

Government Affairs Council/President's Council  
The Outlook for 2016 and 2017

(And Beyond)



**I got ahold of Jeb  
Bush's Birth  
Certificate; He's  
really a girl. His name  
is Jebra**

- The Average Duration of the 10 Previous Post War Bull Markets Was 57.1 Months.
- The Average Percentage Gain of The 10 Previous Post War Bull Markets Was 126.5%.  
(Current Bull Market Is At 82 Month Mark and Has Appreciated 183.6%)

- The Average Duration of the 10 Previous Post War Economic Recoveries Was 60.5 Months.

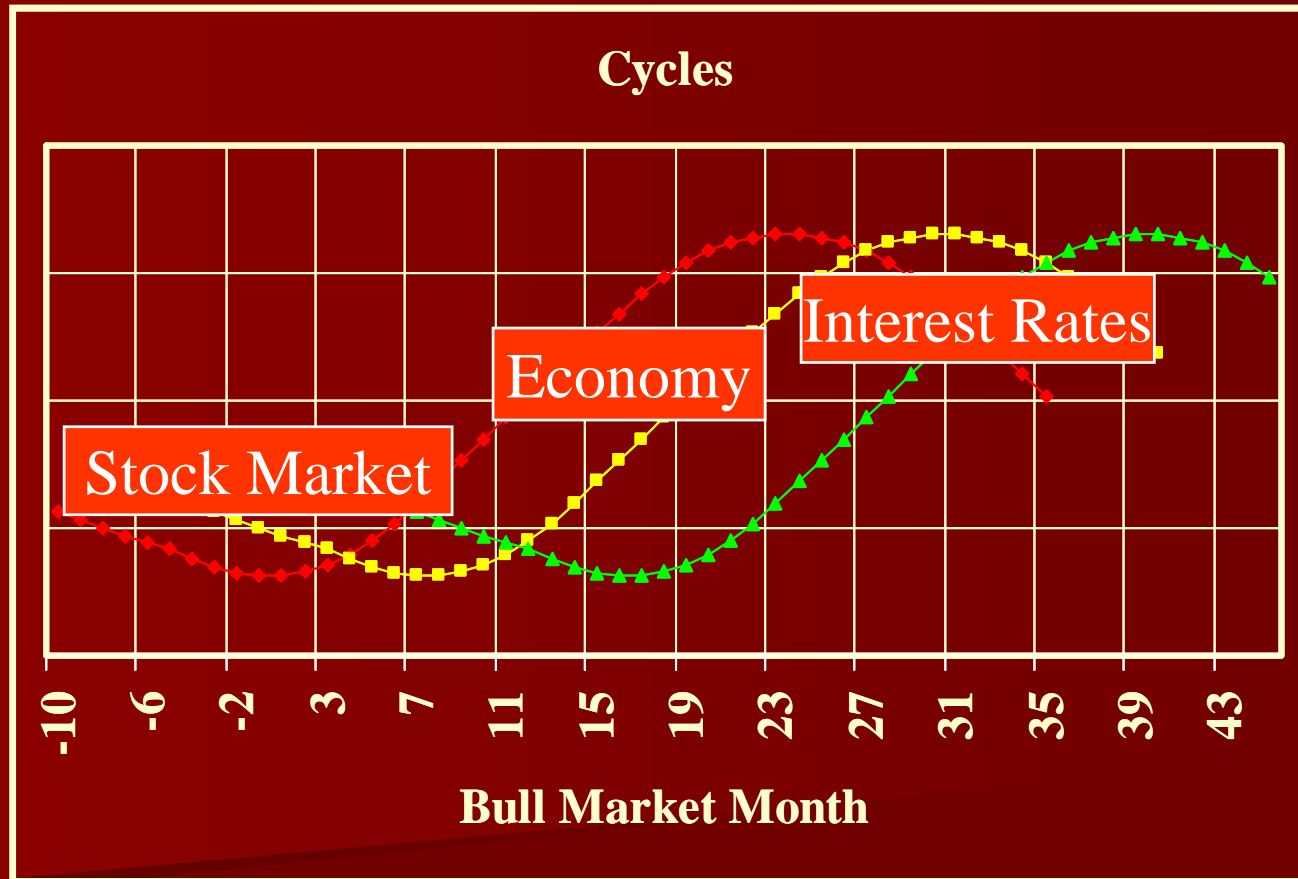
(Current Recovery Is At 78 Month Mark)

## Approach

- Identify Meaningful Trends in Financial Markets
- Identify Meaningful Trends in Important Monetary and Economic Variables

(Are The Financial Market Trends Rational?)

# The Anatomy of a Cycle



Source: Hugh Johnson Advisors (HJA)

# The Anatomy of a Mania (and Financial Crisis)

- The Stage of Investment
- The Stage of Speculation
- The Stage of Financial Distress
- The Stage of Revulsion

**The Stage of Speculation:**

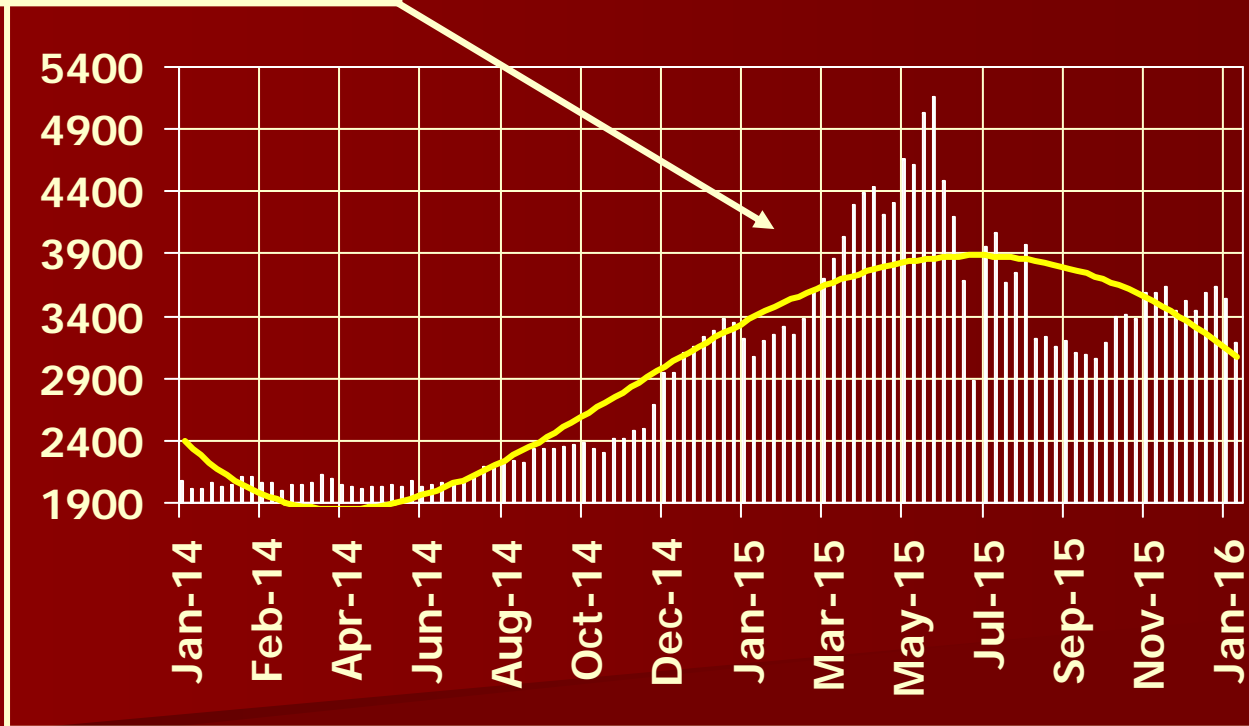
**6/28/2013 to 6/12/2015: 161%  
(62.3% Annual Rate)**

**The Stage of Revulsion:**

**6/12/2015 to 7/10/15: -44.3%**

# A Bubble

## Shanghai Composite



Source: Bloomberg News; Hugh Johnson Advisors (HJA)

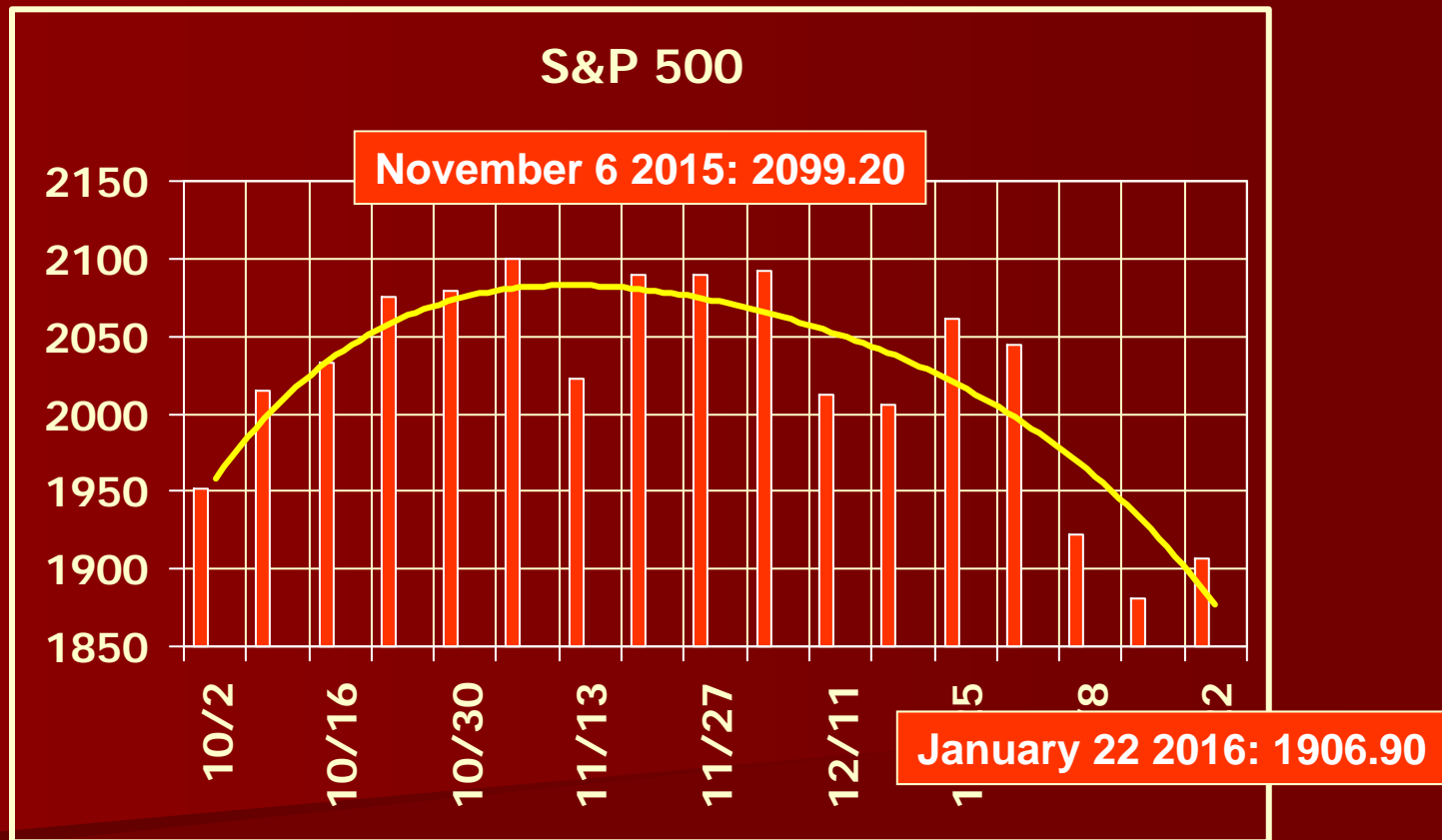


“Recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term.”

FOMC

September 17 2015

# Since November 6<sup>th</sup> the S&P 500 Has Declined 9.2%



Source: Bloomberg News; Hugh Johnson Advisors

# Since November 6th Bear Market Sectors Outperformed Bull Market Sectors.

Sector	November 6-January 15
Utilities	4.0%
Telecommunications	3.2%
Consumer Non-Cyclical	0.3%
Healthcare	-5.4%
S&P 500	-9.2%
Consumer Cyclical	-9.9%
Industrial	-10.9%
Technology	-10.1%
Finance	-13.7%
Basic Materials	-14.7%
Energy	-18.9%

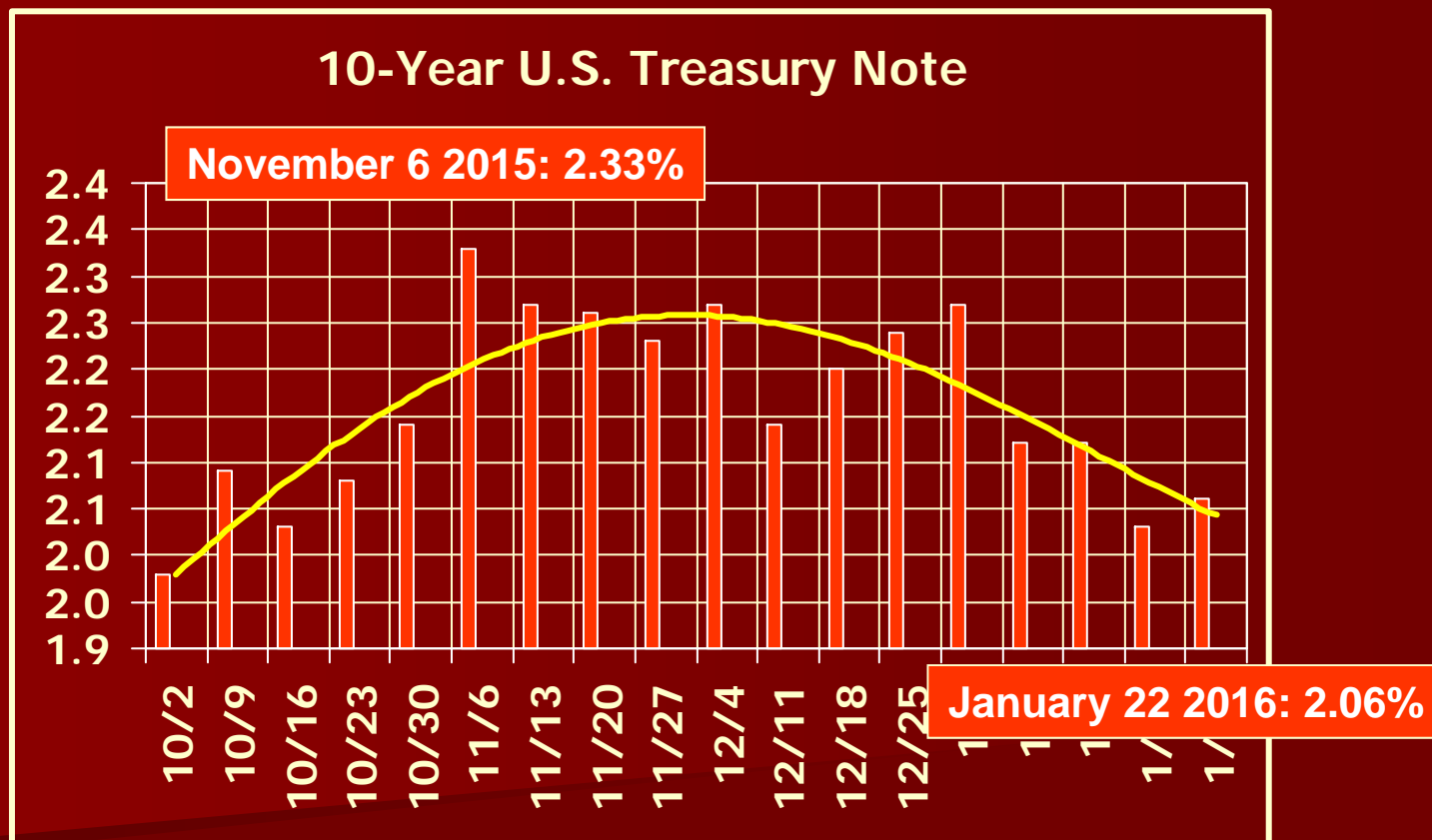
Source: Bloomberg News; Hugh Johnson Advisors. *Bear Sectors in red.*

# Since November 6th ... Large Capitalization Outperformed Mid and Small Capitalization Stocks

Index/Capitalization	November 6-January 15
<b>S&amp;P 500 (Large)</b>	<b>-9.2%</b>
<b>S&amp;P 400 (Mid)</b>	<b>-12.0%</b>
<b>S&amp;P 600 (Small)</b>	<b>-14.6%</b>

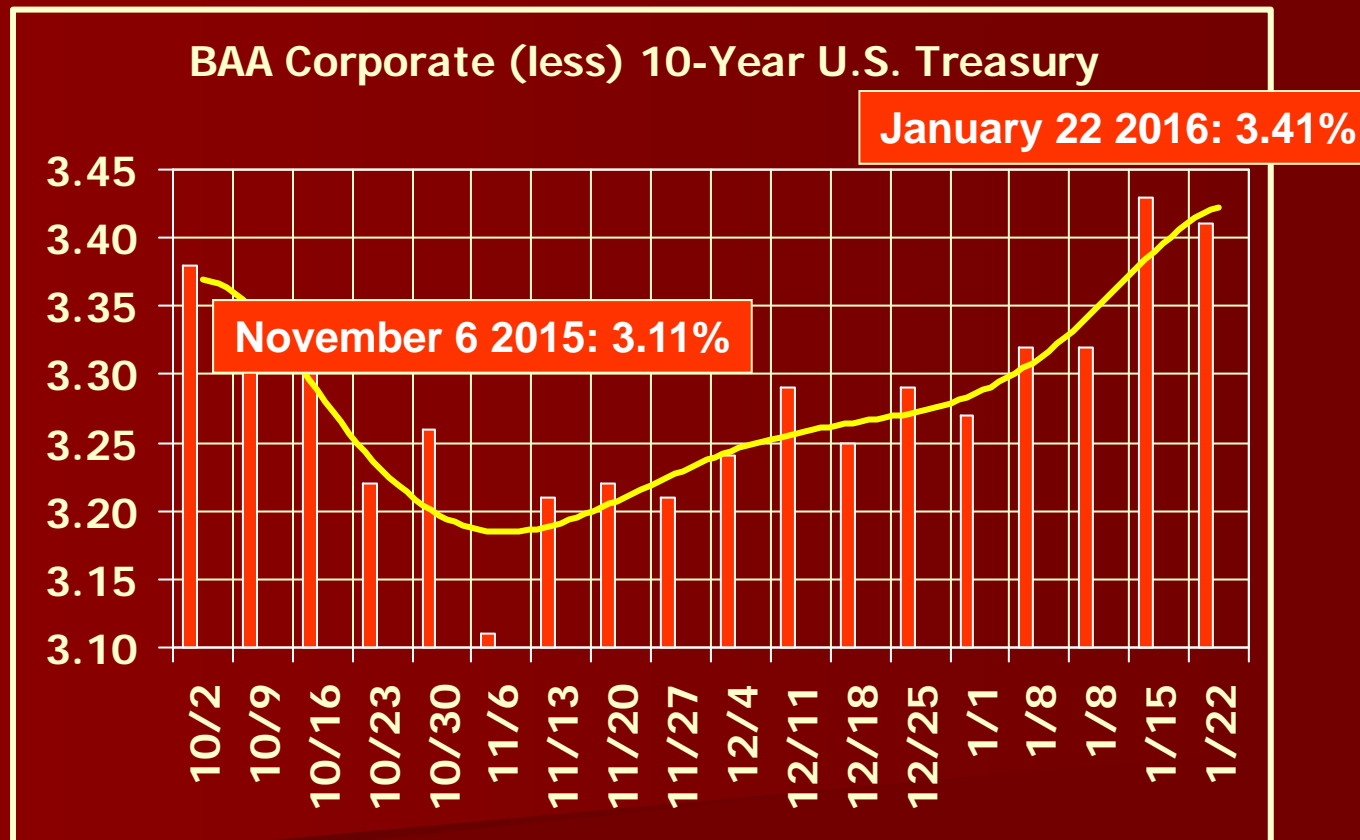
Source: Bloomberg News; Hugh Johnson Advisors

# Since November 6th Longer-Term Interest Rates Declined From 2.33% To 2.06%.



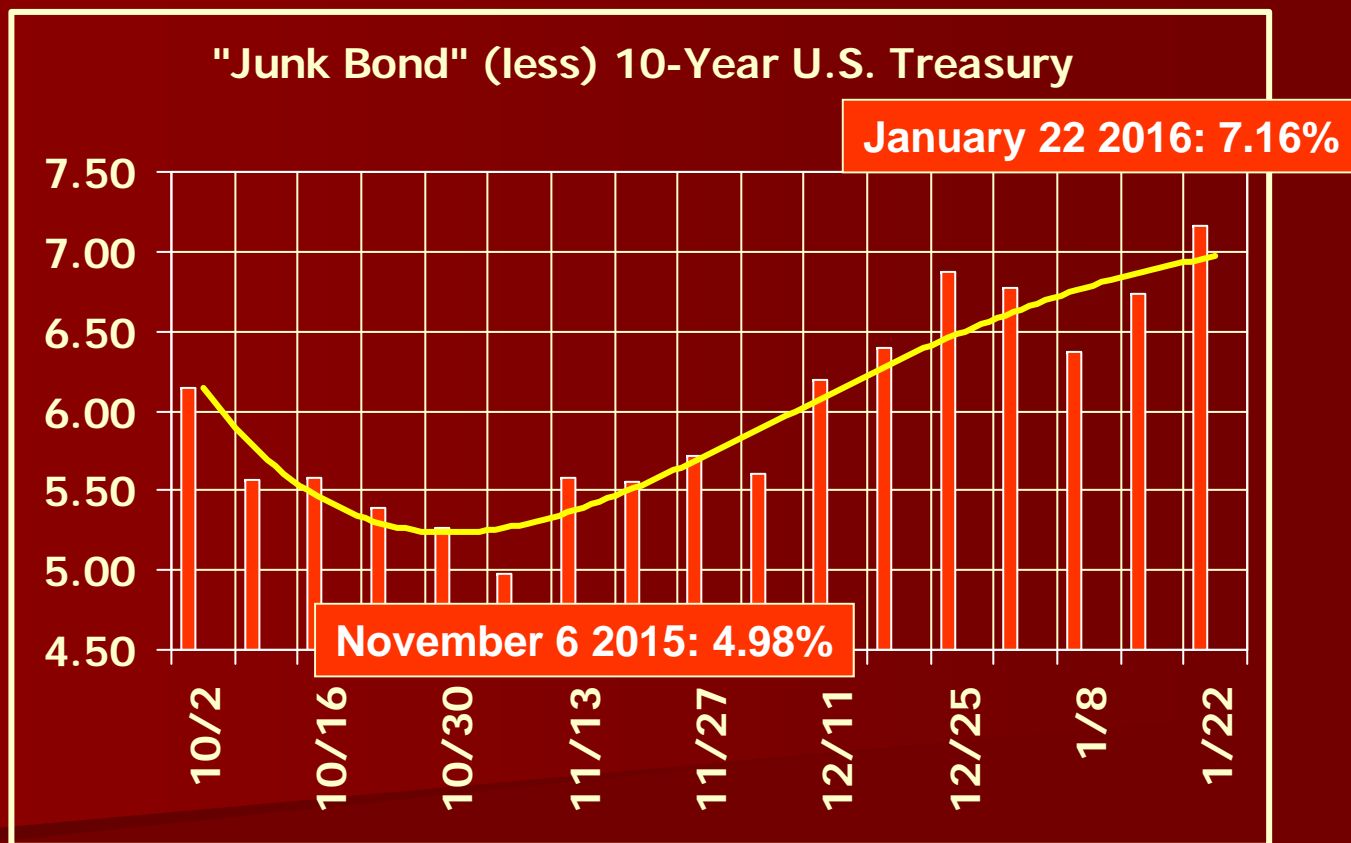
Source: Bloomberg News; Hugh Johnson Advisors

# Quality Spreads Widened. Investors Became Less Optimistic



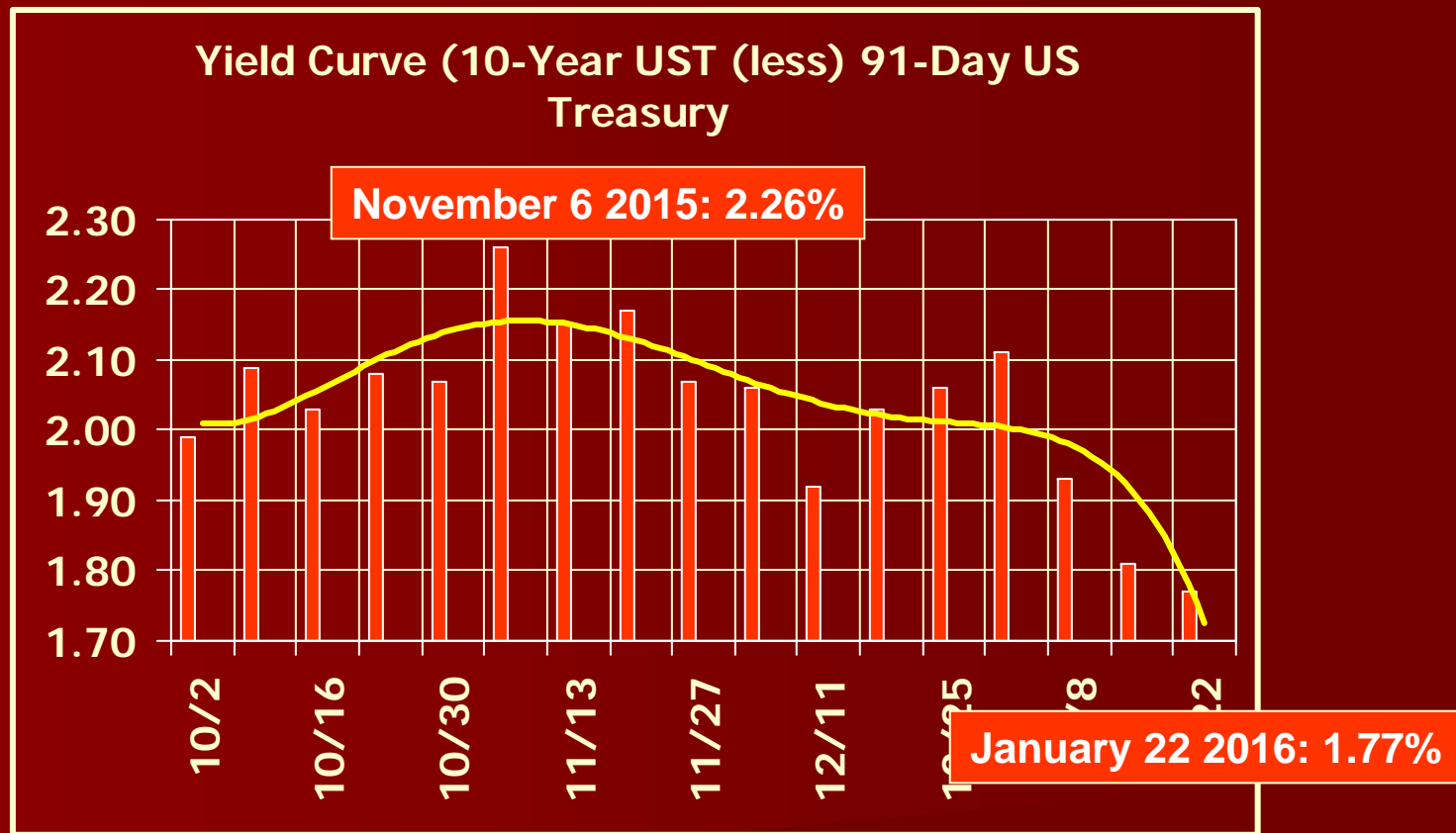
Source: Bloomberg News; Hugh Johnson Advisors

# Quality Spreads Widened. Investors Have Become Less Optimistic



Source: Bloomberg News; Hugh Johnson Advisors

# The Yield Curve Narrowed From 2.26% to 1.77%



Source: Bloomberg News; Hugh Johnson Advisors



The Trends in The Financial Markets were  
Negative....

*Troubling...It May Be Too Early to Throw in The  
Towel*

Two Reasons:

## Two Reasons (cont.)

1. Fixed Income Market Variables (The Trend of Interest Rates; Quality Spreads) are Lagging Indicators not Leading Indicators with exception of The Yield Curve.

And The Yield Curve Says The Probability of A Recession Starting in the Next 12 Months is Low.

# Despite the Narrowing of the Yield Curve, The Recession Probability Remains *Somewhat* Low...For Now.

Month/Year	Probability of Recession
Jan-16	4.42%
Feb-16	3.80%
Mar-16	3.55%
Apr-16	4.02%
May-16	2.79%
Jun-16	2.20%
Jul-16	2.37%
Aug-16	3.13%
Sep-16	2.91%
Oct-16	3.36%
Nov-16	2.96%
Dec-16	3.56%

Source: Federal Reserve Bank of New York

## Compare the Current Recession Probability with the Recession Probability at Start of 2008.

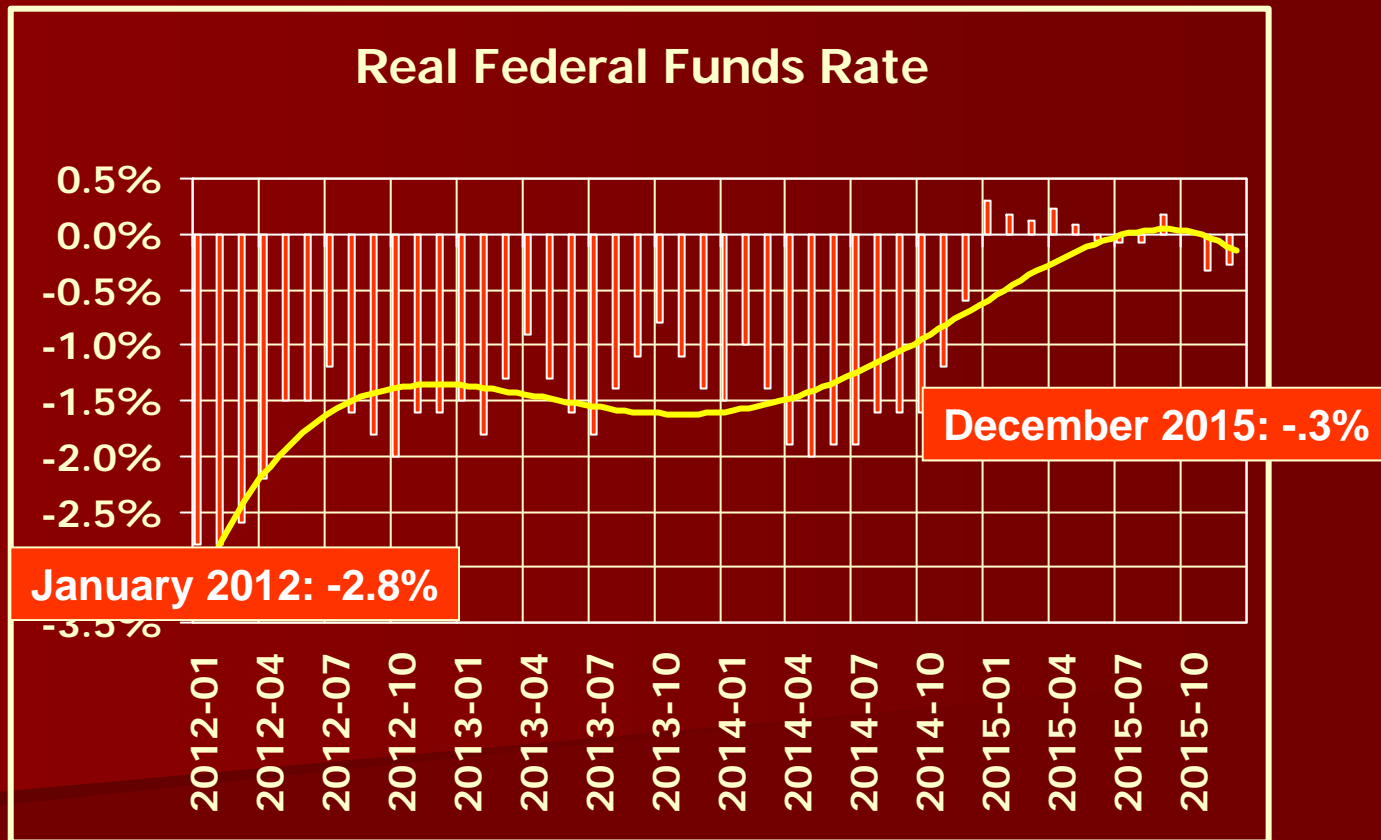
<b>Month</b>	<b>Recession Probability</b>
<b>January-08</b>	<b>37.8%</b>
<b>February-08</b>	<b>40.1%</b>
<b>March-08</b>	<b>41.7%</b>
<b>April-08</b>	<b>36.8%</b>
<b>May-08</b>	<b>32.0%</b>
<b>June-08</b>	<b>22.1%</b>
<b>July-08</b>	<b>28.5%</b>
<b>August-08</b>	<b>22.2%</b>
<b>September-08</b>	<b>19.1%</b>
<b>October-08</b>	<b>19.1%</b>
<b>November-08</b>	<b>14.8%</b>
<b>December-08</b>	<b>11.7%</b>

Source: Federal Reserve Bank of New York

## Two Reasons (cont.)

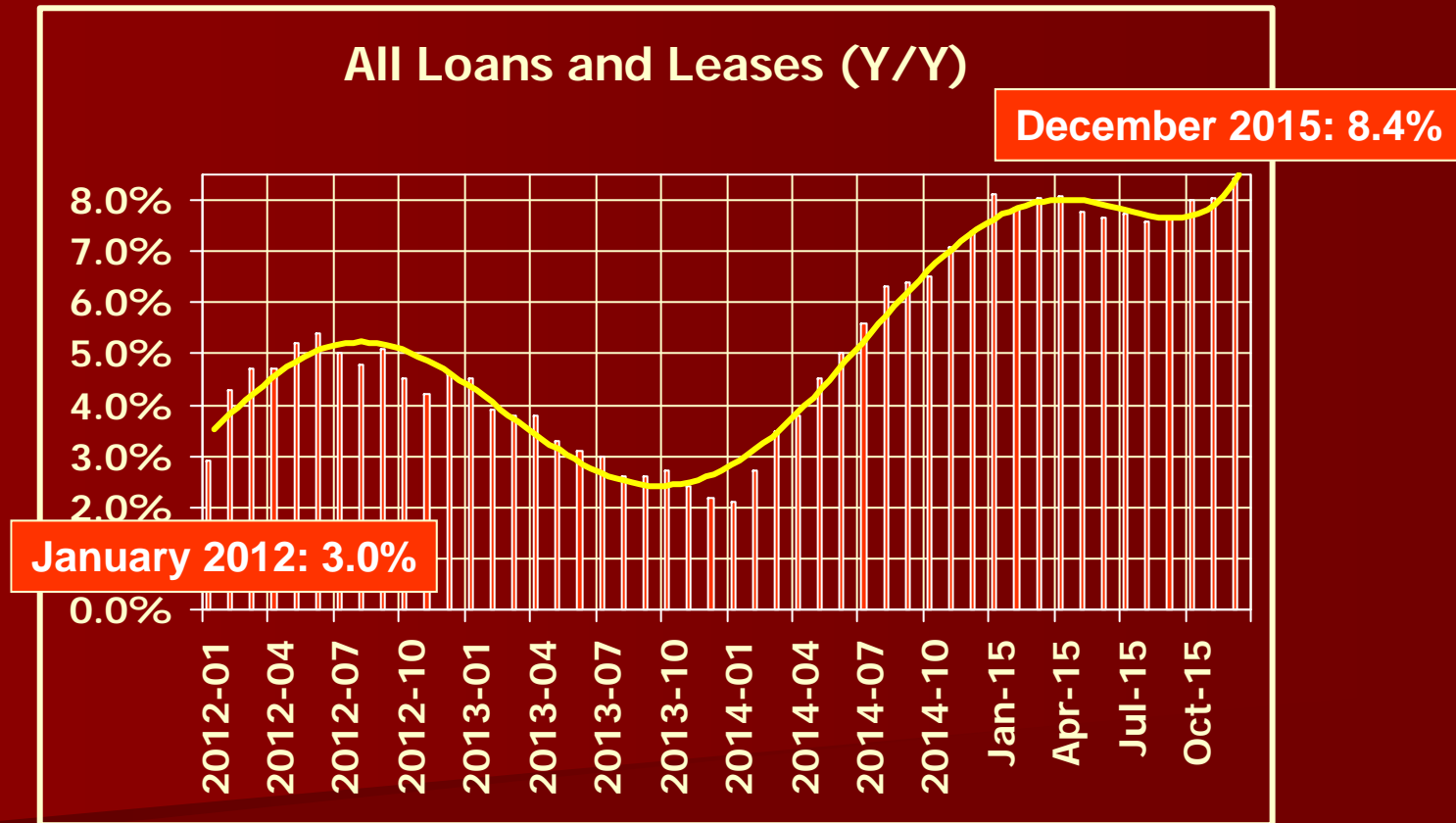
2. But of Greatest Importance is that The Conditions that Ordinarily Signal/Accompany an Expansion of the Economy are In Place

# The Federal Reserve Policy Remains Accommodative... More Later



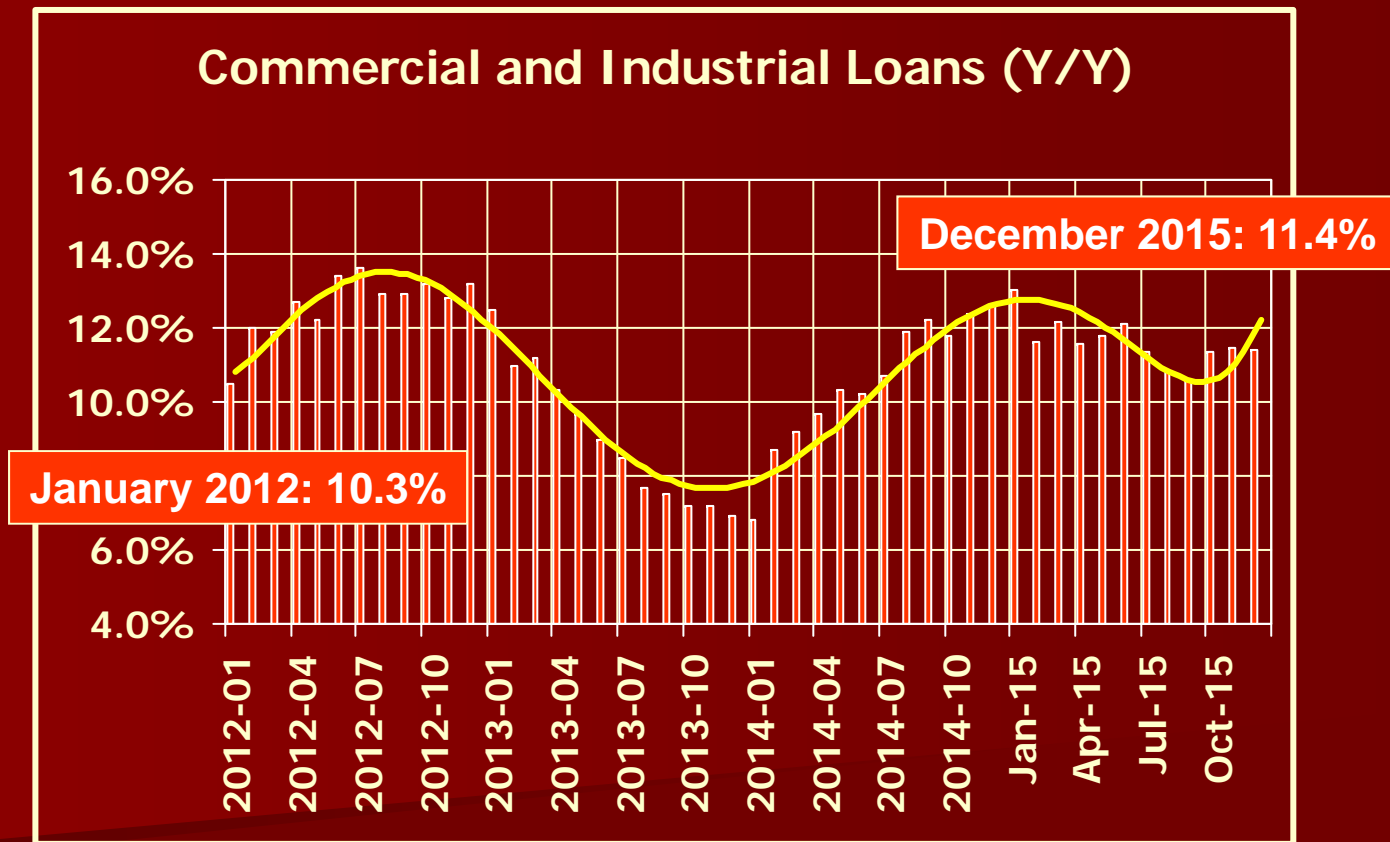
Source: Federal Reserve

# Total Bank Lending Solid



Source: Federal Reserve

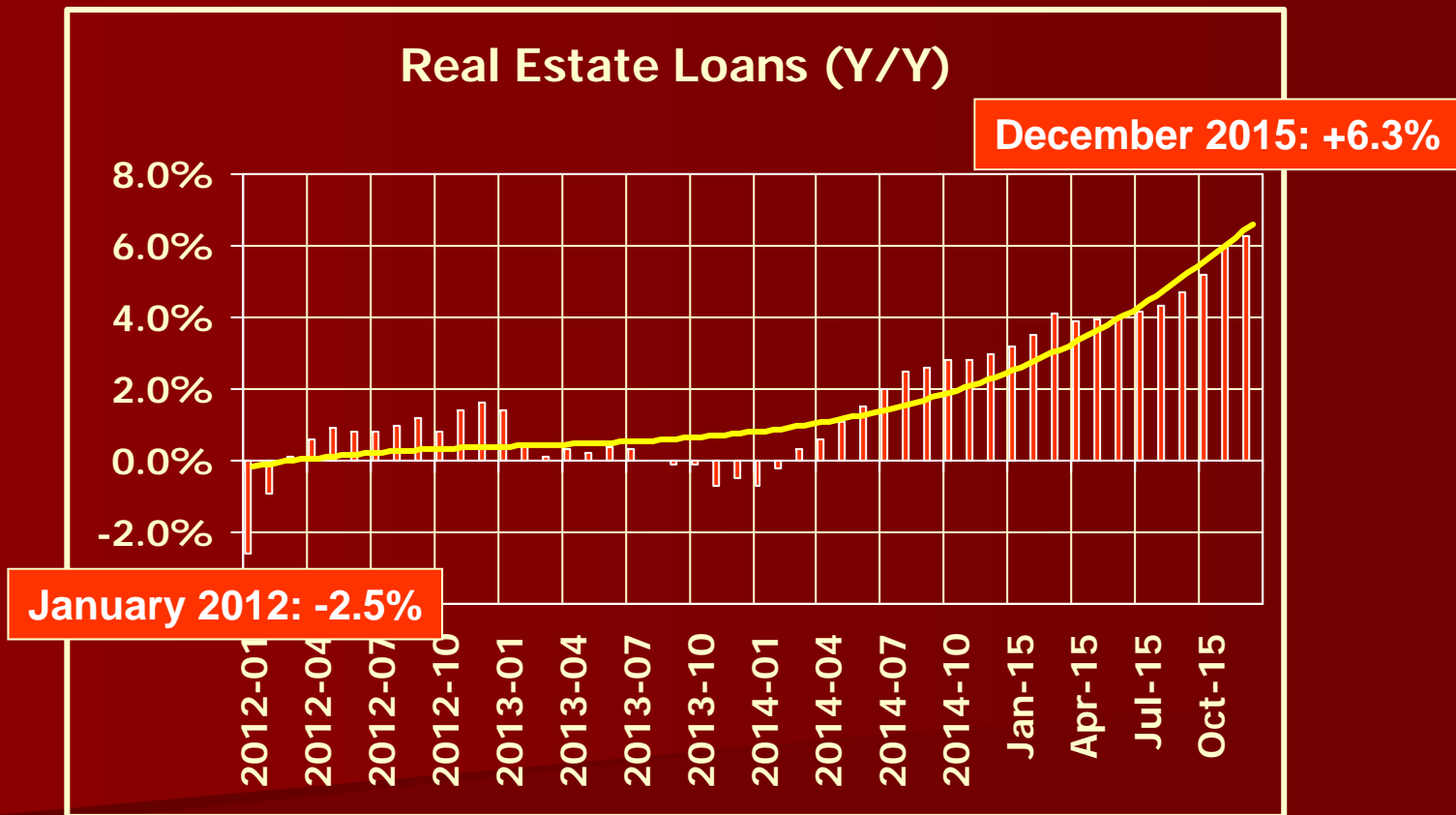
# Lending to Businesses Solid



Source: Federal Reserve

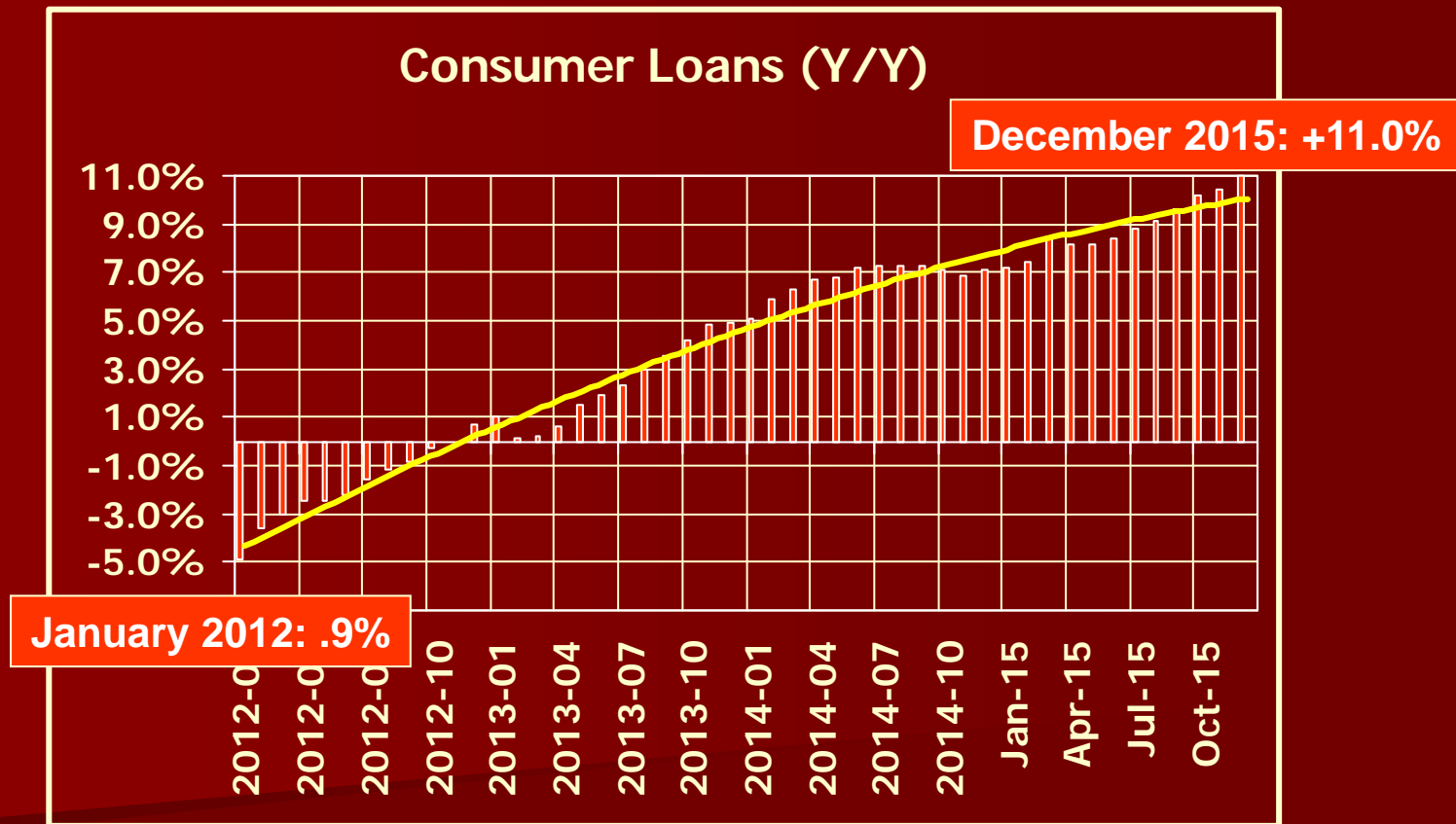


# Real Estate Lending Solid; Improving



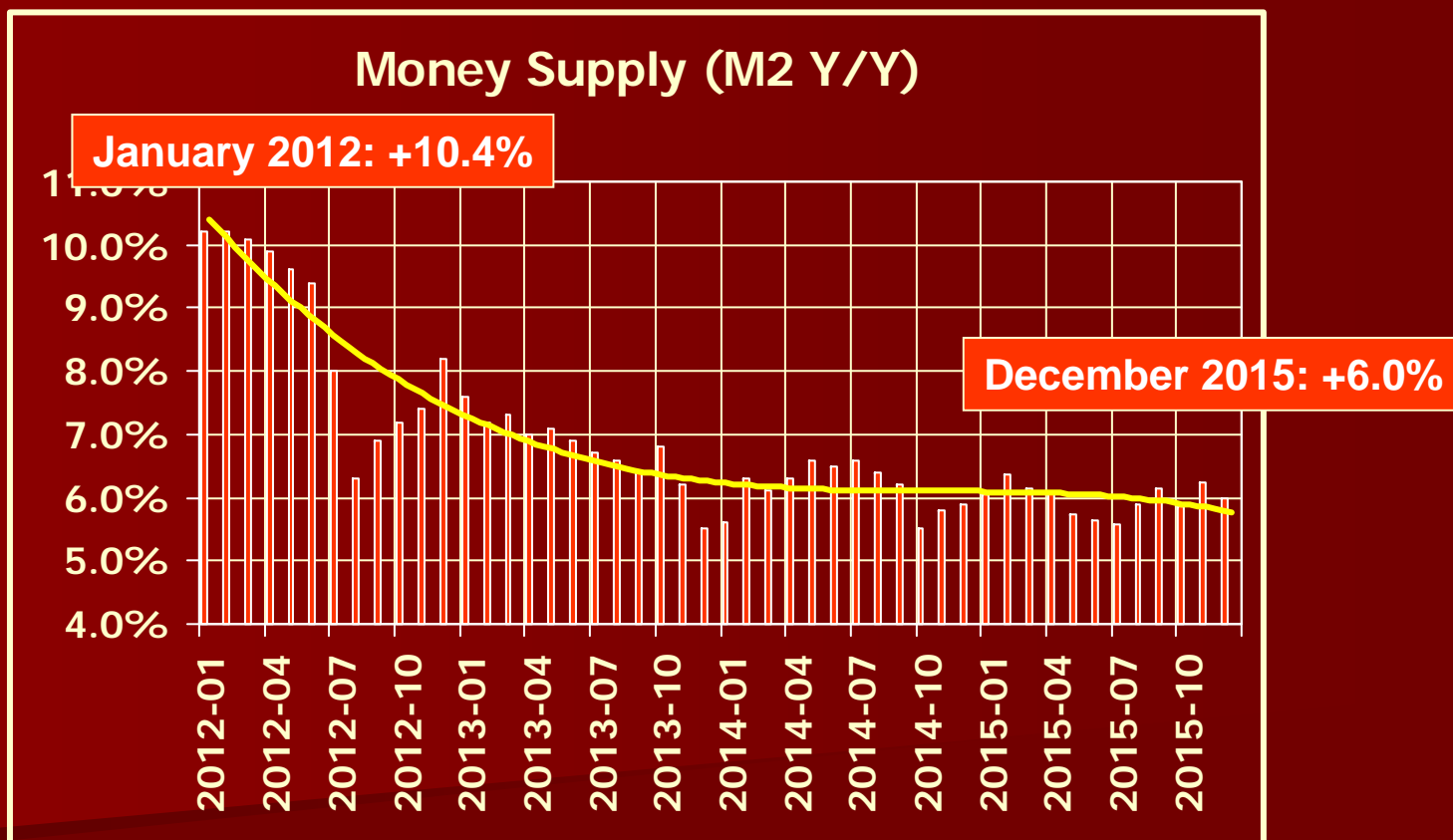
Source: Federal Reserve

# Loans to Consumers Improving



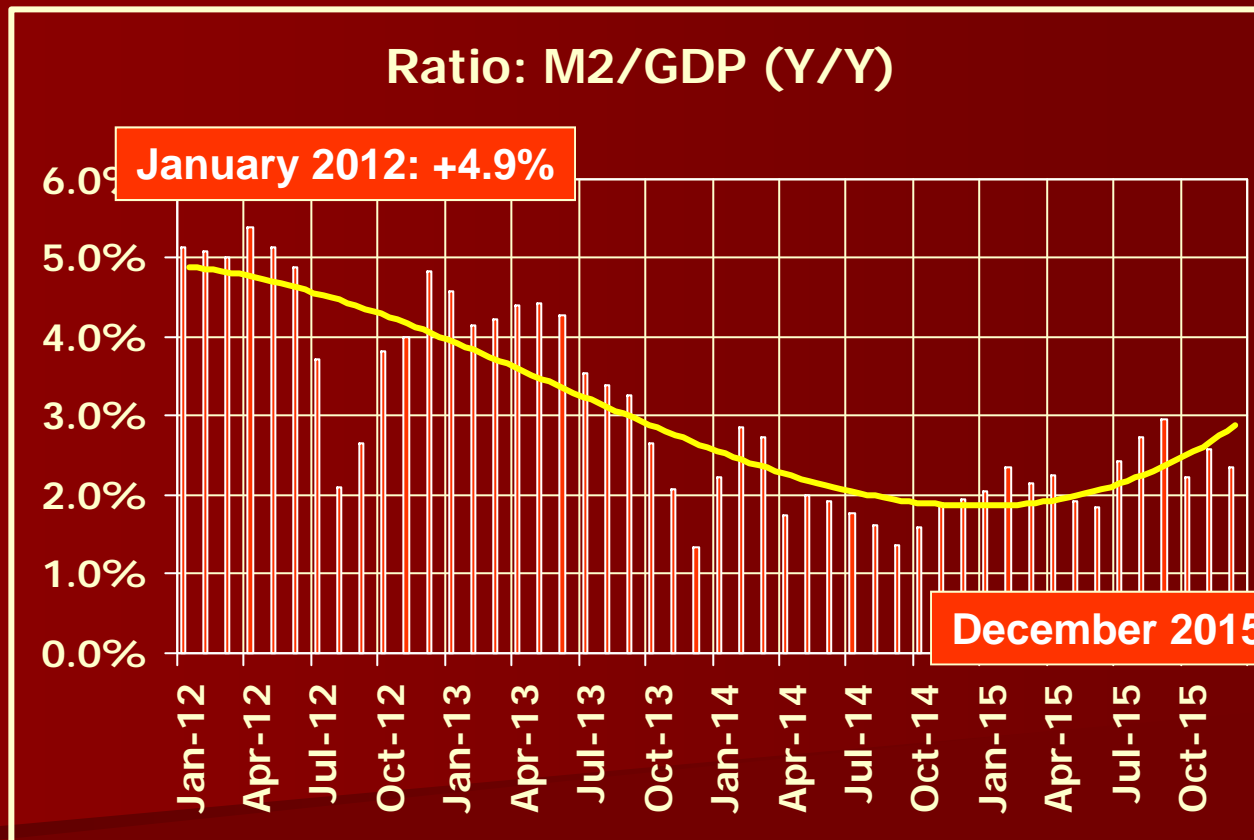
Source: Federal Reserve

# The Growth Rate of The Money Supply Has Slowed, But Continues at a Good Pace.



Source: Federal Reserve

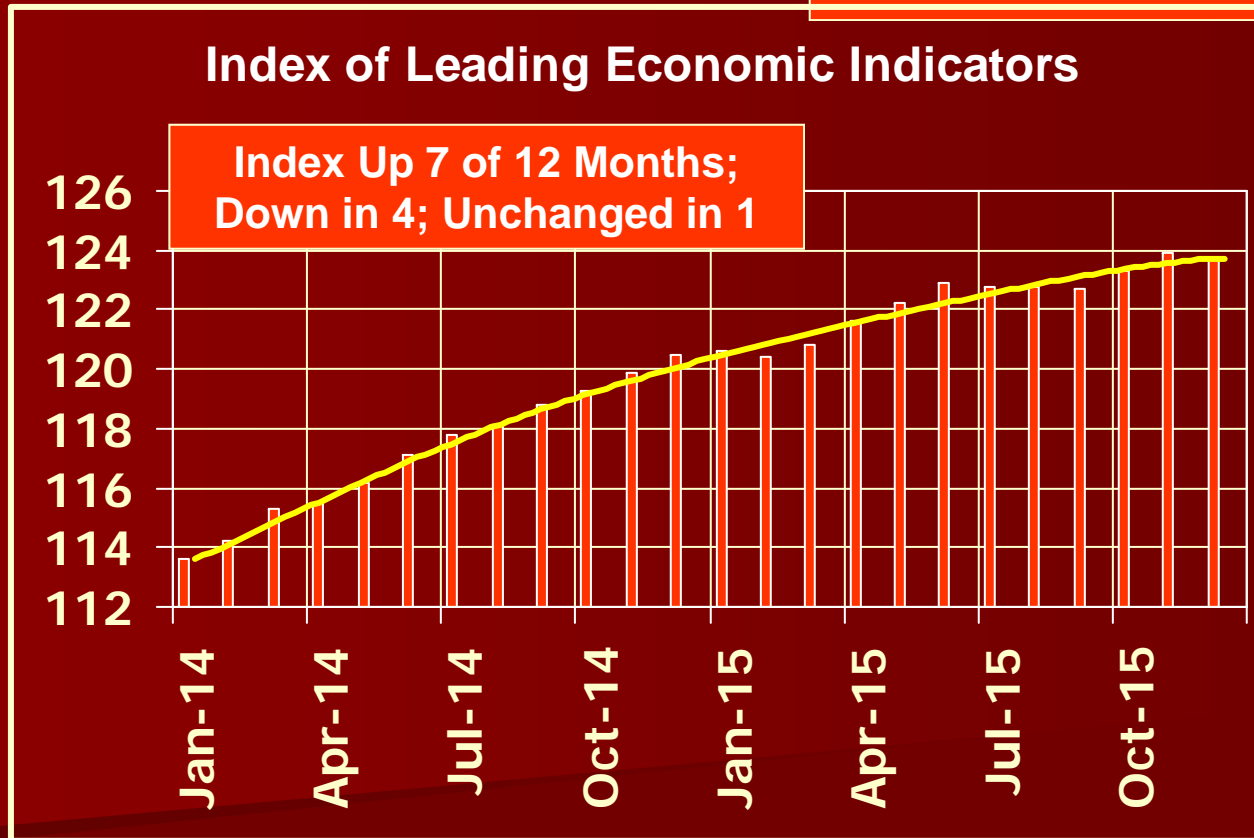
# As A Result, Domestic Liquidity Conditions Remain Positive and are Improving



Source: Bureau of Economic Analysis; Federal Reserve

# Leading Indicators For The Economy Continue To Rise

Index Down in December and Likely to be Down for January....Needs to Be Watched



Source: Conference Board

# Real Gross Domestic Product

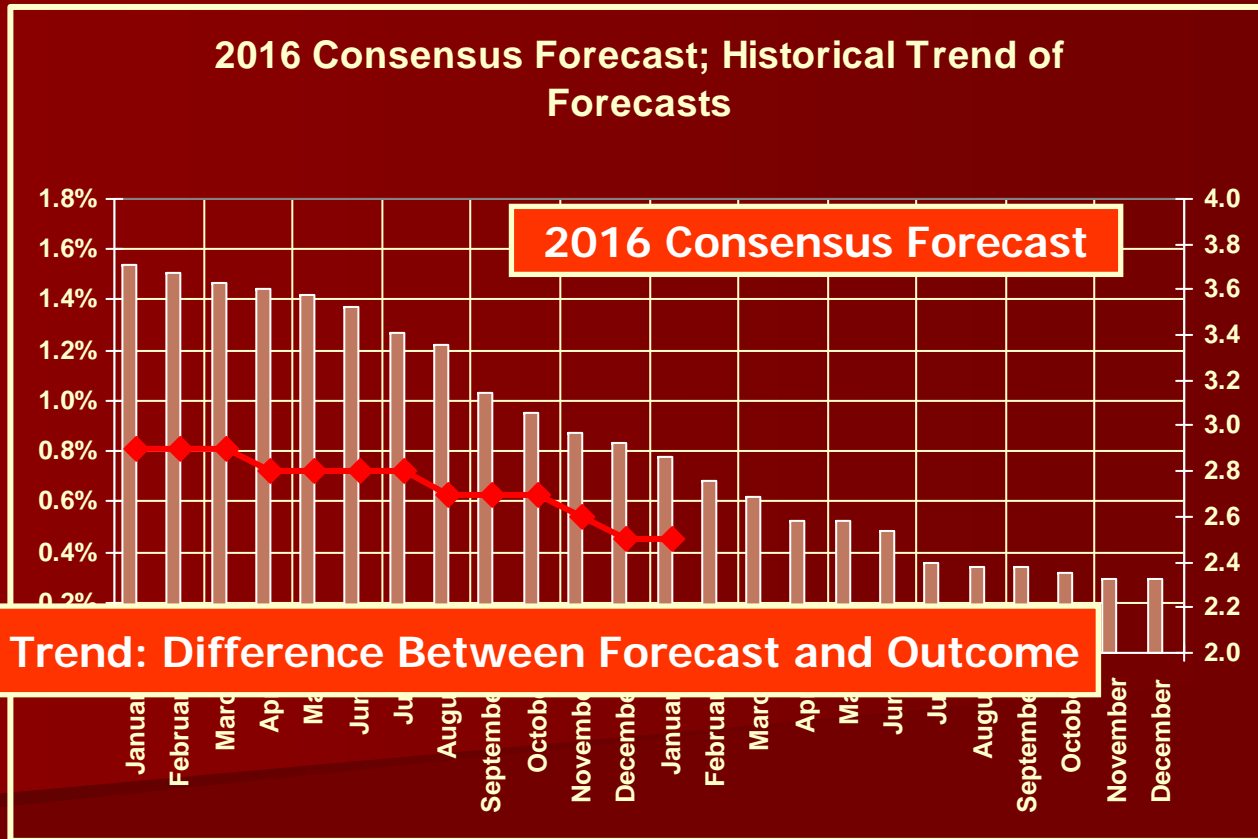
Quarter	Consensus-Real GDP	HJA-Real GDP
2016-Q1	2.5%	2.7%
2016-Q2	2.6%	2.8%
2016-Q3	2.6%	2.5%
2016-Q4	2.5%	2.4%
2017-Q1	2.4%	2.1%
2017-Q2	2.5%	2.5%
2017-Q3	2.3%	2.3%
2017-Q4	2.3%	2.2%
2015 Average	2.5%	2.5%
2016 Average	2.5%	2.5%
2017 Average	2.5%	2.4%

Source: Blue Chip Economic Indicators; HJA

“Historical forecast errors are large in economic terms, indicating that-if past performance is a good guide to future accuracy-uncertainty about the economic outlook is considerable.”

Federal Reserve Studies

# The Consensus Forecast “Tends” To Either Start Too High (and Trend Down) or Starts Too Low (and Trend Up). The Forecast for 2016 Has “A Downward Drift?”



Source: Blue Chip Economic Indicators, HJA



# Employment

Quarter	Consensus-NFP	HJA-NFP
2016-Q1	190	242
2016-Q2	185	243
2016-Q3	180	235
2016-Q4	175	224
2017-Q1	170	211
2017-Q2	169	216
2017-Q3	NA	214
2017-Q4	NA	210
2015 Average	228	228
2016 Average	184	236
2017 Average	169	213

Source: Bloomberg Monthly Survey; HJA

# The Unemployment Rate

Quarter	Consensus-Unemployment Rate	HJA-Unemployment Rate
2016-Q1	4.9%	4.9%
2016-Q2	4.8%	4.8%
2016-Q3	4.7%	4.7%
2016-Q4	4.6%	4.6%
2017-Q1	4.6%	4.6%
2017-Q2	4.6%	4.5%
2017-Q3	4.5%	4.5%
2017-Q4	4.5%	4.5%
2015 Average	5.3%	5.3%
2016 Average	4.8%	4.7%
2017 Average	4.6%	4.5%

Source: Blue Chip Economic Indicators; HJA

# Consumer Inflation

Year/Qtr	Consensus-CPI	HJA-CPI
2016-Q1	1.5%	1.9%
2016-Q2	1.4%	1.6%
2016-Q3	1.5%	1.6%
2016-Q4	2.0%	1.6%
2017-Q1	2.3%	1.6%
2017-Q2	2.3%	1.7%
2017-Q3	2.3%	1.7%
2017-Q4	2.3%	1.7%
2015 (Average)	0.2%	0.2%
2016 (Average)	1.6%	1.7%
2017 (Average)	2.3%	1.7%

Source: Blue Chip Economic Indicators; HJA

# Average Hourly Earnings

Year/Qtr	HJA-Hourly Earnings (Y/Y)
2016-Q1	2.3%
2016-Q2	2.4%
2016-Q3	2.4%
2016-Q4	2.3%
2017-Q1	2.3%
2017-Q2	2.3%
2017-Q3	2.3%
2017-Q4	2.3%
2015 (Average)	2.2%
2016 (Average)	2.3%
2017 (Average)	2.3%

Source: Bureau of Labor Statistics; HJA

# Federal Reserve Policy (Federal Funds Rate) (Current Level .375%)

Quarter	Consensus Fed Funds Rate	HJA Fed Funds Rate
2016-Q1	0.625	0.375
2016-Q2	0.625	0.625
2016-Q3	0.875	0.875
2016-Q4	1.125	1.125
2017-Q1	1.375	1.375
2017-Q2	1.625	1.625
2017-Q3	1.875	1.875
2017-Q4	2.125	2.125
<b>2015 Average</b>	<b>0.186</b>	<b>0.143</b>
<b>2016 Average</b>	<b>0.828</b>	<b>0.750</b>
<b>2017 Average</b>	<b>1.750</b>	<b>1.750</b>

Source: Bloomberg Monthly Survey (mid point); HJA (mid point)

## Comment on Speech One Week Ago By Eric Rosengren

**Rosengren noted the good news on employment, with 292,000 jobs added in December, and an average of 284,000 jobs added per month over the past quarter.**

**However, other news around the start of the year has been less positive, including weak stock markets in much of the world, weak oil and commodity prices, and falling estimates for fourth-quarter real GDP growth in the United States.**

**Greater Boston Chamber's  
Government Affairs Forum**

## Short-Term Interest Rates (Current Level .87%)

Quarter	Consensus 2-Year	HJA 2-Year
2016-Q1	1.10	0.96
2016-Q2	1.30	1.03
2016-Q3	1.46	1.15
2016-Q4	1.60	1.31
2017-Q1	1.74	1.49
2017-Q2	1.97	1.68
2017-Q3	2.18	1.88
2017-Q4	2.25	2.09
2015 Average	0.72	0.69
2016 Average	1.37	1.11
2017 Average	2.04	1.79

Source: Bloomberg Monthly Survey; HJA

## Longer Term Interest Rates (Current Level 2.06%)

Quarter	Consensus 10-Year	HJA 10-Year
2016-Q1	2.36	2.13
2016-Q2	2.50	2.19
2016-Q3	2.60	2.27
2016-Q4	2.75	2.40
2017-Q1	2.90	2.54
2017-Q2	3.00	2.67
2017-Q3	3.10	2.81
2017-Q4	3.10	2.96
2015 Average	2.14	2.14
2016 Average	2.55	2.25
2017 Average	3.03	2.74

Source: Bloomberg Monthly Survey; HJA



## Stock Prices (Current Level 1906.90)

Quarter	S&P 500 EPS (LTM)	P/E	S&P 500
2016-Q1	\$118.13	17.1	2025
2016-Q2	\$117.88	17.3	2034
2016-Q3	\$117.80	17.2	2028
2016-Q4	\$118.15	17.2	2030
2017-Q1	\$118.74	17.2	2038
2017-Q2	\$119.05	17.2	2048
2017-Q3	\$119.46	17.2	2055
2017-Q4	\$120.03	17.2	2062
<b>2015 Average</b>	<b>\$119.77</b>	<b>17.2</b>	<b>2060</b>
<b>2016 Average</b>	<b>\$117.99</b>	<b>17.2</b>	<b>2029</b>
<b>2017 Average</b>	<b>\$119.32</b>	<b>17.2</b>	<b>2051</b>

Source: HJA

## 2016 Average Annual Rates of Return

Fixed Income .88%

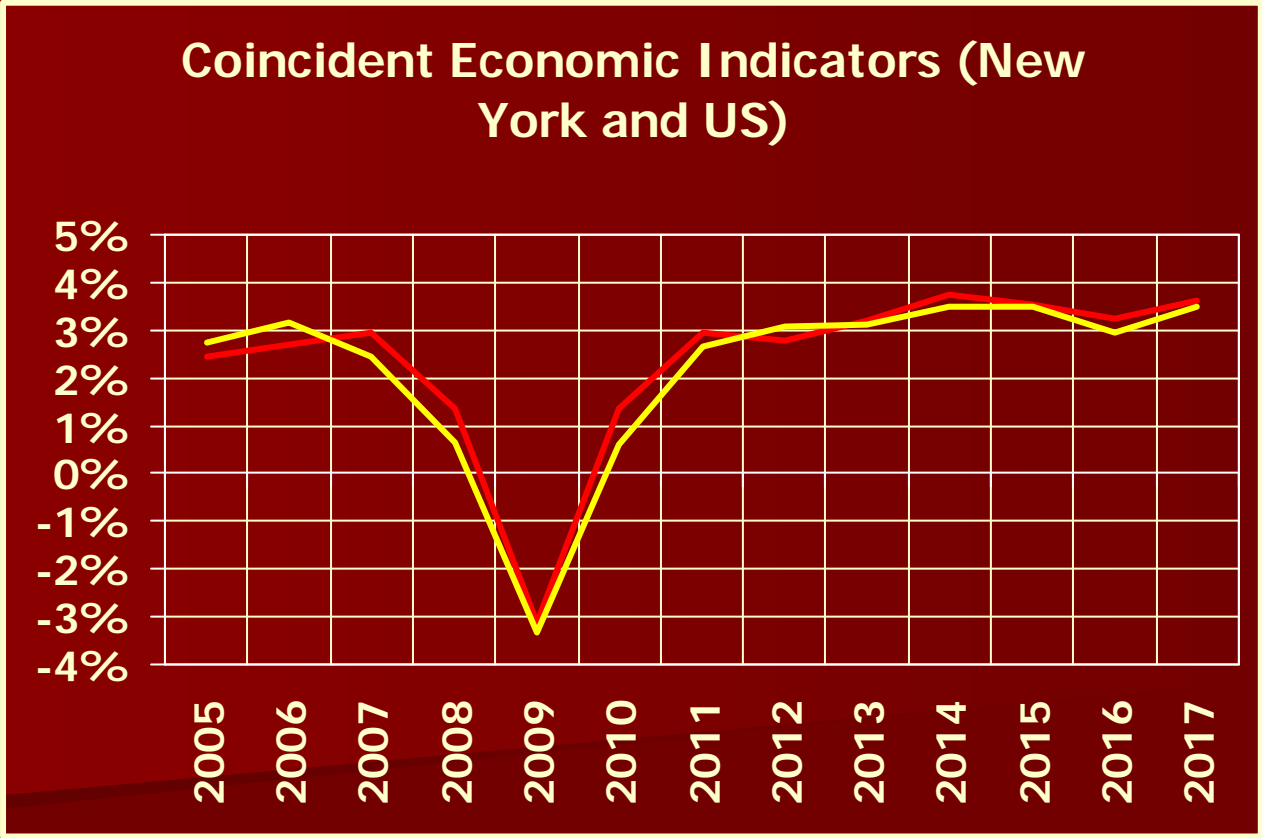
Stocks 1.2%

## 2016 Average Annual Rates of Return

Fixed Income .06%

Stocks 8.7%

# New York State Will Continue to Track The U.S. Economy



Source: Federal Reserve Bank of Philadelphia; HJA

# U.S. and New York State Economy

Variable	2013	2014	2015	2016	2017
US Real Gross Domestic Product	1.5%	2.4%	2.5%	2.5%	2.4%
<b>NYS Real Gross State Product</b>	<b>-0.5%</b>	<b>2.7%</b>	<b>3.2%</b>	<b>2.5%</b>	<b>2.4%</b>
US Coincident Economic Indicators	3.1%	3.5%	3.5%	3.0%	3.0%
<b>NYS Coincident Economic Indicators</b>	<b>3.2%</b>	<b>3.7%</b>	<b>3.6%</b>	<b>3.3%</b>	<b>2.9%</b>
US Nonfarm Payroll %	1.7%	1.9%	2.1%	2.0%	1.8%
<b>NYS Nonfarm Payroll %</b>	<b>1.5%</b>	<b>1.7%</b>	<b>1.6%</b>	<b>1.9%</b>	<b>1.7%</b>
US Unemployment Rate	7.4%	6.2%	5.3%	4.7%	4.5%
<b>NYS Unemployment Rate</b>	<b>7.5%</b>	<b>6.2%</b>	<b>5.4%</b>	<b>4.3%</b>	<b>4.5%</b>
US Labor Force	0.3%	0.3%	0.8%	0.8%	1.0%
<b>NYS Labor Force</b>	<b>0.2%</b>	<b>-0.8%</b>	<b>0.8%</b>	<b>0.5%</b>	<b>0.6%</b>

Source: Bureau of Economic Analysis; Bureau of Labor Statistics; HJA

# New York State and New England States Growth Rates of Employment

State	2013	2014	2015	2016	2017
Connecticut	0.8%	0.7%	1.6%	1.3%	1.3%
Maine	0.6%	0.5%	0.8%	1.5%	1.3%
Massachusetts	1.7%	1.6%	2.1%	2.0%	1.8%
New Hampshire	0.8%	1.3%	1.0%	1.7%	2.2%
<b>New York</b>	<b>1.5%</b>	<b>1.7%</b>	<b>1.6%</b>	<b>1.9%</b>	<b>1.7%</b>
Rhode Island	1.3%	1.3%	1.2%	0.8%	0.1%
Vermont	0.8%	1.0%	1.4%	1.2%	1.4%

Source: Bureau of Labor Statistics; HJA

# New York State Taxes

Year	2013 FY	2014 FY	2015 FY	2016 FY	2017 FY
<b>Total</b>	<b>3.7%</b>	<b>4.3%</b>	<b>2.1%</b>	<b>6.0%</b>	<b>3.0%</b>
<b>Personal Income</b>	<b>3.8%</b>	<b>6.8%</b>	<b>1.7%</b>	<b>9.6%</b>	<b>2.0%</b>
<b>User</b>	<b>2.3%</b>	<b>1.8%</b>	<b>1.6%</b>	<b>1.9%</b>	<b>2.9%</b>
<b>Sales</b>	<b>1.8%</b>	<b>4.5%</b>	<b>3.4%</b>	<b>2.2%</b>	<b>3.3%</b>
<b>All Business</b>	<b>8.3%</b>	<b>-4.5%</b>	<b>3.3%</b>	<b>-2.4%</b>	<b>3.7%</b>

Source: Ways and Means Staff; HJA

# Outlook for Growth Rate of Employment for 13 MSAs

MSA	2013	2014	2015	2016	2017
Albany	1.2%	1.0%	1.2%	1.7%	1.2%
Binghamton	-1.2%	-0.9%	-0.5%	-0.6%	-0.4%
Buffalo	0.6%	0.8%	1.5%	0.6%	-0.1%
Elmira	-2.2%	0.1%	0.6%	-0.3%	-0.5%
Glens Falls	-1.5%	0.9%	1.3%	0.8%	0.9%
Ithaca	2.8%	0.5%	-0.9%	0.9%	1.2%
Kingston	0.4%	1.4%	0.8%	1.1%	0.4%
Nassau County-Suffolk County	1.6%	1.0%	1.3%	1.7%	1.3%
New York-Newark-Jersey City	1.7%	2.0%	1.6%	2.0%	1.3%
Rochester	0.4%	0.6%	1.1%	0.5%	0.7%
Syracuse	0.5%	0.2%	0.5%	1.0%	0.9%
UticaRome	-0.5%	-0.1%	0.8%	-0.1%	0.3%
New York City	2.5%	3.1%	2.3%	2.6%	2.3%
New York State	1.5%	1.7%	1.6%	1.9%	1.7%

Source: Bureau of Labor Statistics CES; HJA



**The Stage of Speculation:**

**6/28/2013 to 6/12/2015: 161%  
(62.3% Annual Rate)**

**The Stage of Revulsion:**

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# A Bubble

## Shanghai Composite



Source: Bloomberg News; Hugh Johnson Advisors (HJA)

“Recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term.”

FOMC

September 17 2015

# The Transmission of a Crisis

1. Psychology
2. *Commodity Prices*
3. Trade Flows
4. Capital Flows

# Redistribution of Income and Wealth

## Redistribution of Income

**“The reality is that since the mid-1980s there has been an enormous transfer of wealth from the middle class and the poor to the wealthiest people in this country. That is the Robin Hood principle in reverse....”**

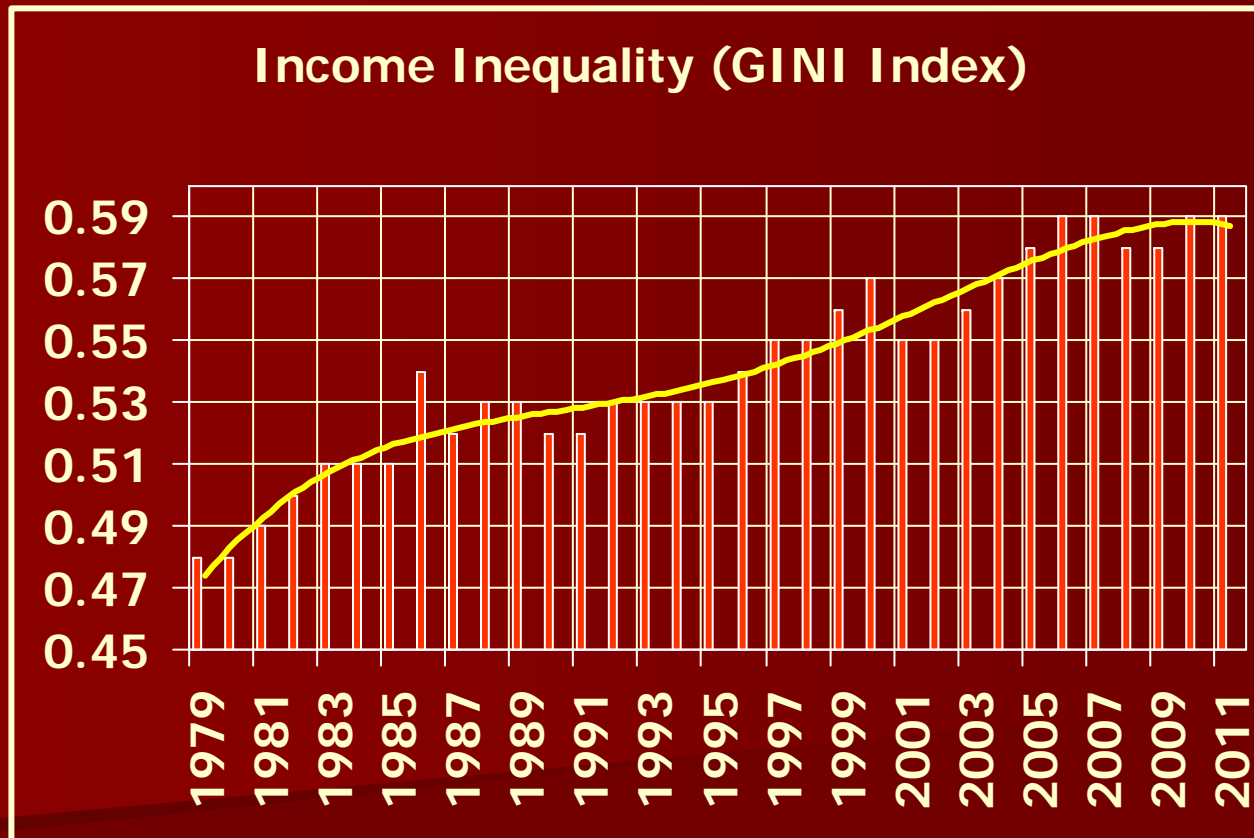
**“The reality is that for the past 40 years, Wall Street and the billionaire class has rigged the rules to redistribute wealth and income to the wealthiest and most powerful people of this country.”**

**“transfer of wealth from the middle class and the poor to the wealthiest people”**

<b>Average Incomes</b>					
	<b>1985</b>	<b>1995</b>	<b>2000</b>	<b>2014</b>	<b>% Change</b>
<b>Lowest (average)</b>	<b>\$9,941</b>	<b>\$14,400</b>	<b>\$19,178</b>	<b>\$21,432</b>	<b>116%</b>
<b>Highest (average)</b>	<b>\$72,004</b>	<b>\$113,000</b>	<b>\$166,000</b>	<b>\$206,568</b>	<b>187%</b>
<b>Inflation Adjusted</b>					<b>% Change</b>
<b>Lowest (average)</b>	<b>\$4,490</b>	<b>\$4,408</b>	<b>\$4,879</b>	<b>\$4,389</b>	<b>-2%</b>
<b>Highest (average)</b>	<b>\$32,521</b>	<b>\$34,594</b>	<b>\$39,537</b>	<b>\$42,298</b>	<b>30%</b>

Source: Census Bureau

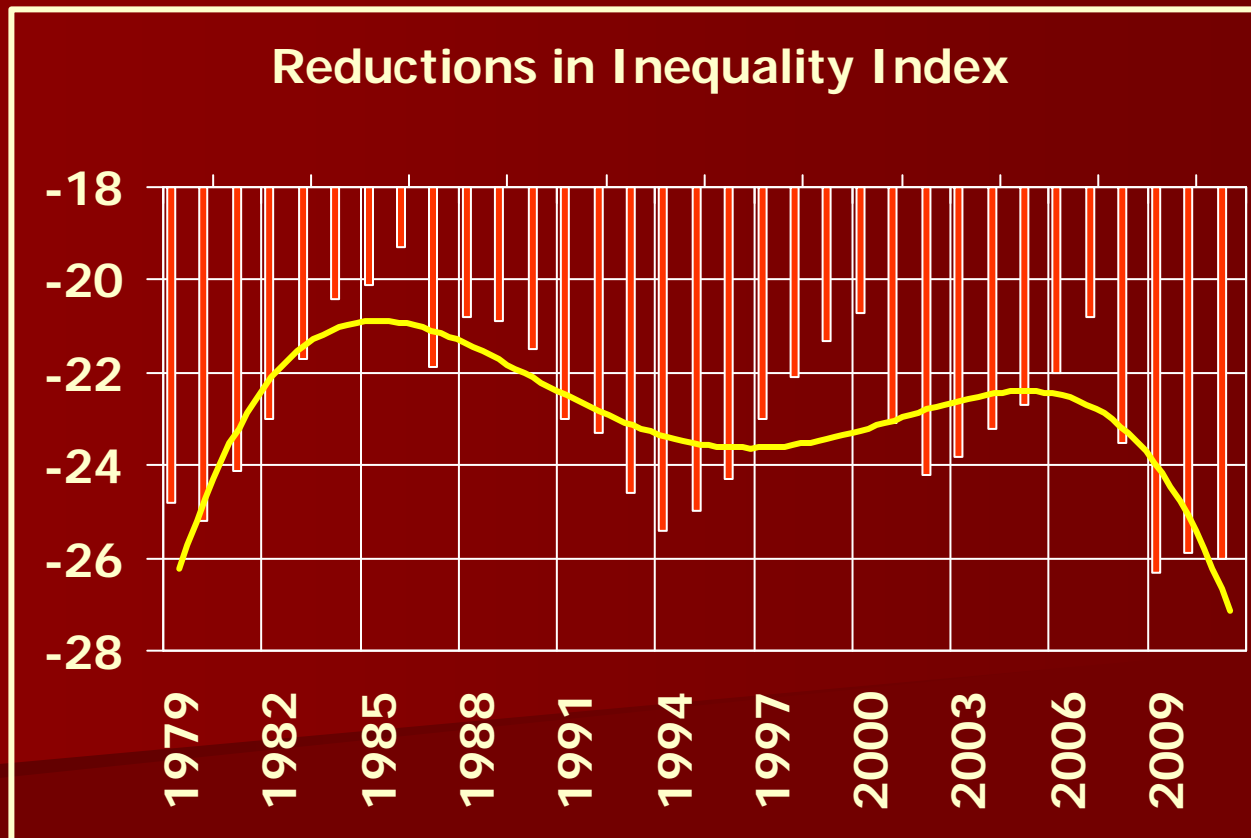
**“transfer of wealth from the middle class and the poor to the wealthiest people” ...continues**



Source: CBO

# “Wealth Is Being Spread With Little To Show For It”

Wall Street Journal  
Based Upon CBO Study



Source: CBO. Reduction in Income Inequality from Government Transfers and Federal Taxes.



## **Redistribution of Income**

**“Taxes and transfers can affect households’ market income by changing incentives for people to change their behavior. If an additional dollar earned or saved leads to reductions in transfers or increases in taxes, then the after-tax return from working and saving is reduced, which may cause people to work or save less.”**

**(Congressional Budget Office)**

**“The reality is that for the past 40 years, Wall Street and the billionaire class has rigged the rules....”**

	Revenues 1990 (BN\$)	Employees 1990	Revenues 2014 (BN\$)	Employees 2014
<b>GE</b>	<b>\$58</b>	<b>298,000</b>	<b>\$148</b>	<b>305,000</b>
<b>F</b>	<b>\$98</b>	<b>370,400</b>	<b>\$144</b>	<b>187,000</b>
<b>T</b>	<b>\$19</b>	<b>116,523</b>	<b>\$132</b>	<b>243,620</b>
<b>IBM</b>	<b>\$69</b>	<b>373,816</b>	<b>\$93</b>	<b>379,592</b>
<b>BA</b>	<b>\$28</b>	<b>160,500</b>	<b>\$91</b>	<b>165,500</b>
<b>MSFT</b>	<b>\$1</b>	<b>5,635</b>	<b>\$87</b>	<b>128,000</b>
<b>UTX</b>	<b>\$21</b>	<b>192,600</b>	<b>\$65</b>	<b>211,500</b>
<b>INTC</b>	<b>\$4</b>	<b>23,900</b>	<b>\$56</b>	<b>106,700</b>
<b>CAT</b>	<b>\$11</b>	<b>58,448</b>	<b>\$55</b>	<b>114,233</b>
<b>PFE</b>	<b>\$6</b>	<b>42,500</b>	<b>\$50</b>	<b>78,300</b>
<b>CSCO</b>	<b>\$1</b>	<b>254</b>	<b>\$47</b>	<b>74,042</b>
<b>MRK</b>	<b>\$8</b>	<b>36,900</b>	<b>\$42</b>	<b>70,000</b>
<b>DD</b>	<b>\$40</b>	<b>143,261</b>	<b>\$35</b>	<b>63,000</b>
<b>3M</b>	<b>\$13</b>	<b>89,601</b>	<b>\$32</b>	<b>89,800</b>
<b>AAR</b>	<b>\$0</b>	<b>2,430</b>	<b>\$2</b>	<b>5,800</b>
<b>Total</b>	<b>\$377</b>	<b>1,914,768</b>	<b>\$1,078</b>	<b>2,222,087</b>
<b>% Change</b>			<b>186%</b>	<b>16%</b>

## The World is Changing

<b>S&amp;P 500 in 1990</b>	
<b>Company</b>	<b>Employees</b>
<b>IBM</b>	<b>373,816</b>
<b>Exxon Mobil</b>	<b>104,000</b>
<b>General Electric</b>	<b>298,000</b>
<b>Altria Group</b>	<b>168,000</b>
<b>Bristol-Myers Squibb</b>	<b>52,900</b>
<b>S&amp;P 500 in 2015</b>	
<b>Apple Inc</b>	<b>92,600</b>
<b>Alphabet Inc (GOOG)</b>	<b>53,600</b>
<b>Microsoft</b>	<b>128,000</b>
<b>Exxon Mobil</b>	<b>75,300</b>
<b>Berkshire Hathaway</b>	<b>340,499</b>

Source: Bloomberg News

# Oil Prices

# Oil Prices: Who Knows?

<b>Year</b>	<b>Global Consumption</b>	<b>Global Production</b>	<b>Price</b>
<b>2014</b>	<b>92,086</b>	<b>88,673</b>	<b>\$93.28</b>
<b>2015</b>	<b>92,388</b>	<b>90,333</b>	<b>\$49.24</b>
<b>2016</b>	<b>93,223</b>	<b>92,269</b>	<b>\$47.87</b>
<b>2017</b>	<b>94,261</b>	<b>94,577</b>	<b>\$46.55</b>
<b>2018</b>	<b>95,438</b>	<b>97,148</b>	<b>\$45.25</b>
<b>2019</b>	<b>96,639</b>	<b>99,917</b>	<b>\$44.00</b>
<b>2020</b>	<b>97,791</b>	<b>102,826</b>	<b>\$42.78</b>

Source: BP Statistical Review