

# Key Economic Data – Monthly Update

**September 2016**

Issued on October 19, 2016



restructuring \ litigation \ valuation \ intellectual property  
fund services \ bank regulatory \ capital markets

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# GDP and Consumer Confidence

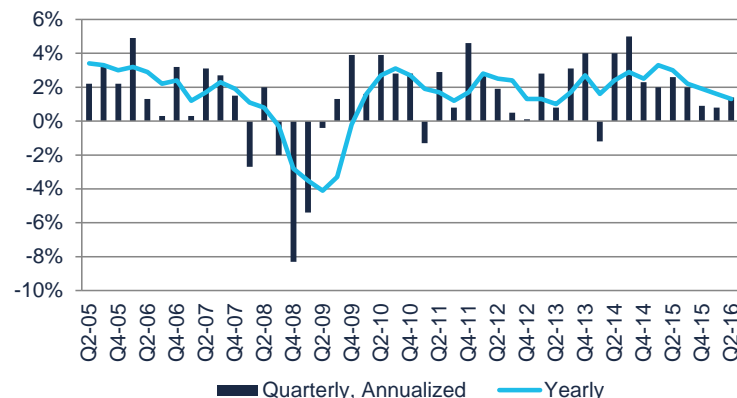
## GDP

- Real GDP growth was revised up to 1.4% from the second estimate of 1.1% in Q2'16, after rising 0.8% in Q1'16
  - Above consensus estimate of 1.3% rise
  - The upward revision reflected an increase in nonresidential fixed investment, smaller drag from private inventory investment, and stronger net exports than previously estimated
    - Nonresidential fixed investment was revised up from a 0.9% decline to a 1.0% increase
    - The negative contribution of private inventories was revised up to 1.16% from a previous drag of 1.26%
    - Exports were revised up from 1.2% to 1.8%, while imports were revised down to 0.2% from 0.3%, resulting in positively revised net exports contribution
  - Personal consumption was revised down slightly from 4.4% to 4.3% in Q2'16 (vs. 1.6% rise in Q1'16)
  - Final sales to domestic purchasers were revised up to 2.4% from 2.2% in Q2'16 after a 1.2% increase in Q1'16
  - Government spending was revised down from a 1.5% decline to a 1.7% decline in Q2'16 (largest decrease since Q4'13) after rising 1.6% in Q1'16
- On a year-over-year basis, GDP rose 1.3% in Q2'16 (revised up from 1.2%) vs. a 1.6% increase in Q1'16

## Consumer Confidence

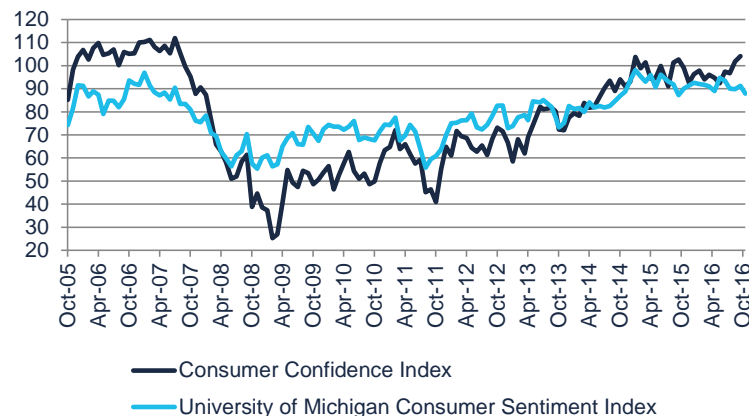
- The Consumer Confidence Index rose by 2.3 points to 104.1 in Sept 16 from 101.8 in Aug 16 (revised up), primarily due to a more positive view of the labor market
  - Significantly above consensus estimate of 98.8
  - Highest reading since Aug 07
- The Thomson Reuters/Univ. of Michigan Consumer Sentiment Index fell sharply by 3.3 points to 87.9 in mid-Oct 16 from its Sept 16-end reading of 91.2, reflecting uncertainty surrounding the presidential election
  - Significantly below consensus estimate of 92.0
  - Lowest reading in a year

Real GDP Growth



Source: US Department of Commerce

Consumer Confidence



Source: Bloomberg Finance L.P., The Regents of the University of Michigan

# Inflation and Real Earnings

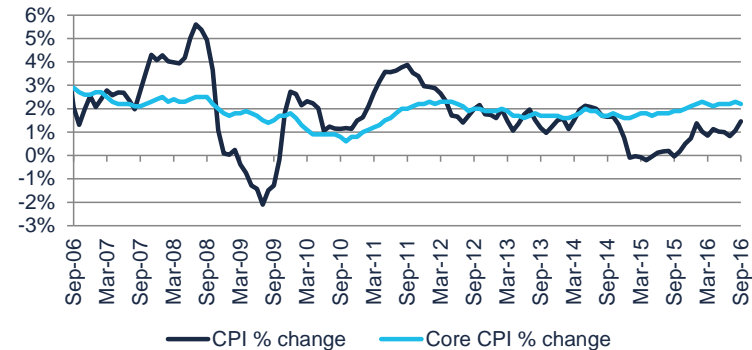
## Inflation

- US consumer prices (seasonally adjusted) rose 0.3% in Sept 16 after a 0.2% increase in Aug 16
  - In-line with the consensus estimate of 0.3% growth
  - Energy prices rose 2.9% in Sept 16 after remaining unchanged in Aug 16
    - Gasoline prices increased 5.8% in Sept 16 after a 0.9% decline in Aug 16
      - YoY gasoline rates are down 6.5%
  - Food prices remained unchanged in Sept 16 for the third consecutive month
  - On an annual basis, prices rose 1.5% in Sept 16 following a 1.1% increase in Aug 16
    - Largest increase since Oct 14
- Core CPI rose 0.1% in Sept 16 after a 0.3% increase in Aug 16
  - Below the consensus estimate of 0.2% growth
  - Service prices increased 0.2% in Sept 16 after rising 0.3% in Aug 16
    - Shelter prices increased 0.4% in Sept 16 after rising 0.3% in Aug 16
      - Grew 3.4% YoY in Sept 16
    - Medical care and transportation services prices remained flat in Sept 16 after rising 1.0% and 0.1% in Aug 16, respectively
  - Core commodity prices slipped 0.1% in Sept 16 after rising 0.1% in Aug 16, led by a 0.7% decline in apparel prices
  - Annual core inflation rose 2.2% in Sept 16 after a 2.3% increase in Aug 16

## Real Earnings

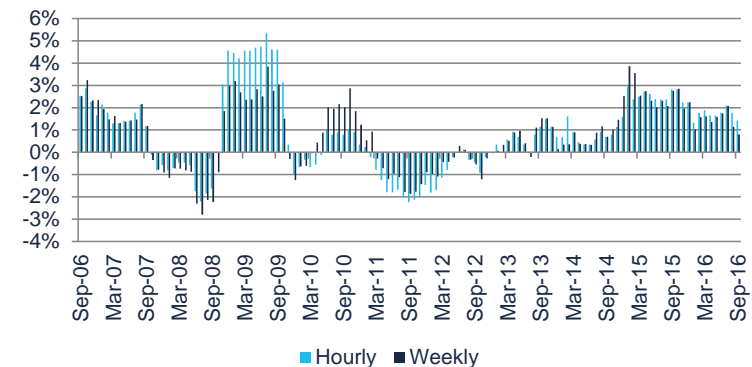
- Real average weekly earnings for production and nonsupervisory employees decreased 0.1% in Sept 16 after falling 0.6% (revised down) in Aug 16
  - Due to a 0.1% decrease in real average hourly earnings combined with no change average weekly hours

**Inflation**  
(CPI % Change YoY)



Source: Bureau of Labor Statistics

**YoY Change in Real Earnings**  
For Production and Nonsupervisory Employees



Source: Bureau of Labor Statistics

# Employment

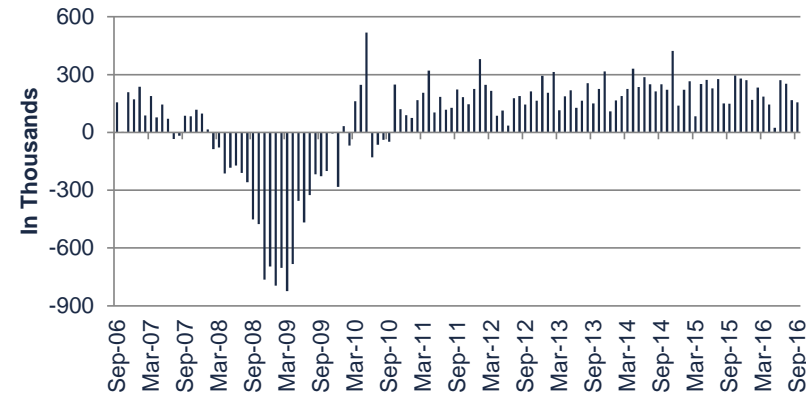
## Nonfarm Employment

- Nonfarm payroll employment increased by 156,000 in Sept 16, following a positively revised gain of 167,000 in Aug 16
  - Below consensus estimate of a 168,000 increase
  - Monthly employment growth has averaged 178,000 in 2016, down from 2015 monthly average of 229,000
- Private sector employment rose by 167,000 in Sept 16, following a positively revised gain of 144,000 in Aug 16
  - Slightly below consensus estimate of a 170,000 increase
  - Service-providing industries added 157,000 jobs in Sept 16 after gaining 169,000 jobs (revised up) in Aug 16
    - Largest increases: professional and business services rose by 67,000 jobs, health care rose by 32,700 jobs, food services and drinking places rose by 29,700 jobs, and retail trade rose by 22,000 jobs
  - Goods-producing sectors gained 10,000 jobs in Sept 16 after a 25,000 decline (revised down) in Aug 16
    - Manufacturing sector lost 13,000 jobs in Sept 16 after losing 16,000 jobs (revised down) in Aug 16
    - Construction gained 23,000 jobs in Sept 16 after a positively revised loss of 5,000 jobs in Aug 16, while mining jobs (which include oil & gas E&P) remained virtually unchanged in Sept 16 after a 3,200 (revised up) decline in Aug 16
- Government jobs fell by 11,000 in Sept 16
  - Federal government jobs increased by 4,000, state government jobs remained unchanged, and local government jobs fell by 15,000

## Unemployment Rate

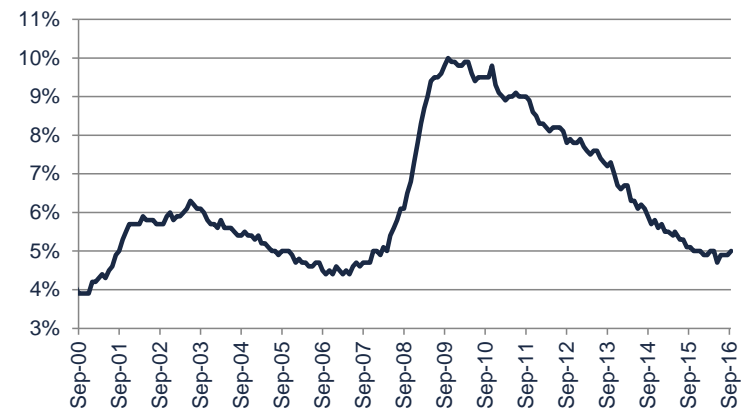
- The unemployment rate rose to 5.0% in Sept 16 from 4.9% in Aug 16 reflecting the increase in labor participation rate, which rose to 62.9% in Sept 16 from 62.8% in Aug 16
  - Slightly above the consensus estimate of 4.9%

**Nonfarm Payroll Employment**  
(Month Over Month Change, Seasonally Adjusted)



Source: Bureau of Labor Statistics

**Unemployment Rate**

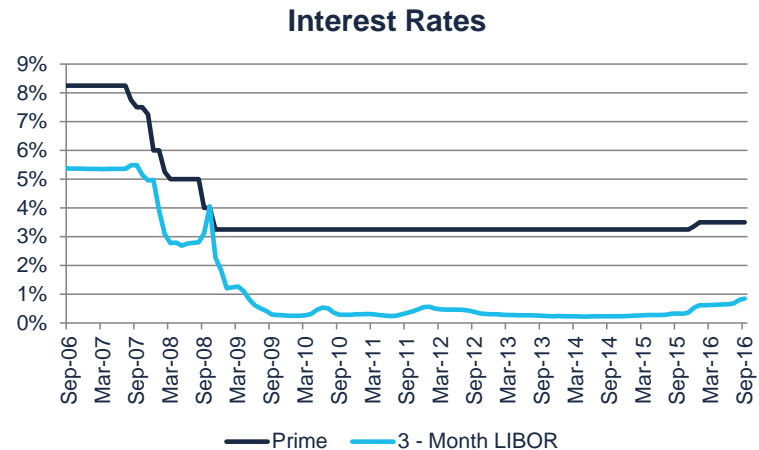


Source: Bureau of Labor Statistics

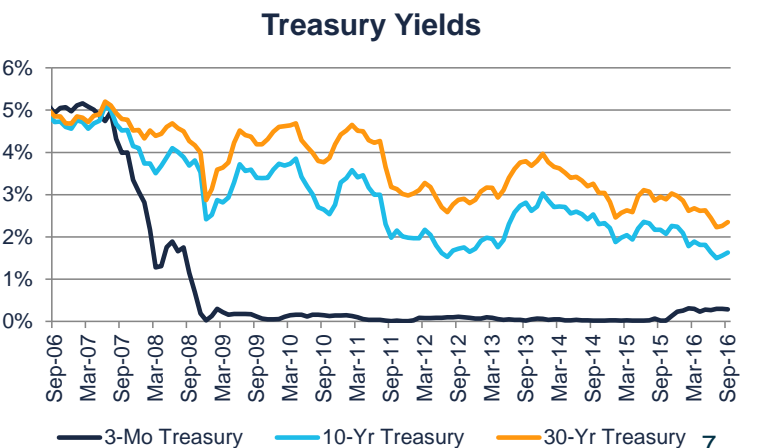
# Interest Rates

## Interest Rates

- The Prime rate remained unchanged at 3.50% in Sept 16
- 3-month LIBOR continued to rise to post-financial crisis high of 0.85% in Sept 16 from 0.81% in Aug 16 due to the upcoming money market reform we discussed in the prior monthly report. The reform became effective on October 14<sup>th</sup>, 2016
- According to the minutes of the latest FOMC meeting on September 20-21, 2016, released after a three-week lag, the committee participants decided to wait for further evidence of improving inflation and labor market conditions before increasing the Fed Funds target rate; members generally agreed that the case for increasing the rate had strengthened in recent months
  - Three participants dissented from the majority opinion to leave the Fed Funds target rate unchanged in favor of the rate increase at the September meeting, arguing that postponing the rate increase for too long could cause the labor market to tighten, threaten economic expansion, and erode the credibility of the committee’s policy communications
  - The committee stated that the near-term risks to the economic outlook now appeared roughly balanced, and several members indicated that the risks from Brexit have receded
  - Expectations are for no change in November, with a good chance of a rate hike in December



Source: Federal Reserve, Federal Reserve Bank of St. Louis



Source: Federal Reserve

	Sep-16	Aug-16	Sep-15	Change From	
				Prior Mon.	Year Ago
Prime	3.50%	3.50%	3.25%	0.00%	0.25%
3-Month LIBOR	0.85%	0.81%	0.33%	0.04%	0.52%
3-Month Treasury	0.29%	0.30%	0.02%	-0.01%	0.27%
10-Yr Treasury	1.63%	1.56%	2.17%	0.07%	-0.54%
30-Yr Treasury	2.35%	2.26%	2.95%	0.09%	-0.60%

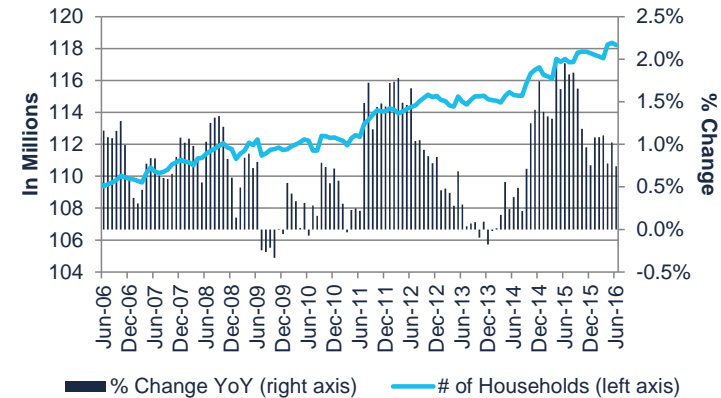
Source: Federal Reserve, Federal Reserve Bank of St. Louis

# Household Formation, Housing Starts, Prices

## Housing

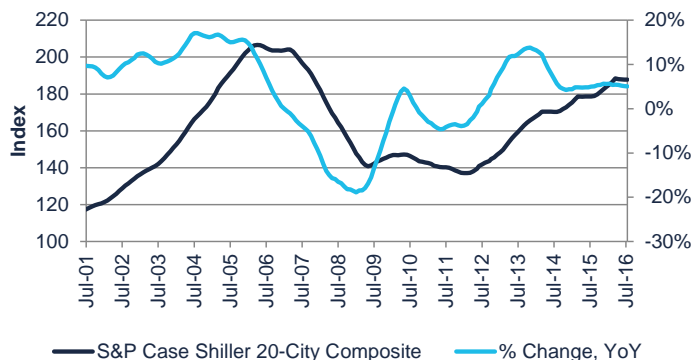
- The Housing Starts SAAR fell by 9.0% to 1,047,000 in Sept 16 after a positively revised 5.6% decrease in Aug 16, but permits are up, meaning residential construction could pick up in upcoming months
  - Substantially below consensus estimate of 1,180,000
  - Lowest level since Mar 15
  - Due to a sharp decline in a volatile multifamily component, which dropped 38.0% in Sept 16 after falling 5.1% in Aug 16 (revised up)
    - Lowest level since June 13
  - The single-family component rose 8.1% in Sept 16 after decreasing 5.9% in Aug 16 (revised up)
  - Starts fell 11.9% YoY in Sept 16
  - 3 out of 4 regions experienced monthly declines, led by a 36.0% drop in the Northeast region, while starts in the West region remained unchanged
- US home prices (measured by the S&P Case-Shiller 20-City Index) remained unchanged in Jul 16, after decreasing 0.1% in June 16, May 16, and April 16
  - Below consensus estimate of 0.1% rise
  - On a year-over-year basis, July 16 prices increased 5.1%, in-line with YoY increase in June 16
  - 12 out of 20 cities in the index showed monthly gains, while San Francisco, CA, Atlanta, GA, Chicago, IL, Detroit, MI, Minneapolis, MN, and New York, NY experienced declines, and Boston, MA and Washington, DC remained virtually unchanged

### Household Formation



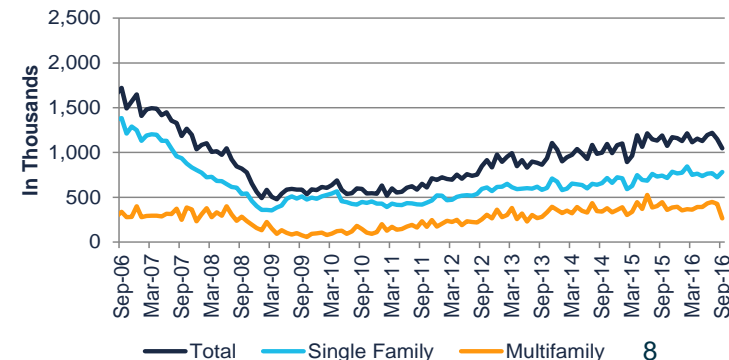
Source: US Census Bureau

### Housing Prices (Seasonally Adjusted)



Source: Standard & Poor's

### Housing Starts (Seasonally Adjusted Annual Rate)



Source: US Department of Housing and Urban Development

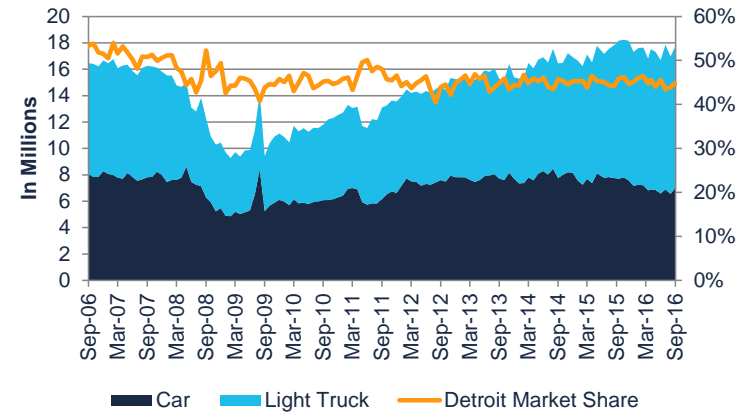


# Auto Sales, Production, Detroit Market Share

## Auto

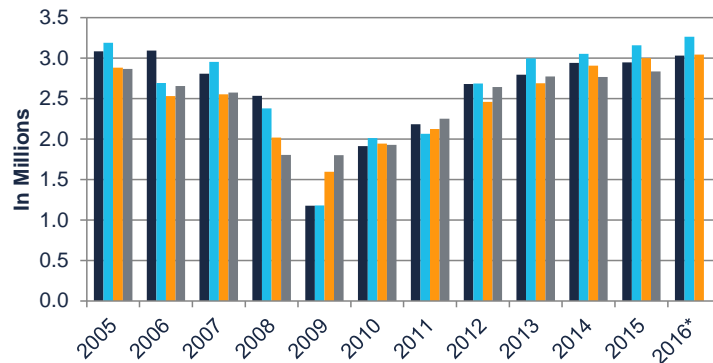
- US Light Vehicle Sales (SAAR) rose to a rate of 17.7 million in Sept 16 after a 17.0 million rate in Aug 16
  - Above consensus estimate of 17.4 million
- Sept 16 US auto sales fell 0.7% compared to a year ago
  - Fiat/Chrysler sales fell 0.8%, GM's sales decreased by 0.6%, and Ford sales plunged 8.1%
  - Honda sales fell 0.1%, while Nissan and Toyota sales increased 4.9% and 1.5%, respectively; VW Group of America's sales declined 3.2%
- Light truck sales increased by 4.2% YoY in Sept 16, while car sales dropped by 7.6%; hybrid sales fell 2.6% YoY in Sept 16
- According to TrueCar Inc., incentive spending rose 7.8% YoY in Sept 16 to \$3,387 a vehicle, while average transaction price rose only 2.0%

### US Light Vehicle Sales (SAAR)



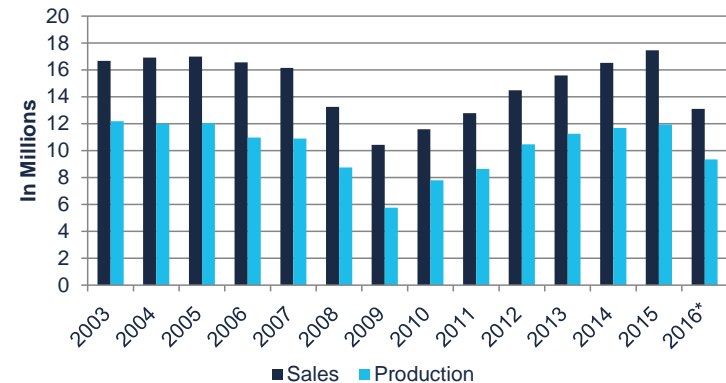
Source: Automotive News

### US Auto Production



\* Through September 30, 2016  
Source: Automotive News

### US Auto Sales and Production

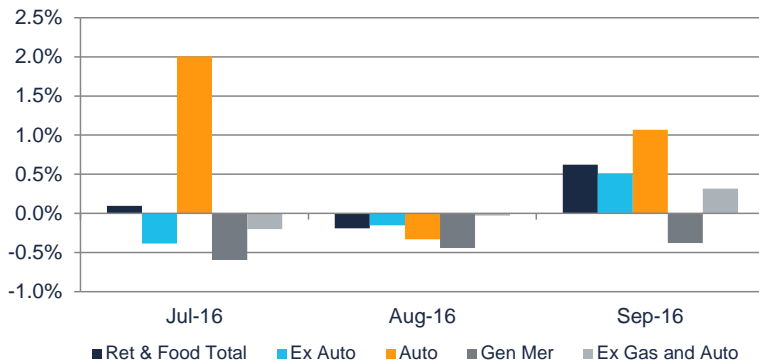


\* Through September 30, 2016  
Source: Automotive News

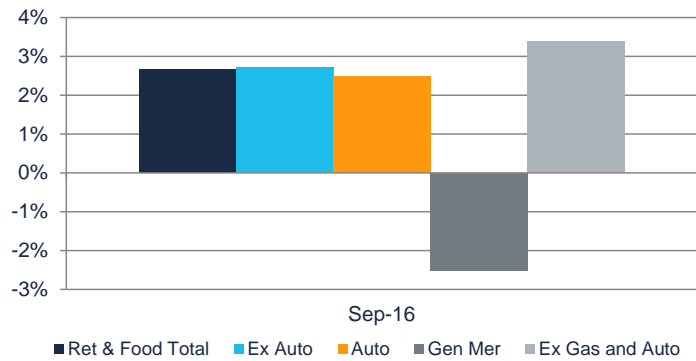
## Retail Sales

- US retail sales rose 0.6% in Sept 16 after falling 0.2% in Aug 16 (revised up)
  - In-line with consensus estimate
  - Sales of motor vehicle & parts rose 1.1% after falling 0.3% in Aug 16 (revised up)
  - Spending on gasoline rose 2.4% in Sept 16 after decreasing 1.4% in Aug 16 (revised down)
  - General merchandise store sales fell 0.4% in Sept 16, in-line with Aug 16 decline (revised down), and department stores sales fell 0.7% after a 0.6% decline in Aug 16 (unrevised)
  - Excluding gasoline and automobiles, retail sales in Sept 16 rose 0.3% after remaining flat in Aug 16 (revised up)
    - In-line with consensus estimate
  - Other notable increases: miscellaneous store retailers (1.8%), building material & garden equipment & supplies dealers (1.4%), sporting goods, hobby, book & music stores (1.4%), furniture & home furniture stores (1.0%), food services & drinking places (0.8% - largest monthly increase since Feb 16), nonstore retailers (0.3%), and grocery stores (0.2%)
  - Other notable decreases: electronics & appliances stores (-0.9%) and health & personal care stores (-0.5%)
- On a year-over-year basis, retail sales increased 2.7% in Sept 16, following a 2.1% increase in Aug 16 (revised up)
  - Excluding gas and auto, sales were up 3.4% in Sept 16, following a 3.3% increase in Aug 16 (revised down)
  - Notable increases: nonstore retailers (10.6%), food services & drinking places (6.1%), building material & garden equipment & supplies dealers (5.6%), miscellaneous store retailers (5.6%), health & personal care stores (5.4%), furniture & home furniture stores (2.7%), auto & other motor vehicle dealers (2.6%), grocery stores (1.7%), and clothing & clothing accessories stores (0.7%)
  - Notable decreases: department stores (-6.4%), electronics & appliances stores (-3.8%), and gasoline stations (-3.4%)

**Retail and Food Services Sales**  
(% Change from Prev. Month)

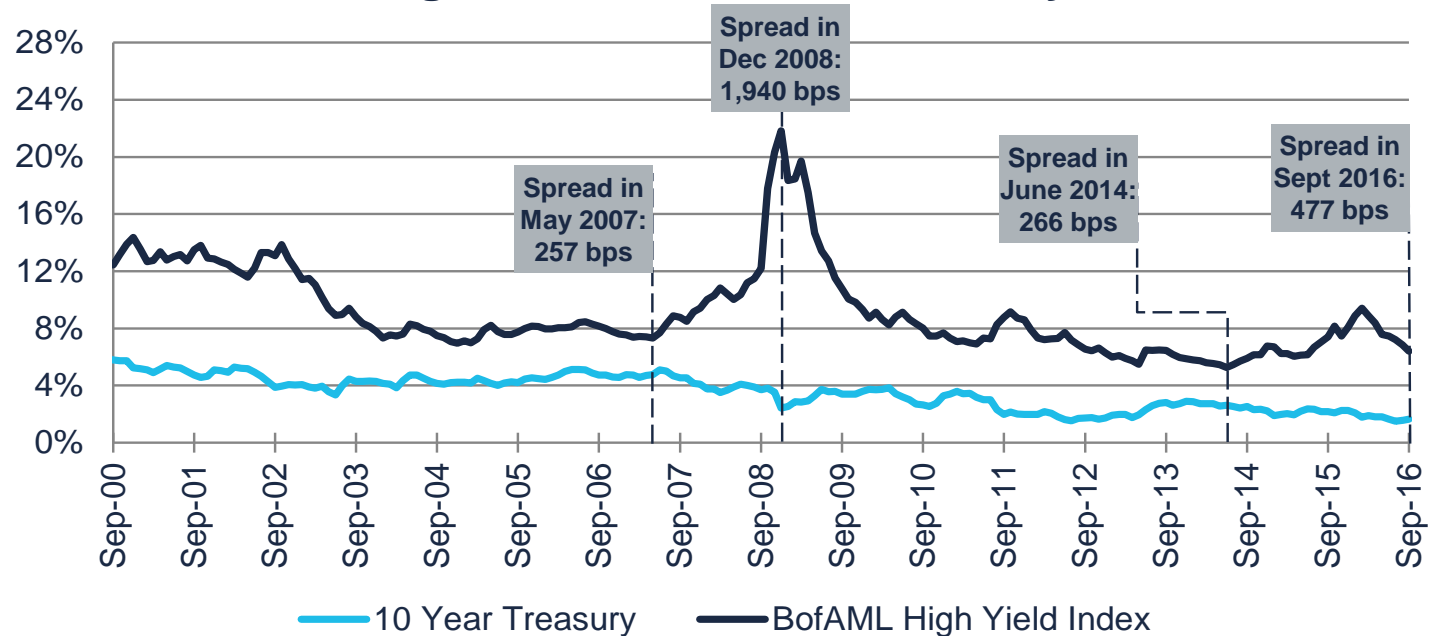


**Retail and Food Services Sales**  
(% Change from Prev. Year)



- The High Yield vs. 10 year Treasury spread decreased to 477 bps in Sept 16 from 529 bps in Aug 16
  - The spread was 522 bps in Sept 15

## High Yield vs. 10 Year Treasury



# Bankruptcies



## US Bankruptcy Filings

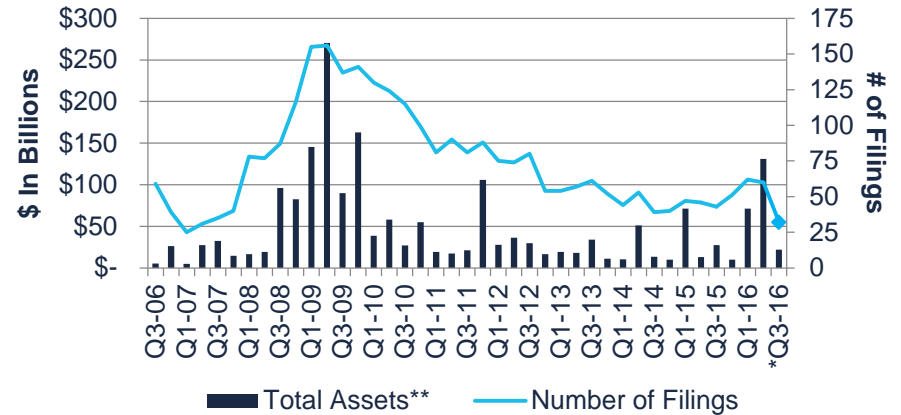
US Bankruptcy Filings with Assets > \$10 million by Industry

Industry	Sep-16	Aug-16	YTD Sep-16	YTD Sep-15	Total 2015
Energy	4	3	61	32	51
Healthcare	2	3	23	16	25
Retail	2	2	15	17	19
Real Estate	1	7	38	46	58
Construction	1	2	10	13	16
Technology	1	2	11	11	12
Agriculture	1	1	8	7	8
Services	1	1	9	12	16
Automotive	1	-	7	3	2
Manufacturing	1	-	16	9	17
Transportation	1	-	7	11	11
Leisure	1	-	7	12	14
Education	1	-	2	3	3
Chemicals	1	-	3	3	4
Food	1	-	2	7	8
Financial Services	-	3	13	18	23
Metals	-	1	4	7	10
Non Profit Organizations	-	1	6	3	3
Media	-	-	9	2	4
Telecommunication	-	-	4	-	1
Business Communication	-	-	3	4	5
Consumer/Household Prods	-	-	1	3	4
Textiles	-	-	1	-	-
Internet	-	-	1	1	2
Advisory	-	-	-	1	2
Research and Development	-	-	-	-	-
Government	-	-	-	-	-
<b>Total</b>	<b>20</b>	<b>26</b>	<b>261</b>	<b>241</b>	<b>318</b>

Source: The Deal®

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## US Bankruptcies with Assets > \$20 Million



Lehman Brothers and Washington Mutual excluded from Sep 08

\*Through September 30, 2016 - 32 Filings

\*\*As reported by The Deal - may be understated due to the lack of reporting by certain companies and ranges of values provided by others

Source: The Deal®

### 10 Largest US Chapter 11 Filings in September 2016\*

Company	Filing Date	Assets (\$ in mill)	Liabilities (\$ in mill)	Court	Industry
Pacific Andes Resources Development Ltd.	9/29/2016	\$ 1,000	\$ 100	SDNY	Agriculture
Golfsmith International Holdings Inc.	9/14/2016	100	100	DE	Leisure
Kaiser Gypsum Co. Inc.	9/30/2016	100	100	WDNC	Chemicals
Noble Environmental Power LLC	9/15/2016	100	500	DE	Energy
Fansteel Inc.	9/13/2016	33	42	SDIA	Automotive
Yu Hua Long Investments, LLC	9/26/2016	31	72	CA	N/A
Cosi Inc.	9/28/2016	31	20	MA	Retail
TPP Acquisition Inc.	9/2/2016	23	51	NDTX	Retail
Secured Assets Belvedere Tower LLC	9/19/2016	20	19	NV	Real Estate
Strategic Environmental Partners LLC	9/16/2016	18	5	NJ	Environmental Services

\* By assets reported by The Deal and Capital IQ

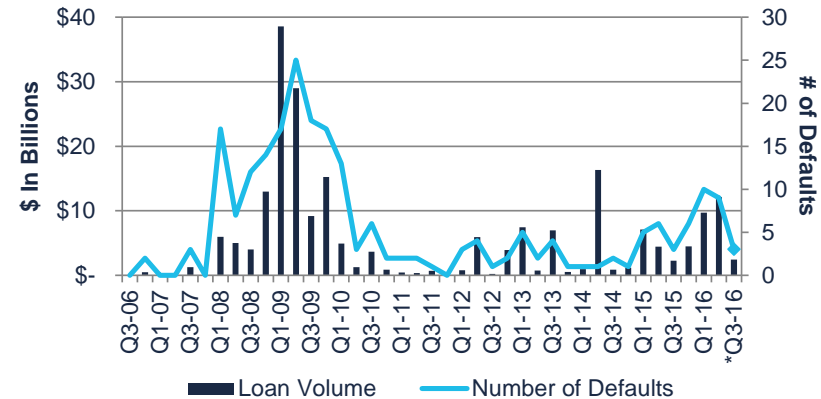
Source: The Deal®, Capital IQ

# Defaults

## Default Rates

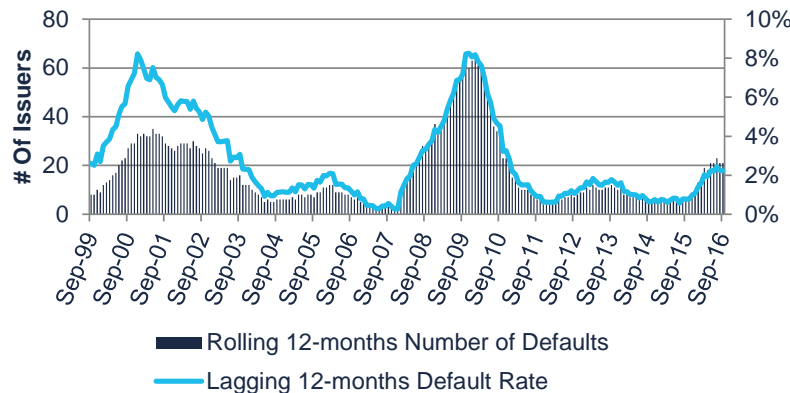
- There were 22 institutional loan defaults YTD through Sept 16 (\$24.3B in volume), compared to 14 institutional loan defaults YTD through Sept 15 (\$13.8B in volume)
- There were no new institutional loan defaults in Sept 16, causing default rates to fall:
  - The default rate by number of issuers fell to 2.23% in Sept 16 from 2.25% in Aug 16
  - The default rate by principal amount decreased to a 5-month low of 1.95% in Sept 16 from 1.98% in Aug 16
    - Excluding Energy Future Holdings' default in April 14, the largest in the history of the index, the default rate by principal amount in Sept 16 is more than four times higher than it was in Aug 14, when the rate was just 0.44%
- According to LCD's latest quarterly buyside survey taken in Sept 16, managers on average predict that the default rate by principal amount will rise to 2.77% by Sept 17 (this is unchanged from the June survey), before pushing higher to 3.16% by the end of 2017 (June's survey forecasted 3.09% by the end of 2017)

## Institutional Loan Defaults



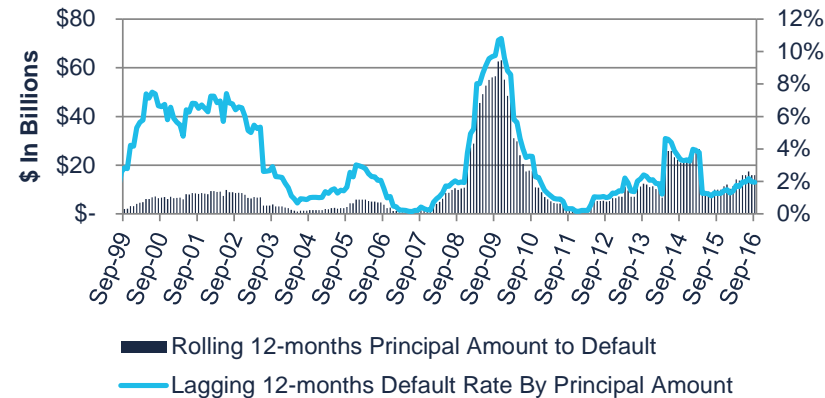
\*Through September 30, 2016 - 3 Defaults  
Source: Standard and Poor's LCD

## Defaults by Number of Issuers



Default rate is calculated as the number of defaults over the last twelve months divided by the number of issuers in the Index at the beginning of the twelve-month period  
Source: Standard and Poor's LCD and S&P/LSTA Leveraged Loan Index

## Defaults by Principal Amount



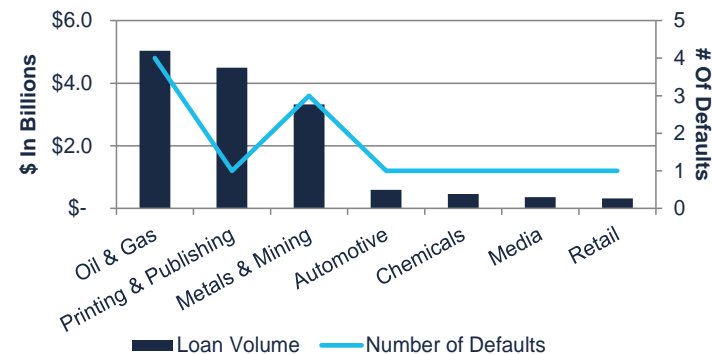
Default rate is calculated as the amount default over the last twelve months divided by the amount outstanding at the beginning of the twelve-month period  
Source: Standard and Poor's LCD and S&P/LSTA Leveraged Loan Index

# Defaults

## Defaults

- Institutional loan defaults in the past six months:
  - **Oil & Gas:** 4 defaults totaling \$5.0B in loan volume – C&J Energy Services (7/1/2016), Seventy Seven Energy (5/19/2016), Breitburn Energy Partners (5/16/2016), and Midstates Petroleum (4/30/2016)
  - **Metals & Mining:** 3 defaults totaling \$3.3B in loan volume – PTC Alliance Holdings (8/3/2016), Atlas Iron (5/9/2016), and Peabody Energy (4/13/2016)
  - **Printing & Publishing:** 1 default totaling \$4.5B in loan volume – Dex Media (5/17/2016)
  - **Automotive:** 1 default totaling \$590M in loan volume – Transtar Holdings (7/15/2016)
  - **Chemicals:** 1 default totaling \$460M in loan volume – Vertellus Specialties (4/12/2016)
  - **Media:** 1 default totaling \$360M in loan volume – Core Entertainment (fka CKx) (4/28/2016)
  - **Retail:** 1 default totaling \$320M in loan volume – Fairway Group Holdings (5/3/2016)
- **Largest Default:** Dex Media (Printing & Publishing) at \$4.5B
- **There were no institutional defaults in Sept 2016**

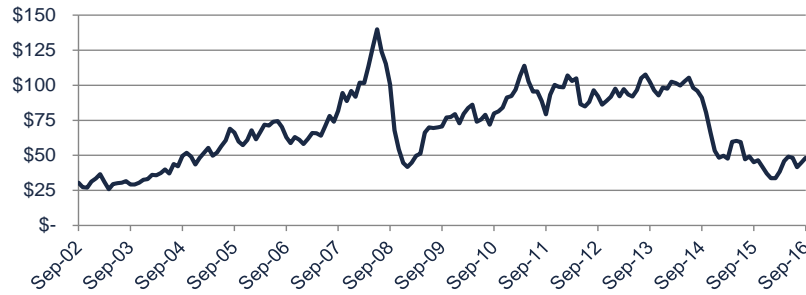
Defaults by Industry for Past Six Months



Source: Standard and Poor's LCD

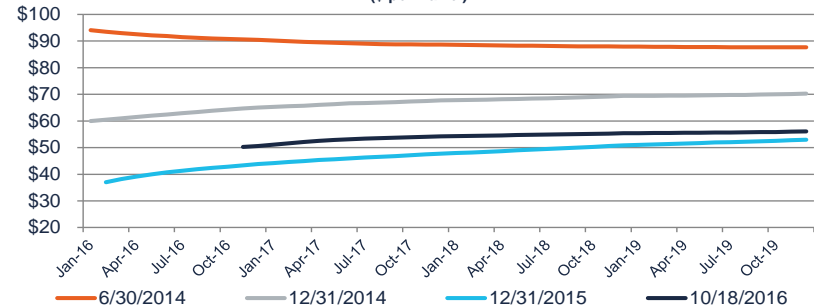
# Commodity Prices

**WTI Crude Oil Prices**  
(\$ per Barrel)



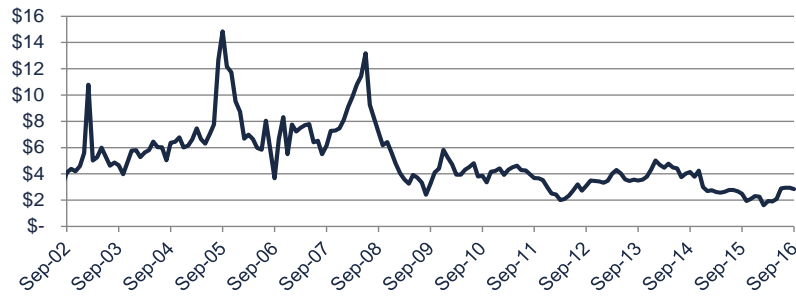
Source: Bloomberg Finance L.P.

**WTI Crude Oil Futures**  
Latest Strip as of October 18, 2016  
(\$ per Barrel)



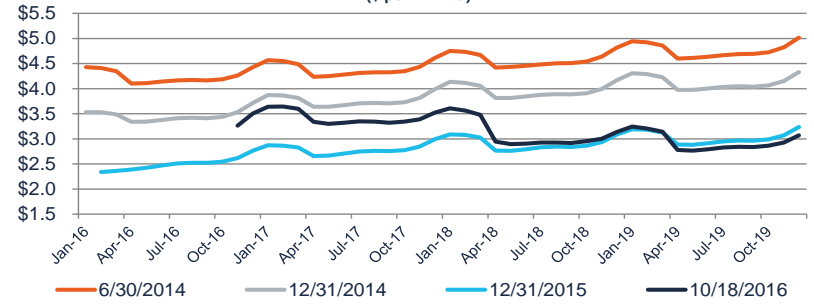
Source: Bloomberg Finance L.P.

**Henry Hub Natural Gas Prices**  
(\$ per MMBtu)



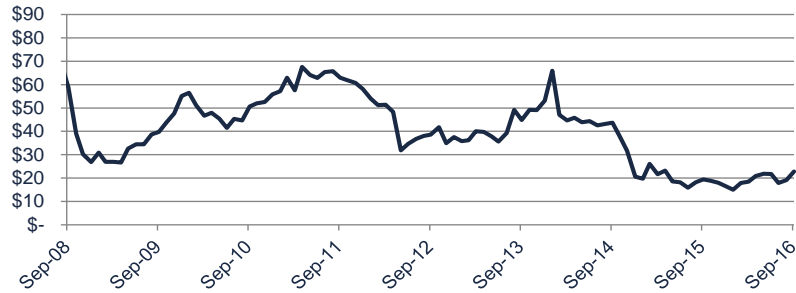
Source: Bloomberg Finance L.P.

**NYMEX Natural Gas Futures**  
Latest Strip as of October 18, 2016  
(\$ per MMBtu)



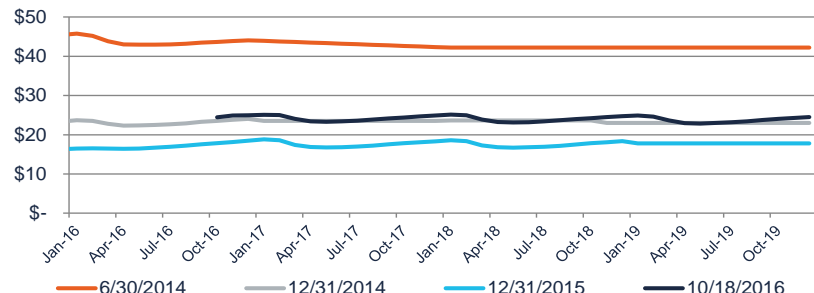
Source: Bloomberg Finance L.P.

**Mont Belvieu NGL Prices**  
(\$ per Barrel)



Source: Bloomberg Finance L.P.

**Mont Belvieu NGL Futures**  
Latest Strip as of October 18, 2016  
(\$ per Barrel)



Source: Bloomberg Finance L.P.