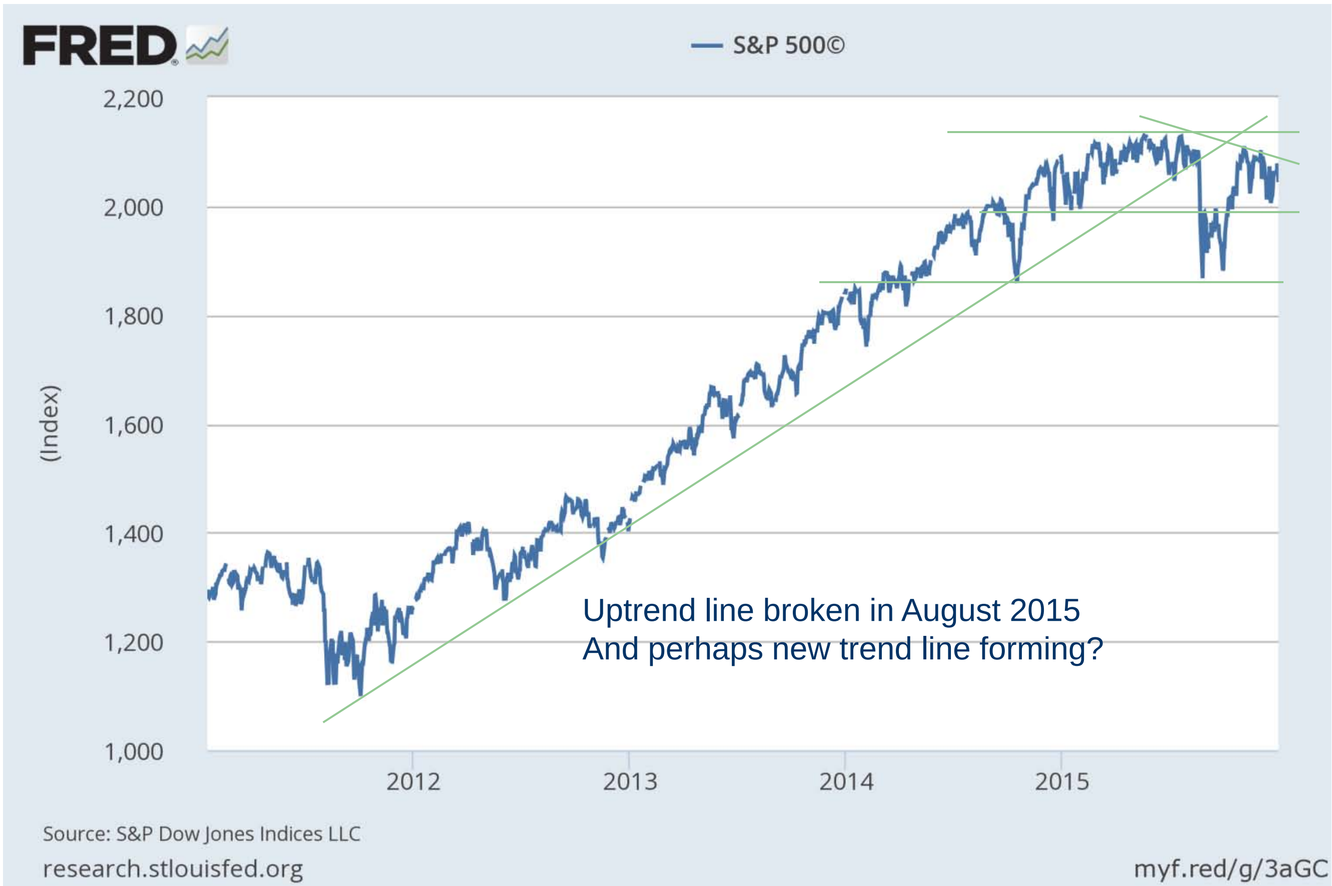
# Stock Market Forecast

- The trend is your friend until it isn't and begins something else.
- Given the dramatic increase of the S&P 500 index since 2011, without a meaningful pullback, a correction is long overdue and likely more significant. (Remember, nothing goes up or down in a straight line.)
- Incorporating technical analysis utilizing 50 day moving average as a short term reversal and 200 day moving average as a mid to long term reversal seems to be the way to play.  Those indicated a reversal (death cross) which begin in August, while the market rebounded a bit, it appears to be rolling over.
- New trend line may be forming indicating a reversal in the market.
- Whatever happens for 2016, it will likely be more dramatic than 2015.

# Stock Market Forecast




Resistance @ 2100

Support @ 1995

Support @1886 from October 2014 is below the 1921 level from August 2015. Breaks below these levels could send to around 1660 and worse case 1445





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