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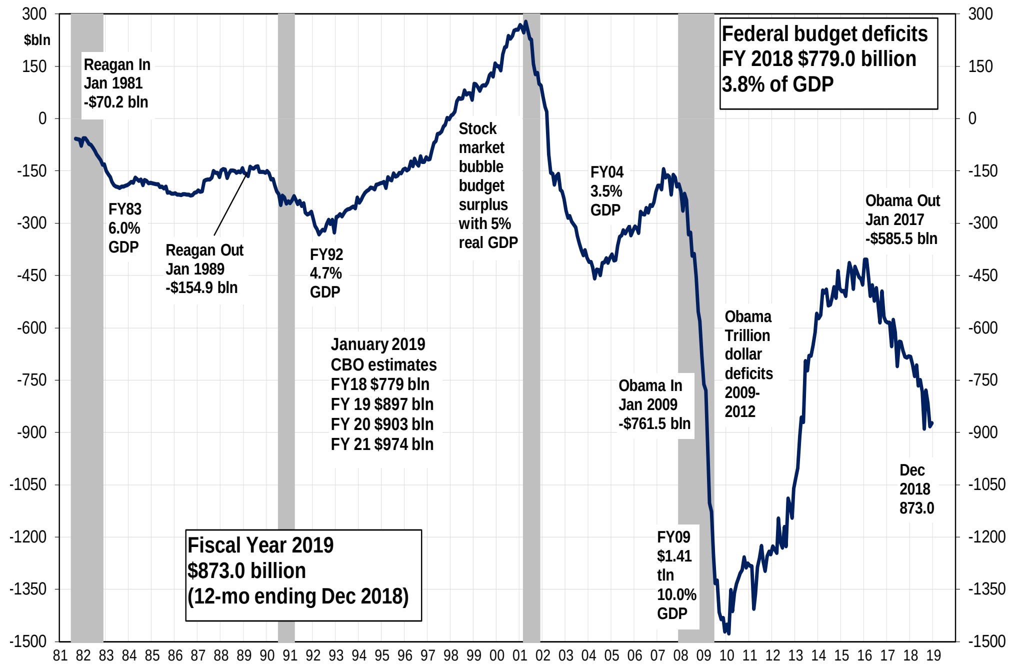
# FEDERAL DEFICIT ON ITS WAY TO ONE TRILLION




The Federal government budget deficit data was delayed as well by the government shutdown so we couldn't track all the red ink. December budget results came out this week so we have the fourth quarter data which is the first quarter of fiscal year (FY) 2019 that ends in September. For the twelve months ending December, the deficit is $873 billion which sounds like a lot of money to be borrowed from the markets, but Treasury bond yields were only 43 bps higher at 2.83% in December 2018 versus 2.40% in December 2017. There are scary stories about the Federal Debt Bomb out there on the horizon, and it has yet to be tested just how much the Federal government can borrow from the public without sending yields soaring and halting business borrowing and investment and the economy in its tracks. We'll probably know the answer by the year 2029 when the last baby boomer retires at age 65. Shut the door when they are gone.

The Office of Management and Budget (OMB) looked for a $1.134 trillion deficit in FY2020 in the Midsession Review done in

| Midsession Federal Budget Review | | | |
|---|---|---|---|
| FY20/FY19 | | | |
| $ chg | $ billions | 2020 | 2019 |
| 199 | Outlays | 4,749 | 4,550 |
| (18) | Discretionary | 1,383 | 1,401 |
| (2) | Defense | 675 | 677 |
| (16) | Nondefense | 708 | 724 |
| 140 | Mandatory | 2,894 | 2,754 |
| 62 | Social Security | 1,104 | 1,042 |
| 44 | Medicare | 690 | 646 |
| 17 | Medicaid | 441 | 424 |
| 17 | Other | 659 | 642 |
| 77 | Net interest | 472 | 395 |
| 188 | Revenues | 3,615 | 3,427 |
| 96 | Individual income taxes | 1,800 | 1,704 |
| 29 | Corporate income tax | 254 | 225 |
| | Social program taxes | | |
| 39 | Social Security Payroll | 950 | 911 |
| 12 | Medicare Payroll | 289 | 277 |
| 1 | Unemployed insurance | 46 | 45 |
| 9 | Excise taxes | 107 | 98 |
| 1 | Estate and gift taxes | 18 | 17 |
| 2 | Customs duties | 42 | 40 |
| - | Fed earnings | 53 | 53 |
| 11 | Deficit | 1,134 | 1,123 |

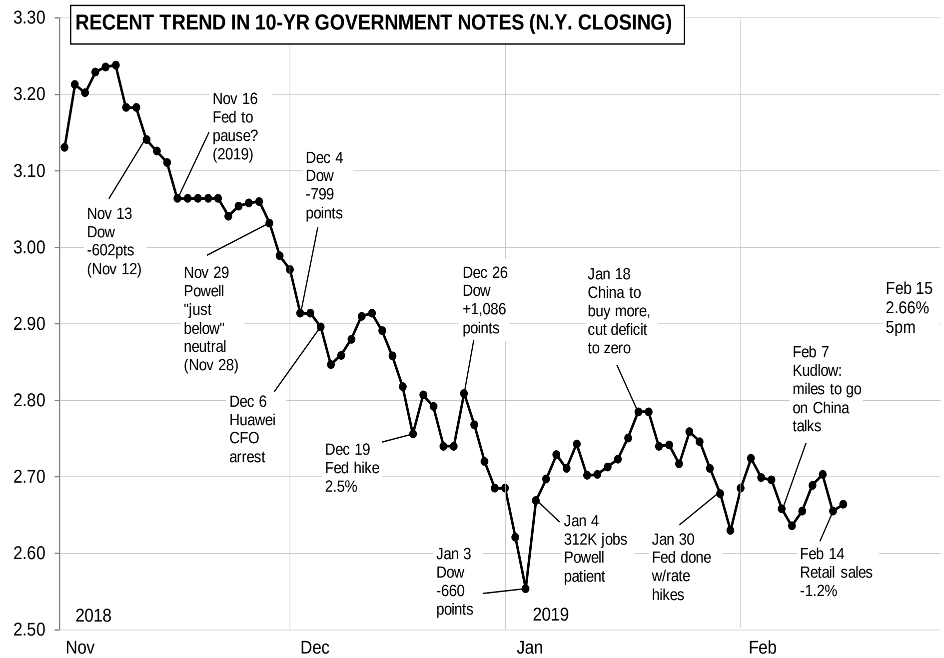
July last summer. Congress finally agreed on spending for FY2019 this week and the President's FY2020 budget is to be presented next month. The Administration has talked about cutting spending 5%. Mandatory spending on social security, Medicare and the like is $2.894 trillion in 2020 or 60.9% of total spending. If you don't touch military spending, so-called nondefense discretionary spending was estimated to be $708 billion in FY2020, a 5% cut here is only $35 billion which doesn't put much of a dent in the FY2020 deficit of $1.134 trillion. Cutting social security expenditures of $1.104 trillion in 2020 by 5% and angering baby boom retirees, gives you all of $55 billion. Good luck with that.

| **Federal Government Spending ($bln)** | | | Fiscal | Fiscal | |
|---|---|---|---|---|---|
| **Where to cut?** | 1 Qtr FY19 | 1 Qtr FY18 | Year | Year | Full Year |
| | Q4 18-Q4 18 | Q4 17-Q4 17 | Changes | % chg | FY 2018 |
| TOTAL BUDGET OUTLAYS | 1,090.170 | 994.466 | 95.704 | 9.6 | 4,107.741 |
| Legislative | 1.278 | 1.187 | 0.091 | 7.7 | 4.670 |
| Judicial | 2.077 | 1.978 | 0.099 | 5.0 | 7.779 |
| Agriculture | 50.660 | 51.913 | -1.253 | -2.4 | 136.713 |
| Food Stamps | 16.793 | 18.899 | -2.106 | -11.1 | 68.493 |
| Child Nutrition | 6.579 | 6.604 | -0.025 | -0.4 | 22.829 |
| Commerce | 3.783 | 1.563 | 2.220 | 142.0 | 8.562 |
| Defense | 171.926 | 158.556 | 13.370 | 8.4 | 600.706 |
| Military Personnel | 52.963 | 46.141 | 6.822 | 14.8 | 145.827 |
| Operation Maintenance | 63.766 | 60.334 | 3.432 | 5.7 | 256.663 |
| Procurement | 28.687 | 29.599 | -0.912 | -3.1 | 112.667 |
| Research Development | 21.161 | 18.421 | 2.740 | 14.9 | 76.975 |
| Military Construction | 1.973 | 1.904 | 0.069 | 3.6 | 6.723 |
| Education | 16.983 | 13.453 | 3.530 | 26.2 | 63.707 |
| Office of Federal Student Aid | 7.841 | 7.049 | 0.792 | 11.2 | 45.917 |
| Energy | 6.622 | 6.218 | 0.404 | 6.5 | 26.481 |
| Health Human Services | 289.027 | 257.238 | 31.789 | 12.4 | 1120.500 |
| Medicare | 183.790 | 155.035 | 28.755 | 18.5 | 711.499 |
| Medicaid States Grants | 95.930 | 94.753 | 1.177 | 1.2 | 389.157 |
| Homeland Security | 16.527 | 23.379 | -6.852 | -29.3 | 68.374 |
| Housing Urban Development | 11.400 | 10.829 | 0.571 | 5.3 | 54.665 |
| Interior | 3.671 | 3.893 | -0.222 | -5.7 | 13.210 |
| Justice | 8.838 | 8.680 | 0.158 | 1.8 | 34.521 |
| Labor | 5.164 | 5.573 | -0.409 | -7.3 | 39.638 |
| State Unemployment Benefits | 6.171 | 6.614 | -0.443 | -6.7 | 28.135 |
| State | 8.305 | 6.929 | 1.376 | 19.9 | 26.385 |
| Transportation | 19.220 | 18.657 | 0.563 | 3.0 | 78.494 |
| FAA | 4.427 | 3.809 | 0.618 | 16.2 | 15.999 |
| Federal Highway Admin. | 11.171 | 10.743 | 0.428 | 4.0 | 45.604 |
| Treasury | 177.367 | 159.731 | 17.636 | 11.0 | 629.448 |
| TARP | 0.393 | 0.730 | -0.337 | -46.2 | 2.226 |
| IRS | 19.256 | 14.457 | 4.799 | 33.2 | 145.209 |
| Earned Income Credit | 0.402 | 0.274 | 0.128 | 46.7 | 58.640 |
| Child Tax Credit | 0.171 | 0.122 | 0.049 | 40.2 | 18.597 |
| Interest on Public Debt | 164.221 | 146.253 | 17.968 | 12.3 | 521.553 |
| Veterans Affairs | 58.481 | 46.570 | 11.911 | 25.6 | 178.509 |
| Corps of Engineers | 1.676 | 1.604 | 0.072 | 4.5 | 5.082 |
| Other Defense Civil Programs | 19.868 | 16.780 | 3.088 | 18.4 | 55.368 |
| Environmental Protection | 2.299 | 2.408 | -0.109 | -4.5 | 8.085 |
| Exec. Office of President | 0.110 | 0.099 | 0.011 | 11.1 | 0.382 |
| International Assistance | 3.498 | 5.770 | -2.272 | -39.4 | 21.632 |
| NASA | 5.486 | 5.311 | 0.175 | 3.3 | 19.754 |
| National Science Foundation | 1.735 | 1.699 | 0.036 | 2.1 | 7.166 |
| Personnel Management | 25.015 | 23.924 | 1.091 | 4.6 | 98.802 |
| Small Business Admin. | 0.342 | 0.403 | -0.061 | -- | 0.046 |
| Social Security Admin. | 270.043 | 253.274 | 16.769 | 6.6 | 1039.902 |
| Retirement Benefits | 215.217 | 203.260 | 11.957 | 5.9 | 833.038 |
| Federal Disability Payments | 36.151 | 35.954 | 0.197 | 0.5 | 143.731 |
| Other Independent Agencies | 7.958 | 1.525 | 6.433 | 421.8 | 7.770 |

Last February, Congress was able to agree on roughly $300 billion of additional spending. The Bipartisan Budget Act of 2018 increased the spending caps that the Budget Control Act of 2011 put in place. But they will need to come to a new agreement by October 1 this year for the 2020 budget otherwise the automatic spending cuts from the 2011 "sequester" legislation to rein in spending will drop spending levels dramatically. Stay tuned. Not enough red ink deficit spending to send bond yields higher yet, but plenty still for the President and Congress to argue about later this year. It is likely to be a bumpy ride for the markets.

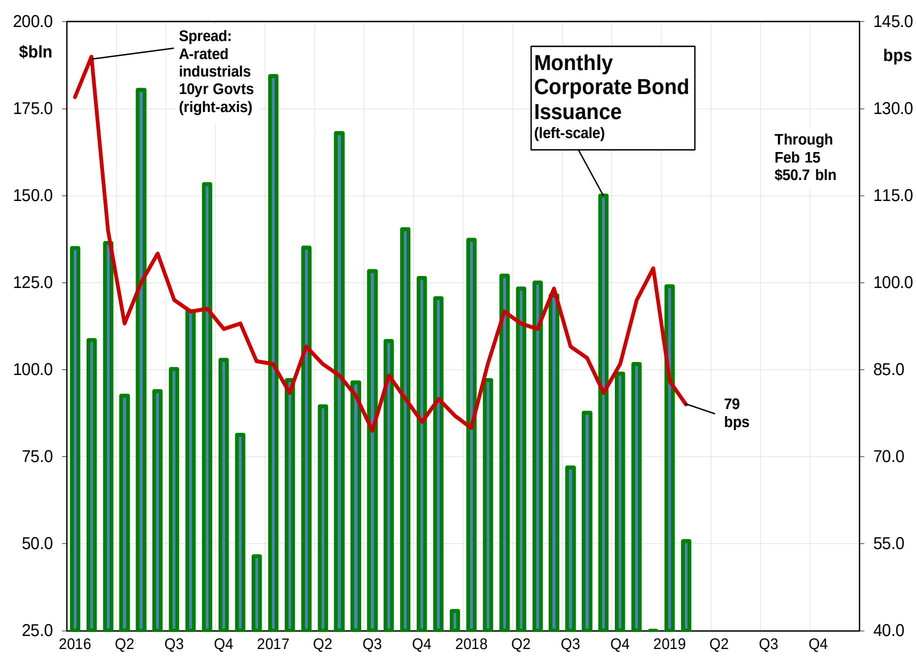
## MARKETS OUTLOOK

| | 31-Dec 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 |
|---|---|---|---|---|---|---|---|---|---|
| 30-Yr Treasury | 3.02 | 3.20 | 3.30 | 3.35 | 3.45 | 3.45 | 3.50 | 3.60 | 3.70 |
| 10-Yr Note | 2.68 | 3.00 | 3.10 | 3.20 | 3.30 | 3.30 | 3.40 | 3.50 | 3.60 |
| 5-Yr Note | 2.51 | 2.85 | 3.00 | 3.10 | 3.20 | 3.25 | 3.35 | 3.45 | 3.60 |
| 2-Yr Note | 2.49 | 2.80 | 3.00 | 3.10 | 3.20 | 3.20 | 3.35 | 3.45 | 3.60 |
| 3-month Libor | 2.81 | 2.70 | 2.95 | 2.95 | 3.20 | 3.20 | 3.45 | 3.45 | 3.70 |
| Fed Funds Rate | 2.50 | 2.50 | 2.75 | 2.75 | 3.00 | 3.00 | 3.25 | 3.25 | 3.50 |
| 2s/10s spread | 19 | 20 | 10 | 10 | 10 | 10 | 5 | 5 | 0 |




Bonds did not move a lot given the headlines of progress on the US trade talks with China and the end of a second government shutdown threat. 10-yr Treasury yields climbed from 2.63% on Monday to 2.71% on Wednesday. Yields fell back as low as 2.64% on Wednesday on the surprise report of December retail sales falling 1.2% "the most in 9 years" which caught Fed governor Brainard's attention. Great. Rates will never go up again. We'd like to think the Commerce Department's calculations missed a decimal point or something after the long government shutdown from December 22 to January 25. December personal consumption spending might clarify this on March 1.

## CORPORATE BONDS: ALTRIA, AT&T, UNION PACIFIC, 3M, BOEING




Corporate offerings were $37.8 billion in the February 15 week versus $12.7 billion in the February 8 week. On Wednesday, Tyson Foods sold $2.8 billion 7s/10s/30s. It priced a $1.0 billion 4.35% 10-yr (m-w +25bp) at 165 bps (Baa2/BBB). The food company (chicken) will use the proceeds to repay a 365-day term loan and commercial paper and for an acquisition. Corporate bond yields (10-yr Industrials rated A2) were 79 bps above 10-yr Treasuries this week versus 80 bps last Friday.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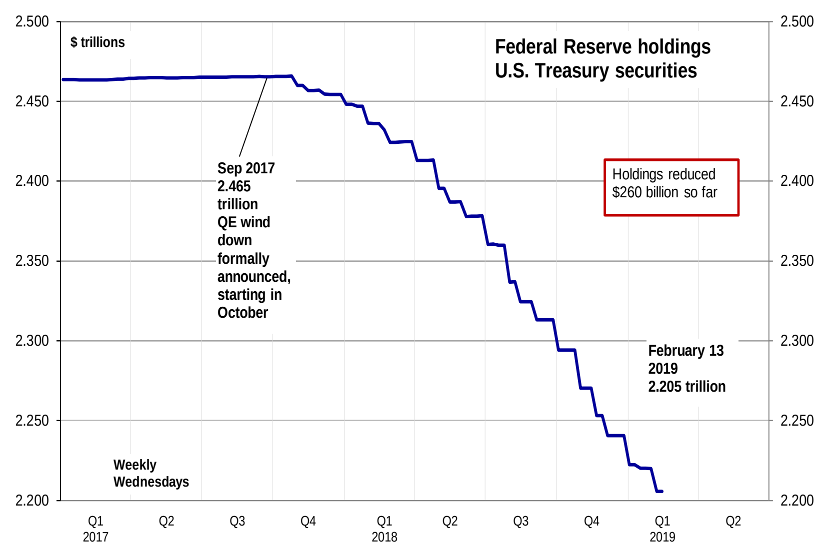
# FEDERAL RESERVE POLICY

| Selected Fed assets and liabilities | | | | | Sep 10 |
|---|---|---|---|---|---|
| Fed H.4.1 statistical release | | | | | 2008** |
| billions, Wednesday data | 13-Feb | 6-Feb | 30-Jan | 23-Jan | pre-LEH |
| **Factors adding reserves** | | | | | |
| U.S. Treasury securities | 2205.604 | 2205.713 | 2220.012 | 2220.115 | 479.782 |
| Federal agency debt securities | 2.409 | 2.409 | 2.409 | 2.409 | 0.000 |
| Mortgage-backed securities (MBS) | 1621.956 | 1621.809 | 1621.809 | 1628.895 | 0.000 |
| Primary credit (Discount Window) | 0.003 | 0.002 | 0.027 | 0.013 | 23.455 |
| Term auction credit (TAF auctions) | 0.000 | 0.000 | 0.000 | 0.000 | 150.000 |
| Asset-backed TALF | 0.000 | 0.000 | 0.000 | 0.000 | |
| Maiden Lane (Bear) | 0.000 | 0.000 | 0.000 | 0.000 | 29.287 |
| Maiden Lane II (AIG) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Maiden Lane III (AIG) | 0.000 | 0.000 | 0.000 | 0.000 | |
| Central bank liquidity swaps | 0.071 | 0.066 | 0.077 | 0.086 | 62.000 |
| Federal Reserve Assets | 4076.3 | 4074.2 | 4086.6 | 4094.7 | 961.7 |
| 3-month Libor % | 2.68 | 2.74 | 2.74 | 2.77 | 2.82 |
| **Factors draining reserves** | | | | | |
| Currency in circulation | 1709.649 | 1705.408 | 1703.424 | 1704.945 | 834.477 |
| Term Deposit Facility | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Reverse repurchases w/others | 1.697 | 1.926 | 0.990 | 11.415 | 0.000 |
| **Reserve Balances (Net Liquidity)** | 1634.417 | 1658.863 | 1609.140 | 1611.716 | 24.964 |
| Treasuries within 15 days | 56.052 | 43.523 | 14.191 | 14.191 | 14.955 |
| Treasuries 16 to 90 days | 54.305 | 66.834 | 110.357 | 78.611 | 31.549 |
| Treasuries 91 days to 1 year | 275.447 | 275.448 | 260.766 | 292.514 | 69.272 |
| Treasuries over 1-yr to 5 years | 942.588 | 942.603 | 957.302 | 955.541 | 170.807 |
| Treasuries over 5-yrs to 10 years | 259.274 | 259.314 | 259.354 | 261.168 | 91.863 |
| Treasuries over 10-years | 617.938 | 617.990 | 618.041 | 618.090 | 101.337 |

**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

The Fed meets March 19-20 to consider its monetary policy. Not a lot to change Fed expectations this week. Even big declines in December retail sales and January manufacturing production can't move the needle on Fed (in)action. We expect the Fed to pause until June when more of the outstanding global growth and domestic political issues get resolved.

The stock market recovered 75 percent of its October-December 19.4% recession-magnitude decline, but the Fed is still talking caution. The December forecasts look for two rate hikes this year and one in 2020. Since that 2020 rate hike puts the Fed funds rate at 3.25%, this looks to be a problem as it is above almost all Fed officials' forecasts of neutral. It will be hard for them to lift the Fed funds rate above 3% neutral for as long as the President is in office. Rates above neutral is monetary policy "tightening" that can slow the economy. They may cut that one-hike 3.25% forecast in 2020 (much like they dropped the 3.5% forecast in December) when they meet on March 19-20. Indeed, this week, Atlanta Fed President Bostic said as much. He is in no hurry to get rates up to neutral and sees one rate hike in 2019 and one rate hike in 2020. It's going to be a slow year for bond trading if that's the case. 1 X 1 = Zero.

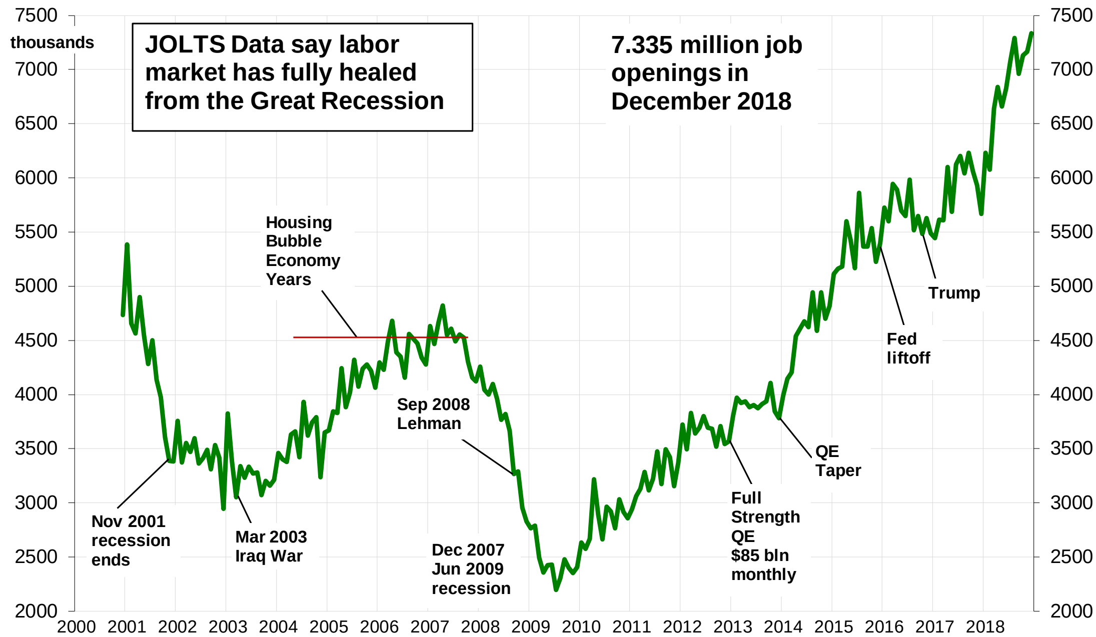



Fed governor Brainard who always seems to break ahead of the pack making news, said this week she thought the balance sheet wind down could end this year. Ahoy. Keep in mind last September she said they could raise interest rates over the next couple of years without slowing growth. They went two more times from 2.0 to 2.5 percent and now have stopped. As far as the balance sheet she said they wanted to make sure the banking system had ample liquidity, ample reserves, in order to "avoid volatility." Not sure what volatility means, but the stock market sure thinks the balance sheet unwind is important as a negative factor and so does the President of course. We still think reserves are dead money doing nothing, but beauty is in the eye of the beholder. Before the balance sheet wind down really got going ($50 billion per month that Trump objects to), bank reserves were about $2.3 trillion. Reserves in the table here were $1.634 trillion on February 13 and reducing their securities another $500-600 billion by year-end would put these bank reserves at $1 trillion, more ample than the $25 billion in the banking system before Lehman. So those of you buying stocks, rest assured, the unwind is nearing the end, so buy shares unafraid, buy lots and lots, and help bolster the value of our 401K account. Thank you.

## OTHER ECONOMIC NEWS THIS WEEK

### Record job openings shows the economy is running out of help (Tuesday)

Breaking economy news. Companies are literally screaming for help with a record 7.335 million job openings in the country in December. The Fed may be scared, but there is no uncertainty out there on the economic outlook as far as business is concerned whatsoever. The definition of recession is companies lay off workers because they see reduced sales, and right now just the opposite is happening with companies wanting to hire millions of workers. Recession, what recession is what companies are saying. They need help and right away. This is not what a recession looks like and Fed officials showed an overabundance of caution by saying they would pause their gradual pace of rate hikes because they were worried about the outlook.



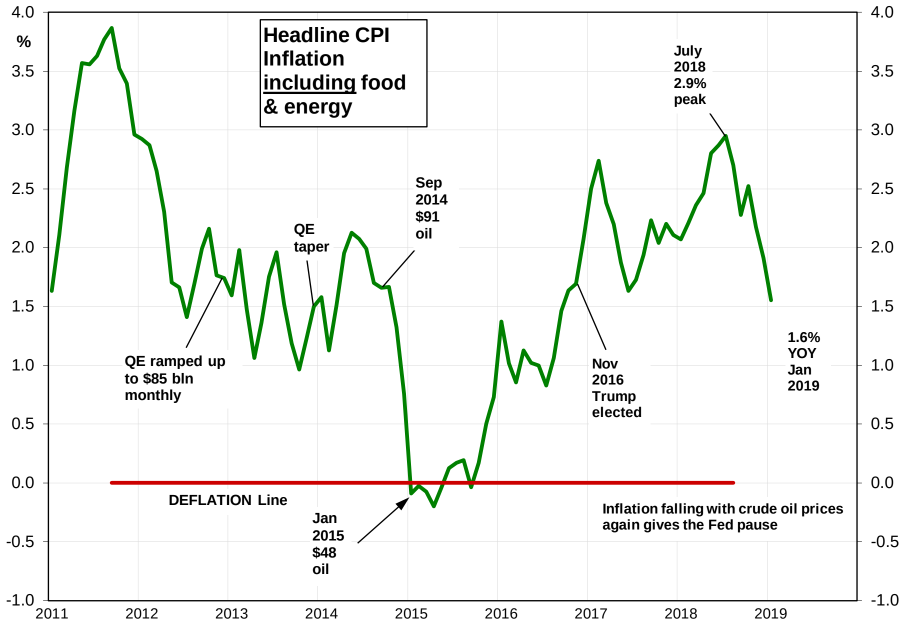

Net, net, the labor market continues to heat up with record numbers of help wanted signs posted in shops on Main Street and factories across America. The economy continues to move forward in its tenth year since the recession ended, but growth cannot continue for much longer if there is no one out there to work in the factories and shops and malls across America.

The economy is in danger of overheating if Fed officials continue to sit on the sidelines having stopped short on moving interest rates up to normal levels. There is no uncertainty if job openings is the economic indicator of choice. Companies need workers because their businesses are strong and they are seeing greater demand for their goods and services.

This may be the calm before the storm as the Federal government shutdown was just getting started in late December, but the year-over-year job openings surge is simply stunning. 7.335 million job openings in December up from 5.669 million in December 2017, an increase of 1.666 million. No wonder unemployment fell from 6.572 million or 4.1% in December 2017 to 6.294 million or 3.9% in December 2018. The economy is on fire if job openings is the key indicator of economic prosperity. The President promised to create jobs, jobs, jobs and there are certainly more help wanted signs out there in the country. The irony is that there is no one available for companies to hire. It's like winning the race and crossing the finish line without having anyone there to see you. You won, but no one saw it. So you did not win.

## Inflation a no-show, three months in a row (Fed was smart to stop. DJT) (Wednesday)

Breaking economy news. No inflation today for a third straight month if CPI inflation is your tried and true measure of whether inflation is rearing its ugly head or not. The Fed watches PCE inflation which conveniently enough has been postponed by the government shutdown, where we have not had a report since December 21 (Nov 2018 PCE inflation 1.8% YOY, Core PCE 1.9%).




CPI inflation was unchanged in January and is rising 1.6% the last year. Core CPI inflation rose 0.2% and is rising 2.2% the last year. Monthly core inflation increased 0.2% in nine months during 2018 with a couple of months of 0.1%, and one biggie of 0.3% to start the year. Pretty steady trend for core inflation as should be expected with an economy that has no real headwinds to speak of. In fact, the Fed's policy is accommodative with rates at less than 3% so-called normal levels. We haven't heard anyone say that a 2.5% Fed funds rate was bringing their business down (write us if it is). As far as core inflation, housing costs have risen 0.3% the last three months and are 3.2% higher than year-ago levels. The CPI report doesn't think the value of your home is crashing. Medical care services prices have picked up at a faster pace the last three months, but are still just 2.4% higher than last year. Clothing jumped 1.1% in January which is likely a one-off correction and is little changed for the year. Clothing has a 3.7% weight of non-food, non-energy prices, probably less of a weight given our wardrobe of old blue suits.

Our take is that it is too early to take inflation off the table as a material risk to the economic outlook. Falling energy prices are keeping inflation down today. But beneath the economy's engines, consumer prices other than energy continue to move up showing the economy has surprising strength this late in the expansion nearly ten years long. Fed officials should not be complacent with the tightest labor market since the 1960s pushing wages higher and higher.

Net, net, headline CPI inflation pressures are nonexistent for a third consecutive month as energy prices have taken it on the chin. This validates the Fed's decision to keep to the sidelines for now, although policymakers should really be more focused on the effects of their policy 12 to 18 months into the future. The only reason inflation is down is because crude oil prices have tumbled from $75 to $45 per barrel. That's both a blessing and a curse. Deflation pressures are over now that crude oil prices have bottomed, but the downward effect won't drop out of the year-on-year inflation data for, well, another year, raising the specter of the Fed doing nothing for another 12 months. Doing nothing unless they have to cut rates because of those recession clouds out on the horizon. Haha. Big joke. Let's forecast a recession. Let me count the ways. The Fed has never been able to do it with 240 PhD economists. Stay tuned story developing.

## Govt shutdown, stock market collapse hits the consumer hard (Thursday)

Breaking economy news. Too many reports to list, December retail sales (should be January's), PPI inflation (day after CPI inflation, so kind of a wasted report), and unemployment claims. Basically, it was all bad news hitting the consumer in December from the stock market's collapse and the Federal government shutdown, and the consumer voted by walking away from the shops and malls and leaving their money in their pockets and purses. Retail sales collapsed in December and it wasn't just lower gasoline prices and weaker car sales that caused it. The weakness in spending runs deep with non-auto, non-gas sales dropping 1.4%. The stock market freaked out on the dismal recession-like retail spending news with stock futures going into reverse because this is indeed exactly what a recession looks like and it will be a miracle if we miss a recession given half the country thinks one is coming in 2019 anyway.

Net, net, the longest Federal government shutdown in history and severe market turbulence has punched the consumer's lights out at the end of the year, and we are wondering if consumers will be able to get back on their feet after this shocking knockdown. The most surprising news today is perhaps in those timeliest of leading economic indicators, jobless claims, which remain elevated at 239K in the February 9 week and point to dark clouds not out on the horizon but rather almost directly overhead with dire implications for the economic outlook.

**Retail spending, actual dollars, each month**

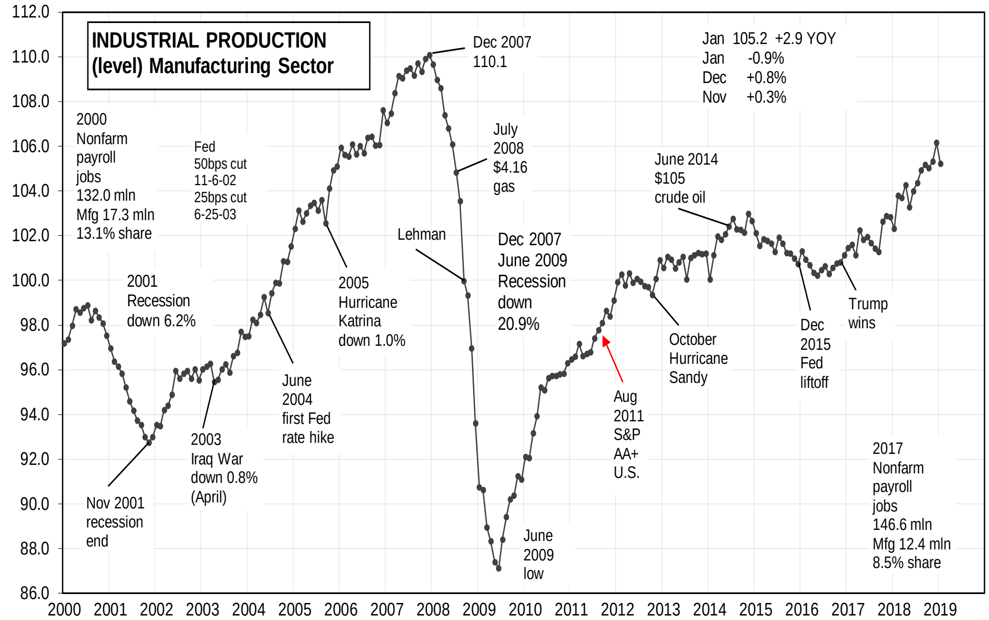
| | $million | % to | Percent Changes % | | |
|---|---|---|---|---|---|
| | Dec 2018 | Total | Dec | Nov | Year/year |
| Total Retail Sales | 505,826 | 100.0 | -1.2 | 0.1 | 2.3 |
| Motor vehicles/parts | 105,274 | 20.8 | 1.0 | 0.7 | 3.4 |
| Furniture/furnishings | 10,013 | 2.0 | -1.3 | 0.5 | -0.2 |
| Electronics/appliances | 8,215 | 1.6 | -0.1 | -0.1 | 0.7 |
| Building materials/garden | 32,950 | 6.5 | 0.3 | -1.5 | 1.4 |
| Food & beverage | 62,243 | 12.3 | -0.4 | 0.1 | 1.4 |
| Health/personal care | 28,731 | 5.7 | -2.0 | 1.3 | 1.6 |
| Gasoline stations | 41,212 | 8.1 | -5.1 | -4.4 | -0.2 |
| Clothing/accessories | 23,094 | 4.6 | -0.7 | 0.4 | 4.7 |
| Sporting goods, books | 6,001 | 1.2 | -4.9 | -1.4 | -13.0 |
| General merchandise | 60,016 | 11.9 | -0.9 | 0.4 | 2.2 |
| Department stores | 12,140 | 2.4 | -3.3 | 0.6 | -2.8 |
| Miscellaneous retailers | 11,066 | 2.2 | -4.1 | 4.0 | 2.5 |
| Eating & drinking places | 59,760 | 11.8 | -0.7 | -0.7 | 4.0 |
| Nonstore retailers (internet) | 57,251 | 11.3 | -3.9 | 2.8 | 3.7 |

The Trump economics team better go into the Oval Office and read the President the riot act because his policies are sowing the seeds of the economy's destruction more than they are helping growth and producing jobs, jobs, jobs. Uncertainty in Washington is everywhere and the rhetoric on government shutdowns and the China economic war and threats of possible import tariffs on European cars coming into the country all better get resolved in a hurry or the uncertainty is going to kill off this economy's run to be the longest expansion in history.

Looking ahead, maybe real GDP growth in the fourth quarter due out on February 28 will be less than the 3% we were thinking of and as far as the first quarter of 2019, you can forget about it, adding in the polar vortex covering most of the country it will be a miracle if growth makes it to 1.0%. Stay tuned. Story developing. Story developing badly. Run. Hide.

## 2019 Slowdown hits production now… hard (Friday)

Breaking economy news. The sky just keeps falling when it comes to the economy's fortunes recently with the latest news that manufacturing production fell hard in January. Manufacturing production dropped 0.9% and it was mostly cars and light trucks as factory production excluding motor vehicles fell 0.2%.




Net, net, the economy's engines went into reverse in January with factory output falling hard. If factories are coming back to America they sure aren't putting out any new products for export or for domestic consumption. Nothing. If you want to point fingers, it is easy to guess at the root causes for idle factories in January: the unseasonably cold winter weather, trade sanctions, and Federal government shutdown until January 25.

Uncertainty is the root cause of production's decline today and it looks like Fed officials were smart to stop their gradual rate hikes as the economy seems to have entered a soft patch. Making America great again is going to have to wait for factories to make anything at all because right now manufacturing companies have hit the brakes on output.

It is especially concerning that the weakness is centering on the auto industry with car sales and now production tumbling in January. Uncertainties about the passage of the New Nafta and worries over whether import tariffs are coming for the autos coming in from Europe seem to have thrown a monkey wrench into the global supply chains of the auto industry. America first policies of the Trump administration are starting to have a deleterious effect on the economy and with output on the decline, the recession clouds have moved in a little closer to shore.

50% of CFOs think we are headed for recession this year and today's data hint that the economy is teetering on the brink of the abyss. Get your economic affairs in order as the tea leaves hint that bad times may lie ahead making the Trump administration dream of sustainable 3 percent economic growth a nightmare. This is just what it looks like when the economy is entering a recession. Manufacturing production falls. Let's hope output rebounds in the months to come. The nation's economic prosperity depends on it.

## Analyst Certification

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The U.S. operations of Mitsubishi UFJ Financial Group, Inc. (MUFG), one of the world's leading financial groups, has total assets of $326.5 billion at September 30, 2018. As part of that total, MUFG Americas Holdings Corporation (MUAH), a bank holding company and intermediate holding company, has total assets of $161.0 billion at September 30, 2018. MUAH's main subsidiaries are MUFG Union Bank, N.A. and MUFG Securities Americas Inc. MUFG Union Bank, N.A. provides a wide range of financial services to consumers, small businesses, middle-market companies, and major corporations. As of September 30, 2018, MUFG Union Bank, N.A. operated 354 branches, consisting primarily of retail banking branches in the West Coast states, along with commercial branches in Texas, Illinois, New York and Georgia, as well as 22 PurePoint® Financial Centers. MUFG Securities Americas Inc. is a registered securities broker-dealer which engages in capital markets origination transactions, private placements, collateralized financings, securities borrowing and lending transactions, and domestic and foreign debt and equities securities transactions. MUAH is owned by MUFG Bank, Ltd. and Mitsubishi UFJ Financial Group, Inc. MUFG Bank, Ltd., a wholly owned subsidiary of Mitsubishi UFJ Financial Group, Inc., has offices in Argentina, Brazil, Chile, Colombia, Peru and Canada as well as branches, agencies and representative offices in the U.S. Visit https://www.unionbank.com/ or https://www.mufgamericas.com/ for more information.

About MUFG

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