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This is a look ahead at the American economy, excerpted from the October 19, 2015, "North American Outlook," a publication of BMO Capital Markets http://www.bmonesbittburns.com/economics/outlook/20151019/nao.pdf

United States: Back on Track

By Sal Guatieri, Senior Economist
BMO Capital Markets

Summary: The U.S. economy has strengthened, led by consumers and housing markets, though the strong greenback continues to weigh. The Fed could raise rates at year end, but low inflation and global headwinds will encourage a very mild tightening cycle

- **After a slow start to the year, the U.S. economy rebounded 3.9% in the second quarter.** Apart from weak business capex, all expenditure areas showed strength, with personal consumption rising 3.6% (supported by nearly similar growth in real disposable income) and residential construction jumping 9.4% (with home sales trending at eight-year highs). Importantly, after contracting in Q1 because of the collapse in oil drilling, non-residential construction rebounded 6.3%. Meantime, businesses are ramping up spending on research and development, raising hopes of a productivity revival. Business leaders remain optimistic about the economy, despite the mighty dollar and volatile equity market.

- **More recent indicators suggest domestic demand remains healthy, while the strong dollar continues to take a toll on trade and manufacturing.** New auto sales accelerated to a decade-high rate of 18.2 million in September, keeping consumers on a 3½% growth track despite some softness in retail spending. Increased machinery orders flag an upturn in business capex. However, job growth has slowed in the past two months after trending at the fastest rate in 15 years. Still, weak labor force growth (with the participation rate at 38-year lows) has kept the unemployment rate at a 7½-year low of 5.1%. Worsening trade and Fed tightening will likely slow GDP growth moderately in the year ahead, though it **should average a respectable 2.6% for this year and next**, the best since 2006.

- A healthy economy and low unemployment should persuade **the Fed to begin raising interest rates in December**, barring a further slowing in job growth or tightening in financial conditions (amid rising corporate credit spreads). Chair Yellen remains committed to starting the normalization process "*later this year*", barring economic "*surprises*". We see three additional quarter-point rate hikes before the end of next summer, after which the Fed should pause to assess the impact of its actions. Given relatively subdued inflation and ongoing global headwinds, the upcoming tightening cycle will likely be one of the mildest on record, with the funds rate likely taking up to three years to reach a "neutral" 3¼%.

- **Lowered expectations of a near-term Fed rate hike pushed the 10- year Treasury rate briefly below 2% for the first time since April.** While we still expect the 10-year yield to increase to 2.75% by the end of 2016, bond yields are likely to remain historically low even in the medium term amid elevated global debt and aging populations. Quantitative easing in Europe and Japan will enhance the relative attractiveness of U.S. debt markets. In addition, while inflation will drift higher as labor markets tighten, it should be held in check by the forces of global competition and automation.

Global Economic Outlook
By Michael L. Avery, President
Waddell & Reed Financial, Inc.

As we analyze conditions in the global economy, we are concerned that the world remains in what can be called a balance sheet recession. Historically, demand from households and corporations improved when central banks reduced interest rates and took actions to stimulate economic activity. However, that has not happened in general and definitely not to the extent that many economists expected after the U.S. Federal Reserve's (Fed) multiple quantitative-easing (QE) actions since the global financial crisis. Instead, the global economy has worked its way through a slow recovery with inflation rates far below the targets set by central banks in developed countries. At this point, we do not think the global economy can return to what would be considered "normal" without further monetary policy support while structural reforms and fiscal stimulus are addressed.

U.S. in focus

We now consider the U.S. to be the bright spot for economic growth when compared with the rest of the world. The U.S. labor market continues to improve, as indicated by increases in payroll levels, low unemployment claims and wage growth of just more than 2%. Business and consumer sentiment indicators have returned to the levels seen prior to the global financial crisis that began in 2008. U.S. consumers have been taken steps in recent years to repair their home balance sheets. We believe consumers in general are better positioned from a balance sheet standpoint and therefore more willing and able to take on debt for mortgages and car loans, use credit cards and generally spend more on home furnishings, technology and consumer goods.

Although the timing is uncertain, the Fed has made it clear that it intends to begin raising interest rates at some point. Even when interest rates eventually begin to rise, we think the increases will be at a slow pace and the long end of the bond yield curve will stay relatively anchored, allowing interest rate-sensitive sectors to continue to expand. In addition, headwinds from the strong U.S. dollar have continued to hurt corporate earnings. While currency effects technically are not part of the Fed's dual mandate of price and labor market stability, we believe the impact of a strong dollar must be part of the discussions.

In looking at the future of the economic recovery, we think the Millennial Generation (those born in 1980-95) is likely to be an increasingly critical component. These individuals now outnumber other generations in the labor market and are benefitting from an improving U.S. economy. We believe their willingness to buy or rent homes indicates increased confidence in their financial prospects and will translate to higher spending on goods and services. Millennials' demand for housing has increased and units priced appropriately are selling quickly. Rental rates also are rising faster than wage growth, which could add to demand for mortgage loans. In addition, we think the changing lifestyles of the Baby Boom Generation (those born in 1946-64) have implications for economic growth. While many Boomers have reached retirement age, others are working longer and reevaluating their spending and saving habits to align with longer lives. These factors are likely to have a wide range of effects on financial markets and the overall economy in the U.S.

Slowing growth in China

There are indications China's economy is slowing more than previously had been expected. This is in part because of a transition in that country from a dependence on fixed-asset investment – such as housing, railroads, dams and other infrastructure – to a focus on "new economy" sectors such as consumer goods and services, as well as personal and business technology. We believe these changes will be positive for China in the long term, but there are near-term pains across the region as the country makes the transition.

As its economic growth has slowed, China has decreased its demand for a wide range of commodities. That in turn has led to sell-offs in prices for industrials, energy and materials, and is an indication of an economy that will invest and spend much less. That slowing has unsettled companies that sell into China and other developing markets and has been worsened by the strength of the U.S. dollar. China devalued its currency, the yuan, in August of this year, which we think was an effort to reinvigorate its export sector. It is unclear whether China intends to weaken the yuan further, but the move put pressure on other emerging market currencies. The administration of President Xi Jinping has eight more years to leave its mark on China. We believe China must reform its policies on land ownership, social security, health care, the structure of state-owned enterprises and other sectors in order to get the sustained economic growth it seeks.

Europe in transition

Countries in the eurozone – those who are part of Europe's monetary union – are experiencing their own version of monetary easing in an effort to stimulate the region's economy. The euro has weakened throughout the year, although the lowest points were reached immediately after QE began. The eurozone has shown improvement in gross domestic product, employment and consumer spending, and consumer and business sentiment indicators have turned higher. The debt crisis in Greece earlier this year appears to be manageable, although it does not appear that Greece will be required to make the structural changes that many think are needed to create a long-term solution.

The path for Europe also became less clear recently for three reasons: slowing growth in China, the Volkswagen diesel engine scandal and the inflow of refugees from Syria, Iraq and North Africa. China's reduced spending means it will consume fewer European goods. Automakers and their suppliers already had begun to feel the effects of this reduction and the situation worsened after VW admitted it manipulated emissions test results on its diesels. The resolution of that situation – including the ultimate cost to VW and its shareholders – is not yet fully clear. Finally, the large numbers of refugees pouring daily into Europe will strain resources, housing and logistics in the short term, but we believe the migrants will be beneficial in the long term to a region challenged by demographics. For example, Germany has an aging population, low unemployment and rising wages. It needs additional workers to fill some entry-level and lower wage jobs to continue to be productive.

Steady as we go

We are not forecasting an economic slowdown in the U.S., but such a scenario would unsettle an already delicate global economic framework. The real question is: Can the U.S. economy generate growth without further policy accommodation? We do not see a clear catalyst to get the U.S. economy to accelerate much from its current growth level, but we also are not forecasting a downturn. While the recovery seems solid, the risk is that the current level of about 2.5% growth in real gross domestic product is as good as it gets for the near term as the rest of the world plods along.

The opinions expressed in this article are those of Mr. Avery and are not meant to predict or project the future performance of any investment product. The opinions are current through October 2015. Mr. Avery's views are subject to change at any time based on market and other current conditions, and no forecasts can be guaranteed.

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U.S. Economic and Business Environment

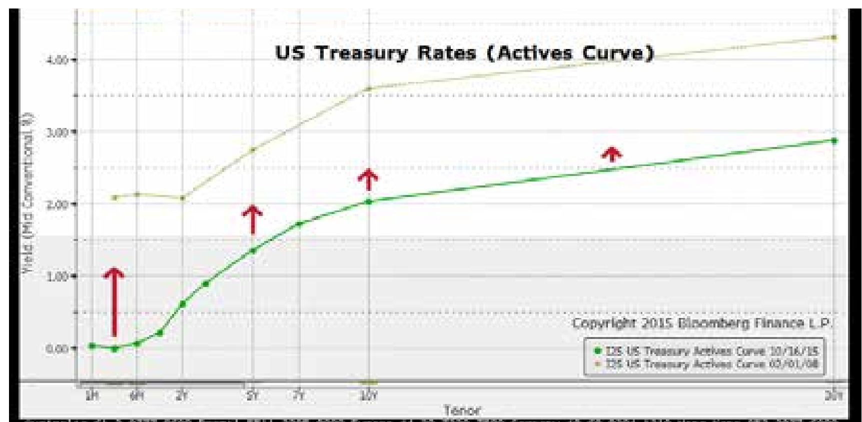
By Clay Nickel, Director of Investment Strategy

Arvest Asset Management/Investment Management Group

What is the likelihood of a recession in the United States? Since 2012, we have been describing U.S. economic data releases as a two-steps-forward, one-step-back affair. Predominantly positive data is interrupted with occasional surprises indicating temporary set-backs. While this is likely to continue this fall and into next year, a myriad of leading indicators continue to signal a low probability of recession for the U.S.. Still, it appears that the current trend line of 2.0-2.5% growth will likely remain in place for 2016. The American economy will not race, however, the steadily plodding plow horse should remain sure-footed as we experience continued growth.

It's important to note that the U.S. is what economists refer to as a "closed" economy. Relative to other G-20 nations, the U.S. depends less on import/export business and can continue to be self-sustaining even if international trade is affected by weakness overseas. Although China is experiencing significantly slower rates of growth and, as a result, commodity producing Emerging Market nations may experience recession, the impact, while perceptible domestically, should be limited for most U.S. businesses and the broad U.S. economy.

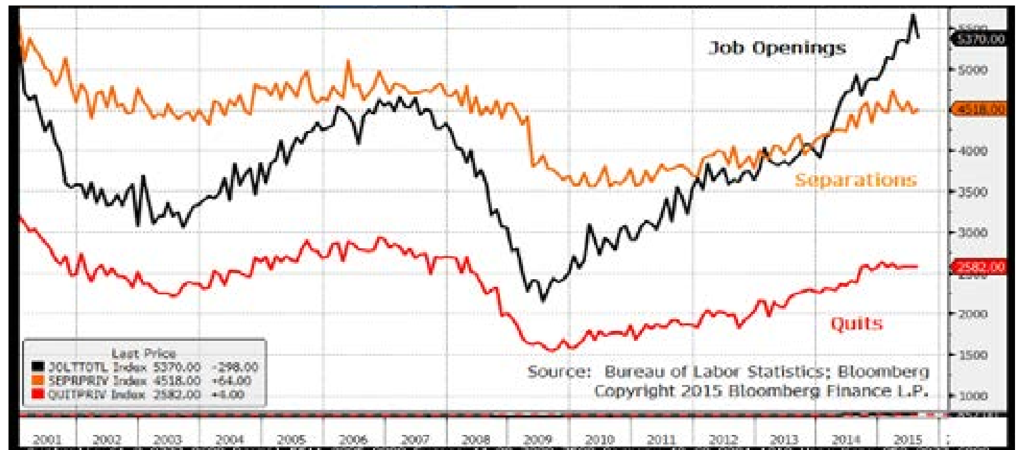
Will interest rates rise? Our base case is that interest rates will increase *gradually* in 2016, likely in fits and starts. While the Federal Reserve's initial rate hike appears to be pushed back to January or March of 2016, it is highly likely that the FOMC will be cautious with additional rate increases. For 2016, it is difficult to envision more than a 0.5% to 1.0% increase in the Fed Funds rate and related short-term lending rates. Longer term rates, while also likely to increase, have already begun to price in FOMC action and additional increases in longer-term, fixed rate financing is anticipated to rise less than short-term rates.



It is also important to note that surveys of senior loan officers indicate that lenders are generally eager to extend credit at these historically low rates of interest. Overall, banks are in a solid position of financial health. Additionally, while not robust, loan demand from businesses continues to increase.

What about Jobs? Steadily falling unemployment rates, while helpful data points, are a lagging economic indicator. Looking forward, National Federation of Independent Business data continues to signal increased hiring and higher

wages at small and mid-sized business. Additionally, the number of open positions is at an all-time high as measured by the BLS JOLTS data. These data points signal an increasingly tight supply of labor. Taken in conjunction with workers who voluntarily quit their jobs—a sign of growing worker confidence as well as exhibiting high correlation to wage increases, firms are likely to experience further rising labor costs. The silver lining is that consumer confidence has continued to improve at healthy levels and discretionary spending is expected to continue growing.



"Think like a man of action, act like a man of thought." –Henri Bergson. Economic data is best utilized to inform decision making and action. While reticence has reigned for many small and mid-sized businesses, since 2013 we have advocated that decision makers take advantage of the plodding, improving U.S. economic environment, as well as the concurrent low interest rates and favorable lending environment, to continue to employ growth oriented investment in their business. Although the shining sun is moving towards sunset, it appears that there is still time to prudently make hay.

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The Economy - "It's like déjà vu all over again."

By: Tim Laughlin, Director, Investment Management

First National Bank

Yogi Berra, who passed away recently, was famous for his aphorisms. One quote seems appropriate when thinking about today's economy: "It's like déjà vu all over again." Since the beginning of the recovery in 2009 the economy has been inconsistent and has had difficulty sustaining momentum. Each year there are a few quarters of relatively good growth and optimism begins to build. Then, unexpectedly, the economy stumbles and worry and uncertainty return. The pattern seems to be repeating again this year. During the first quarter the economy grew at a 0.6% seasonally adjusted annualized rate, but had an impressive rebound and grew at a 3.9% rate during the second quarter. Unfortunately, it appears that third quarter growth will be slower. Indeed, the inconsistency of the recovery has been consistent.

Overall, the U.S. economy is performing reasonably and relatively well. Improvement in the labor market (the unemployment rate has fallen to 5.1%) has helped increase consumer confidence and thus personal consumption has been strong. For example, the pace of auto and existing home sales are both above pre-crisis levels. Autos and homes are expensive, "big ticket" items and seeing sales trend higher in these sectors reflects a consumer optimism that is a good sign for the economy. Since personal consumption accounts for about two-thirds of the U.S. economy it is vital to see strength in this component of GDP and it is one reason to believe the U.S. economy will continue to grow.

That being said, the U.S. economy is not firing on all cylinders. Weaker global growth (most notably in China) has resulted in negative spillover effects for the U.S. China's deceleration has caused a plummet in commodity prices. Although lower oil prices are ultimately good for the U.S., to this point the benefits of lower fuel costs have been offset by negative effects in the energy sector. Given the sustained decline in oil prices, energy companies have drastically reduced investment spending and have sharply reduced employment in the sector. Further, increasing strength of the U.S. dollar has hurt the export-oriented segments of our economy.

For the banking sector in this region, the economic environment has allowed for continued loan growth and improved asset quality. These two factors have helped banks increase profits. The low interest rate environment and flat yield curve (which we expect to continue) has pressured banks' net interest margins. For Missouri and Kansas banks, low agricultural and oil prices have also been a headwind. Banks have continued to boost their capital ratios, which should provide more stability to the financial system, and thus the economy too.

Looking forward, we anticipate the national economy will continue to grow in a manner similar to the recent past. The consumer should continue to push economic growth ahead, but non-residential investment spending, inventory adjustments, the strong dollar and weakness in exports will limit upside potential. The annualized GDP growth rate in the U.S. has averaged just above 3.0% since the end of WWII to present. However, since the recovery began growth has averaged about 2.2%. Over the foreseeable future, our "base case" is that the economy will continue to grow, but growth will continue to be below its long term average due to sluggish global growth and slowing productivity. Demographic changes, like the aging population, also suggest a decline in economic growth potential due to a decreasing workforce population.

When thinking about the economy over the coming quarters another Yogi Berra quote is appropriate to remember; "the future ain't what it used to be."

Tim Laughlin is a Director with the First National Investment Management Group. Tim partners with his Wealth Management colleagues in the Kansas market to provide pragmatic solutions designed to help clients achieve their financial goals in an optimal way. Tim's job is to craft and manage investment strategies to ensure the strategy is aligned with the client's goals, situation and risk tolerance. Additionally, Tim is a co-portfolio manager of the Equity Income Strategy, a proprietary equity strategy exclusively available to Wealth Management clients. Tim has over 20 years of banking, trust and investment experience. Tim can be reached at tlaughlin@fnbk.com or 913.266.9357.

Reason says:
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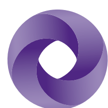

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Construction Industry Outlook

By Pat McCown, Chief Executive Officer, and
Nancy Whitworth, Director, Human Resources
McCownGordon Construction

Construction Outlook Continues on a Positive Path

Overall

The overall construction outlook for the Kansas City metropolitan area looks positive, with somewhat steady but not spectacular growth over the next five years. From 2015-2019, the industry is expected to experience an average annual growth rate of 7.5% for the combined categories of residential, non-residential buildings, and non-building structures.[1] Of the three major categories, residential is expected to enjoy the strongest annual growth rate of 9.8%, followed by non-residential buildings at 8.1%, and non-building structures at a lower rate of 3.7%.[2]

The Kansas City forecasted average annual growth rate of 7.5% over the next five years is slightly higher than the national average of 6.3%. It seems the diverse mix of business and industry has led to a certain amount of resiliency in our local market, and provides a solid foundation for continued steady growth.

The remainder of this report will focus on the non-residential buildings category.

Non-Residential Buildings Will Enjoy Moderate Growth

The non-residential buildings market (commonly known as the commercial construction market) makes up about 43% of construction dollars in the Kansas City metropolitan area, with a projected spend forecast of $13.28 billion from 2015-2019.[3] The diversity of markets in Kansas City continues to bode well for its future, including education, office, manufacturing, commercial, healthcare, transportation, lodging, communications, amusement/recreation, public safety, and religious. No single market sector accounts for more than 16% of the total; however, education and office combined are one-third of the expected spend from 2015-2019.[4]

Every market sector can be expected to grow, ranging from 1.4%-23.0% average annual growth from 2015-2019. Lodging and Transportation can expect above-average annual growth rates of 23.0% and 15.3% respectively, followed by Commercial and Office at 11.8% and 9.1% respectively. Education and Manufacturing continue to enjoy steady growth. For the most part, sectors have been on a good path to recovery over the past three-to-four years from the recession low point and will continue on that trajectory, with the exception of the minor sectors of religious and public safety construction, which remain flat.[5]

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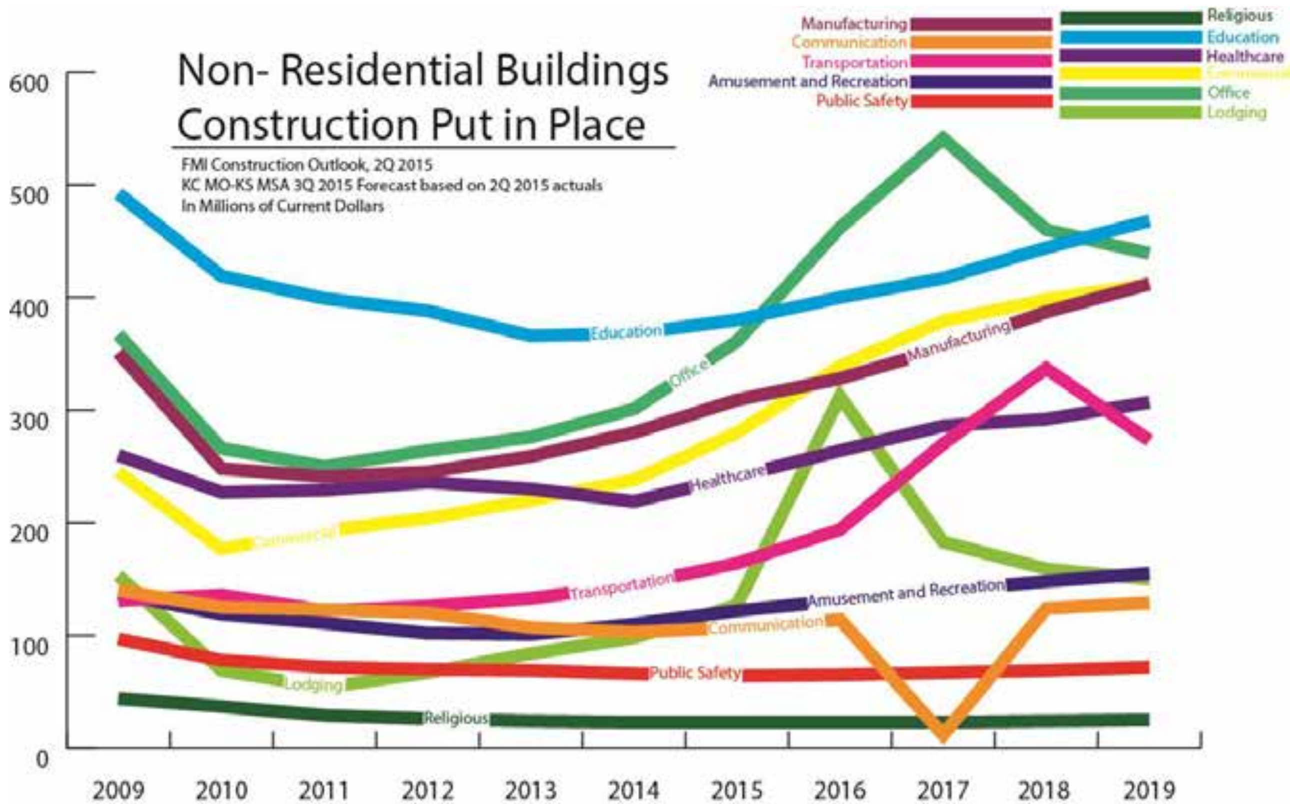
[1] FMI Construction Outlook, 2nd Quarter, 2015; Kansas City, MO-KS MSA
[2] FMI Construction Outlook, 2nd Quarter, 2015; Kansas City, MO-KS MSA
[3] FMI Construction Outlook, 2nd Quarter, 2015; Kansas City, MO-KS MSA
[4] FMI Construction Outlook, 2nd Quarter, 2015; Kansas City, MO-KS MSA
[5] FMI Construction Outlook, 2nd Quarter, 2015; Kansas City, MO-KS MSA



The following chart shows projected average annual growth rate from 2015-2019.[6]

Sector	Avg. Annual Growth Rate for 2015-2019	Includes:
Lodging	23.0%	Hotels, motels, resorts
Transportation	15.3%	Facilities and infrastructure related to air, land, and water services
Commercial	11.8%	Building/structures used by the retail, wholesale, and selected service industries
Office	9.1%	General office and financial buildings
Manufacturing	8.0%	All buildings and structures at manufacturing sites
Communications	8.0%	Telephone, broadcast, TV, radio, distribution and maintenance buildings/structures
Amusement/Recreation	7.1%	Theme/amusement parks, sports, fitness, performance centers, movie theaters
Healthcare	7.0%	Hospitals, medical buildings, special care facilities
Education	4.9%	Preschool through high-school, higher education, zoos, libraries, museums, archives
Public Safety	1.8%	Correctional, fire/rescue, certain other military and armory structures
Religious	1.4%	House of worship and other religious facilities

[6] FMI Construction Outlook, 2nd Quarter, 2015; Kansas City, MO-KS MSA

Overall Building Costs Increase, but Profits are Also Up

Costs in the U.S. non-residential building construction market reflects a 4.52% increase from third quarter 2014 to third quarter 2015.[7]

- *Materials Costs are Fairly Flat Overall*
  While the cost of raw materials decreased during the past year, manufactured and engineered components continued to see slight increases.[8] Materials costs will fluctuate some but are expected to remain fairly flat overall, with an increase of 0-3% over the next two-to-three years. Costs for diesel fuel and steel mill products will remain low and possibly decrease further, while paving mixtures and concrete products will remain flat or slightly increase.[9]

- *Labor Costs Rise, Labor Market Tightens, Profits Increase*
  Increased volumes of construction activity and tight labor availability have caused an upward trend in wages and salaries, thus increasing overall construction costs. This increase in construction spending has caused many of the trade and specialty contractors to secure ample work allowing a more selective pursuit of upcoming projects and to a degree driving costs higher.

  Construction unemployment has been in sharp decline since 2011, dropping closer to full employment levels. Kansas City, KS enjoyed a 5% increase in construction employment, while Kansas City, MO increased by 7%. The overall Kansas City metro area growth rate is better than the national average of 3.6%.[10]

  In this region, union carpenters' and laborers' wages increased 2.5% and 1.7% respectively in the past year, compared to a national average of 2.8% for all craft workers.[11] Increases are projected to increase at about the same rate over the next two years. Base salary increases for professionals in the construction industry are pacing at an average rate of 3% per year, and bonuses are recovering due to higher profits.[12]

  Contractor profit before tax has been steadily increasing over the past four years after hitting its lowest point in 25+ years in 2011.[13]

  The war for talent continues. This shortage of workers will increasingly drive up professional pay rates over the next few years. Further spending growth and higher profits will trigger more hiring, and the shortage of workers will be a concern. Pressure on the employment pool can be expected to continue due to retirements, defection from the industry, and competition from other sectors.[14]

Summary

In summary, the Kansas City area can look forward to a moderate increase in non-residential building construction over the next five years. It seems that economic factors are returning to relative "normalcy" without the extremes of some previous periods. Educational construction continues to be the largest market sector in the area, followed by office, commercial and manufacturing. While transportation and lodging occupy a smaller portion of the total market, their growth trajectory make them superstars over the next few years. Higher profits will allow for more hiring, but a smaller talent pool and rising labor costs will continue to be a challenge to the industry.

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[7] Turner Building Cost Index, 2015 3rd Quarter Forecast

[8] Turner Building Cost Index, 2015 3rd Quarter Forecast

[9] AGC of America, Construction Spending, Labor & Materials Outlook, Ken Simonson, September, 2015

[10] AGC of America, Construction Spending, Labor & Materials Outlook, Ken Simonson, September, 2015

[11] CLRC Union Construction Labor Cost Trends and Outlook 2015

[12] FMI Best Practices in Incentive Compensation, Sal DiFonzo, August 26, 2015

[13] AGC of America, Construction Spending, Labor & Materials Outlook, Ken Simonson, September, 2015

[14] AGC of America, Construction Spending, Labor & Materials Outlook 2014, Ken Simonson, Chief Economist

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29 percent of companies included in the SBEI reduced headcount, 24 percent increased payroll commitments, and 47 percent made no change to their employee totals.

SEPTEMBER AT A GLANCE

% CHANGE TO EE COUNT FOR REPORTING PERIOD

OCT. 2014	NOV. 2014	DEC. 2014	JAN. 2015	FEB. 2015	MAR. 2015	APR. 2015	MAY 2015	JUNE 2015	JULY 2015	AUG. 2015	SEPT. 2015
-.17%	-1.04%	1.22%	-2.71%	-0.69%	0.56%	1.17%	1.36%	0.81%	0.22%	-0.78%	-1.09%

Seasonally adjusted, September is historically a mildly positive growth month. But, a slowing economy and constant negative headlines have small business owners reducing their hiring efforts in fear of a reduction in sales as we enter the all-important fourth quarter of the economic year.

PHILIP NOFTSINGER — Business unit president for CBIZ Payroll Services

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Cost and Quality in Healthcare: Can We Do Better?

Blue KC Leading the Way to Lower Costs While Improving Quality

Nationally and locally, Blue Plans are partnering with providers to develop sustainable healthcare models that deliver high-quality care in a more patient-centered, cost-efficient manner. In Kansas City, Blue Cross and Blue Shield of Kansas City (Blue KC) is taking the lead by collaborating in new ways with providers. As a result, Blue KC is changing the economics of healthcare not only in our community, but also, with the help of other Blue Plans, nationwide.

On both national and local levels, consumers and policy makers are constantly being bombarded with news about the cost and quality of the American healthcare system. From headlines extolling the rising costs of pharmaceuticals to the ongoing debate on the merits of the ACA, separating fact from fiction can be difficult.

One factor making the task more difficult is that the U.S. healthcare system is not one integrated entity, but a collection of very different local healthcare environments that responds to community needs in many different ways.

In order to understand the economics of healthcare in Kansas City, we have to determine what it means locally when national headlines declare healthcare spending is on the rise nationally or that pharmaceutical costs are increasing exponentially.

The Commonwealth Fund provides public access to interactive data tools that help states and communities, like Kansas City, compare local results to national benchmarks and state norms. One of these tools, The Commonwealth Fund Scorecard on Local Health System Performance, helps evaluate how well the local system is performing across four dimensions of healthcare including access, prevention and treatment, potentially avoidable hospital use and cost, and healthy lives.

The Scorecard ranks Kansas and Missouri in the second and third, of four, quartiles respectively—mediocre rankings that place us in the middle of the pack. Kansas City's ranking is consistent with the overall region. (Rankings compare Kansas City to 306 local healthcare areas known as hospital referral regions.)

Quartile	Ranking	Dimensions of Healthcare
2	108/306	Access–addresses insurance coverage and affordability of care
2	99/306	Prevention & Treatment–evaluates the quality of care in all settings–inpatient outpatient, home, long-term and end-of-life
3	189/306	Potentially Avoidable Hospital Use & Cost–looks at hospital use for conditions that, when well managed in an outpatient setting, could have avoided inpatient care and cost for Medicare and private insurance
3	184/306	Healthy Lives–assesses the degree to which people are able to enjoy long and healthy lives

Full results are available at commonwealthfund.org.

The question that stems from these middle-of-the-pack rankings is, "Can we do better?" At Blue KC, we know the answer is yes.

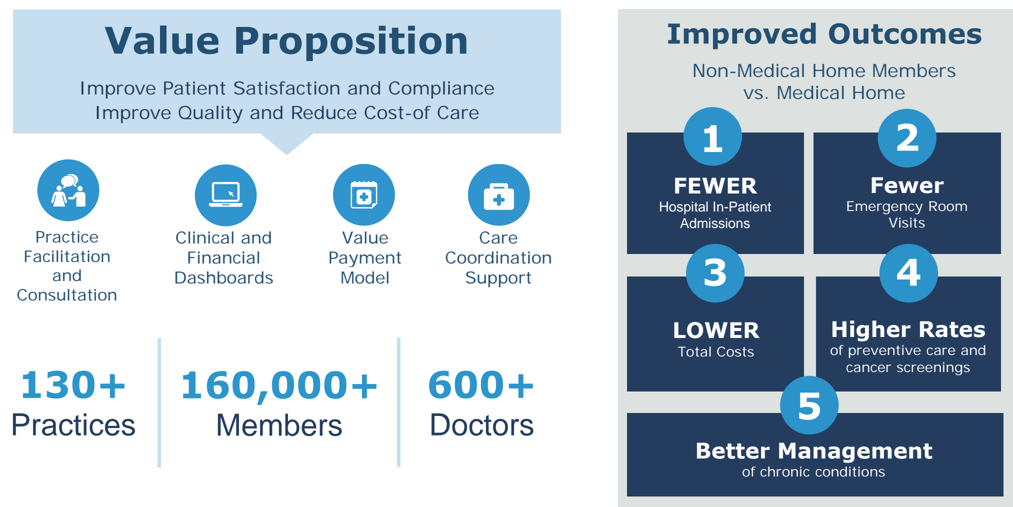
In 2010, Blue KC started the Blue KC Medical Home program with some of the most innovative and forward-thinking physicians in the region.

In a Blue KC Medical Home, each patient has an ongoing relationship with one doctor who heads a team that takes collective responsibility for overall patient care. When needed, this team coordinates care with other providers to create

a more holistic view of the patient's health. This type of patient-focused care rewards providers for delivering the best patient care at the right time and place. Currently, there are more than 600 recognized Blue KC Medical Home physicians in more than 130 locations providing care for approximately 168,000 Blue KC members.

Five years into the program, Blue KC Medical Homes are delivering value with overall improvements in the quality and cost of care for Blue KC members.

In 2016, all local Blue Cross and Blue Shield provider partnerships, such as the Blue KC Medical Home program, are coming together under one national umbrella: Blue Distinction Total Care. As a result, Blue KC members who live outside the Kansas City area will have access to high-quality patient-centered programs that help people get healthy faster and stay healthy longer.



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In addition, Blue KC has taken the lead to bring together a panel of healthcare, business and community leaders to explore and better understand the state of healthcare in the greater Kansas City region and to talk about ways to best meet these aspirational healthcare goals in our community. The goals of the Blue Ribbon Advisory Panel are to:

1. Improve the patient experience of care;
2. Improve the health of populations;
3. Reduce the per capita cost of healthcare; and
4. Improve provider satisfaction.

The panel is composed of physicians (primary care and specialists), healthcare administrators, purchasers (large employers and labor), healthcare foundations and consumer advocates. Panel participants are asked to represent their point of view on behalf of the best interests of the community – not to advocate for the interests of their organization or stakeholder perspective. Panel discussions facilitated by Bruce Bagley, M.D. focus on accelerators of healthcare change in the Kansas City community.

Blue KC is also looking at implementing several new programs and benefits to help members better understand and manage the cost of their care. Specifically, in 2016, Blue KC is working to implement new wellness and transparency tools and provide national telehealth access to members.

As the only local, not-for-profit health insurer in the Kansas City area, Blue KC is uniquely positioned to create and accelerate change in the health and wellness of our community while implementing programs that lower healthcare costs overall. We not only can do better, we are leading the way.

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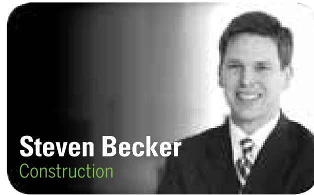

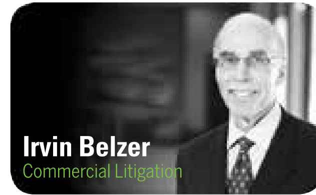

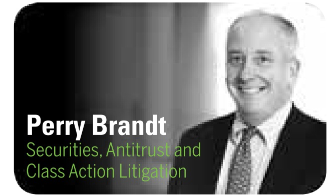

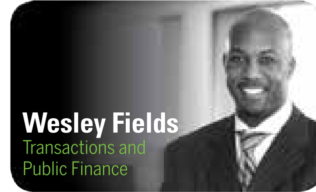

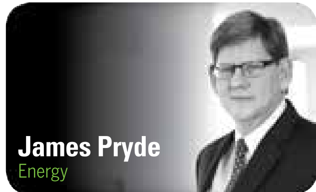

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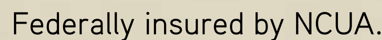

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U.S. Economic Outlook

Danny Bachman, Senior Manager, U.S. Economics

Deloitte LLP (10/16/15)

In many ways, the U.S. economy remains on track. Consumer demand remains reasonably strong, and housing is picking up (although it is still far from the levels of the previous decade.) But some signs of slower growth have appeared. Job growth has moved down from the over 200,000 pace in the first half of the year, and exports declined in three of the four months ending in August.

As John Donne wrote, "No man is an island." That's also true of economies—even island economies. The U.S. economy is relatively sheltered from the storms of the global economy. Exports accounted for just 14 percent of GDP in 2014, which is substantially less than most developed countries. But continued weakness abroad may be starting to have an impact on the United States.

We've therefore raised the probability of slower-than-expected growth (our "continued slow growth" scenario). Global conditions have created a challenging environment for the U.S. economy. That challenge is increasing as China's economic problems have become more evident in the past few months. The U.S. economy—while less connected to global conditions than many observers realize—would certainly feel the impact of a Chinese slowdown.

We haven't changed our baseline outlook. The Deloitte forecast continues to show an acceleration of U.S. GDP growth, but the baseline assumes that both Europe and China recover from their present stumbles.

The news from China indicates that this is becoming less likely. And Europe appears set to continue to lurch from crisis to crisis, hindering economic growth. Together, these two areas of the world could provide a significant source of drag for the U.S. economy.

To be very clear, we believe there is almost no possibility that the Chinese slowdown—even if it is severe—could create a recession in the United States through trade flows. East Asia accounts for 20 percent of U.S. exports. Even if exports to East Asia fell by half, U.S. GDP would only fall about 0.7 percent. That's enough to be felt, but not enough to create a recession. And the loss of East Asian sales would be offset by lower commodity prices, which U.S. manufacturers would welcome. (U.S. energy producers, less so.) This helps to limit the impact on the U.S. economy. So, we believe, the probability of recession remains the same (5 percent) as before, as does the cause—an unrealized weakness that brings down the U.S. financial system. But the Chinese financial system is not well integrated into the global economy. If anything, the fact that U.S. financial institutions have easily weathered the Chinese stock market crash suggests that the probability of a financial crisis remains low.

The baseline also assumes that the FY 2016 (and 2017, and 2018, and so on) budget is adopted smoothly, and that no problems arise in raising the U.S. debt ceiling. These routine matters are becoming—once again—a source of uncertainty. Not likely to create a recession, but enough to inject yet more uncertainty into household and business decision making.

There are plenty of reasons why actual economic growth might be better or worse than Deloitte's forecasted baseline. The Deloitte forecast, therefore, includes four different scenarios to illustrate possible future paths of the U.S. economy that are worth thinking about. Deloitte's economic forecasting team places subjective probabilities on each of the four scenarios.

The baseline (55 percent): The most likely outcome for the economy is a burst of mildly faster growth as risks from abroad and at home fade away. Continued improvement in the labor market and growing demand from abroad increase demands on U.S. producers, and the continued low cost of capital and low oil prices add to the pressure to build capacity.

Growing business investment cements the recovery and, as hiring picks up, the labor force participation rate of younger cohorts will begin to rise. The large amount of slack will prevent rising demand from being translated into inflation, despite relatively accommodative Fed policy.

Recession (5 percent): China's economy finally reflects financial problems that have been evident for several years. Volatility in Europe increases, and so does market valuation of the riskiness of euro assets, adding to the panic. This then affects several U.S. financial institutions that find themselves long on euro and China-related assets at the wrong time. The result is a global financial panic. East Asian growth sputters while Europe plunges back into recession. Capital flows into the United States to avoid risk in Europe and Asia, and the U.S. dollar appreciates. The combination of low foreign demand and financial panic throws the U.S. economy into recession. Timely Fed action offsets the financial crisis after several months, but the impact of low demand, a troubled financial system, and the resulting hit to confidence keep the economy growing slowly. An eventual recovery leads to relatively fast growth several years from now.

Continued slow growth (25 percent): Weak economic conditions abroad, incomplete fixes to the financial system, and a mismatch between labor needs and the skills of the labor force slow U.S. economic growth to 2 percent for the foreseeable future. As the long-term unemployed become essentially unemployable, the labor force participation rate remains low, and, wages start to rise. The hoped-for improvement in competitiveness from domestic energy production proves to be less impressive than expected. Incipient signs of inflation cause the Fed to raise interest rates to prevent inflation from getting out of hand.

Coordinated global boom (15 percent): European restructuring is successful, and Europe starts recovering quickly. Emerging markets also pick up momentum as financial problems are resolved in China, and India and Brazil start to adopt more reforms. Capital flows out of the United States and into Europe and the developing world, which causes the dollar to depreciate, further enhancing U.S. exports. Lower energy prices in the United States make the country even more competitive. At home, the resolution of budget issues at both the federal and state levels allows more money to flow into infrastructure investment, creating short-term demand and long-term productivity growth.

Key findings

from EY's Global Information Security Survey

Survey includes responses from over 1,700 global companies from 25 different industries.

Why are attacks more likely in the digital world?

- The world is changing.
- There are more threats and vulnerabilities.

How can you combat skilled attacks?

- Think through the worst case scenarios.
- Detect the small subtle signs.
- Make high alert your constant state.

Today's "internet of things" has created great opportunities in our private and business lives, but has vastly increased the threat landscape and "attack surface."

Clients say their greatest threats are phishing and malware.

Attacks are more likely in the digital world

Clients say their greatest vulnerabilities are careless and unaware employees and outdated information security controls or architecture.

Of organizations surveyed, 36% say they would be unlikely to detect a sophisticated cyber attack.

Detecting the subtle signs:

- Attackers can be in your organization for weeks/months.
- Attackers create diversions to distract you from their real objectives.

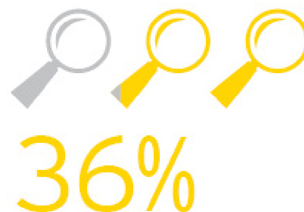
High alert is needed, but many organizations don't have what they need:

- Only 34% would rate their security monitoring as mature or very mature.

Why are you still so vulnerable?

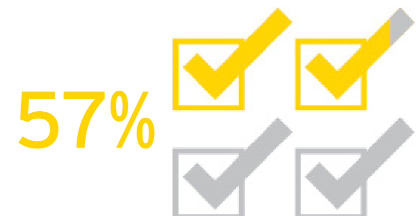
Not enough measures

Only 40% of organizations hold an accurate inventory of their ecosystem (i.e., all third-party providers, network connections and data).



No proactive approach

Over a third (36%) of organizations do not have a threat intelligence program.



No mechanisms to adapt to change

Over half (57%) say that lack of skilled resources is challenging information security's contribution and value to the organization; 32% say lack of executive awareness and support.

Building a better
working world

If you were under cyber attack, would you ever know?

As many organizations have learned, sometimes the hard way, cyber attacks are no longer a matter of if, but when. Our global mindset and collaborative culture across our diverse team of consultants and industry experts inspire us to ask better questions about the cybersecurity challenges you face.

ey.com/giss #BetterQuestions

The better the question. The better the answer. The better the world works.

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Frederick J. Greenbaum, President

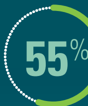
U.S. CEO OUTLOOK 2015 KEY FINDINGS

BUSINESS
OPTIMISM HOLDS STEADY

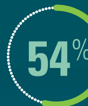
Compared with last year, two-thirds of U.S. CEOs either have the same level of confidence or increased confidence about their business prospects in the next three years, though one-third are less confident

INORGANIC GROWTH
SET TO RISE

Almost a third of U.S. CEOs say their growth will be mostly inorganic over the next three years, compared with just 5% last year.

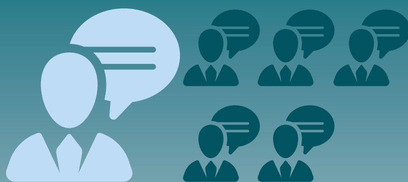


Over the next 12 months, 55% plan to undergo financial strengthening.



Over the next 3 years, 54% say that acquisitions will be the top capital structural change.

CUSTOMER DEMAND
TRIGGERING TRANSFORMATIONS



Customer loyalty is top of mind for CEOs, with more than half (55%) saying they are extremely concerned.To this end, customer demand is the top trigger for transformations.

COMPETITIVE
ENVIRONMENT GETS TOUGHER

CEOs are feeling that the competitive environment is escalating.

Almost half (48%) are extremely concerned about competitors' ability to take business away.

Almost a third (30%) are anxious about new entrants disrupting their business models.

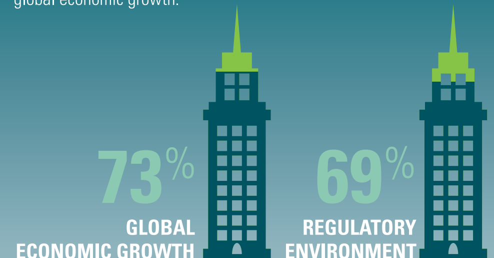
AGGRESSIVE GROWTH
STRATEGIES PREVAIL

For a vast majority of U.S. CEOs (95%) a focus on growth is more important to their company's well-being than a focus on operational efficiencies.

This year 73% of U.S. CEOs categorized their growth strategies as aggressive.

REGULATORY CLIMATE
CONTINUES TO HAVE MAJOR IMPACT

For a vast majority of U.S. CEOs, global economic growth (73%) and the regulatory environment (69%) are the two issues that have the most impact on their companies. The regulatory environment was the top issue last year, followed by corporate tax reform and global economic growth.



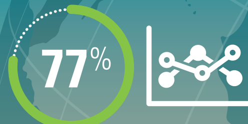
KPMG
cutting through complexity

RISK APPETITE INCREASES

54% Fifty-four percent of CEOs feel that they are not taking enough risk as it relates to their growth strategy. Forty-five percent say they are taking the right amount of risk, with only 1% stating that they are taking too much risk.

CAPITAL TARGETED FOR GEOGRAPHIC EXPANSION

Geographic expansion is the top strategic priority over the next 3 years for the largest groups of U.S. CEOs (38%).



Significant capital will be devoted to expanding into foreign markets, say 77% of U.S. CEOs.

CFO TABBED AS GAINING MOST CLOUT IN THE C-SUITE

Asked to identify the C-suite officer who will become more important to their organization over the next three years:

CHIEF FINANCIAL OFFICER

CHIEF OPERATING OFFICER

CHIEF INFORMATION OFFICER

CHIEF MARKETING OFFICER

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Industry Outlook

WEALTH MANAGEMENT

Asset Management

CUSTODY BANKS

Short Term 2015 - 2016

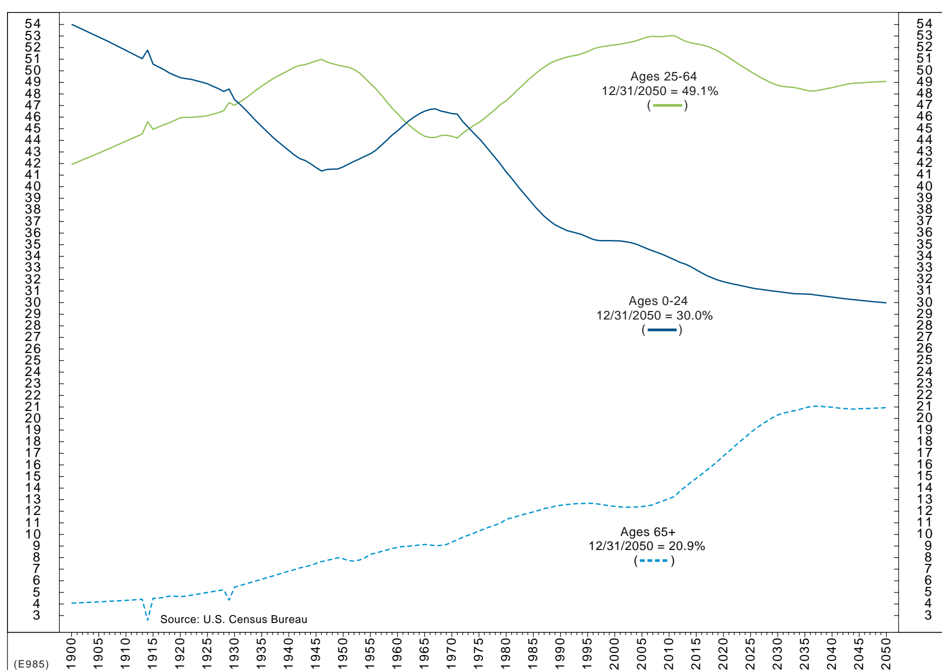
- Short-term drivers of revenue and profit generation are asset under management (AUM) levels and fee rates.
  - **AUM:** Driven by capital market returns and new accounts
  - **Fee rates:** Continued movement away from active management toward passive management.
- The current consensus for profit growth rate of publicly trade asset management companies is predicted 7 percent for 2016 as compared to 2015 profit levels; and 5 percent as compared to overall corporate profit growth in 2015.

Longer Term

- AUM levels and fee rates also tend to be drivers in the long term.
- The 401k rollover driver, which is one aspect of increased revenue for the industry, is starting to accelerate in growth.
- Demographic trends tend to significantly impact industry outlook for both revenue and profit generation.
- Investors seeking wealth management services tend to be driven by complexity. If an investor is facing a new event in their life (changing a current financial situation or need), they tend to reach out for wealth management advice. These changing events could be:
  - Retirement
  - Company capital event (buyout as an example)
  - Inheritance
- Demographic studies show 24 million Americans will turn 65 between 2015 and 2039. This represents roughly 20 percent of the current population base in the United States. In addition, 1.6 million people per year will attain retirement in the next 15 years.

U.S. Population By Age (as a % of Total Population)

Yearly 12/31/1900 - 12/31/2050



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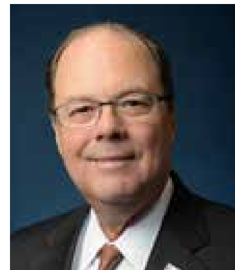
Industry Outlook

WEALTH MANAGEMENT
Asset Management
CUSTODY BANKS

Longer Term *(continued)*

- Many of those retiring have retirement accounts which will come into the direct hands of the retirees either by an IRA, 401k or pension plan payout.
- A number of these retirees represent new wealth management clients.
  - Number of projected people turning 65 years of age between 2015 and 2039: 24 million
  - Labor participation rate: currently 62.5 percent
  - Average current value of 401k plans for employees 60+ years of age: $234,000 (per AARP).
- Without consideration of pension plan payouts or IRAs, 401k payouts should total $4.938 trillion in assets over the next 15 years (assuming a 5 percent average annual rate of return). To put this in perspective, the total market capitalization of all issues traded on the New York Stock Exchange totals $21 trillion.
- At a fee rate of 1 percent per year, wealth management industry fee revenue generation could rise by $49 billion annually over the next 15 years, driven by 401k rollover activities.
- This analysis does not include payouts of IRA accounts, pension plan lump sum distributions or inheritances.
- These life events should drive investors to seek wealth management advice.



William B. Greiner, CFA,
Chief Investment Strategist

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Wealth Planning

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- Goal development and monitoring
- Risk management analysis and guidance
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- Cash flow management
- Specialty financing options
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- Yacht and aircraft financing
- Insurance premium financing

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- Strategic asset allocation guidance
- Client tailored investment strategies
- Robust solution platform
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Specialty Asset Management

- Non-financial asset management expertise:
  - Farm and ranch
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  - Commercial and residential real estate
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What others are saying about U.S. Bank

U.S. Bank named as a "world's most ethical company." ~ Ethisphere Institute, March 2015

U.S. Bank ranked a "top 20 wealth management firm" in the United States. ~ *Barron's* 2015 List of Top 40 Wealth Managers[2]

"Most admired superregional bank" five years in a row. ~ *Fortune,* March 2011, 2012, 2013, 2014, 2015

U.S. Bank among "most reputable companies." ~ *Forbes,* April 2012, 2013, 2014

U.S. Bank again ranked one of the "world's safest banks." ~ *Global Finance,* April 2012, 2013, 2014

U.S. Bank ranked number one "most trusted retail bank for the past nine years." ~ Ponemon Institute, June 2015

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To learn more about how we can help you on your important wealth journey, please contact Brad Scott, Kansas City Market Leader, 913.261.5726, bradley.scott@usbank.com

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[1] As of March 31, 2015

[2] *Barron's* "America's Top 40 Wealth Management Firms," Sept. 26, 2015, ranked by client assets in accounts of $5 million or more as of March 31, 2015. Barron's is not affiliated or associated with U.S. Bank in any way.

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Transportation Outlook

By Katie Gerard

Kansas City SmartPort

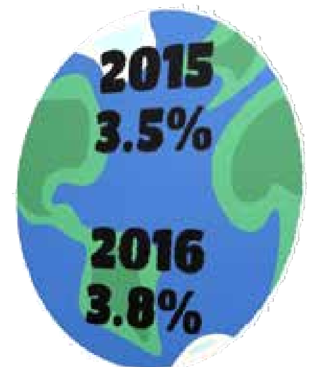
Every day at any given time a mode of transportation is being used to move a product to a destination. Shipping is not only prevalent in the lives of people involved within the industry, it is prominent in the global population's day-to-day life. With the continued rise of online ordering, consumers want products delivered to their final destination, in less time. With this demand business around the world is thriving. However, this demand is not always easily met. Companies are continually improving their supply chain operations to optimum levels to meet the demand of the consumers. This creates faster delivery time and cost saving measures for the company. In 2016, the outlook for the transportation industry looks very optimistic. Read more about how current developments are affecting the industry as well as an analysis of the global and local economies below.

Global

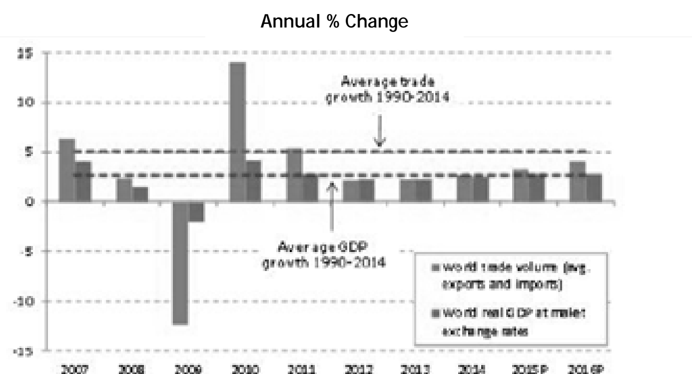
In 2016 the world is expected to grow by 3.8 percent, up .03 percent from 2015. There are uneven prospects across the board causing uncertainty around this projection. The main advantage providing a boost to the economy is the increase in disposable income due to the lower oil prices. The adjustments in the U.S. dollar, weakening most of the other currencies; the geopolitical uncertainty in the Russia-Ukraine area and the Middle East; and the ongoing concern about the European Union are all causing a wave of ambiguity for the expected growth rate.

According to the World Trade Organization Economist, in 2016 world merchandise trade volume will rise to 4 percent. This is still far below the annual average of 5.1 percent, which was announced in 1990. The same factors holding back the global growth rate are affecting the world wide trade rate. Geopolitical tensions and fluctuations in the exchange are two key factors causing sluggish growth.

Overall, trade growth will surpass global growth as a whole for 2016, but only by a small margin. This should aid the transportation industry in growth, but the overall world growth is difficult to predict.



Growth in volume of world merchandise trade and real GDP, 2007-16 (projected)



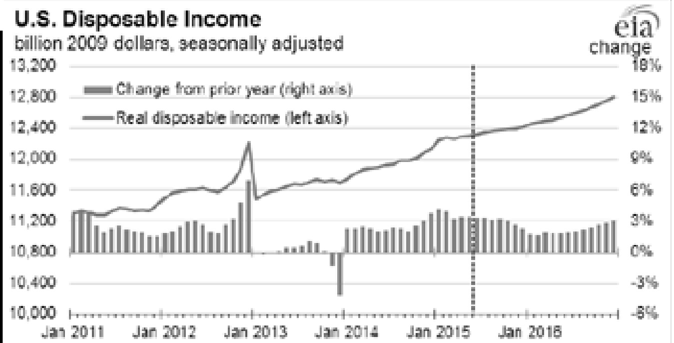
National

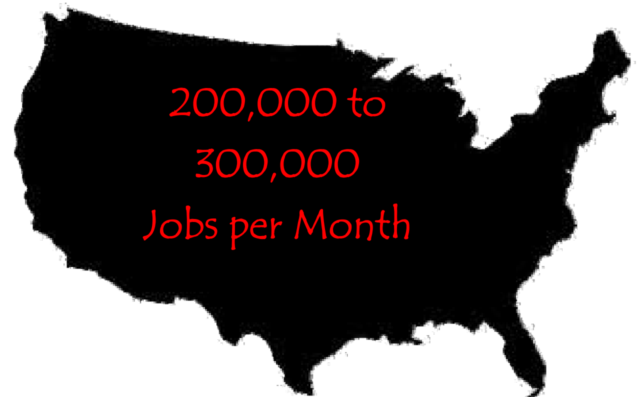
The United States is projected to continue its recovery during 2016. Businessinsider.com projects the real GDP increase will reach 2.8 percent in 2016, down from the projected 2.9 percent in 2015. This is due to the U.S. dollar strengthening but the currencies around the world weakening, causing the exports to be lower. The reduction in oil prices is lowering the cost of transportation, food and raw materials. This in turn gives the consumers more disposable income and raises profit margins for businesses.

With more than 300,000 jobs per month being added in the U.S., consumers are more secure in their spending. The jobs increase is also projected to drop the unemployment rate between 4.9 percent and 5.1 percent. Many of these jobs are on the low paying side of the job market. The U.S. Bureau of Labor Statistics predicts that the second largest job increase will occur in the professional and technical occupations. Jobs in this area include planning, logistics, new technology implantation and warehousing. This is a positive for the transportation industry.

It is also wise to consider that 2016 is an election year. Whoever is elected to take the seat in the oval office, will have a direct affect on whether or not a positive outlook will remain.

Overall, the pros will most likely out weight the cons and the U.S. will have a prosperous year.



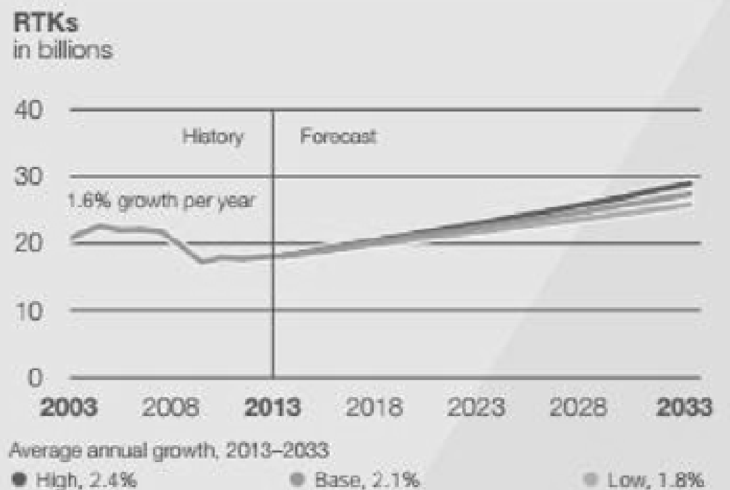


Air

Over the past few years, fuel prices have been a reoccurring problem for the air cargo industry. According to Boeing.com, between 2004 and 2012 jet fuel prices nearly tripled. This caused many shipping communities to divert general cargo shipping to less costly modes of transportation. Since 2014, jet fuel prices have remained constant and are forecasted to remain so over the next few years.

Another challenge for the air cargo industry is the competition with other modes of transportation. New updates in the containership industry have persuaded shippers to shift shipping from air to container. Shipping via containership is 10 times less expensive per unit weight, but is at the expense of longer, less reliable shipping times. For the air cargo industry to stay competitive it must guarantee the benefits of air cargo shipping to avoid becoming irrelevant.

Despite these challenges, the air industry is on the rise in 2015 and is looking to continue to rise in 2016. The industry has regained shipper's confidence. Chuck Clowdis, a managing director for ISH Global Insight, states "shippers must lock in rates for the year," to help the air industry recover steadily. Boeing has forecasted growth at 4.7 percent over the next 20 years, with global traffic expected to more than double by 2033.



Trucking

The trucking industry is in much better standing moving into 2016 than where it was in 2013. Some key trends that began in 2014, like better truckload pricing power for carriers, improved contract rates and a continued increase in tonnage, have carried in to 2015 and are expected to continue into 2016. With the power of setting price in the hands of carriers, predictions of 4-9 percent increase are on the table by the end of 2016.

Lower diesel prices have caused some rail freight to be shifted to truck freight aiding in the growth and demand on the industry. The Department of Energy has lowered its 2016 diesel forecast by 12 cents and is predicting diesel to average $3.12 per gallon for 2016. This will continue to help boost the number of truck loads.

Finding content to fill the trailers will be no problem. According to ccjdigital.com, truckloads could climb by more than 9 percent over the next year and a half. With this demand the most pressing issue for the trucking industry is finding drivers.

The biggest downfall of the industry right now is new regulations, such as electronic logging devices. These devices monitor the capacity of loads, which continue to shrink. New regulations also continued to shrink mileage by 8-10 percent causing drivers' pay to decline. This is where many failures have been coming from according to fleetowner.com.

Truckersreport.com stated that if the trucking industry can prove itself lucrative more people will come aboard. The Bureau of Labor Statistics agrees predicting a 21 percent increase by 2020.

Intermodal & Rail

"Nothing is ever perfect" is how logisticmgmt.com sums up the past year's rail and intermodal sectors. The group faced many challenges throughout 2015, such as service performance issues and an uneven economy that has taken effect on carloads and intermodal volumes. The light at the end of tunnel is that massive capital expenditure has been allocated to improve infrastructure by each rail line. According to the Association of American Railroads, the U.S. freight railways are projected to spend $29 billion on the U.S. rail network and hire 15,000 new employees. A large driver of these factors is the predicted future growth of the sectors, due to the fact that carloads and intermodal currently lag behind pre-recession levels. Carriers say they are looking to improve efficiency and transit times with the investments, responding to the shipper's objectives.

Over the next year, rail experts are optimistic things will improve because of low volume in carloads. This will give the rail systems some breathing room. They can expect continuing improvements to the service, but it will most likely not match 2013 levels until 2017. The demand for truck drivers is expected to continue, elevating the need for rail service. There is one major concern for 2016, the locomotive supply. The locomotive industry is down to one builder, General Electric, which is virtually full due to Caterpillar being out of the market until late 2016 or early 2017. This is requiring companies to use anything and everything they can get their hands on, whether it's old or new.

The demand for intermodal cars is strong and believed to become stronger throughout the next year. There is a small shortage in the terminal capacity and box supply that may put a damper on this demand. There was growth in the trailer volume over the past year, but that might become constrained due to the supply of flat cars that can accommodate double stacks.

Looking down the tracks for 2016 and beyond, the outlook for rail and intermodal is mixed. While intermodal has continuous market share gains domestically and internationally, rails will be even more important in the supply chain than they are now. But that is only if the industry can continue to learn from its challenges in years past and revamp its business models to accommodate the growth.

Seaport

According to joc.com, container ship owners are optimistic the market is turning around. Shippers are hopeful that charter rates will increase as the shipping lines turn current vessels to fill the gap between supply and demand that will begin in 2016. With a combination of continuous economic growth and the slow delivery rates of new ships in 2016, the demand will be high for current chartered vessels, meaning the price will rise and space on the vessel will be a highly sought commodity.

In 2016 the container ship market is expected to grow as much as it did in 2015, but it will show a marked improvement in 2016. The demand is here for ships, making the prospects very high for an outstanding market. Demand will most definitely outdo supply in 2016, due to the low number of ships on the sea, along with the continued increase for shipping via sea vessel.

There is also a positive outlook for the sea ports in 2016. Many shippers are fed up with the delays at the West Coast ports. The East Coast ports will likely gain 10-15 percent, especially with the widening of the Panama Canal in 2016. According to naiop.org, many shippers might reroute shipments through the East Coast ports for more reliability. But this may not be the case because of the land bridge that is used when shipping from the West Coast ports. It is likely that the East Coast will see more freight move via ship rather than intermodal to serve the East Coast, but this will not dramatically impact the West Coast.

Overall, the outlook for ship vessels and seaport in 2016 is positive. The demand for container ships will be high and most ports around the globe will benefit from the Panama Canal widening.

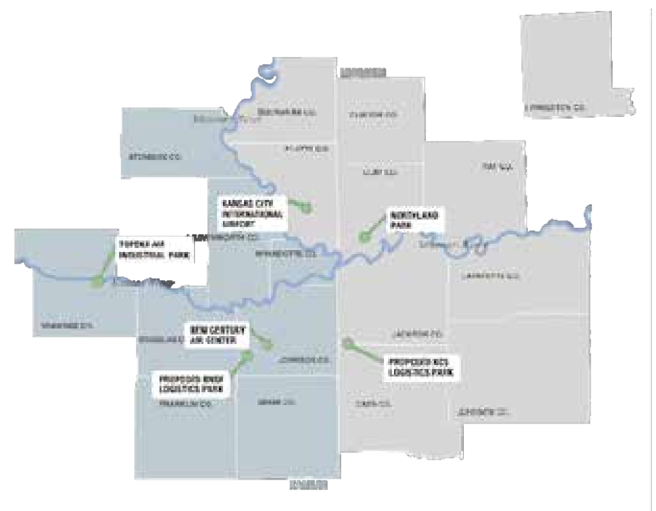
Kansas City Region

The Kansas City Region is no doubt prospering in the industrial sector. At the heart of the United States with five first class railways, four major highways, an international airport and an inland water port, Kansas City is the ideal place for freight based businesses.

Over the past year, intermodal parks and the automotive sector have taken off. With eight industrial speculative buildings being built within the next two years demand is driving a large amount of growth throughout the region. When the expansions at the BNSF's Logistics Park KC, located outside of Edgerton, Kansas, are complete, it will be the largest industrial spec building in the region and will feature 36 foot ceiling clearance. This is just one of the many improvements taking place in intermodal parks located throughout the greater KC region.

KC also has a thriving automotive sector, with reinvestments at the GM Fairfax plant and Ford's Claycomo plant automotive suppliers have set their roots in the region. Since April 2013, the automotive sector has committed to creating 1,795 new jobs with wages equaling $74.1 billion and to occupy more than 2.2 million sq. ft. Recently, US Farthane, a plastics manufacturing company that has supplied the automotive sector for more than 40 years, chose to locate its newest manufacturing operations in Riverside, Missouri, within the Horizons Business Park. This will bring 267 new jobs and $50.1 million in capital investment.

All in all the Kansas City region is growing at an unbelievably fast pace. According to the U.S. Bureau of Labor Statistics, the unemployment rate for the KC region in February 2015 was 3.3 percent below the U.S. average at 5.5 percent. With all the new speculative buildings and the rise in the automotive sector, there is no doubt Kansas City will be prosperous in 2016.



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Morgan Miller Plumbing

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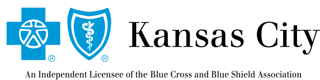

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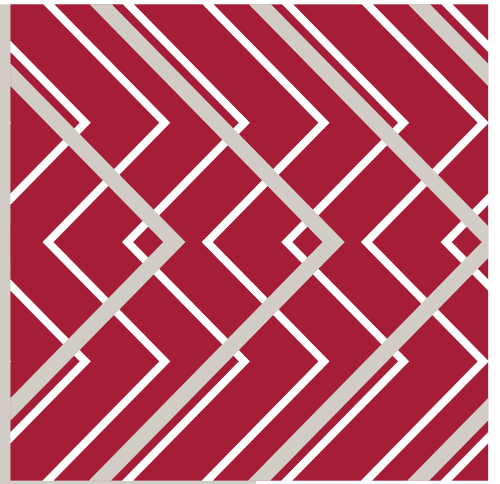

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