


1ST QUARTER 2019
IFDA ECONOMIC REPORT

IFDA
international foodservice distributors association

ITR ECONOMICS

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Terminology & Methodology

Data Trends:

Monthly Moving Total (MMT) vs Monthly Moving Average (MMA):

Totals are used when it makes sense to add the data together, such as with units sold or total dollars spent. Averages are used when the data cannot be compounded, as with an index, percent, price level, or interest rates.

3MMT/A and 12MMT/A:

A 3-month or 12-month moving total/average is the total/average of the monthly data for the most recent 3 and 12 months, respectively. The 3MMT/A illustrates the seasonal changes inherent to the data series. The 12MMT/A removes seasonal variation in order to derive the underlying cyclical trend. It is also referred to as the annual total or annual average.

Rates-of-Change:

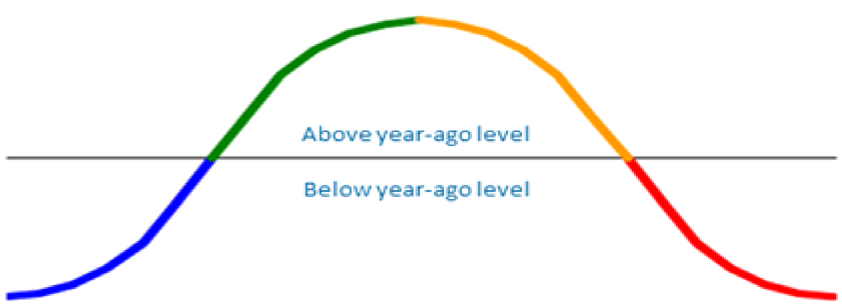
A **rate-of-change** figure is the ratio comparing a data series during a specified time period to the same period one year ago. Rates-of-change are expressed in terms of the **annual percent change in the 12MMT or 12MMA, 3MMT/A, and actual monthly data.**

Rates-of-change reveal whether activity levels are rising or falling compared to last year. A rate-of-change trend illustrates and measures cyclical change and trends in the data.

ITR Economics' three commonly used rates-of-change are the **1/12**, **3/12**, and **12/12**, which represent the year-over-year percent change of a single month, 3MMT/A, and 12MMT/A (respectively).

A rate-of-change above zero indicates the data is higher than one year prior, while a rate-of-change below zero indicates the data is below one year prior.

Business Cycle



The data trends and rates-of-change identify positions in the business cycle. Those positions are:

Recovery (A): 12/12 is rising but is below zero; the data trend is below the year-ago level and is either heading toward a low or is in the early stages of rise. This is the first positive phase of the business cycle.

Accelerating Growth (B): 12/12 is rising and is above zero; the data trend is accelerating in its ascent and is above the year-ago level. This is the second positive phase of the business cycle.

Slowing Growth (C): 12/12 is declining but remains above zero; the data trend ascent is slowing or has stopped its rise, but it is still above the year-ago level. This is the first negative phase of the business cycle.

Recession (D): 12/12 is declining and is below zero; the data trend is below the year-ago level and the rate of decline is increasing. This is the second and final negative phase of the business cycle.

Management Objectives™

Phase B — Accelerating Growth

1 Ensure quality control keeps pace with increasing volume
2 Invest in workforce development. Hiring, training, retention are key
3 Ensure you have the right price escalator. Space out price increases
4 Maximize your profit margins through differentiation. Stand out from the crowd and set yourself apart
5 Expand distribution channels
6 Expand credit to customers
7 Improve corporate governance (Rent a CEO, establish a board of advisors or board of directors)
8 Communicate competitive advantages, build the brand
9 What's next? Products less than seven years old can help buck the business cycle trend
10 Sell business in climate of maximum goodwill

Phase C — Slowing Growth

1 Know if your markets are headed for a soft landing or a hard landing
2 Cash is king: beware of linear budgets and ensure you are not in denial
3 Stay on top of aging receivables
4 Revisit capital expenditure plans
5 Lose the losers: if established business segments are not profitable during this phase, eliminate them
6 Use competitive pricing to manage your backlog through the coming slowdown
7 Avoid committing yourself to long-term expenses at the top of the price cycle, but lock in revenue
8 Go entrepreneurial and/or counter-cyclical
9 Evaluate your venders for financial strength; if needed look for additional venders as a safety net
10 If the cycle looks recessionary, cross train key people to prepare for workforce reduction

Phase A — Recovery

1 Conduct a SWOT review, and know where you need to put your money
2 Model positive leadership (culture turns to behavior)
3 Start to phase out marginal opportunities (products, processes, people); repair margins
4 Perform due diligence on customers and extend credit
5 Be on good terms with a banker; you will need the cash more now than in any other phase
6 Invest in customer market research; know what they value and market/price accordingly
7 Hire key people and implement company wide training programs ahead of Phase B
8 Allocate additional resources to sales and marketing
9 Invest in system/process efficiencies
10 Make opportunistic capital and business acquisitions; use pessimism to your advantage

Phase D — Recession

1 Implement cost cutting measures
2 Offer alternative products with a lower cost basis
3 Perform due diligence on acquisitions while valuations are falling
4 Reduce advertising as consumers become more price conscious
5 Enter or renegotiate long-term leases
6 Negotiate labor contracts
7 Consider capital equipment needs for the next cycle
8 Tighten credit policies
9 Develop programs for advertising, training, and marketing to implement in Phase A
10 Lead with optimism, remembering that Phase D is temporary

Executive Summary

THE BUSINESS CYCLE IS SHIFTING; MANAGE ACCORDINGLY

by Brian Beaulieu

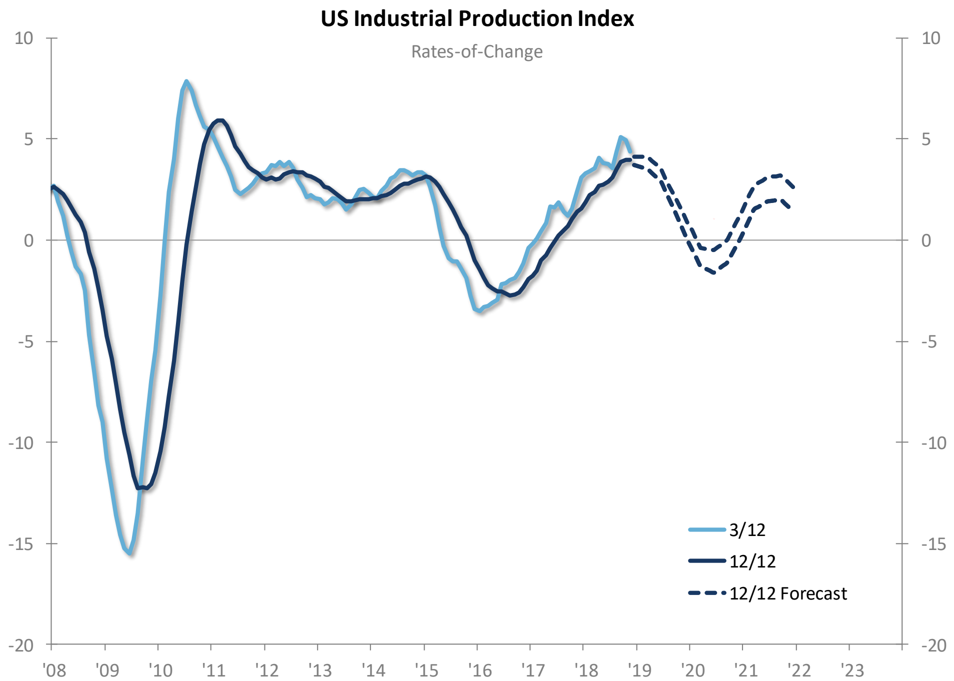
Overview

The US economy is growing; however, the pace of growth is deteriorating. We are clearly shifting to the downside of the business cycle in 2019. Slowing rise and/or contraction should be the expectation for most markets and companies. The shift in the business cycle is consistent with leading-indicator input and our forecasts.

Some of the December numbers – not just the volatility of the stock market – have a visceral aspect, harkening back to years like 2008, 2011, and 2015, none of which will be remembered fondly by most folks.

Three Management Objectives™ to consider as we begin 2019:

1. Know what the rate-of-change Checking Points™ are saying about your company and your markets.



2. Anticipate how a slowdown or actual contraction is going to impact your cash flow.
3. Resources are finite. Determine your priorities for the downside of the cycle with the twin goals of profitability in 2019 and preparation for opportunities in 2020 in mind.

Federal Government Shutdown

It is normal to ask if we are altering our outlook based on the shutdown. The answer is no.

Government shutdowns in modern times stem from amendments made to the Antideficiency Act in 1982. There have been 14 federal government shutdowns since.

We took a look at the shutdowns since 1982, and most of them were too short to conceivably amount to anything beyond stress for federal employees. For instance, there were seven shutdowns under President Reagan, with none lasting longer than three days. The potentially more egregious ones were under President Carter, with five shutdowns lasting from 8 to 18 days. The longest shutdown in US history occurred in 1995 under President Clinton. It lasted three weeks.

If we use US Total Industrial Production monthly data to benchmark the economy during each of the post-1982 shutdowns, we can see that the economy always maintained its then-current business-cycle trend with no more noise than would be expected for any given month.

Government shutdowns are generally thought to be costly. Standard & Poor's wrote that the 2013 16-day shutdown "has taken $24 billion out of the economy" and decreased the economy's rate of growth in the fourth quarter of 2013 by 0.6 percentage points. However, $24 billion equates to just 0.1% of 2013's US economy of $16.7 trillion.

Executive Summary

by Brian Beaulieu

THE BUSINESS CYCLE IS SHIFTING; MANAGE ACCORDINGLY

Leading Indicators

Since the impact of federal government shutdowns appears to be inconsequential, we can safely focus on ITR Economics' business-cycle analysis. These accurate, time-tested leading indicators are telling you and me that the US economy as well as the general global economy will progress through the downside of the business cycle in 2019.

When five distinct leading indicators say so, it is a statistically significant occurrence, suggesting that their input is compelling and should be used when mapping out the next 6 to 12 months. This applies to entire economies as well as individual companies. Below are some of the key leading indicators we are following closely.

US Indicators:

- ITR Leading Indicator™ – declined in December to its lowest reading since November 2016*
- US Leading Indicator – 1/12 rate-of-change trending downward**
- US Purchasing Managers Index – 1/12 rate-of-change declining***
- US Retail Sales – 12/12 rate-of-change declining with multiple negative ITR Checking Points™
- US Search Interest for "Recession"*

*Proprietary to ITR Economics

**Published by the Conference Board with rate-of-change generated by ITR

***Published by the ISM with rate-of-change generated by ITR

Global Indicators:

- JP Morgan Global Manufacturing Purchasing Managers Index*
- OECD G7 Leading Indicator*
- EuroZone Composite Purchasing Managers Index**
- China New Orders Component of the Purchasing Managers Index***
- OECD Brazil Leading Indicator*

*Raw data by indicated outside source with rate-of-change generated by ITR Economics

**Markit Economics raw data with rate-of-change generated by ITR

***National Bureau of Statistics of China data with rate-of-change generated by ITR

Trade Update

While increasingly overshadowed by more "current" events, the Tariff Tiff continues. The unintended consequences of trade disputes are real. We think they are continuing to pose downside risk to the US and global economy.

US Imports of Steel Products from the portion of the world subject to the Trump tariffs are down 2.7% year over year in October, the latest month with available data. That is not nearly as steep as the initial decline following the imposition of the tariffs. Year-over-year decline averaged 7.7% from June through October. The lessening of magnitude suggests that alternative sources or alternative means of bringing steel into the country may be at work.

Looking at some broader numbers, US Exports of Iron and Steel (to all countries) are down 14.6% year over year; Imports are down 0.4%. The world continues to decelerate in Phase C, but it was heading there without the tariffs. We maintain our position that the tariffs will become more acutely "painful," both domestically and for our trading partners, as growth diminishes in 2019. This may be particularly true for those companies using steel in their manufacturing processes or exporting US steel to other countries.

Keep in mind that 8% of US Gross Domestic Product is derived from the export of goods. Fortunately for companies engaged in exporting, overall US Exports of Goods to the world were up 7.9% year over year. However, Imports of Goods were up 12.1%. The total trade imbalance for goods went up 19.9% year over year. We have gone $244.9 billion into the red since July 2018. The increasing trade imbalance could lead to political decisions (and attendant unintended consequences) that could magnify weakening business-cycle conditions more than they bolster short-term prospects for growth.

overview

by Alex Chausovsky

US Industrial Production, up 4.0% during the 12 months through November compared to one year ago, is in an accelerating growth trend. The Mining, Electric and Gas Utilities, and Manufacturing sectors of Production were up 12.5%, 4.7%, and 2.6% year over year, respectively. The ITR Checking Points™ system suggests that each sector is either nearing or beyond its business-cycle peak.

The measures of our core economy are rising. However, US Nondefense Capital Goods New Orders (excluding aircraft), a measure of business-to-business activity, as well as US Wholesale Trade of Durable Goods recently transitioned to Phase C, Slowing Growth. The Nondurable segment of Wholesale Trade is expected to slow in its ascent imminently. US Total Retail Sales, which are benefitting from strong trends in the labor market, are contributing to Industrial Production growth. However, leading indicators suggest Retail Sales will grow at a slower pace in 2019 than in 2018. These factors support our outlook for US Industrial Production to transition to a slowing growth trend in the coming months.

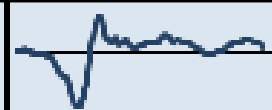
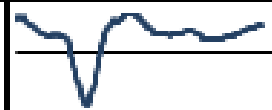
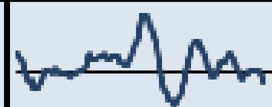
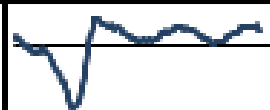
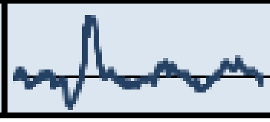
US Private Sector Employment is rising at an accelerating pace. The Employment annual average through December was 126.7 million people, the highest level in the data history and a 1.9% increase year over year. We expect Employment to transition to a slowing pace of growth in the near term, in line with the economy. Annual average Employment is forecast to increase over at least the next three years; ensure your business plans take into account persistent scarcity of labor.

Another important piece of our economy is the housing market. US Single-Family Housing Starts during the 12 months through November totaled 880 thousand units, up 3.9% from one year before. Higher Mortgage Rates and decline in US Pending Home Sales are putting downward pressure on Single-Unit Housing Starts; Starts are expected to descend on a year-over-year basis into the second half of 2019.

The past year was a good year for many businesses. However, avoid being overly optimistic in your planning and budgeting, as the industrial sector and business-to-business activity are expected to mildly decline in the latter half of this year and in early 2020. During that time, Wholesale Trade and Retail Sales are forecast to rise, but at lower growth rates.

We revised our forecasts for US Crude Oil Futures downward due to a sharp decline in Prices in recent months, as robust Oil Production coincides with concerns over slowing growth in World Industrial Production. The other forecasts included in this report are unchanged; most have been extended through 2021.

What Do the Indicators Mean to YOU?

	2006 - Present	Phase	What does it mean to you?
ITR Leading Indicator™		C	Slowing economic conditions will become more pronounced throughout 2019.
US Retail Sales		B	Despite record highs, recent trends point to weaker growth ahead. Closely monitor your profit margin.
US Corporate Bond Prices		D	Growing concern over economic conditions is evident in the bond yield spread between investment grades.
US Leading Indicator		C	Tentative Phase C points to weaker conditions in the US macroeconomy by mid-2019.
US Purchasing Managers Index		D	Macroeconomic contraction is possible in late 2019. Avoid overexpansion at the top of the business cycle.

1. *A majority of economic indicators have transitioned to the back side of the business cycle (Phases C or D). Trends in the ITR Leading Indicator, US Leading Indicator, and US Purchasing Managers Index point to decreased growth opportunities by mid-2019.*
2. *US Retail Sales are in Phase B, but are expected to transition to Phase C, Slowing Growth, during the first half of the year. Retail Sales are not expected to contract this year. Changing economic conditions can affect consumer preferences; adjust your product mix accordingly.*

Business Cycle

Order	Industry	Phase	Current	2019	2020	2021
1	US Disposable Personal Income (Quarterly Growth Rate)	B	2.8%			
2	US Government Long-Term Bond Yields (Quarterly Average Yield)	C	2.94%	3.00%		
3	US Real Gross Domestic Product (Quarterly Growth Rate)	B	3.0%	0.5%	2.7%	1.1%
4	US Unemployment Rate (Quarterly Average Rate)	A	3.6%	3.6%	3.5%	3.4%
5	US Personal Consumption Expenditures for Restaurants	B	5.3%	6.1%	3.3%	4.9%
6	US Fast Food Establishments Retail Sales	B	3.4%	5.3%	3.5%	5.3%
7	US Food and Beverage Stores Retail Sales	B	3.7%	4.1%	2.7%	3.9%
8	US Food Production Index	C	3.8%	0.3%	1.8%	1.1%
9	US Food Services and Drinking Places Retail Sales	B	6.1%	6.2%	3.4%	4.2%
10	US Total Retail Sales	B	5.2%	3.9%	3.6%	3.1%
11	US Crude Oil Futures Prices (Quarterly Average Price)	D	$54.02	$57.49		

A RECOVERY

B ACCELERATING GROWTH

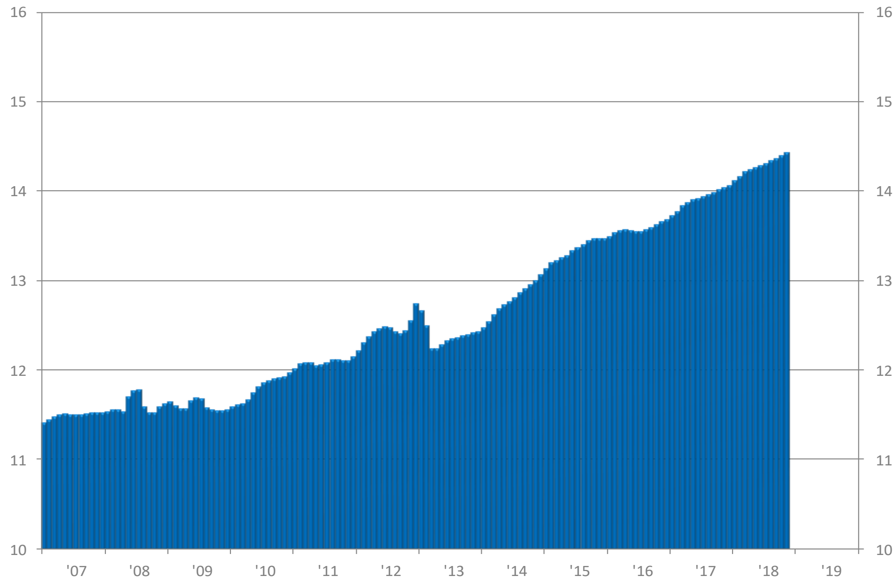
C SLOWING GROWTH

D RECESSION

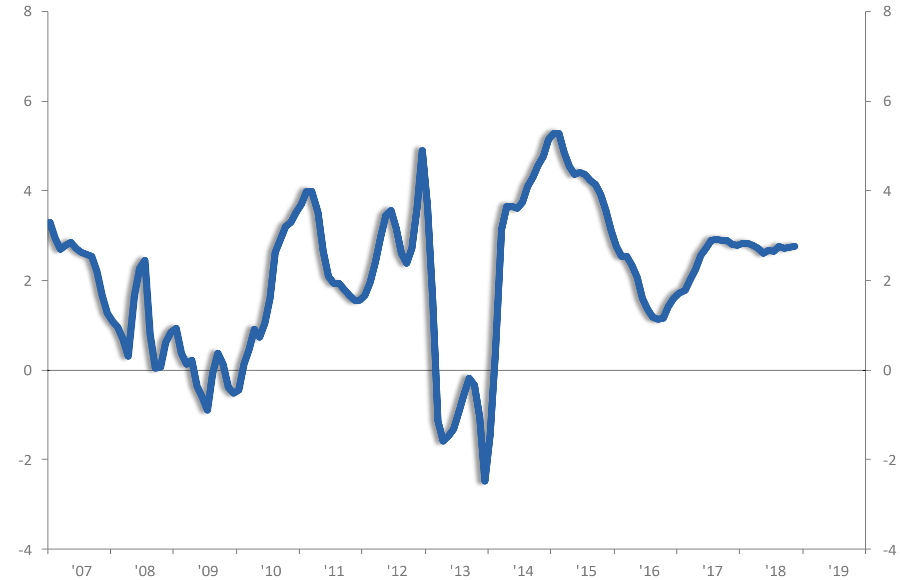
US Disposable Personal Income

Quarterly Trend: $14.4 trillion **Phase: B** **Change from Same Quarter Last Year: 2.8%**

3-Month Moving Average



Quarter-over-Quarter Growth Rate



Industry Outlook

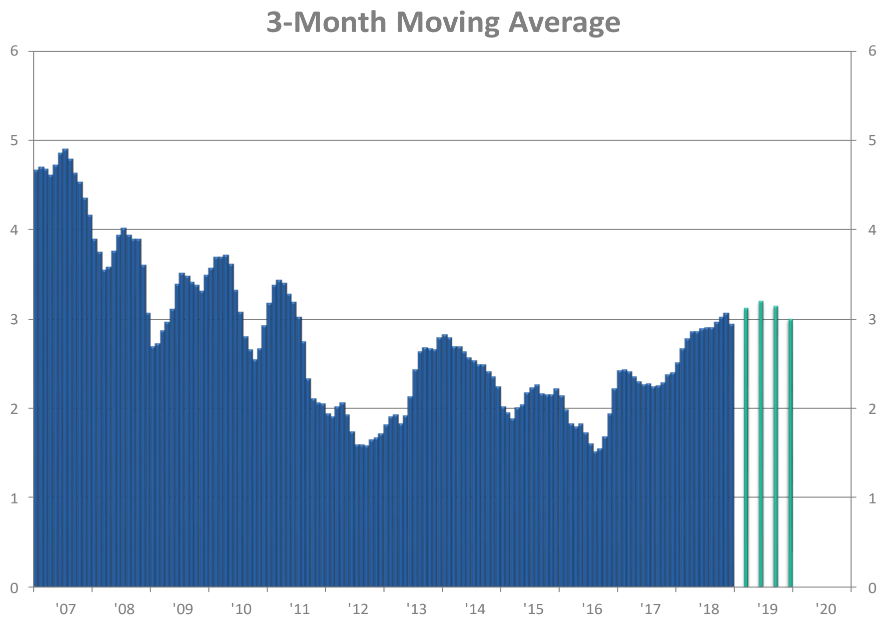
US Disposable Personal Income is growing at a steady pace, with the three months through November up 2.8% from the same three months one year ago. Recent decline in Oil Prices is helping ease consumer price inflation, freeing up a portion of consumer's pocketbooks. This is a positive trend for IFDA members.

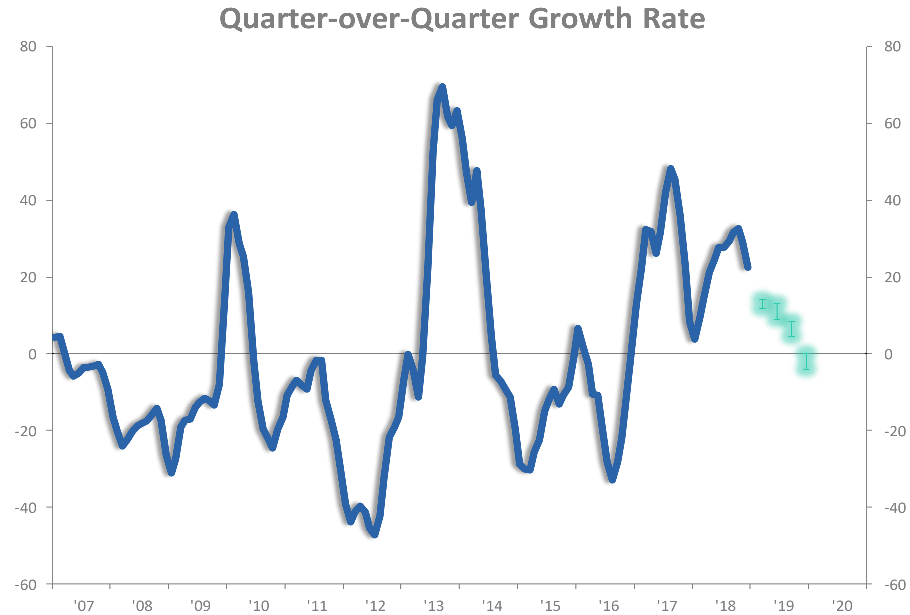
Employment statistics through December were positive, boding well for Personal Income. US Total Private Workforce Average Hourly Earnings are up 3.2% from the same three months last year, and the pace of growth is rising. The seasonally adjusted US Unemployment Rate is near record-lows, at 3.9%.

Although Disposable Personal Income is rising, the percentage allocated to savings has declined 1.1 percentage points since early 2018 (quarterly average basis). Quarterly US Personal Savings in November totaled $965.8 billion, down 11.7% from a tentative March 2018 peak. The current increase in consumer spending is likely positively affecting IFDA members. However, decreased savings could have negative implications during the upcoming business-cycle downturn in the US and global economies.

US Government Long-Term Bond Yields

Quarterly Trend: 2.94% **Phase: C** **Change from Same Quarter Last Year: 22.5%**





Industry Outlook

1Q19: 3.13%

2Q19: 3.21%

3Q19: 3.15%

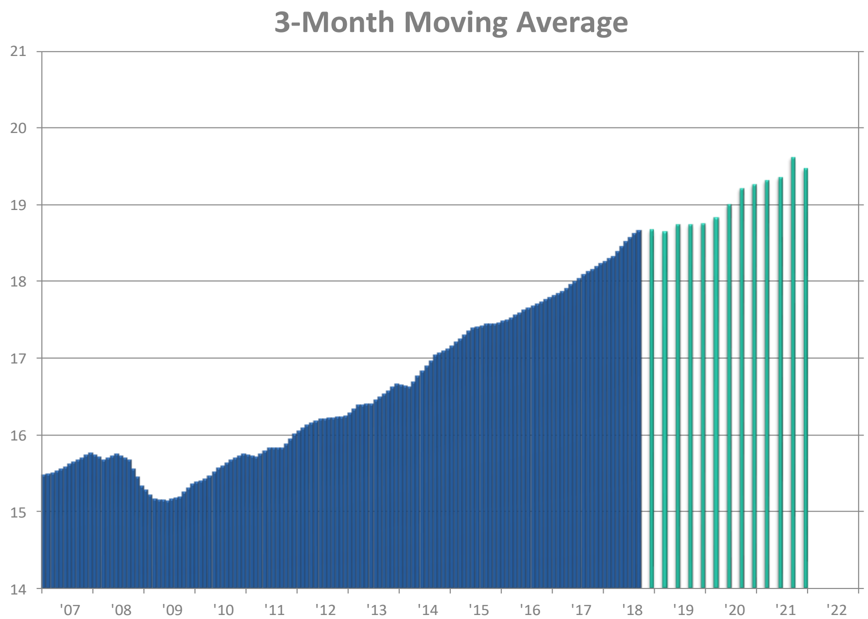
4Q19: 3.00%

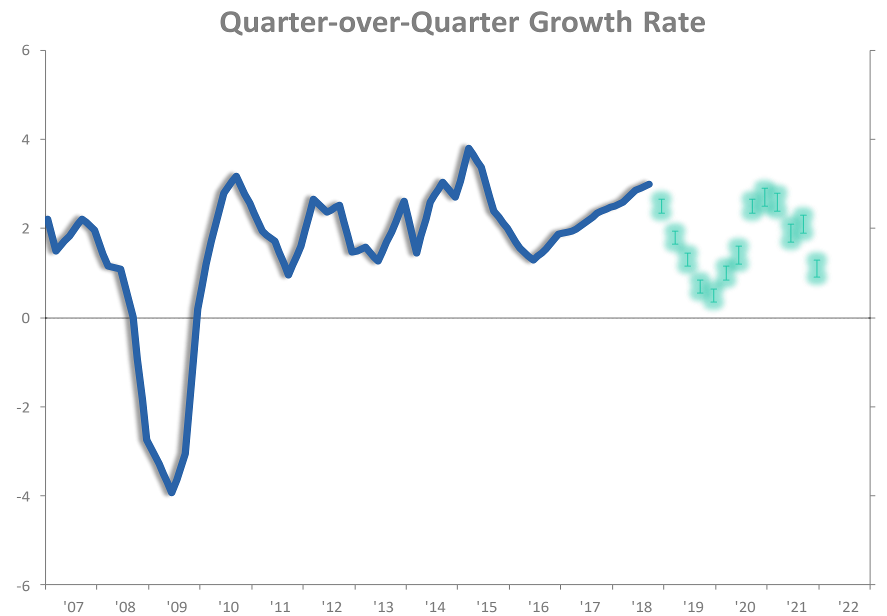
US Long-Term Bond Yields generally declined during the fourth quarter of 2018, averaging 2.94%. The Yields quarterly average came in along the lower end of our forecast range (median of 3.00%). Significant volatility in the stock market during recent months is likely causing investors to seek relative safely in the bond market, resulting in higher bond prices and lower yields. The Federal Reserve's decision to raise the Federal Funds Rate in December, despite stock market volatility, caused additional concern that the Federal Reserve may be tapping the brakes too hard. However, the Federal Reserve did become more conservative in the number of anticipated rate hikes in 2019 — down from three to two hikes.

Recent rise in the Federal Funds Rate indicates that Bond Yields could rise in the near term. However, decrease in the spread between short- and long-term yields (the yield curve) has been shrinking in recent months, which could limit the effects of a higher Federal Funds Rate. Our outlook for higher rates during the first half of 2019 followed by decline is unchanged. However, we raised our expectations by 12, 22, and 18 basis points for the next three quarters, respectively. Lower inflation due to low Oil Prices could pose a downside risk to our updated outlook.

US Real Gross Domestic Product

Quarterly Trend: $18.7 trillion **Phase: B** **Change from Same Quarter Last Year: 3.0%**





Industry

Outlook

4Q19: 0.5%

4Q20: 2.7%

4Q21: 1.1%

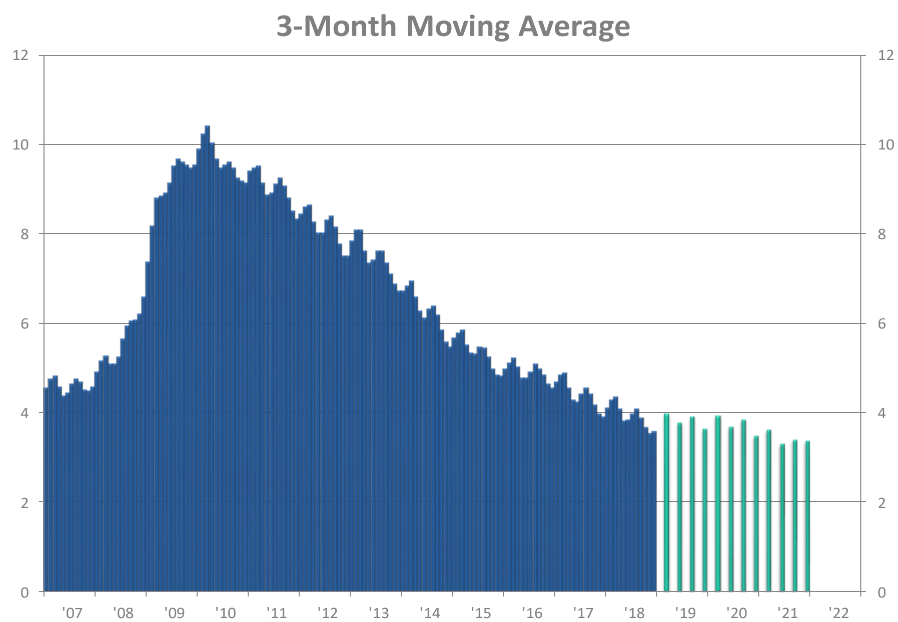
US Real Gross Domestic Product (GDP) accelerated into the third quarter of 2018 (most recent data available). Third-quarter results were 0.3% above the forecast median. Declining trends in the majority of leading indicators, including the proprietary ITR Leading Indicator™, the ISM's US Purchasing Mangers Index, and the Conference Board's US Leading Indicator, point to slowing growth in the first half the year. Our forecast for flat to mild rise in GDP during 2019, followed by rise in 2020, is unchanged. Plan for 2021 to be primarily a year of slowing growth in quarterly average GDP.

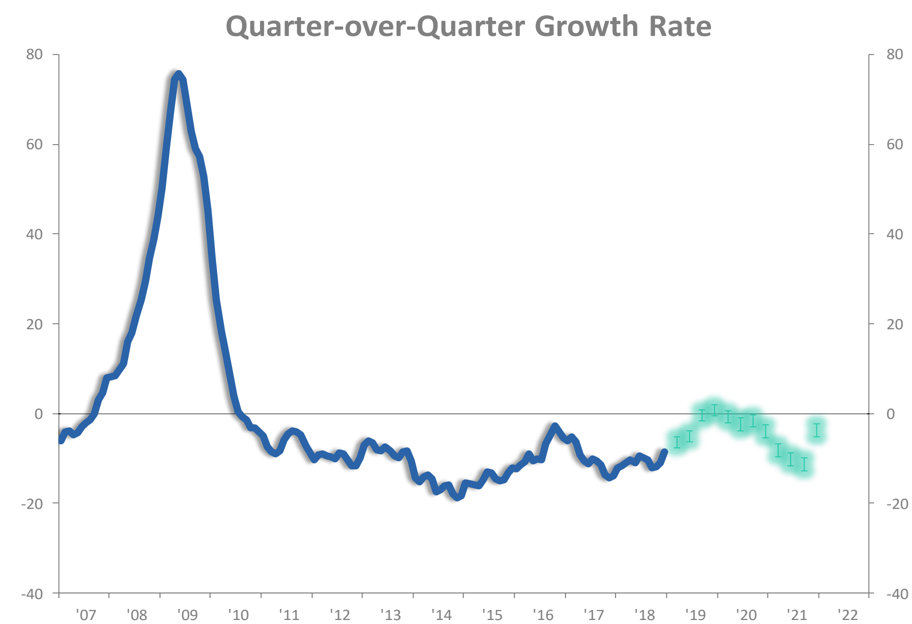
A tentative peak in the quarterly growth rate for US Exports to the World supports our expectation of upcoming slowing growth in GDP. Slowing growth and mild recession anticipated in industrial production in many of the US's important trading partners, including Canada, Europe, and Mexico, may hinder US exports in 2019 and put downward pressure on GDP growth rates.

Double-digit growth in quarterly average US Corporate Profits poses an upside risk to our expectation that GDP will transition to Phase C in the near term. Government expenditures, depending on budget decisions, could also pose a risk to our outlook.

US Unemployment Rate

Quarterly Trend: 3.6% **Phase: A** **Change from Same Quarter Last Year: -8.5%**





Industry Outlook

4Q19: 3.63%

4Q20: 3.49%

4Q21: 3.35%

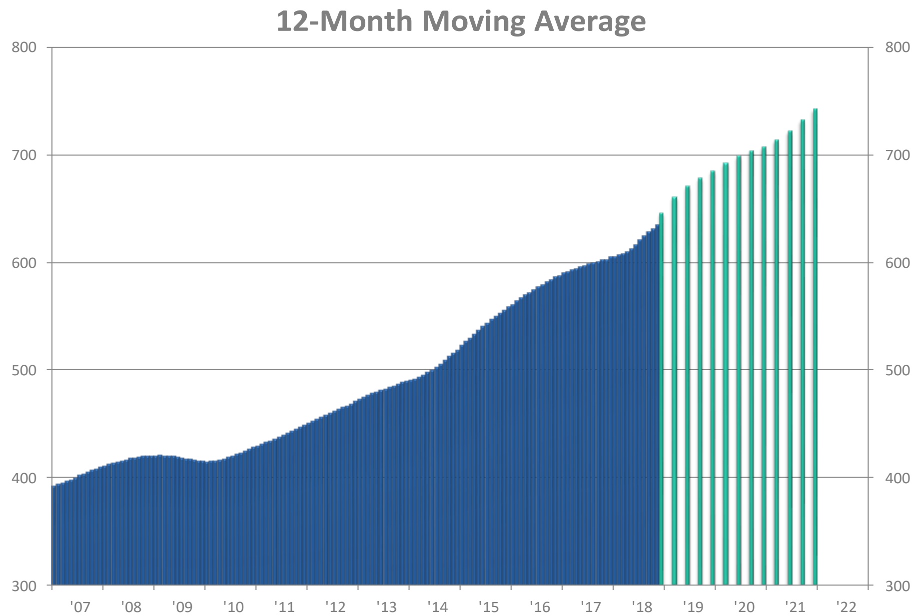
The US Unemployment Rate was at 3.5% in October and November before ticking up to 3.7% in December. The average Unemployment Rate for the fourth quarter of 2018 was 3.6%, 0.3 percentage points lower than the preceding quarter and the last quarter of 2017. The quarterly average is trending along the lower end of the forecast range. Leading indicators suggest that this trend may continue for much of 2019, although the already-tight supply of labor may limit the downside potential. Expect the quarterly average Unemployment Rate to be between about 3.2% and 4.0% over the next three years.

Annual US Private Sector Employment was at a record high during 2018, averaging 126.7 million people, 1.9% higher than during 2017. Our expectation of a business-cycle declining trend (Phase C) in Employment during much of 2019 and 2020 corroborates the outlook for an easing pace of Unemployment Rate decline for the majority of this year.

Ensure you are able to attract and retain skilled workers, as the labor market will be tight during at least the next three years. In addition to competitive salaries, evaluate your benefits packages to set your business apart from other employers.

US Personal Consumption Expenditures at Restaurants and Drinking Places

Annual Trend: $634.8 billion **Phase: B** **Year-over-Year: 5.3%**



Industry Outlook

2019: 6.1%

2020: 3.3%

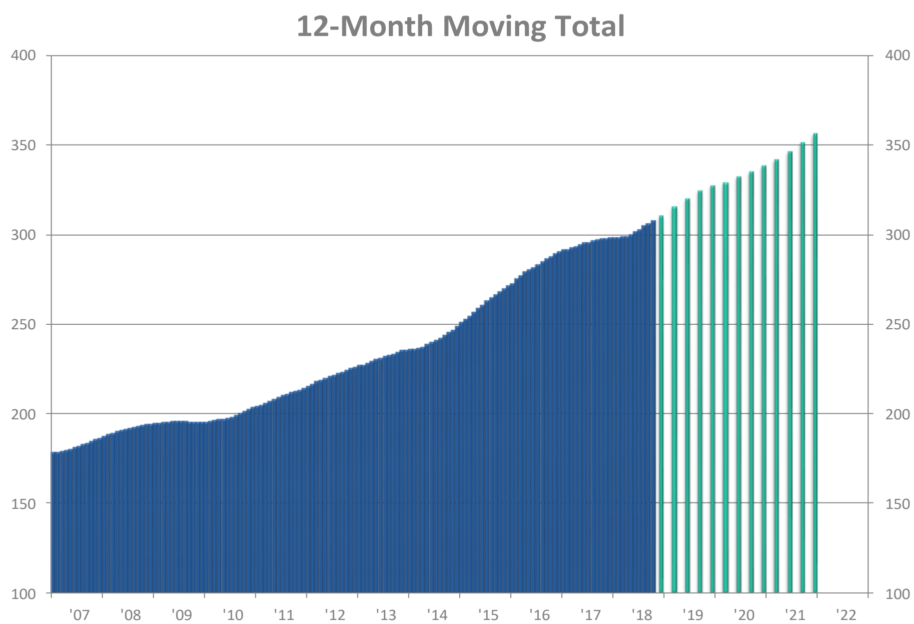
2021: 4.9%

US Personal Consumption Expenditures at Restaurants and Drinking Places during the 12 months through November totaled $634.8 billion, up 5.3% from the prior year. The pace of growth is accelerating, but slightly less robustly than anticipated. The data source revised recent months downward by about 0.2%, resulting in annual Expenditures coming 0.2% below the forecast range in September. The forecast is unchanged, as it is consistent with our expectations for the food industry as well as the US macroeconomy.

Plan for Expenditures to generally rise though 2021. However, the pace of growth will peak during the first half of the year, as suggested by the Restaurant Expectations Index. Trends in the ITR Consumer Activity Leading Indicator™ suggest that contraction in Expenditures is unlikely, in line with forecast expectations. Expenditures will resume Phase B, Accelerating Growth, during the first half of 2021 in reaction to a business-cycle upswing in the US macroeconomy.

US Fast Food Establishments Retail Sales

Annual Trend: $307.5 billion **Phase: B** **Year-over-Year: 3.4%**



Industry Outlook

2019: 5.3%

2020: 3.5%

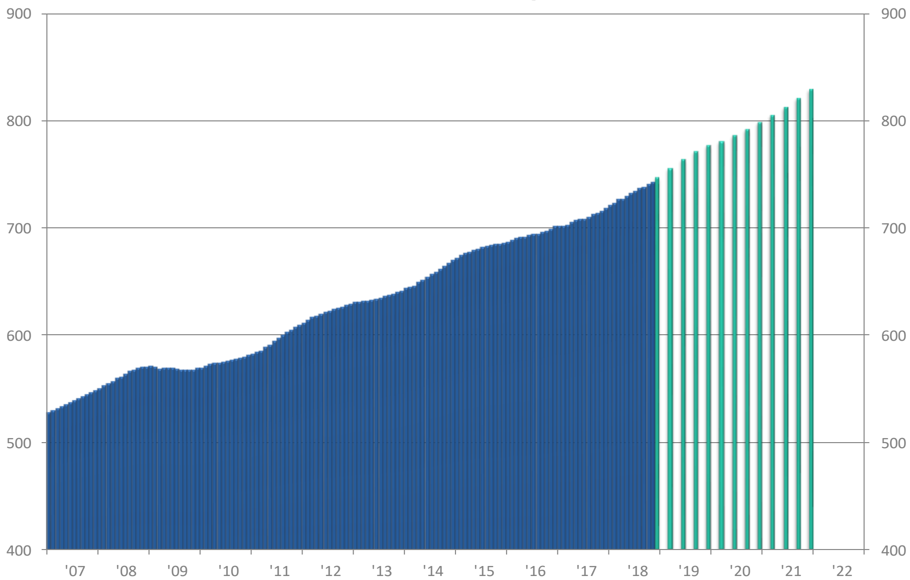
2021: 5.3%

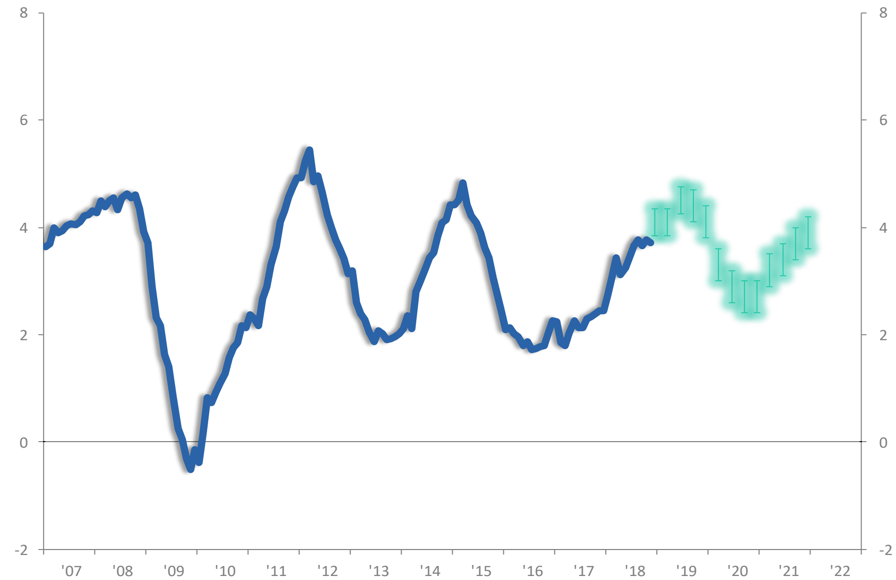
Annual US Fast Food Establishments Retail Sales totaled $307.5 billion, up 3.4% year-over-year in October. Retail Sales were trending within our forecast range, which is unchanged. We anticipate further accelerating rise during the first half of this year. Slowing growth will take over later in the year and extend into late 2020, as indicated by expectations for US Real Gross Domestic Product, a three-quarter leading indicator. Accelerating rise will then resume through at least 2021.

US Fast Food Establishments Retail Sales (up 3.4% year over year) are rising at a slower pace than overall US Food Services and Drinking Places Retail Sales (up 6.1%). US Full Service Restaurants Retail Sales (up 8.0%) and US Drinking Establishments Retail Sales (up 8.1%) are exhibiting strong growth; however, Drinking Establishments Retail Sales have already entered a slowing growth trend. The faster pace of rise in Full Service Restaurants Retail Sales compared to Fast Food Establishments Retail Sales could be due to rising US Disposable Personal Income as consumers opt for pricier, sit-down dining.

US Food and Beverage Stores Retail Sales

Annual Trend: $742.0 billion **Phase: B** **Year-over-Year: 3.7%**





Industry Outlook

2019: 4.1%

2020: 2.7%

2021: 3.9%

US Food and Beverage Stores Retail Sales during the 12 months through November totaled $742.0 billion, up 3.7% from one year ago. Retail Sales through September were within the forecast range, but recent data suggests Retail Sales will likely track the lower forecast range in the coming quarters. Expect Food and Beverage Stores Retail Sales to grow at a relatively steady pace in the near term before growth rates diminish into the second half of 2020. Phase B will characterize 2021.

The US Consumer Price Index for Food and Beverages has oscillated around 1.4% in recent months. Deflated Retail Sales at Grocery Stores are in a general Phase B, Accelerating Growth, trend, suggesting rise is due to more than price inflation.

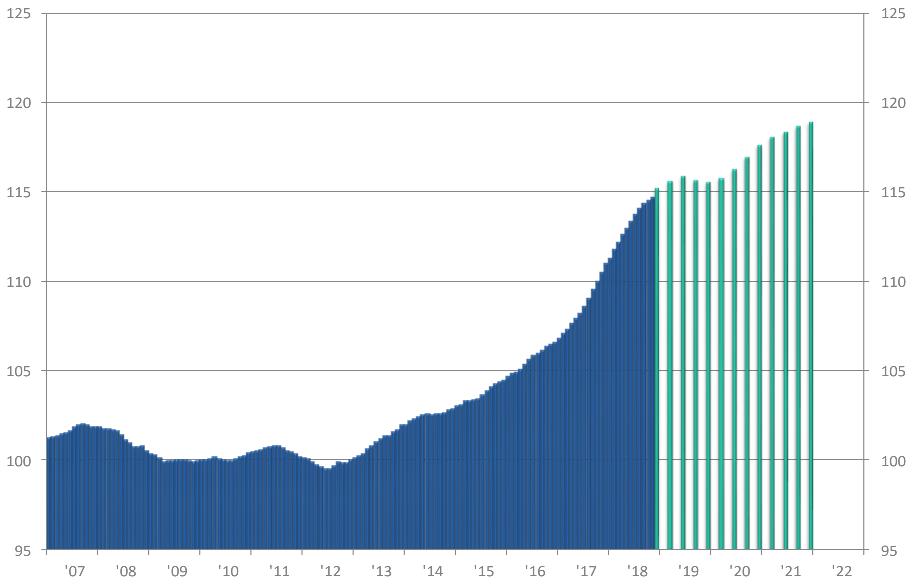
US Wholesale Trade of Grocery and Related Products peaked in early 2018. Wholesale Trade was down 1.0% in late 2018 and poses a downside risk to our outlook for Retail Sales.

Tariffs and recent trends toward protectionism highlight the need for a robust supply chain. Evaluate your vendors' strength and make sure you have diversified sources.

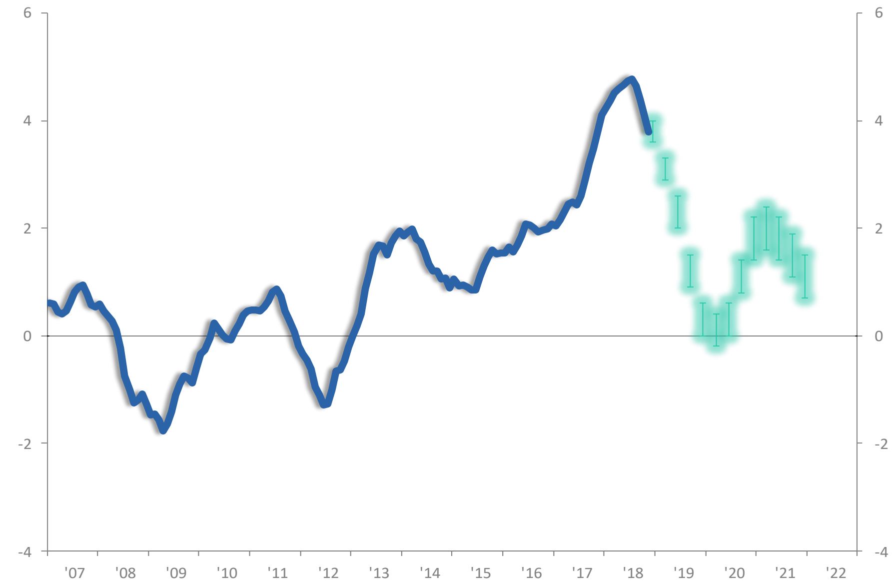
US Food Production Index

Annual Trend: 114.7 **Phase: C** **Year-over-Year: 3.8%**

12-Month Moving Average



Year-over-Year Growth Rate



Industry Outlook

2019: 0.3%

2020: 1.8%

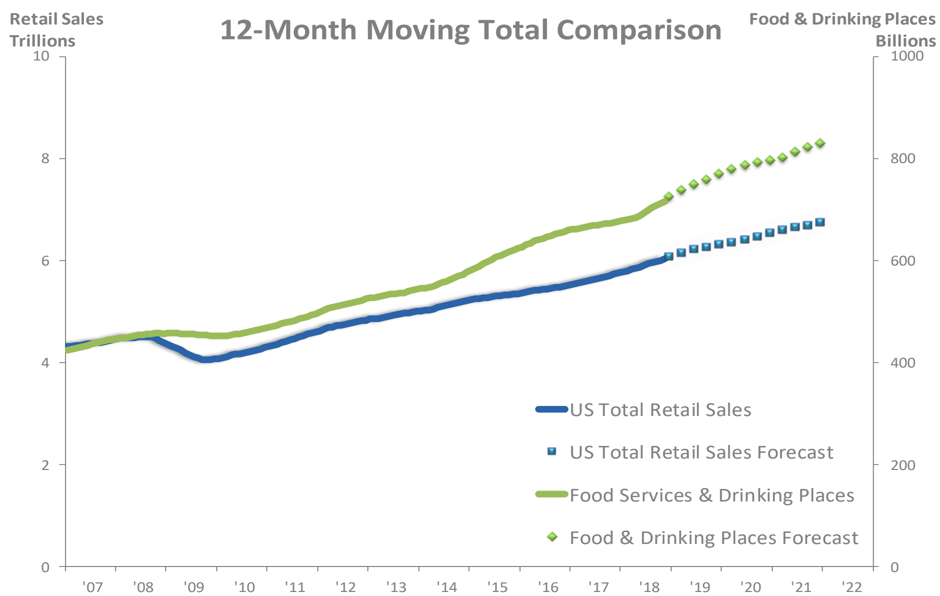
2021: 1.1%

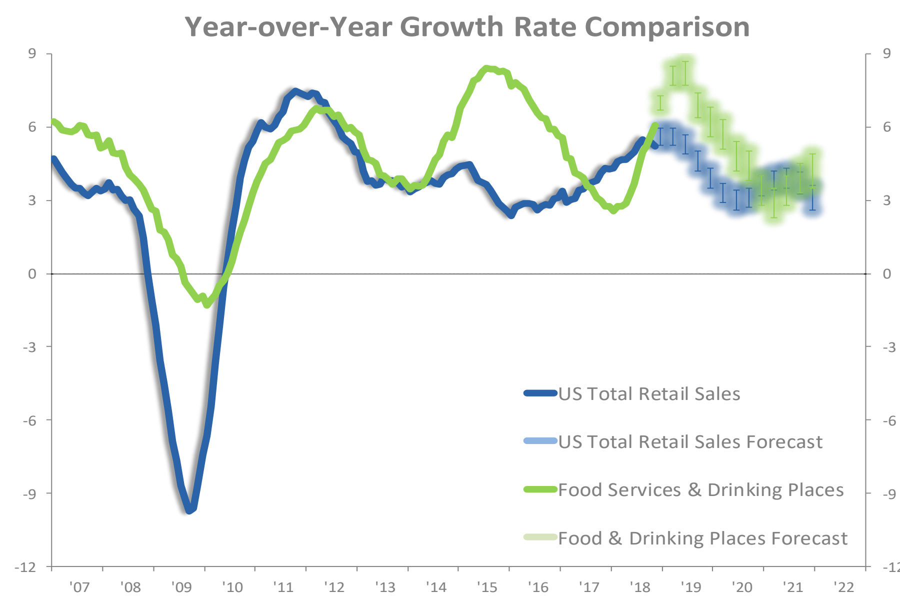
Annual average US Food Production through November was up 3.8%; the pace of growth is slowing. Results are trending within the forecast range, which is unchanged. Production is expected to peak around the middle of the year and then decline during the second half of the year. Decline will be brief and mild. Production will grow at an accelerating pace for the majority of 2020 and into early 2021, consistent with our expectations for US Retail Sales. The pace of growth will then slow for at least the remainder of 2021.

Trends in the US Food Utilization Rate and US Food Products Shipments support our expectation that Phase C will persist in the near term.

Third-quarter US Corporate Profits for Food, Beverage, and Tobacco Products Industries were 17.8% below one year ago. This suggests that although US Food Production and US Food Services and Drinking Places Retail Sales are both at record highs, profitability has been a struggle. Closely monitor your profit margins.

US Food Services and Drinking Places Retail Sales to Total Retail Sales





Industry Outlook

	Food & Drinking	Retail Sales
2019:	**6.2%**	**3.9%**
2020:	**3.4%**	**3.6%**
2021:	**4.2%**	**3.1%**

Strong employment trends and steady growth in US Personal Disposable Income are positive signs for the US consumer. Both Retail Sales indicators are expected to generally rise through at least 2021.

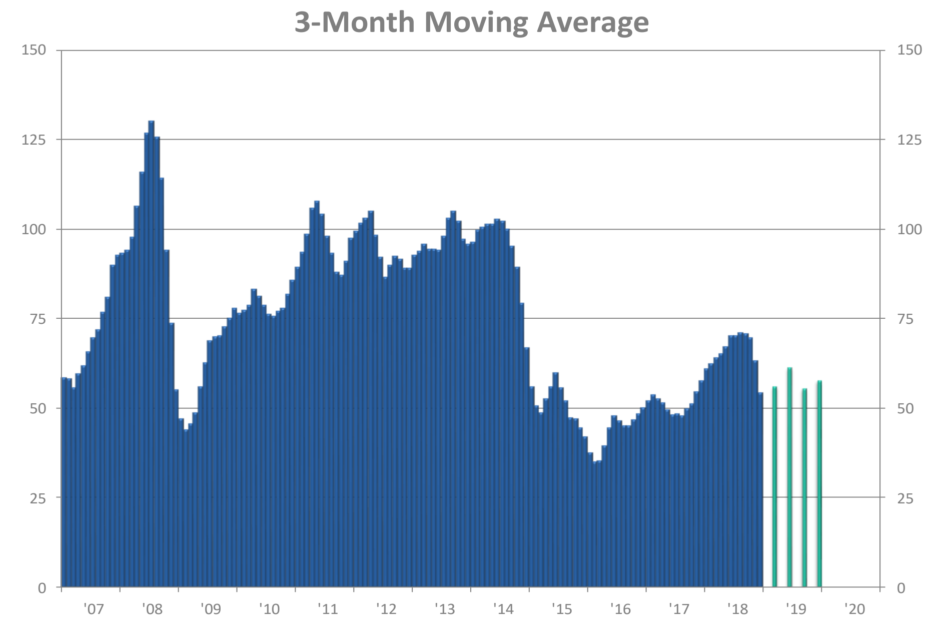
Annual US Food Services and Drinking Places Retail Sales in November totaled $715.0 billion, up 6.1% from the prior year. Retail Sales are tracking along the lower range of the forecast, which is unchanged. The pace of growth will peak by mid-2019 and then slow through early 2021. The pace of growth will then pick up again for at least the remainder of 2021.

Annual US Total Retail Sales in November totaled $6.028 trillion, up 5.2% from one year ago. The pace of growth ticked down in recent months but is expected to resume rising early in the year. The subsequent slowing growth trend is expected to extend into mid-2020. The pace of growth will then increase through the first half of 2021. The pace of growth will slow once again late in 2021.

Growth in Food Services and Drinking Places Retail Sales is expected to outpace growth in Total Retail Sales for at least the next year. However, make sure your plans account for slowing growth by mid-year.

US Crude Oil Futures

Quarterly Trend: $54.02 per barrel **Phase: D** **Change from Same Quarter Last Year: -5.9%**



Industry Outlook

1Q19: $55.97

2Q19: $61.12

3Q19: $55.32

4Q19: $57.49

Average Crude Oil Futures Prices for the third quarter of 2018 came in $1.16 above the upper end of the forecast range, which was prepared with April 2018 data. Quarterly average Prices peaked in the third quarter as anticipated. However, following a precipitous drop in late 2018, quarterly average Prices ended the year at $54.02 per barrel. The sharp decline in Prices as well as excess supply, as indicated by our World oil Gap Indicator, led us to revise the forecast downward. Expect the Prices quarterly average to be around the mid-$50s for the majority of 2019.

Record-high annual average World Oil Supply, up 2.3% year over year, is coinciding with declining global leading indicators signaling less robust demand for oil in 2019 is probable. Slowing demand combined with robust supply will lead to relatively low Prices. However, planned supply cuts by OPEC members and Russia may have a significant impact on Prices despite the growing influence of the US on the global supply of oil. Supply cuts pose an upside risk to our Prices outlook.

Appendix — Market Definitions

US Industrial Production Index — Index of total industrial production in the United States; includes manufacturing, mining, and utilities. Source: Federal Reserve Board (FRB). 2012 = 100, not seasonally adjusted (NSA).

US Disposable Personal Income — Disposable personal income is the total after-tax income received by persons in the US, including transfer payments. It is the income available to persons for spending or saving. Persons are considered to consist of individuals, nonprofit institutions that primarily serve individuals, private noninsured welfare funds, and private trust funds. Source: US Bureau of Economic Analysis (BEA). Measured in trillions of chained 2012 dollars, seasonally adjusted at annual rates (SAAR).

US Government Long-Term Bond Yields (10 Year) — Market yield on United States Treasury securities, 10-year, constant maturity, quoted on investment basis. Value on the last day of the month. Source: FRB. Measured as a percentage, NSA.

US Real Gross Domestic Product — Real (inflation-adjusted) gross domestic product (GDP) in the United States. GDP is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. GDP includes all private and public consumption, government outlays, investments and exports minus imports that occur within a defined territory. Put simply, GDP is a broad measurement of a nation's overall economic activity. Source: BEA. Measured in trillions of 2012 chained dollars, SAAR.

US Unemployment Rate — Rate of unemployment for the non-institutional population of the United States. Excludes prisoners, inmates of mental institutions, inhabitants of retirement facilities, and the military. Source: Bureau of Labor Statistics. Measured as a percentage, NSA.

US Personal Consumption Expenditures: Restaurants — Personal consumption expenditures for other purchased meals (restaurants and drinking places) in the United States. Purchased meals and beverages including meals at limited service eating places (fast food), meals at other eating places (restaurants), and meals at drinking places (bars/pubs). Personal consumption expenditures are a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. Source: BEA. Measured in billions of dollars, SAAR.

US Fast Food Establishments Retail Sales — This industry group comprises establishments primarily engaged in providing food services where patrons generally order or select items and pay before eating. Most establishments do not have waiter/waitress service, but some provide limited service, such as cooking to order (i.e., per special request), bringing food to seated customers, or providing off-site delivery. Source: US Census Bureau. NAICS Code: 7222. Measured in billions of dollars, NSA.

US Food and Beverage Stores Retail Sales — Industries in the Food and Beverage Stores subsector usually retail food and beverages merchandise from fixed point-of-sale locations. Establishments in this subsector have special equipment (e.g., freezers, refrigerated display cases, refrigerators) for displaying food and beverage goods. They have staff trained in the processing of food products to guarantee the proper storage and sanitary conditions required by regulatory authority. Source: US Census Bureau. NAICS Code: 445. Measured in billions of dollars, NSA.

US Food Production Index — Industries in the US Food Manufacturing subsector transform livestock and agricultural products into products for intermediate or final consumption. The industry groups are distinguished by the raw materials (generally of animal or vegetable origin) processed into food products. The food products manufactured in these establishments are typically sold to wholesalers or retailers for distribution to consumers. Source: FRB. NAICS Code: 311. Index, 2012 = 100, NSA.

Appendix — Market Definitions

US Food Services and Drinking Places Retail Sales — Industries in the food services and drinking places subsector prepare meals, snacks, and beverages to customer order for immediate on-premises and off-premises consumption. The industry groups are full-service restaurants; limited-service eating places; special food services, such as food service contractors, caterers, and mobile food services; and drinking places. Source: US Census Bureau. NAICS Code: 722. Measured in billions of dollars, NSA.

US Total Retail Sales — Total retail sales in the United States, including motor vehicles and parts, furniture and home furnishings, electronics and appliances, building materials and garden supplies, food and beverages, health and personal care products, gasoline stations, clothing, and other miscellaneous goods. Includes store and non-store retail sales. Non-store retailers include those that sell via television commercials, catalogs, the internet, etc. Source: US Census Bureau. NAICS Code: 44-45. Measured in trillions of dollars, NSA.

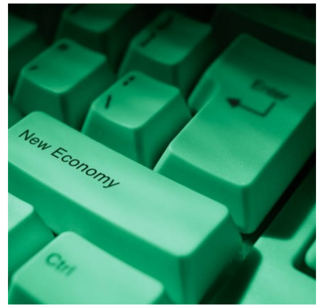
US Crude Oil Futures — Futures price of crude oil, light and sweet, in the United States. NYMEX, following month delivery. Source: Wall Street Journal. Measured in dollars per barrel, NSA.

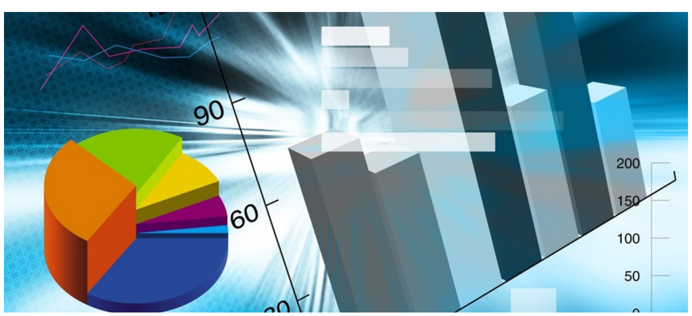
ITR Leading Indicator™ — The ITR Leading Indicator™ is a proprietary index comprised of consumer, industrial, financial, and global components. Movements in the Leading Indicator suggest the possible course of business cycle movements in US Industrial Production, a measure of the overall economy's activity, approximately three quarters in advance. A reading of zero or lower is indicative of recession.

US Leading Indicator — Leading United States economic indicator published by The Conference Board. The USLI is made up of 10 components: average weekly hours, manufacturing; average weekly initial claims for unemployment insurance; manufacturers' new orders, consumer goods and materials; ISM® new orders index; manufacturers' new orders, nondefense capital goods excluding aircraft orders; building permits, new private housing units; stock prices, 500 common stocks; Leading Credit Index™; interest rate spread, 10-year Treasury bonds less federal funds; and average consumer expectations for business conditions.

Corporate AAA Bond Yields Inverted for Prices — Moody's yield on seasoned corporate bonds, average of 20-30 year, all industries, AAA, taken on last day of the month. The rates-of-change are inverted for prices. Based on seasoned bonds with remaining maturities of at least 20 years. Methodology derived from pricing data on a regularly replenished population of nearly 90 seasoned corporate bonds in the US market, each with current outstandings over $100 million. The bonds have maturities as close as possible to 30 years. They are dropped if ratings change. Bonds with deep discounts or steep premiums are generally excluded. All yields are yield-to-maturity calculated on a semi-annual compounding basis. Source: FRB. Measured as a percentage, NSA.

US Purchasing Managers Index (PMI) — The Institute for Supply Management's US manufacturing index is based on: new orders (seasonally adjusted), production (seasonally adjusted), employment (seasonally adjusted), supplier deliveries (seasonally adjusted), and inventories. Diffusion index: a reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally declining.





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