Community Bank Fourth Quarter 2016 (4Q2016) Average Risk Review

Good day everyone. I'm Jamie Sumner, chief analyst of Seifried&Brew [Slide 1]. For this week's webcast I thought we would look at the Federal Reserve Bank of Philadelphia's maps that they put out for The Coincidence Index, which is three months looking back, and the Leading Index which is six months looking forward. They put this map out every month and it is for all the states through the United States. So let us go ahead and look at the maps.

First, we have the December 2016 Coincident Indexes Map: Three-Month Change [Slide 2]. We can see pretty much that the majority of the states are green and that's positive, meaning there has been some growth in just about all the States. There are a few states in the red; North Dakota and Alaska. They are the only two red states right now in the map. So it's a pretty uplifting type of map, it looks good, as we are continuing to see growth. However, the drawback here [Slide 2] is that the growth has kind of slowed throughout the year, so we are continuing to see growth, but, it has slowed down. And we can see that by looking at some of these numbers [on Slide 2] where we have the 2016 year to date number, the average is 72 basis points. For this month of December in 2016, the overall U.S. growth rate was 63 basis points, so we are witnessing a little bit of a slowdown. We can see that more readily when we look at the line chart here [Slide 3] where we see this continual down trend within the growth rate. So it's positive that we have growth, however it is negative that this growth has been slowing down.

When we look at six months moving forward, or the Leading Index, we can see a similar occurrence [Slide 4]. A lot of the states are green, but we do start to see a couple of states pop up into the red-orange area where we have negative growth. North and South Dakota, Michigan, Illinois and Mississippi are all within the contraction zone over the next six months. Then we look at the annual average here for 2016, and the growth rate is 1.38%, which is higher than our current December number at 1.17%. And in this chart [Slide 5] it's similar to the previous chart when we look at the overall trend in growth. We have positive growth, this black line [Slide 5] is zero growth, so overall we have positive growth here. However, our observation was that we grew at a lesser amount every month.

Just a little warning about what this data could be predicting. One can see [Slide 5], whenever we have big drop offs, these are recessionary periods, as is shown with 2008 and then back in 2001-2002 with that recession. So whenever we see a big drop, it's time to step back and analyze it a little more. We haven't seen a tremendous drop below zero, but we are approaching that as time comes as we are getting that lower and lower growth rate.

Last Friday, we had the jobs report come out [Slide 6]. It was kind of a positive as we had a large number of over 200,000 jobs created in January which was very positive. However what we saw also was that the unemployment rate actually went up. And this is the second month in a row that it increased by a tenth of percent, so now we are up to 4.8%. We also like to keep an eye on the U-6, which is the total unemployment rate. And while we saw that decline throughout the past couple of months, in January we saw it increase by two tenths of a percent from 9.2% to 9.4%. So overall we have had this flush of individuals into the labor market and we start to see these numbers

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rebalance here a little bit. We are still at a low unemployment rate when we look were we have been in the past. But the increase here is something to keep an eye on as we move forward.

Well, that's all we have for you today, stay tuned for next week when we are going to look at some bank trends within the ratios that came out in the fourth quarter 2016 data. Everyone, have a great week!!!

Materials set forth above are based on transcripts/slides presented from the Seifried & Brew Briefing transmitted on the above date. For further reference please click on *http://seifriedbrew.com/briefings.html*

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