

[Theme music playing]

A male host named Tim Sustak stands in front of a grey wall with two dark, wooden books shelves with various books and decorations on them.

Tim Sustak: Hi, I'm Tim Sustak, Chief Credit Officer with Vizo Financial, and this is the economic update for December 2018. Today, an overview of how the economy is wrapping up 2018, with a focus on a few items that are of interest to us as credit unions, and then a look at the recent turnaround in Fed speak.

Tim Sustak: It's hard to believe 2018 is almost behind us, but at least it was a pretty good year for the economy; though, there are some signs that things may be slowing a bit. Overall, growth in the economy has been strong, coming in at an annualized rate of 2.2% for the first quarter, 4.2% for the second quarter, and 3.5% for the third quarter. The fourth quarter is estimated to be in the 2.8% range, and results will be heavily dependent on consumer spending, so we'll see if the holiday shopping season is a boom or bust.

Tim Sustak: The auto market has done a bit better than many were expecting going into the year, with new auto sales up an estimated 0.5% in 2018, and the most recent reading for October showing an annualized pace of sales at 17.5 million units. Used cars have also done well this year, with the most recent estimates for October showing an annualized pace up about 1% over the prior year. The market is starting to succumb to rising rates though, and the last part of the year is predicted to be tougher, particularly for new cars as prices and interest rates continue to rise. This bodes well for used cars as consumers opt for the price advantages of the used market in the face of rising rates, particularly with the significant inventory of relatively new off-lease vehicles available. This should also serve to keep the outlook on used auto prices in positive territory, all good news for used auto lending.

Tim Sustak: Housing is certainly sector of the economy that has felt the impact of rising rates over the past year. As of the latest annualized readings in October, housing starts were down 2.9%, housing permits down 6.0% and sales of existing homes down 5.1%. Housing has never been the star of the current recovery, and rising mortgage rates have been sapping the strength that the market was able to muster. Some analysts predict a possible recovery next year though, as the combination of moderating home prices and rising wages could give the sector new life.

Tim Sustak: Overall, we are now in the second longest expansion in U.S. history. It has been a low and slow recovery that has provided us a solid boost in loan demand over time and some additional spread as rates have risen. Will rates continue to rise? After the break, we'll talk about the recent Fed speak and the outlook for rates, which is interesting to say the least.

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[Jazz music playing]

Male Voice: I go to a lot of security conferences and this one particularly focuses on credit unions and credit union technologies.

Female Voice: I think other credit unions would benefit from this conference because it gives you an opportunity to step away from your desk and just think about the risks around you and ways to mitigate the risks and understand the risks and also what's happening with future threats to come into the credit union.

Male Voice: If you're part of a credit union, come to visit. You'll get the information that is particular to credit unions.

[Jazz music playing]

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Tim Sustak: Welcome back! Well, it still looks good for another 25-basis point increase on December 19th, but after that the Fed has turned on the fog machine. After upsetting the markets in October by indicating rates were a long way from neutral, Fed Chair Powell abruptly reversed course on November 28th when he said in a speech that interest rates are just below the broad range of estimates that would be considered neutral for the economy. The markets loved it as it indicates a less aggressive path for rates; but, you have to ask yourself what changed so drastically over the past few months?

Tim Sustak: There are plenty of explanations floating around; he was misinterpreted in October, the Fed has taken notice to recent economic slowing abroad and weakening US economic statistics, and maybe even the Fed is caving to pressure from President Trump regarding the path of interest rates. Whichever you believe, the bottom line is that the Fed seems to have changed the rules of the game for 2019, so be ready to change your playbook. Basically, the Fed has said that they will be very attentive to incoming economic data when deciding the future path of rates, and that there is no predetermined path of interest rate increases.

Tim Sustak: That has been said before, but it is the dramatic change in tone that has caught everyone's attention. The Fed wants the ability to be flexible moving forward, and is admitting they are increasingly unsure of how things will play out. We will get a new set of economic

projections at the December meeting which will be telling, and Chairman Powell will give a press conference following the December meeting and at each meeting moving forward, which hopefully will help to keep us in the know regarding the mind of the Fed. The markets are still predicting about an 82% chance of a 25-basis point hike at the December meeting, after that, it's now a bit foggy.

Economic Releases for December 2018

- *Economic Growth*
 - *Gross Domestic Product (GDP) – Dec 21*
- *Jobs Numbers*
 - *Employment Situation (Payrolls, Unemployment Rate, Avg. workweek, Avg. hourly Earnings) – Dec 7*
- *Consumer Numbers*
 - *Retail Sales – Dec 14*
 - *Consumer Confidence (Conference Board) – Dec 27*
 - *Personal Income and Outlays (Including PCE Price Index) – Dec 21*
- *Housing Numbers*
 - *Housing Starts – Dec 18*
 - *Existing Home Sales – Dec 19*
 - *New Home Sales – Dec 27*
- *Manufacturing/Industrial Numbers*
 - *ISM Manufacturing Index – Dec 3*
 - *Industrial Production – Dec 14*
- *FOMC*
 - *FOMC Meeting Announcement to Include New Economic Forecasts – Dec 19*

Tim Sustak: Thanks for watching the economic update for December 2018. Here are this month's release dates for some of the more important economic statistics. We'll see you again in the new year for another look at the economy – and as always, thanks for watching.

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Light grey screen appears with a blue graphic with white lettering that reads, 'Thanks for watching.' Graphic fades and Vizo Financial logo appears. Vizo Financial logo fades out and disclaimer text appears on screen.

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