Economic Outlook

Northwest Bank

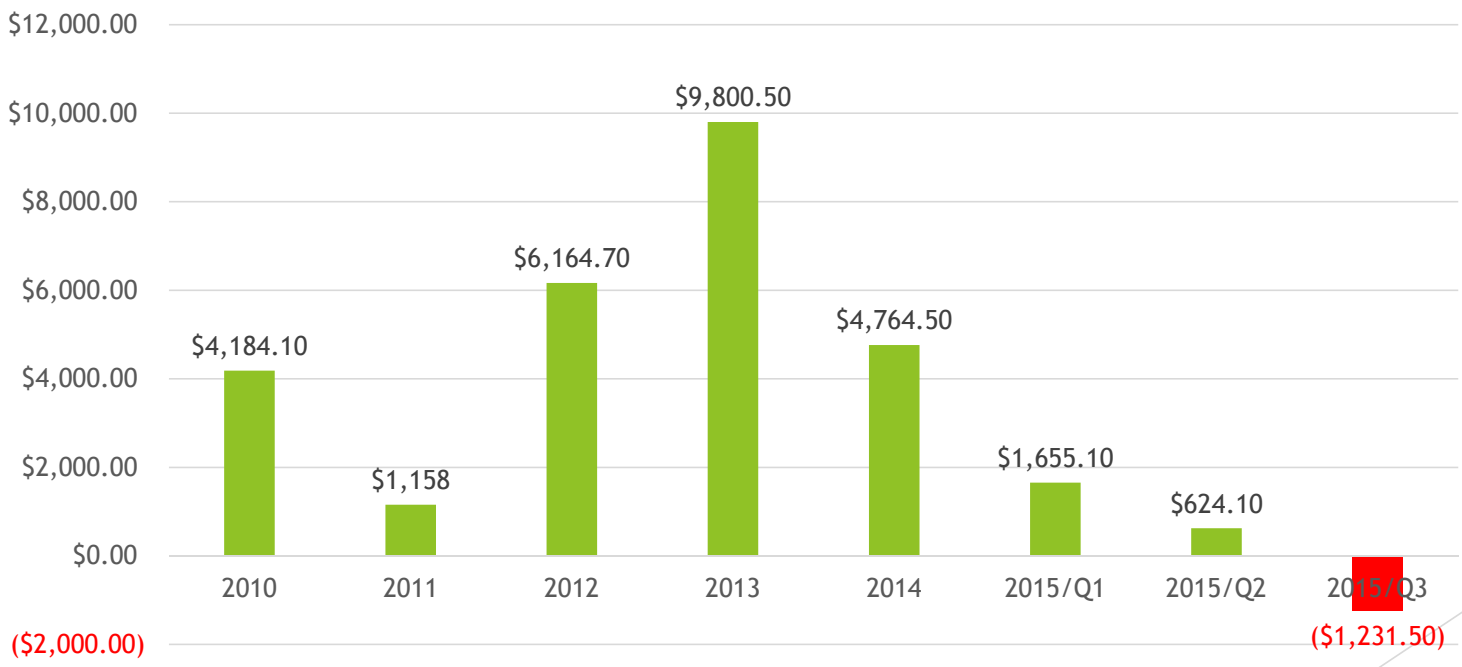
January 8, 2016

Rob R. Perez (thanks to Dr. John Mitchell)

National Scene

- 5% Unemployment Rate (The “Help Wanted” Signs Have Returned)
- Six Years of Growth Near 2%
- Headline Inflation Near Zero
- Monetary Policy Changing
- Year of Cybersecurity
- Weakness in Europe, China, Japan, Latin America
- 2015 was not a good Year for Equities or Bonds
- 79 Months- Average Post War Upturn 58.4 Months

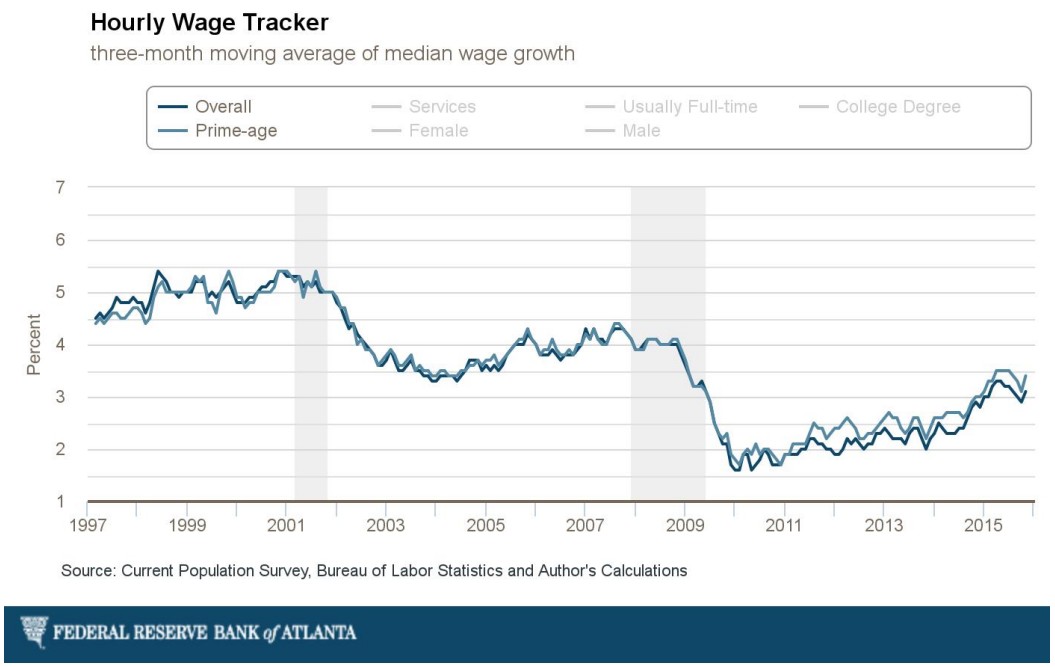
Changes in Net Worth Households and Non-Profits ($ Billions)



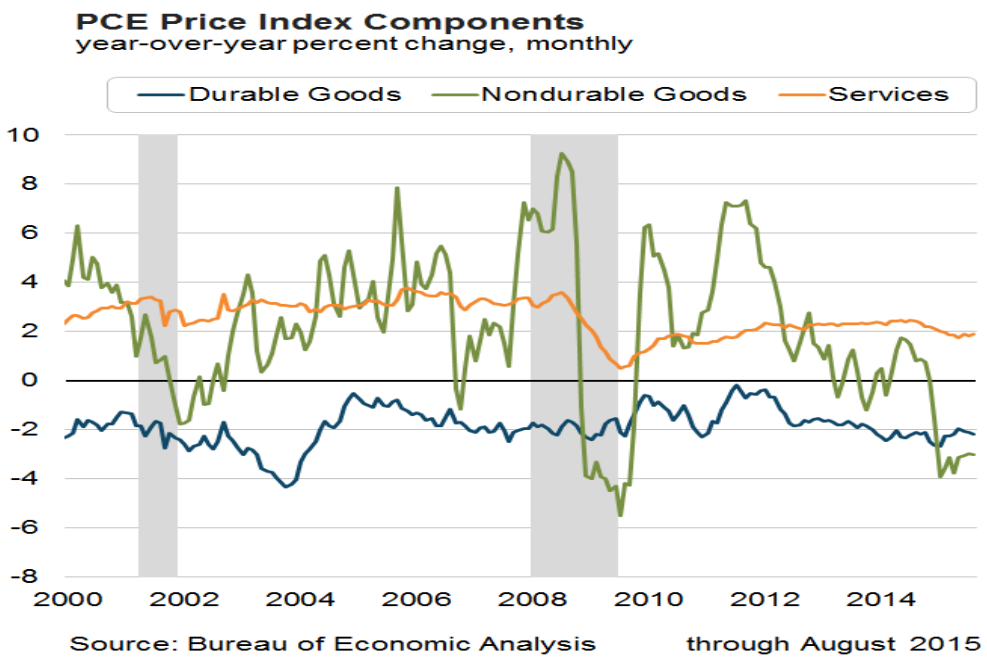
Labor Market Signals

- In November 13.25 Million Jobs above the Trough (2/10) and 4.54 Million above the Previous Peak (1/08)
- Participation Rate at 62.5%
- Hourly Earnings up 2.3% over the Year
- Initial Unemployment Claims Continuing to Trend Down- Recent 42 Year Low
- 6.1 Million Part Time for Economic Reasons (Slack Business Conditions, Only Could Find) 1.72 Million Marginally attached to the Labor Force
- All Super Sectors up Except for Mining and Logging

Wage Growth


Hourly Wage Tracker
three-month moving average of median wage growth
Overall
Prime-age
Services
Female
Usually Full-time
Male
College Degree
Percent
7
6
5
4
3
2
1
1997
1999
2001
2003
2005
2007
2009
2011
2013
2015
Source: Current Population Survey, Bureau of Labor Statistics and Author's Calculations
FEDERAL RESERVE BANK of ATLANTA

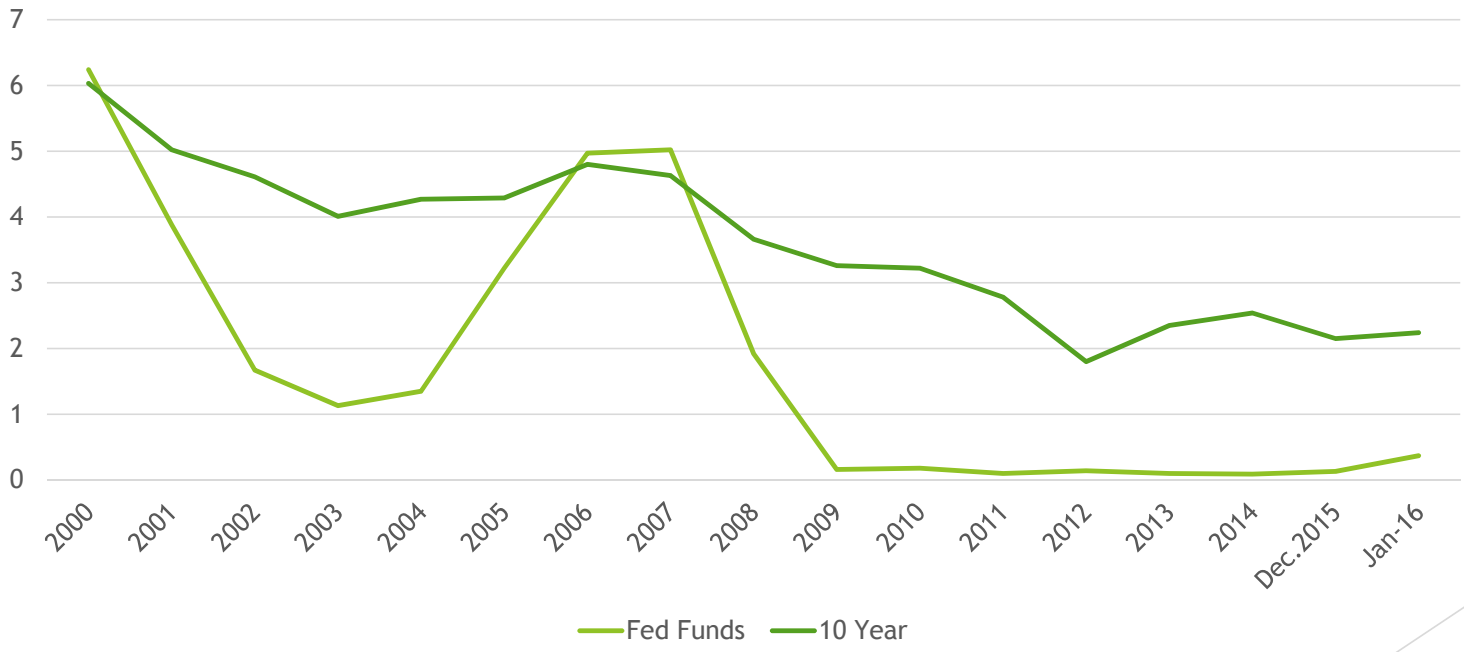
Consumer Prices



November CPI YoY = .5%

- Commodity Shocks- Gasoline Down 24.2% Year to November
- All Items Less Food and Energy up 2%
- Used Car Prices Down .6% YoY
- Clothing Down1.5%
- Services less Energy up 2.9%
- Shelter YoY up 3.2%
- When energy prices level out-the the number will jump !

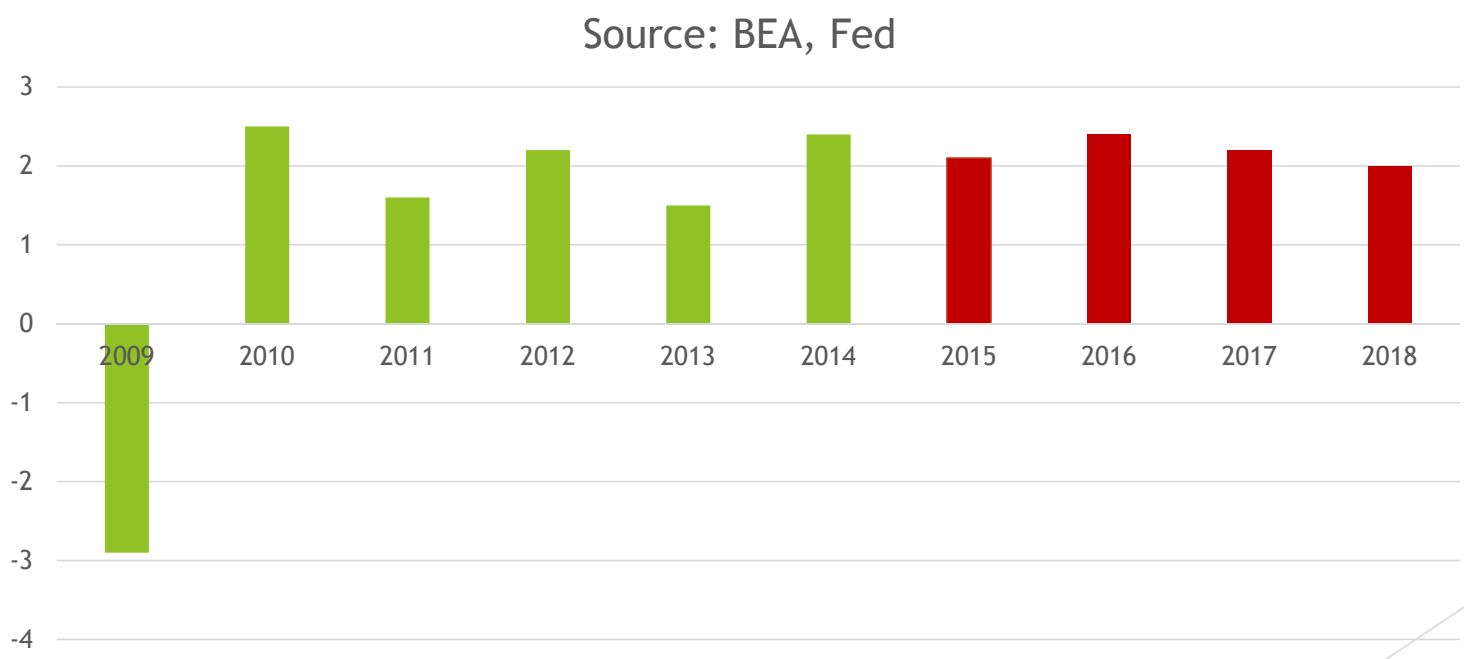
Federal Funds Rate and 10 Year Treasury
Source: Treasury, Fed



Prospects

- Consensus GDP = 2.5% in 2015 and 2.5% in 2016
- Inflation .2% in 2015 and 1.9.% in 2016
- Fed GDP Projections: 2.1% in 2015, 2.3-2.5% in 2016, 2.0-2.3 in 2017
- Unemployment 4.6-4.8% in 2016
- Fed Long Term Median 2016 2.4%, 2017 2.2% and 2018 2%, Longer Run 2% (December)

Real GDP Growth
A Trend?



Monetary Policy (Fed Reserve)

- *12/16/2015 "moderate pace", " underutilization of labor resources diminished appreciably", "household and business spending expanding at solid rates", "housing improved further", "inflation below long run objective … partly reflecting declines in energy prices and prices of non-energy imports."*

Idaho Performance 2015

- Idaho Personal Income Grew 1.8% between Q2 and Q3
- From October 2014 to October 2015 labor force grew by 25,000 (3.2%)
- 10/14 to 10/15 unemployment dropped from 4.6% to 4% (Nat'l Avg = 5%)
- Q3 Boise employment rose 2.5% year over year
- Census data shows Idaho population grew 1.2% from 2014-15, which was 50% faster than national average.

Job Growth Update November, 2015 Data Year over Year Change – 45 States Up

- **Idaho 1**
- Utah 2
- Florida 3
- Washington 4
- *Oregon 5*
- South Carolina 6
- California 7
- South Dakota 8
- Nevada 9
- Arizona 10
- Massachusetts 11
- Georgia 12
- North Carolina 13
- Hawaii 14
- Maryland 15
- Indiana 16
- New York 17
- Kentucky 18
- Colorado 19
- Iowa 20
- Tennessee 21
- Michigan 22
- Rhode Island 23
- Connecticut 24
- Texas 25
- Nebraska 26
- Ohio 27
- Delaware 28
- Virginia 30
- Alabama 31
- Vermont 32
- Maine 33
- Arkansas 34
- Minnesota 35
- Wisconsin 36
- Missouri 37
- Mississippi 38
- Montana 39
- Pennsylvania 40
- New Hampshire 41
- Illinois 42
- Kansas 43
- New Mexico 44
- Alaska 45
- ***Oklahoma 46***
- ***Louisiana 47***
- ***Wyoming 48***
- ***West Virginia 49***
- ***North Dakota 50***

Treasure Valley Real Estate on Fire

(Metrostudy/Moody's)

- **At 9/15 10,410 homes had closed (17% increase over 2014)**
- New home closings were up 6%
- November SFR permits grew 6%
- Boise metro saw 1,023 new SFR starts in Q3, a 29% increase over prior year
- Ada County starts for Q3 were up 35%
- New home inventory (Ada/Canyon) was 6.9 months (equilibrium 6 months)
- Every new home price segment expanded except under $150,000
- Average Ada Household income approximately $60K (Idaho approx. $51K)
- Average Ada County new home price up 4% to $296K (Canyon up 4% to $158K)
- Multi-family vacancy at 3.8% (2.3% year ago)
- 1,702 apartment permits pulled in 2014, approximately 1990 in 2015, 2,355 forecast for 2016, with vacancy under 4% through 2019

Treasure Valley RE…

Ada County

- Personal Income Growth of 4.7%
- Q3 2015 total home sales increased 18.9% from Q3 2014 (2,682 and 2,256, respectively)
- Q3 2015 new construction sales totaled 432 or a 7.7% increase from Q3 2014 new construction sales of 401
- Total days on market average for Q3 2015 was 44 days compared to 51 days for Q3 2014
- New construction days on market for Q3 2015 was 66 days versus 63 days in Q3 2014
- Median price was $230,000 in Q3 2015 compared to $214,000 in Q3 2014
- New construction median price for Q3 2015 was $320,000 compared to $298,352 for Q3 2014
- New construction dollar volume for Q3 2015 was $143,608M compared to $127,525M in Q3 2014

Canyon County

- Q3 2015 total home sales of 1,117 increased 12.6% from Q3 2014 total home sales of 992
- Q3 2015 new construction sales totaled 144 or an 8.3% increase from Q3 2014 new construction sales of 13
- Total days on market average for Q3 2015 was 50 days compared to 58 days for Q3 2014
- New construction days on market for Q3 2015 was 63 days versus 54 days in Q3 2014
- Median price was $147,000 for Q3 2015 compared to $135,950 Q3 2014
- New construction median price for Q3 2015 was $217,950 compared to $197,666 for Q3 2014

Idaho Performance 2016

(Consensus W.P. Carey School of Business)

- Personal Income Growth of 4.7%
- Retail Sales Growth of 6.2%
- Wage and Salaries to grow 2.7%
- Population Growth of 1.4%
- SFR Permits estimated to grow 6.3%

Idaho Performance 2017

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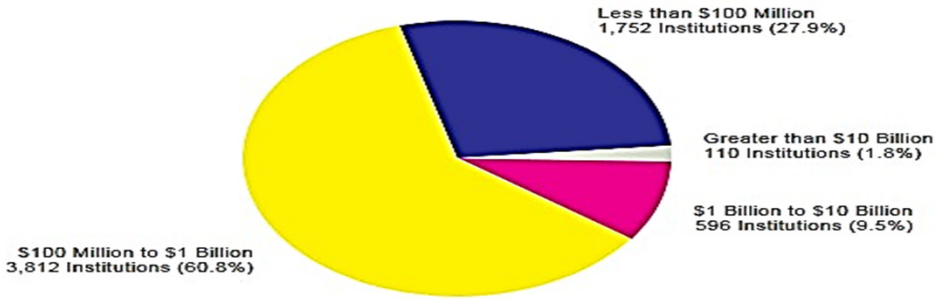
Impact of Idaho Banks

- BEA, 2014 indicated Finance and Insurance was 4.6% of State GDP ($2,930/$63,235)
- % of GDP a poor measure (Impact of financing a building?)
- 12 Idaho based institutions (Community Banks), down from 16 in 2013 (Boise – 20 Institutions)
- 6/30/15 FTE = 1,395 versus 1,939 in 2013 (some of the decline owing to acquisition by out of state Banks)
- Wells and U.S. Bank had 3,589 FTE as of 8/15
- Wells, 9th largest state employer, US – 16th
- Total Idaho Deposits (All Banks) grew $598 Million of that $326 Million or 55% were from Wells/US
- Total Deposits dropped from $4.6 Billion to $4.2 Billion (Panhandle)
- Total Loans/Leases dropped from $3.8 to $3.1

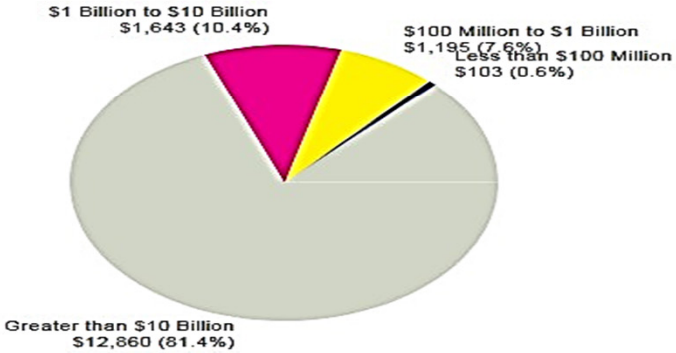
Number of Institutions By Asset Size

September 30, 2015



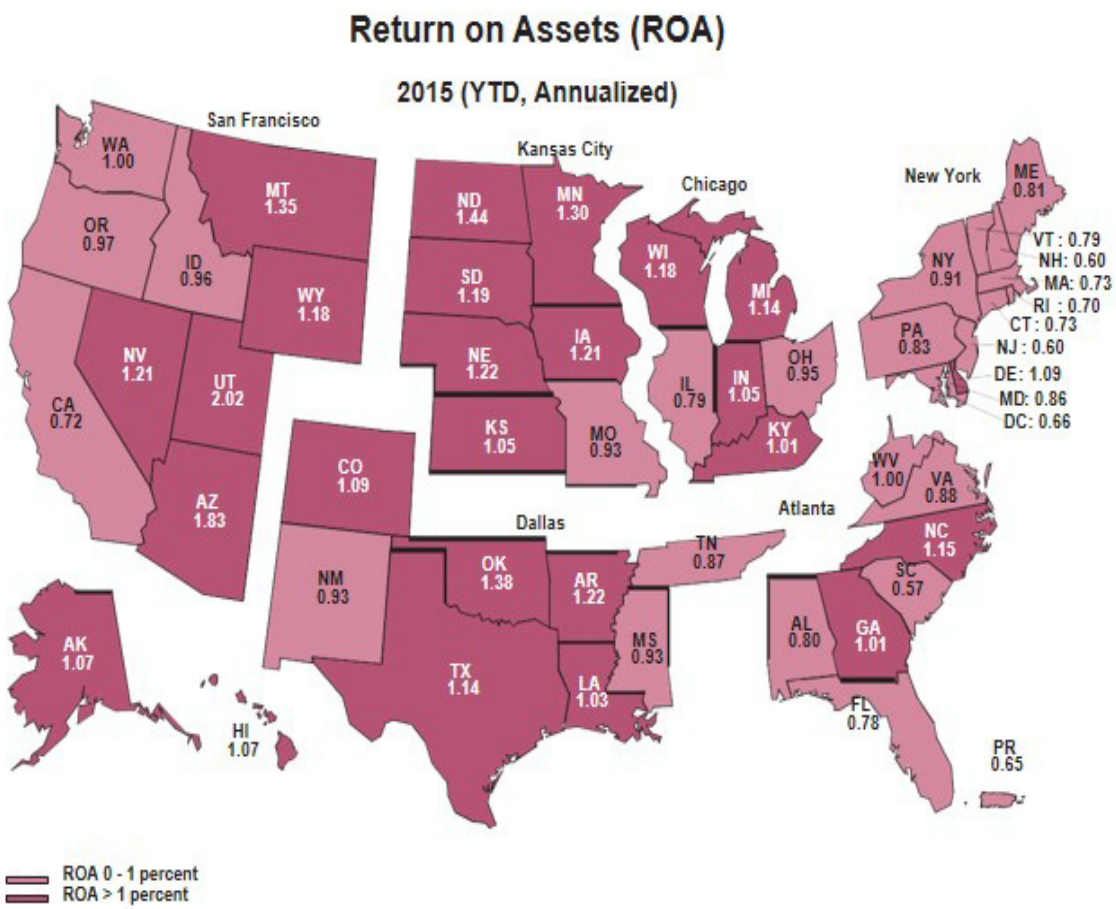
Industry Assets By Asset Size

September 30, 2015
($ Billions)



Health of Idaho Banks

- Capital ratios exceed regulatory guidelines (Tier 1 – core capital to RW assets)
- Problem loans are down from 2.44% of total loans at YE 2013 to 0.9% at 3/15
- Return on assets weak but asset quality strong so long as RE remains strong and exposure to the Ag sector limited to stronger producers

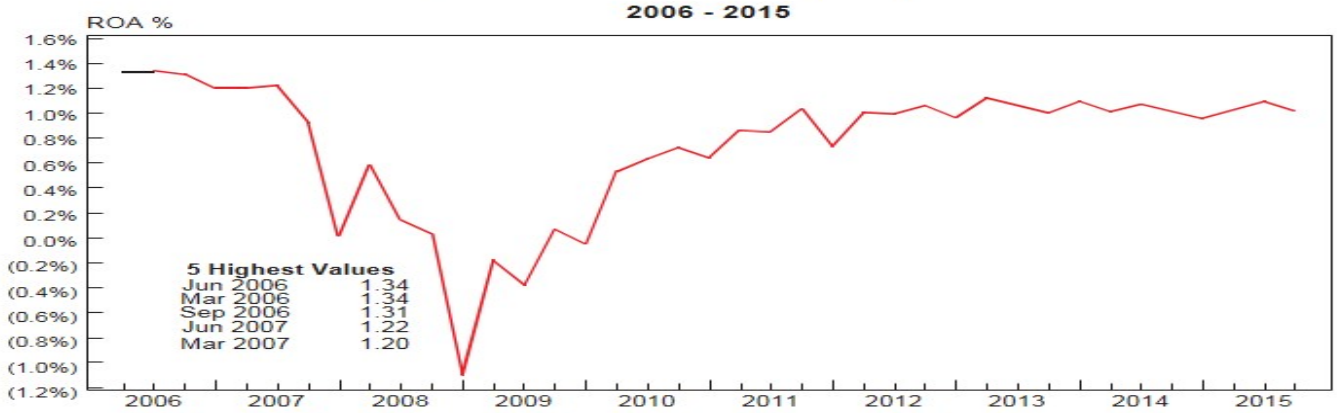

Return on Assets (ROA)
2015 (YTD, Annualized)
San Francisco
Kansas City
Chicago
New York
Dallas
Atlanta
WA 1.00
OR 0.97
ID 0.96
MT 1.35
WY 1.18
NV 1.21
UT 2.02
CA 0.72
AZ 1.83
CO 1.09
NM 0.93
ND 1.44
SD 1.19
NE 1.22
KS 1.05
MN 1.30
IA 1.21
MO 0.93
OK 1.38
TX 1.14
AR 1.22
LA 1.03
WI 1.18
MI 1.14
IL 0.79
IN 1.05
OH 0.95
KY 1.01
TN 0.87
MS 0.93
AL 0.80
GA 1.01
FL 0.78
SC 0.57
NC 1.15
VA 0.88
WV 1.00
PA 0.83
NY 0.91
ME 0.81
VT : 0.79
NH: 0.60
MA: 0.73
RI : 0.70
CT : 0.73
NJ : 0.60
DE: 1.09
MD: 0.86
DC: 0.66
AK 1.07
HI 1.07
PR 0.65
ROA 0 - 1 percent
ROA > 1 percent

Changes in Banking

- At 12/99 there were 10,222 Banks/Savings. 6,270 at 9/15, or 39% decline
- At 12/10 884 problem banks. At 9/15 there were 203
- At 3/13 49.8% of banks had earnings gains. At 9/15 58.9% had gains

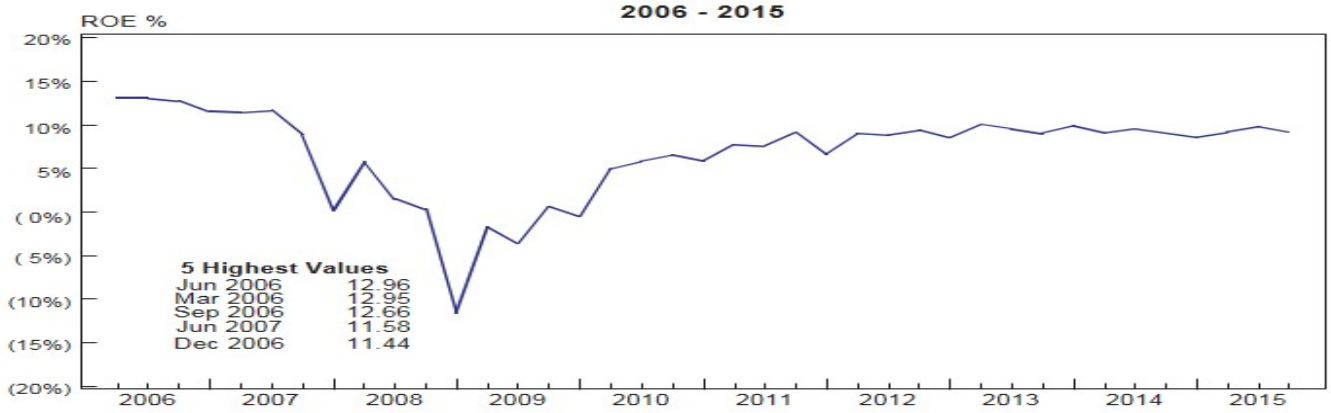
Quarterly Return on Assets (ROA), Annualized

2006 - 2015



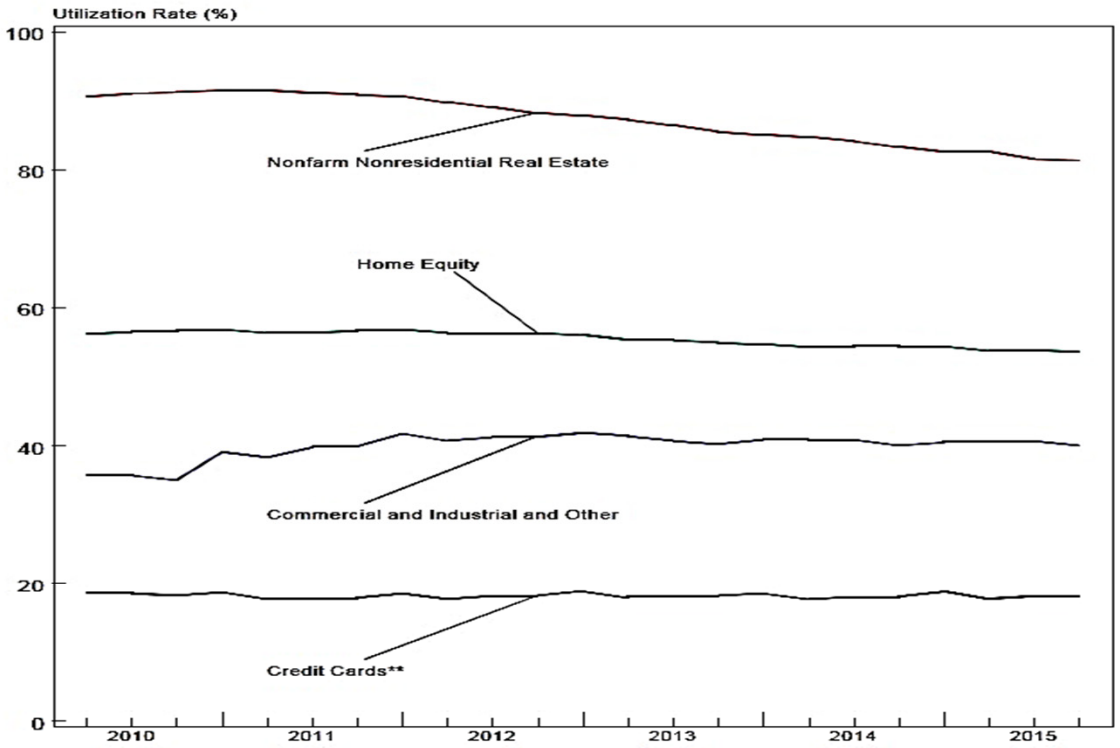
Quarterly Return on Equity (ROE), Annualized

2006 - 2015



Utilization Rates of Loan Commitments*

2010-2015

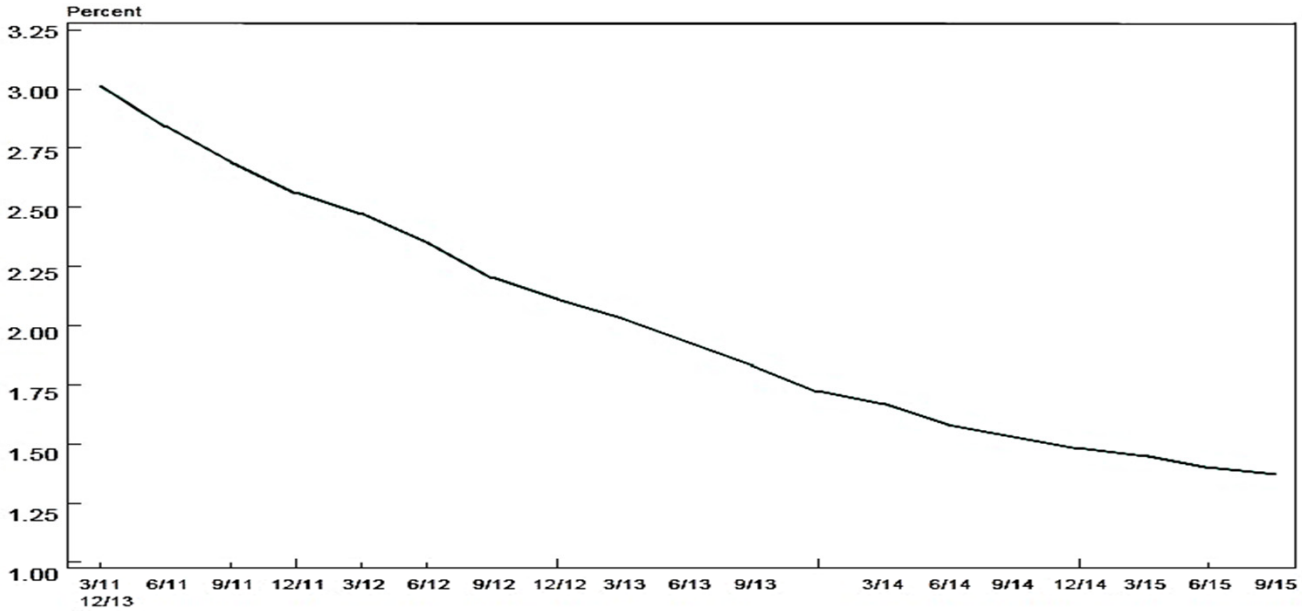


* Utilization rates represent outstanding loan amounts as a percentage of unused loan commmitments plus outstanding loan amounts.

** Includes on-balance-sheet loans and off-balance-sheet securitized receivables.

Loss Allowance to Loans and Leases

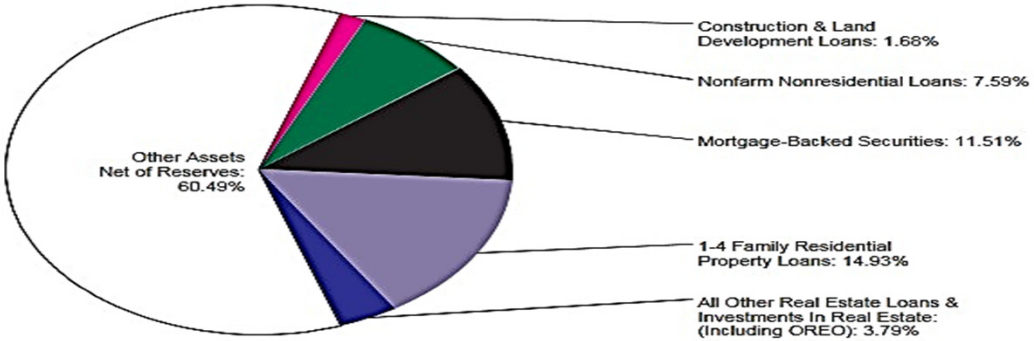
2011 - 2015



Loss Allowance to Loans and Leases	3.01	2.84	2.69	2.56	2.47	2.35	2.20	2.11	2.03	1.93	1.83	1.72	1.67	1.58	1.53	1.48	1.45	1.40	1.37

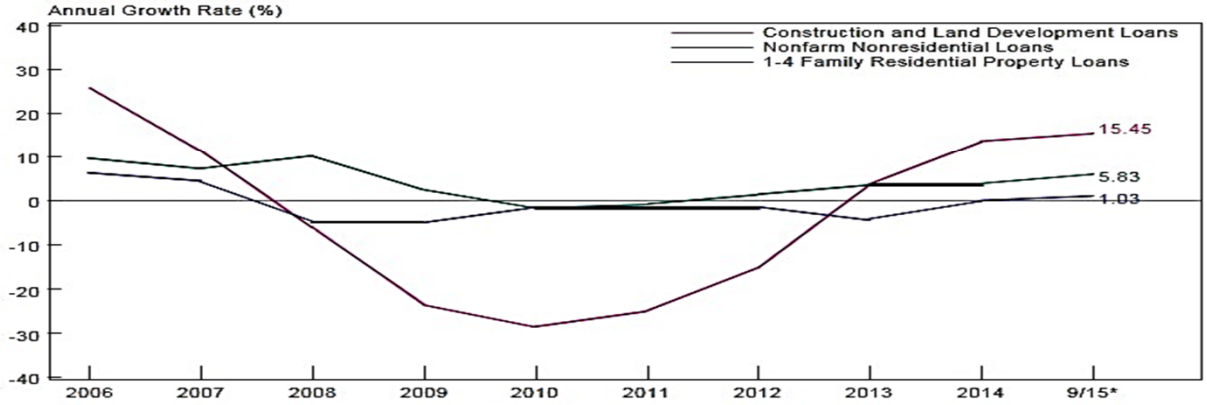
Real Estate Assets as a Percent of Total Assets

September 30, 2015



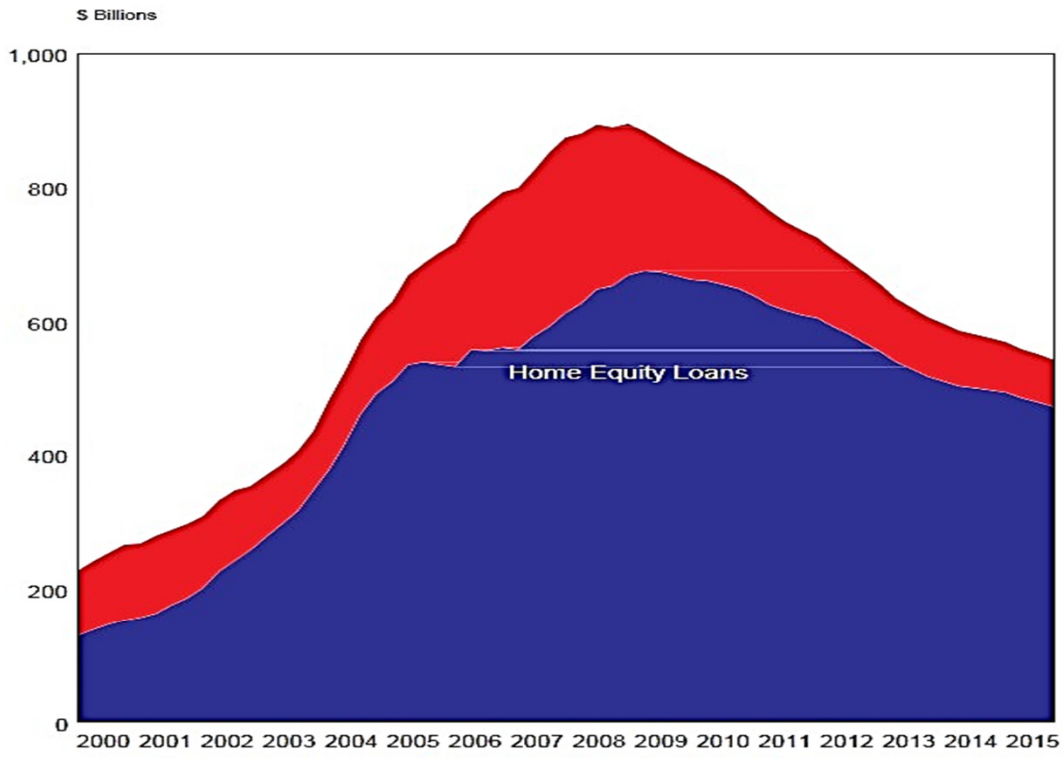
Real Estate Loan Growth Rates*

2006-2015



* Growth Rate for the most recent twelve-month period.

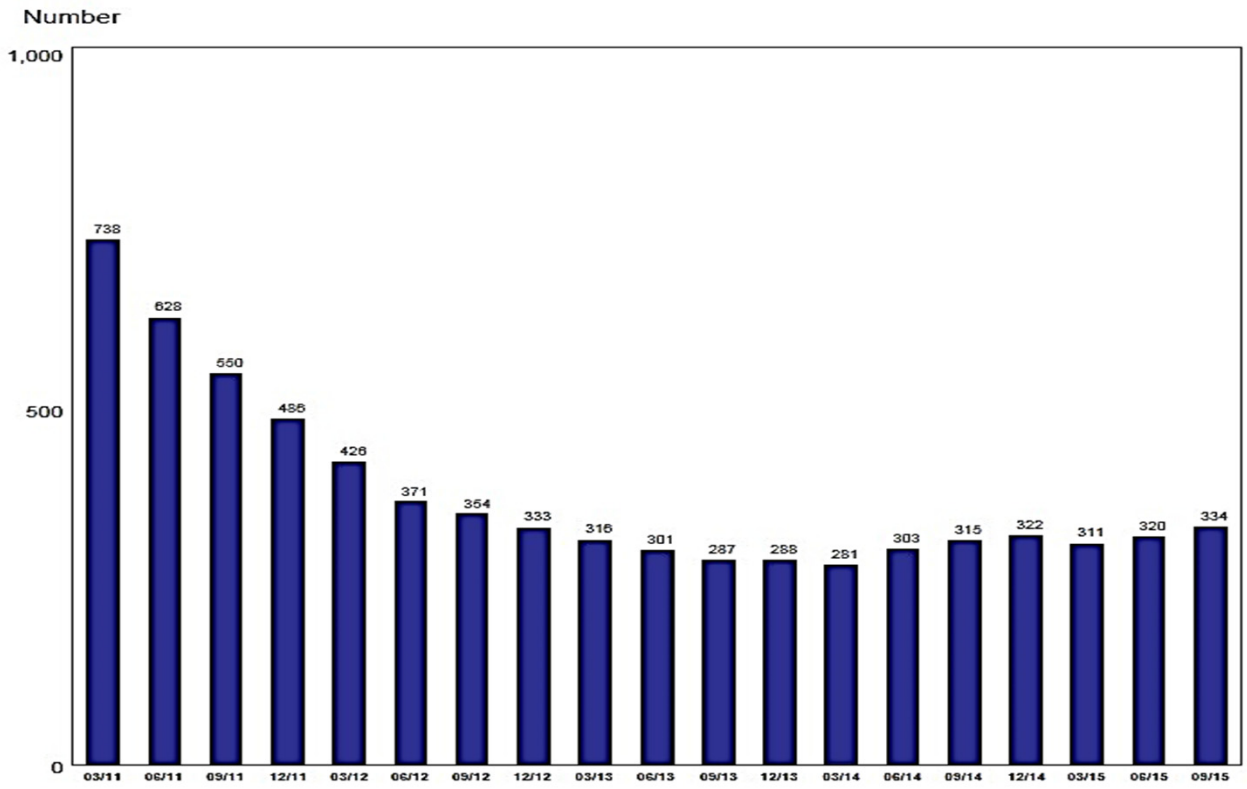
Home Equity and Junior Lien Loans
2000 - 2015



Number of Institutions with Construction Loan Concentrations

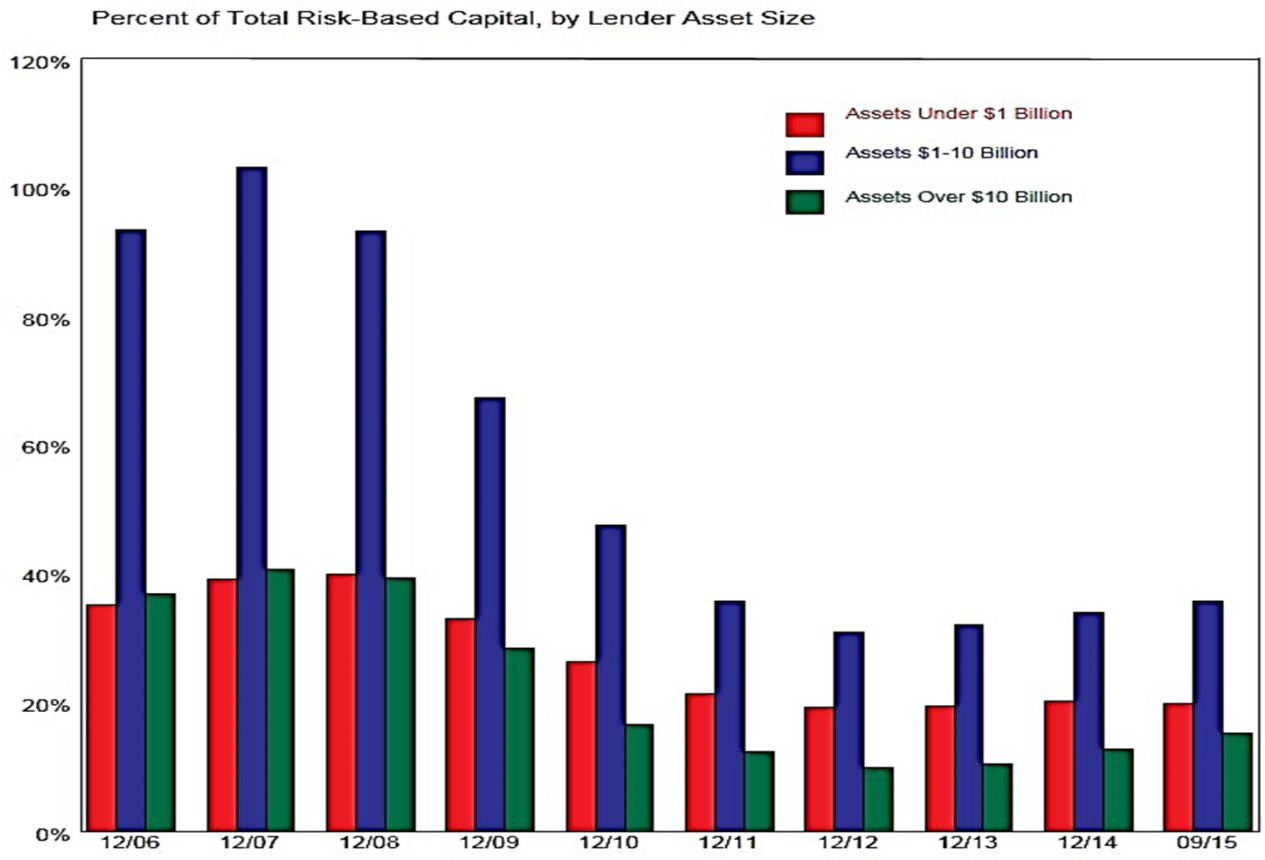
(Construction Loans Exceed Total Capital)

2011-2015



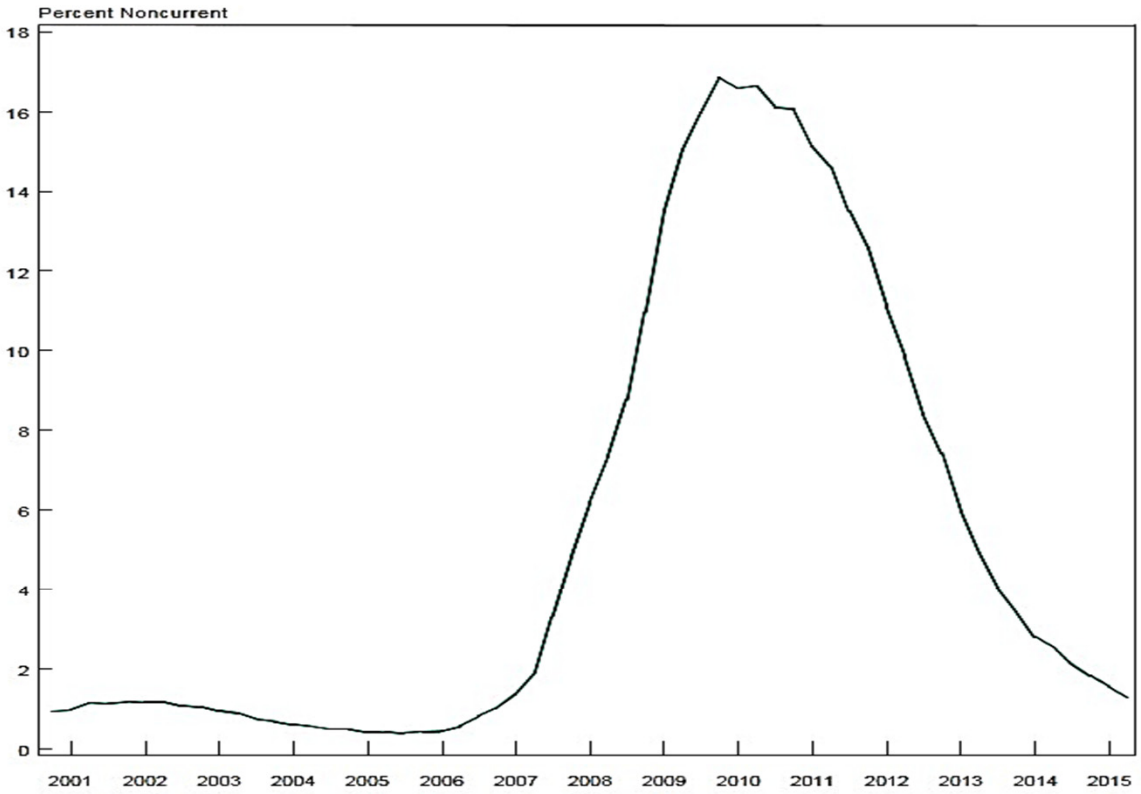
Median Construction and Development Loan Concentrations

2006 - 2015



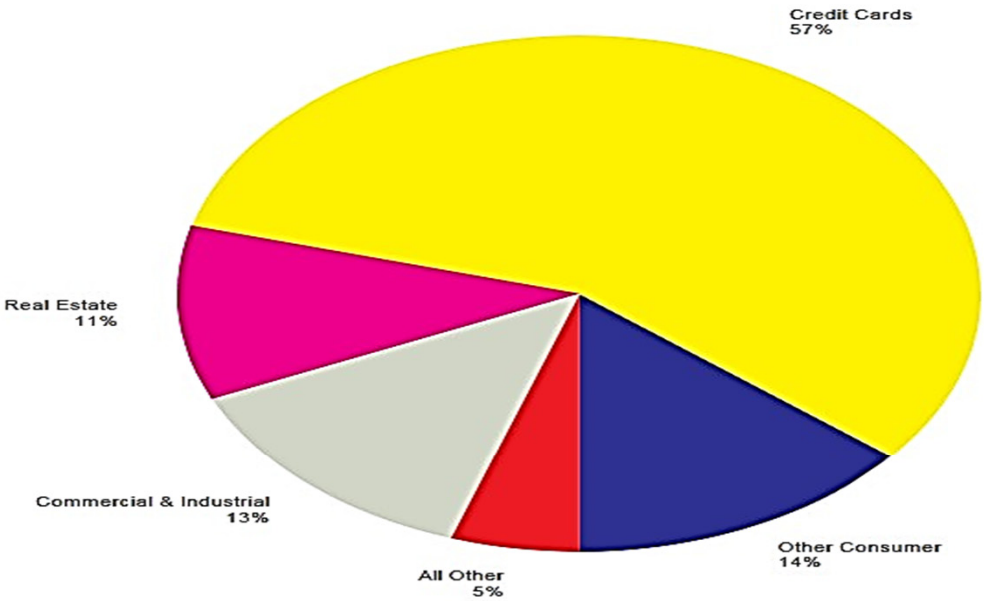
Noncurrent Rate on Real Estate Construction and Development Loans

2001-2015



Composition of FDIC-Insured Institutions' Loan Charge-Offs

Third Quarter, 2015



Concerns

- Potential Sale of Micron to China based Tsinghua and loss of 5,000 jobs over time
- Commodity prices are falling and the Ag sector will be hard hit in 2016
- Large banks are getting larger and increased capital requirements make banking investment disinteresting
- Growth in RE which has proven to by cyclical
- Overall stretch to get to historic returns
- Demand is in higher risk RE sector and longer term rates
- 6/30/15 FTE = 1,395 versus 1,939 in 2013 (some of the decline owing to acquisition by out of state Banks)
- Market uncertainties will continue making investment returns to support retirement challenging and encourage greater risks
- Affordability is lessening as housing and healthcare costs rise

Positives

- Continued healthy real estate sector
- In-migration will continue as surrounding states become less affordable and social safety net stretched.
- Interest rates will rise modestly over prolonged period
- Healthy banking sector with need to grow assets
- Fiscally responsible local and state governments
- Blue sky/Blue field