

A large, abstract graphic occupies the background, consisting of several concentric circles and radiating lines. The lines are colored in a gradient, transitioning from dark green on the left and bottom to light blue on the right and top. The graphic has a high-contrast, modern, and dynamic feel.

ECONOMIC OUTLOOK UPDATE

MONTHLY

APRIL 2021

ECONOMIC UPDATE AT A GLANCE

(APRIL 2021 SUMMARY)

In April, the U.S. LEI improved 1.6%, to 113.3 points, which follows an increase of 1.3% in March. Following the sizable rise in April, the U.S. LEI has now fully recovered and passed its peak from before its contraction caused by the coronavirus outbreak. The rise in the index in recent months points to an accelerated growth to the economy in the near term.

The Chicago Fed's National Activity Index suggests that economic activity worsened in April following a sizable decline in the index from +1.71 to +0.24. Three of the four broad categories of indicators used to construct the index made positive contributions in April, but three of the four categories deteriorated from March. In addition, the three-month average decreased from +0.35 to +0.07.

The Consumer Confidence Index rose sharply for the second consecutive month following a rise of 12.7 points in April, to 121.7 points, reaching its highest level since February 2020. The rise is attributed to the ongoing vaccination rollout that has given consumers a positive outlook on the labor market and the overall economy. The current conditions component, which measures consumers' assessment of current business and labor market conditions, increased by 29.5 points, to 139.6. The expectations component, which measures consumers' short-term outlook for income, business, and labor market conditions, rose 1.5 points, to 109.8 points. The Consumer Sentiment Index rose 4.0 points, to 88.3 points, in April. The renewed confidence is due to record federal stimulus spending, both recently passed and proposed, as well as the positive impact from a growing share of the population who are vaccinated.

The NFIB Small Business Optimism Index advanced 1.6 points, to 99.8, in April, remaining above its 47-year average of 98 for the second consecutive month. The report noted that small-business owners have started to see a growth in sales but remain concerned about their inability to fill vacant positions, which could stunt future growth.

MetLife and the U.S. Chamber of Commerce published its first-quarter 2021 survey, which continued to highlight the recovery in the small-business economy. The first-quarter score, which improved 3.0 points, was the third consecutive quarter

Economic Summary April 2021

Change from previous month unless otherwise noted

Factor	Improve/ Worsen
Leading Economic Index	↑
National Activity Index	↓
Consumer Confidence	↑
Consumer Sentiment	↑
Small Business Optimism	↑
Total Retail Sales	↔
Core Retail Sales	↓
Jobs Added	↑
Unemployment Rate	↓
Labor-Force Participation	↑
Hourly Earnings	↑
Workweek	↑
Manufacturing PMI	↓
Services PMI	↓
Hospital PMI	↑
Industrial Production	↑
S&P 500 (Month)	↑
S&P 500 (YTD)	↑
Housing Starts	↓
Building Permits	↑
Housing Market Index	↑
Home Sales	↓
Home Values	↑
RCI Buyer Traffic Index	↑

Note: The green arrow signifies an improvement, the red arrow signifies a worsening, and the blue equals sign signifies no change.

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of improvements, after falling in the second quarter of 2020 when the coronavirus pandemic began. At 55.9 points, the score remains below prepandemic levels.

The survey highlighted three key findings for the quarter.

- Sixty-two percent of small-business owners surveyed are comfortable with their cash flow in the current environment, with the score up 3.0 percentage points from last quarter. Comfort with cash flow is close across all small-business sectors (60% to 65%), and all are nearing or above their prepandemic readings in Q1 2020, which was 65% at that time.
- Fifty-nine percent of small-business owners rate the overall U.S. economy as poor, although the score did increase by nine percentage points from last quarter. Regional differences were highlighted as most regions' views of the U.S. economy declined, except in the West, which remained at 25%. The sharpest drop occurred in the Midwest, which was at 12% in this quarter's survey compared to 31% in the prior quarter.
- Almost half, or 49%, of small-business owners expect to retain their staff over the current year, and 32% expect to increase their staffing, compared to 14% who expect to decrease their staffing. Overall, more small businesses expect to increase staff in the coming year, but investment and revenue expectations hold mostly steady.

Middle-market business sentiment, as reported by the RSM U.S. Middle Market Business Index, rose by 4.1 points in April, to 132.1, which is its highest score since the onset of the pandemic. The report highlighted the optimism among middle-market businesses, with seven of the 10 questions in the survey about business conditions improving over the past month.

Total retail sales went unchanged in April, a month after rising 10.7%, which was their largest gain since May 2020. Despite remaining flat, the overall total, \$619.9 billion, indicates that the latest round of stimulus checks and the easing of restrictions on restaurants and bars have fueled increased demand. Over the past 12 months, retail sales are up 51.2%, although the figure dates back to the period covering the initial lockdowns caused by the onset of the coronavirus pandemic.

About the Analysis in this Report

A well-prepared business valuation contains a thorough and relevant economic section. Revenue Ruling 59-60 requires consideration of "the economic outlook in general and the condition and outlook of the specific industry in particular." Understanding the economic outlook is fundamental to developing reasonable expectations about a subject company's prospects. In any business valuation, the general economic outlook as of the appraisal date should be considered, since the national economic outlook is often the basis of how investors perceive alternative investment opportunities at any given time. Appraisers and analysts should integrate the information presented in the *Economic Outlook Update* with their valuation assignment and discuss how the economic information impacts their valuation assumptions and conclusions.

In this analysis, we examine the general economic climate that existed at the end of April 2021. This summary provides an overview of some selected economic factors that prevailed at that time as well as a discussion of the factors that are crucial over an extended period. Topics addressed include general economic conditions, gross domestic product, consumer prices and inflation rates, energy prices, interest rates, unemployment, consumer spending, the stock and bond markets, construction, manufacturing, real estate markets, and the future economic outlook.

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Five of the 13 retail sales categories saw an increase in April. Core retail sales decreased 0.8% in April but are up 37.6% over the past 12 months.

E-commerce retail sales increased by 7.7% in the first quarter of 2021, to \$215.0 billion, when compared to the fourth quarter of 2020. The increase in the first quarter came as additional coronavirus aid was provided during the quarter. Over the past 12 months, e-commerce sales are up 39.1%.

Nonfarm payrolls fell below expectations in April after adding 266,000 jobs to the economy, well below that of forecasts for 1 million jobs, according to a survey by the Dow Jones. The report also showed a downward revision to the figure from March, which reported 770,000 jobs added, 146,000 less than the figure originally reported.

As a result of the disappointing jobs figure, the unemployment rate worsened by 0.1 percentage point in April, to 6.1%, but has steadily improved since its peak one year ago. The U6 unemployment rate improved 0.3%, to 10.4%.

Initial claims for unemployment insurance decreased in the last week of April, by 603,000, after increasing the week before. The previous week's level was revised upward by 15,000, from 4,427,000 to 4,442,000. The four-week moving average was 5,033,250, a decrease of 757,000 from the previous week's revised average. The previous week's average was revised upward by 3,750, from 5,786,500 to 5,790,250.

Wages increased 0.21 cents in April, to \$30.17. Real average hourly earnings, seasonally adjusted from April 2020 to April 2021, increased 0.10 cents, or nearly 0.003%.

The manufacturing sector declined in April, moving down 4.0 percentage points, as reflected in the Institute for Supply Management's manufacturing index (PMI). Despite the decline, the score in April, 60.7%, indicates an expansion in the manufacturing economy for the 11th consecutive month. A reading above 50% indicates that the manufacturing economy is generally expanding, while a reading below 50% indicates that it is generally contracting. Over the past 12 months, the PMI has averaged 56.9%.

In April, the Institute for Supply Management's Services PMI index, formerly referred to as NMI, decreased 1.0 percentage point, to 62.7%. Survey respondents noted that the lifting of coronavirus pandemic-related restrictions has released pent-up demand for many of their respective companies' services. Still, however, production-capacity constraints, material shortages, weather, and challenges in logistics and human resources continue to cause supply-chain disruption. An index reading above 50% indicates the nonmanufacturing-sector economy is generally expanding, while a reading below 50% indicates the nonmanufacturing sector is generally contracting. Over the past 12 months, the Services PMI has averaged 57.0%.

Assurance from the Federal Reserve about "do everything we can to support the economy for as long as it takes to complete the recovery" lifted all the major stock markets indexes to gains in April. The statement by the Fed helped ease inflation concerns, leading to a rise in the Dow Jones Industrial Average of 2.8%. The S&P 500 Index recorded its best monthly gain since November 2020, 5.3%, while the Nasdaq Composite rose by 5.4%. Smaller stocks saw gains as well, with the Russell MidCap climbing 5.1% and the Russell 2000 moving up 2.1%. In April, volatility subdued, producing a range of 15.4 to 19.9, for an average of 17.4.

Consumer prices, as measured by the Consumer Price Index, rose 0.8% in April after rising 0.6% in March. Over the past year, CPI has risen 4.2%, its largest annual increase since September 2008. Chained CPI increased 0.8% in April and follows a rise of 0.7% in March. Over the past 12 months, the figure is 4.1% higher. Core CPI, which excludes energy and food prices, increased 0.9% in April, after rising 0.3% in March. Core CPI is up 3.0% over the past 12 months, which is its largest annual gain since 1981.

In April, producer prices increased 0.6%, after an increase in March of 1.0%. Over the past year, PPI has increased 6.2%, the largest annual increase since the inception of the index. Economists polled in a survey by FactSet had forecasted a monthly rise of 0.3% and an annual rise of 3.8%. It is expected that larger year-over-year gains will be seen in the months ahead, marking the start of higher inflation as the economy reopens amid an improved public health environment and massive government aid. Core PPI, which excludes highly volatile food and energy prices, rose 1.0% in April and is up 4.6% over the past 12 months, which is the biggest rise since 2014.

Residential construction slumped in April after rebounding in March but has overall slumped through the early months in 2021. Housing starts staggered 9.5%, producing a seasonally adjusted rate of 1.569 million units, compared to the 1.733 million units in March. Still, however, the figure is 67.3% higher than the 0.938 million units from one year ago. The monthly decline came as rising lumber and other material prices affected the housing industry, to which economists say that the lack of homes available for purchase is beginning to slow the market. On the month, two of the four regions gained, with the West moving up 9.0%. The number of building permits authorized, which measures how much construction is in the pipeline, rose 0.3% in April. On a year-over-year basis, however, the figure is up 60.9%. The adjusted annual rate was 1.76 million. The number of building permits authorized fell 3.8% for single-family homes but rose by 11.1% for multifamily homes when compared to one month ago.

Existing-home sales continued their slump in the early months of 2021, declining for the third consecutive month after a decline of 2.7% in April. Still, despite the decline, on a year-over-year basis, existing home sales remain 33.9% higher, although the timing coincides with the initial lockdown of the U.S. economy due to the outbreak of the coronavirus pandemic. The report noted that, despite the drop in sales for April, the market is still outperforming pre-pandemic levels, as evidenced by home sales from this January to April, which are up 20% compared to 2020. The number of distressed home sales was less than 1.0% of sales in April, which is unchanged from March but down from 3.0% from one year ago. In April, the NAHB/Wells Fargo Housing Marking Index moved up 1.0 point, to 83.0. The three HMI components were mixed in April, with the component measuring current sales conditions rising 1.0 point, to 88.0; the component gauging sales conditions over the next six months falling 2.0 points, to 81.0; and the component that measures buyer traffic moving up 3.0 points, to 75.0.

The National Association of Realtors' most recent "Commercial Market Insights," which analyzed the commercial real estate market in the first quarter of 2021, found that sales volume fell by 58% in the first quarter when compared to one year ago. Commercial real estate prices continue to firm up, but valuations were broadly down by 6% from one year ago.

INDEX OF LEADING INDICATORS

The Conference Board's Leading Economic Index (LEI) increased 1.6% in April, to 113.3 points. The strong performance to start the second quarter, as well as the continued rise in recent months, suggests the economy will continue to expand at an accelerated pace in the near term. The index received positive contributions from most of its components resulting in the strengths among the leading indicators remaining widespread. In the six-month period ending April 2021, the U.S. LEI has increased at a rate of 4.7% (about a 9.6% annual rate), slower than the accelerated growth of 11.8% (about a 24.9% annual rate) in the previous six months.

EXHIBIT 1: Historical Economic Data 2008-2020 and Forecasts 2021-2031

	Historical Data (2008-2020)													Consensus Forecasts**						2027-2031
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	
Real GDP*	-0.1	-2.5	2.6	1.6	2.2	1.8	2.5	3.1	1.7	2.3	3.0	2.2	-3.5	6.2	4.1	2.5	2.1	2.0	2.0	2.0
Industrial production*	-3.6	-11.5	5.5	2.9	2.8	2.0	3.1	-1.0	-2.0	2.3	3.9	0.9	-6.7	6.4	4.0	2.5	2.0	1.8	1.8	1.9
Consumer spending*	-0.2	-1.3	1.7	1.9	1.5	1.5	3.0	3.8	2.8	2.6	2.7	2.4	-3.9	7.1	4.4	2.6	2.2	2.1	2.1	2.1
Real disposable personal income*	1.5	-0.4	1.0	2.5	3.1	-1.4	4.0	4.1	1.8	3.1	3.6	2.2	5.8	3.0	-1.2	2.4	2.1	2.1	2.1	2.1
Business investment*	0.6	-14.5	4.5	8.7	9.5	4.1	6.9	1.8	0.7	3.7	6.9	2.9	-4.0	7.5	5.9	4.7	3.5	3.2	3.2	3.1
Nominal pretax corp. profits*	-16.0	8.4	25.0	4.0	10.0	1.7	5.4	-2.8	-2.4	4.5	6.1	0.3	-5.8	13.4	5.7	5.2	4.4	4.2	4.2	4.5
Total government spending*	2.5	3.5	0.0	-3.1	-2.1	-2.4	-0.9	1.8	1.8	0.9	1.8	2.3	1.1	1.2	1.7	NA	NA	NA	NA	NA
Consumer price inflation*	3.8	-0.4	1.6	3.2	2.1	1.5	1.6	0.1	1.3	2.1	2.4	1.8	1.2	2.6	2.3	2.2	2.2	2.2	2.2	2.1
Core PCE*	NA	NA	NA	NA	NA	NA	1.6	1.2	1.6	1.6	2.0	1.6	1.4	1.9	2.1	NA	NA	NA	NA	NA
3-month Treasury bill rate	1.40	0.15	0.14	0.05	0.09	0.06	0.03	0.20	0.50	1.40	2.40	1.50	0.10	0.1	0.2	0.4	0.9	1.3	1.3	1.7
10-year Treasury bond yield	3.66	3.26	3.22	2.78	1.80	2.35	2.54	2.20	2.45	2.80	2.70	1.90	0.90	1.9	2.2	1.8	2.1	2.4	2.4	2.7
Unemployment rate	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.9	4.4	3.9	3.7	8.1	5.4	4.2	NA	NA	NA	NA	NA
Housing starts (millions)	0.906	0.554	0.587	0.609	0.781	0.925	1.003	1.112	1.174	1.203	1.250	1.300	1.400	1.540	1.540	NA	NA	NA	NA	NA

Source of historical data: U.S. Department of Commerce, U.S. Department of Labor, U.S. Census Bureau and The Federal Reserve Board.

Source of forecasts: *Consensus Forecasts - USA*, April 2021.

Notes:

*Numbers are based on percent change from preceding period.

Historic consumer price inflation, unemployment rate, 3-month Treasury rate, and 10-year Treasury yield are the annual averages.

**Forecast numbers are based on percent change from preceding period (excludes unemployment rate, housing starts, 3-month Treasury rate, and 10-year Treasury yield). Consumer price inflation information is annual averages. The 2021 through 2026 forecasts for the 3-month Treasury rate and 10-year Treasury yield are for the end of each period. Forecasts for 2027-2031 signify the average for that period.

Consumer spending, also known as personal consumption expenditures, includes spending on services, durable, and nondurable goods. Business investment is also referred to as nonresidential fixed investment. Total government spending includes federal, state, and local government spending.

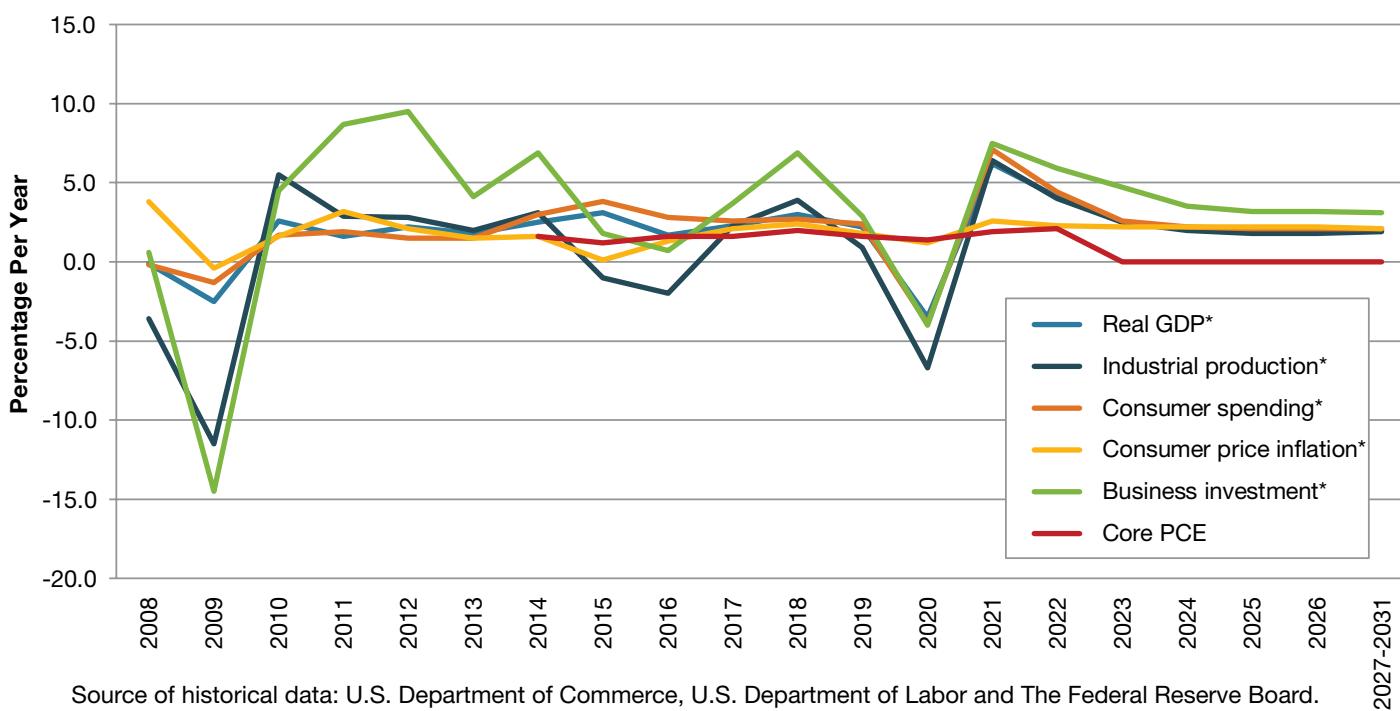
Every month, Consensus Economics surveys a panel of 30 prominent United States economic and financial forecasters for their predictions on a range of variables including future growth, inflation, current account and budget balances, and interest rates.

The board's coincident index, designed to reflect current economic conditions, increased 0.3% in April, to 104.1, and the lagging index increased 1.8%, to 104.7.

The LEI is a leading American economic indicator intended to forecast future activity. The Conference Board, a nongovernmental organization, calculates the index from the values of 10 key variables:

- Average weekly hours, manufacturing;
- Average weekly initial claims for unemployment insurance;
- Manufacturers' new orders, consumer goods and materials;
- Institute for Supply Management's Index of New Orders;
- Manufacturers' new orders, nondefense capital goods excluding aircraft orders;
- Building permits, new private housing units;
- Stock prices, 500 common stocks;
- Leading Credit Index;
- Interest rate spread, 10-year Treasury bonds less federal funds; and
- Average consumer expectations for business conditions.

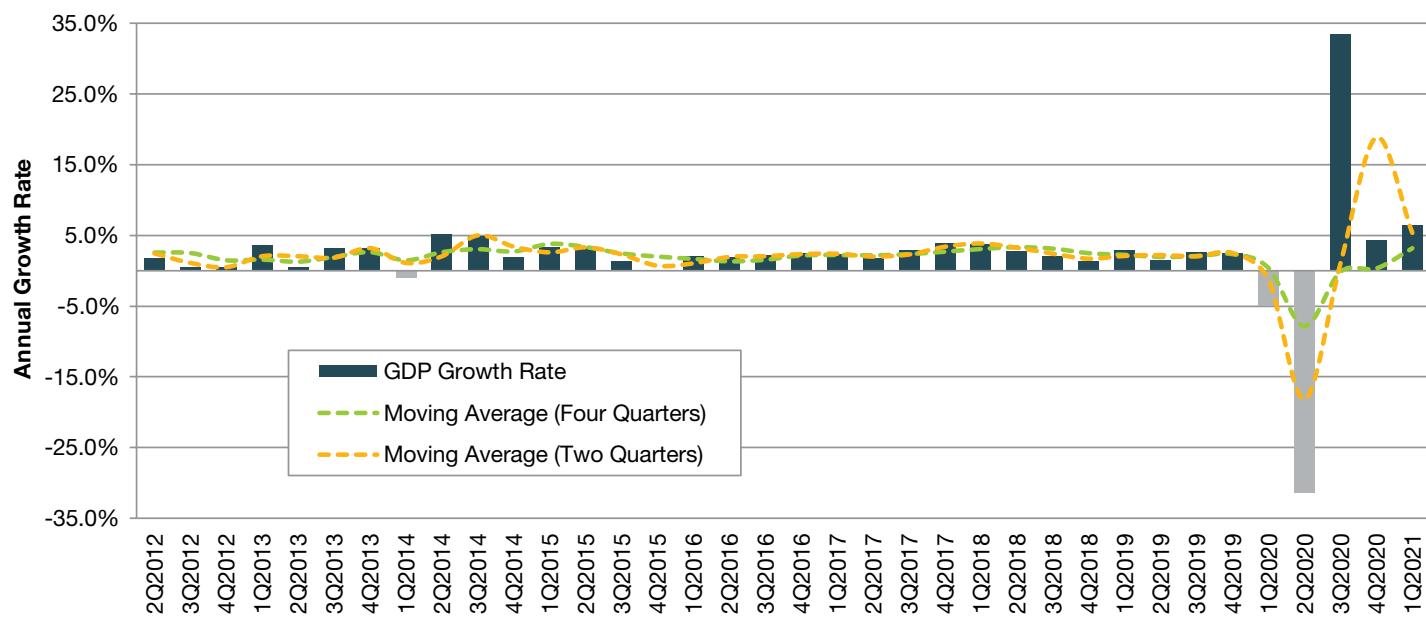
EXHIBIT 2: Key Economic Variables Actual 2008-2020 and Forecast 2021-2031



Source of historical data: U.S. Department of Commerce, U.S. Department of Labor and The Federal Reserve Board.
 Source of forecasts: Consensus Forecasts.

*Numbers are based on percent change from preceding period. Consumer price inflation information is annual averages.

EXHIBIT 3A: Real Gross Domestic Product and Moving Averages



Source of data: U.S. Department of Commerce.

Note: Figures are seasonally adjusted at annual rates. As the U.S. Department of Commerce issues revised data, some historically reported figures may change.

EXHIBIT 3B: GDP Components—Contribution to GDP Rate

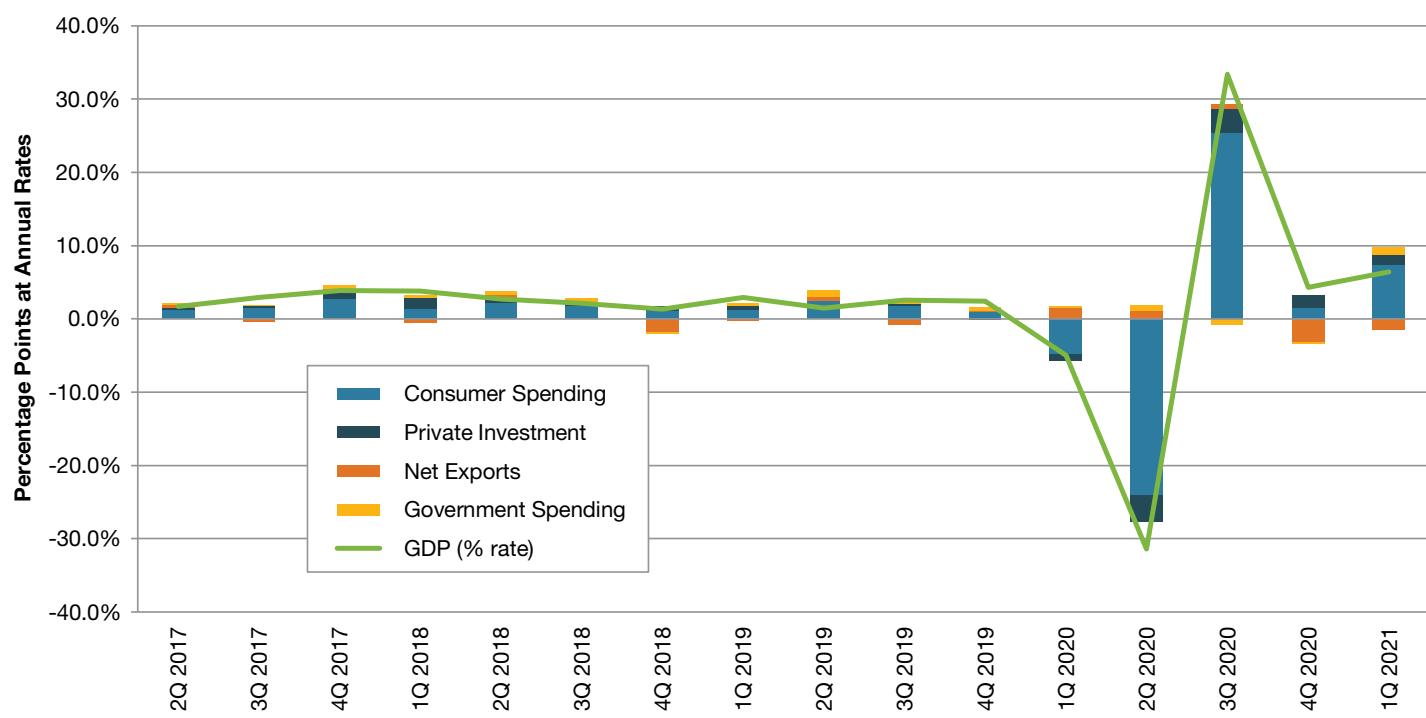
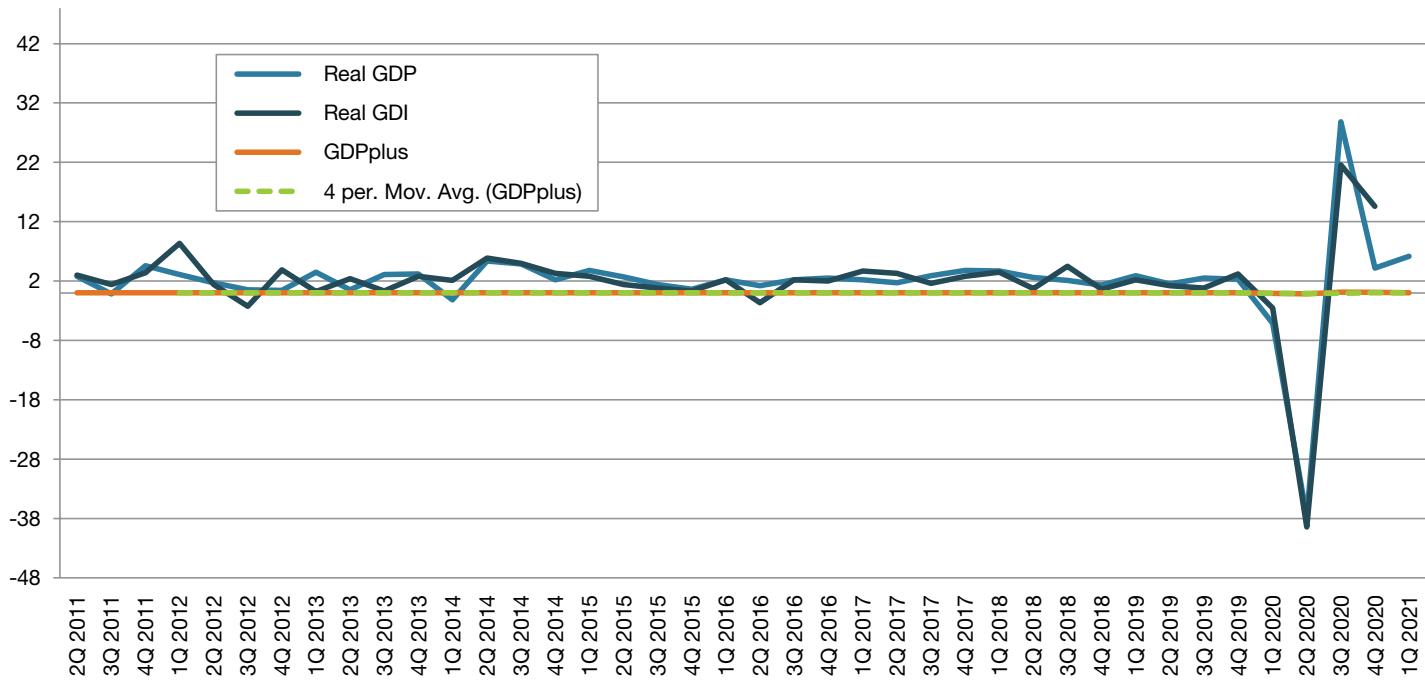


EXHIBIT 3C: GDPplus



Source of data: Federal Reserve Bank of Philadelphia.

The data measure the quarter-over-quarter growth rate in continuously compounded annualized percentage points. Shaded areas indicate NBER recessions.

CHICAGO FED NATIONAL ACTIVITY INDEX

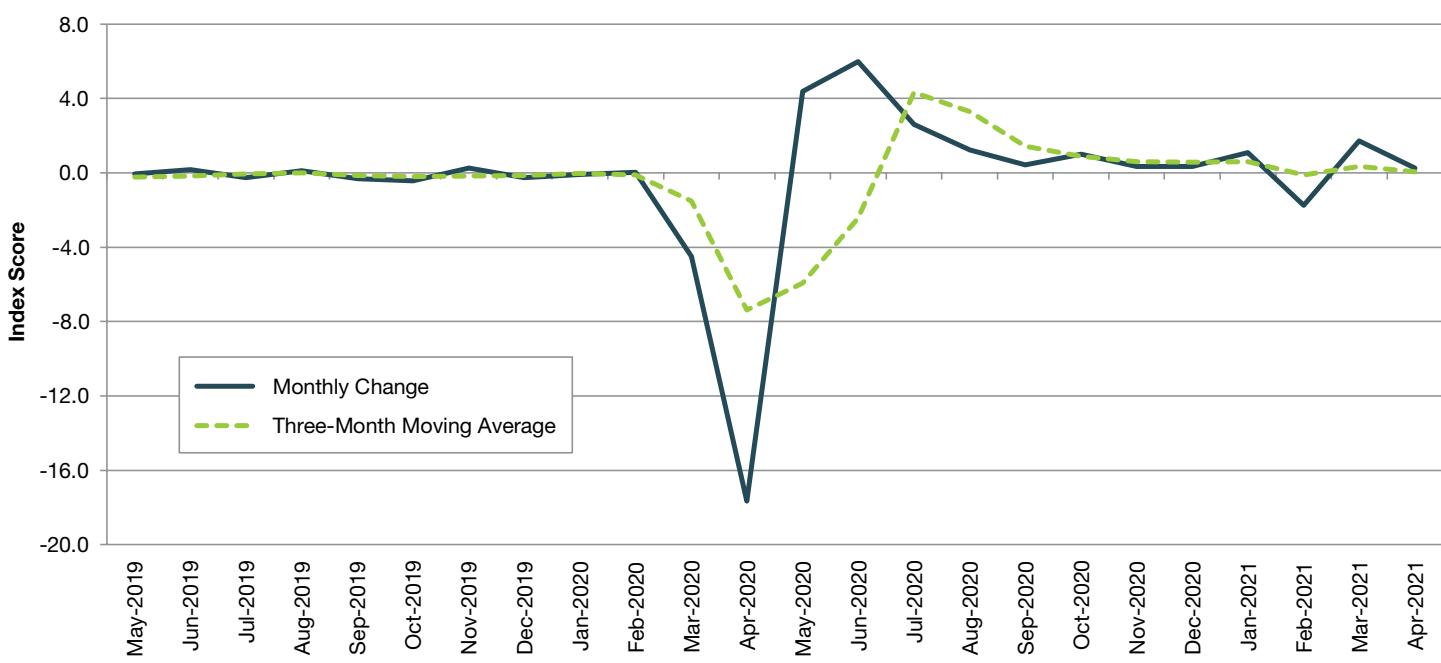
The Chicago Fed's National Activity Index (CFNAI) indicates that the economy worsened in April following a sizable decline in the index from +1.71 to +0.24. The score received positive contributions from three of the four broad categories of indicators used to construct the index, but three of the four categories decreased from their levels in March.

The CFNAI Diffusion Index, which is also a three-month moving average, moved down to +0.22 in April from +0.32 in March. Forty-seven of the 85 individual indicators made positive contributions to the CFNAI in April, while 38 made negative contributions. Twenty-four indicators improved from March to April, while 60 indicators deteriorated and one was unchanged. Of the indicators that improved, 10 made negative contributions.

Production-related indicators contributed 0.18 to the CFNAI in April, moving down from 0.92 in March. Industrial production moved up 0.7% in April after increasing 2.4% in March, and manufacturing production increased 0.4% in April after rising 3.1% in the previous month. The contribution of the sales, orders, and inventories category to the CFNAI moved up to +0.07 in April from -0.09 in March.

The personal consumption and housing category contributed -0.06 to the CFNAI in April, down from +0.50 in March. The indicators in this category broadly deteriorated from March. The contribution of the employment, unemployment, and hours category to the CFNAI decreased to +0.05 in April from +0.38 in March. Nonfarm payrolls increased by 266,000 in April after rising by 770,000 in March, and the unemployment rate increased by 0.1 percentage points in April after decreasing by 0.2 percentage points in the previous month.

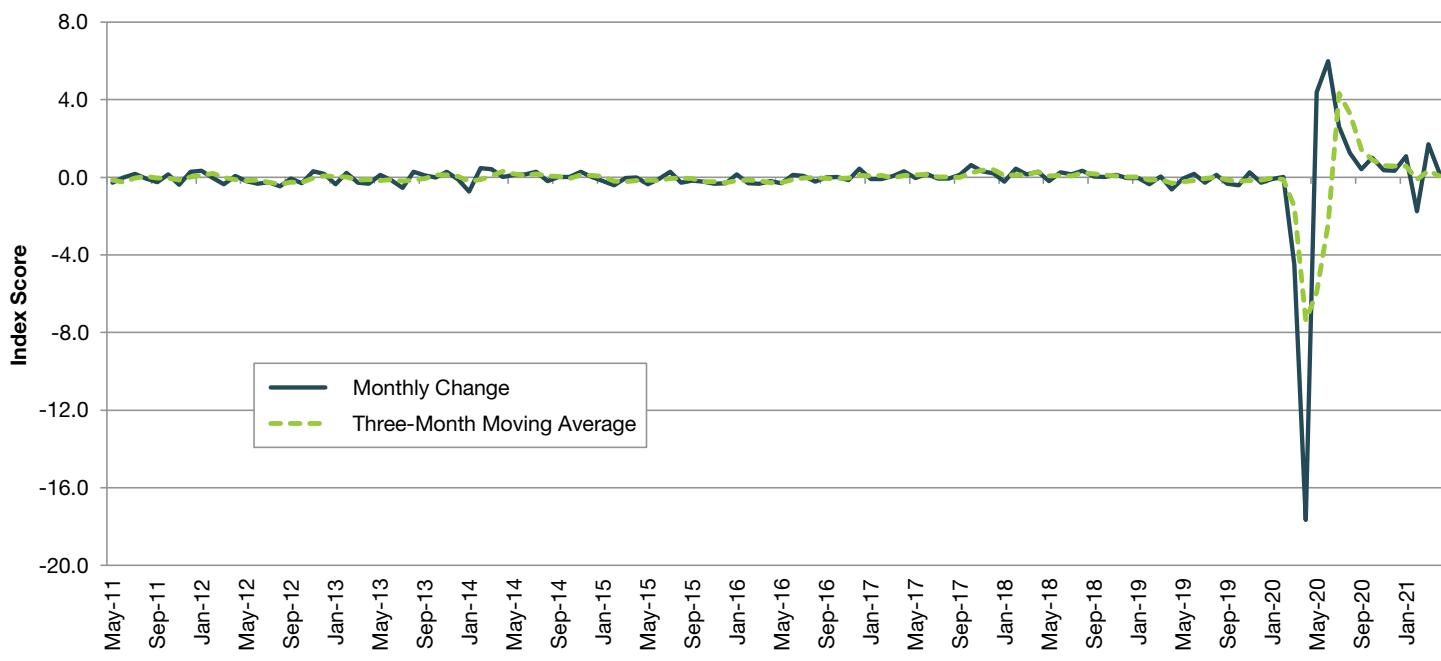
EXHIBIT 4A: National Activity Index—Past 24 Months



The CFNAI was constructed using data available as of May 20, 2021. At that time, April data for 51 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

The National Activity Index is designed to gauge overall economic activity and related inflationary pressure and includes 85 economic indicators that are drawn from four broad categories of data: production and income; employment, unemployment, and hours; personal consumption and housing; and sales, orders, and inventories. Each of these data series measures some aspect of overall macroeconomic activity. The derived index provides a single, summary measure of a factor common to these national economic data. In the history of the data series, the lowest score, -17.66, was recorded in April 2020 and the highest score, 5.99, was recorded in June 2020.

EXHIBIT 4B: National Activity Index—Monthly Change for the Last 10 Years



CONSUMER CONFIDENCE, CONSUMER SENTIMENT, AND SMALL-BUSINESS OPTIMISM

CONSUMER CONFIDENCE

The Consumer Confidence Index followed a strong performance in March with another substantial rise in April, moving up 12.7 points, to 121.7 points. Following the rise, the score stands at its highest reading since prior to the pandemic. The report noted that the recovery in consumer confidence is set to continue in the coming months, buoyed by the combination of improving health conditions and wider vaccine distribution.

The Conference Board's Present Situation Index bettered the rise from the main index in April, moving up 29.5 points, to 139.6 points. The index measures consumers' confidence in the present and near-term future economy. The percentage saying business conditions are "good" increased, from 18.3% to 23.3%, while the percentage of those saying business conditions are "bad" decreased, from 30.1% to 24.8%. Consumers' assessment of the labor market also improved in April, as the percentage of consumers stating jobs are "plentiful" rose, from 26.5% to 37.9%, while the percentage of those claiming jobs are "hard to get" fell, from 18.5% to 13.2%.

Consumers were also more optimistic about the short-term outlook in April, as the Expectations Index increased 1.5 points, to 109.8. The survey results showed the percentage of consumers expecting business conditions to improve over the next six months increased, from 40.3% to 40.5%, while those expecting business conditions to worsen remained unchanged, at 11.9%. Consumers' outlook for the labor market was slightly less upbeat, as the percentage of those expecting more jobs in the months ahead decreased, from 35.9% to 34.5%, while those expecting fewer jobs in the months ahead increased, from 14.4% to 15.5%. The percentage of consumers expecting an improvement in their incomes improved, from 15.4% to 17.9%, and the percentage expecting a decrease fell, from 12.6% to 10.9%.

The Consumer Confidence Index is an indicator designed to measure the degree of optimism about the state of the economy that consumers express through their savings and spending. A decreasing month-over-month trend in the Consumer Confidence Index suggests that consumers have a negative outlook about their ability to secure and retain good jobs, whereas a rising trend in consumer confidence indicates improvements in consumer buying patterns. Opinions on current conditions make up 40% of the index (the Present Situation Index), while expectations of future conditions comprise the remaining 60% (the Expectations Index).

CONSUMER SENTIMENT

The Thomson Reuters/University of Michigan's Consumer Sentiment Index improved in April, climbing 4.0 points, to 88.3 points. Following the rise in April, the score now stands at its highest level in the past year.

The reading also came in higher than its midmonth preliminary reading, 86.5, which was below forecasts for a score of 89.6. The rise in April is attributed to an all-time record number of consumers expecting a decline in the unemployment rate during the year ahead, with the report further noting that, if a booming economy resulted in higher inflation, consumer optimism would not diminish since consumers have already anticipated a temporary increase.

The Index of Consumer Expectations increased 3.8 points in April, to 82.7, and is 18.0 points higher than it was one year ago. The Index of Consumer Expectations focuses on three areas: how consumers view prospects for

their own financial situation, how they view prospects for the general economy over the near term, and their view of prospects for the economy over the long term.

The Current Economic Conditions component, which measures how consumers feel about the economy right now, rose 4.5 points in April, to 97.2 points, and is 30.8 percentage points higher than it was one year ago.

The Thomson Reuters/University of Michigan's Survey of Consumers is a rotating panel survey based on a nationally representative sample that gives each household in the contiguous U.S. an equal probability of being selected. Interviews are conducted by telephone throughout the month. The Index of Consumer Sentiment is composed of the Expectations Index and the Current Conditions Index and is intended to gauge how consumers feel the economic environment will change. The survey's Index of Consumer Expectations is an official component of the U.S. Leading Economic Index.

SMALL-BUSINESS OPTIMISM

The National Federation of Independent Business's (NFIB) Small Business Optimism Index increased 1.6 points in April, to 99.8 points. Following the rise, the index remained ahead of its 47-year average of 98 points, a sign that the small-business economy continues to rebound after a year of lockdowns from the coronavirus pandemic. In April, the NFIB uncertainty index decreased one point, to 80.

In April, seven of the 10 components that make up the Small Business Optimism Index increased, two declined, and one remained unchanged.

The component that measures the frequency of reports of positive profit trends improved eight points, to a net -7% reporting quarter-on-quarter profit improvement. This indicator of profitability is running at historically strong levels.

The report showed strong job growth in April. The report highlighted firms increasing employment by an average of 0.31 workers per firm over the past few months and has remained at or above 0.30 employees per firm since December 2020. Overall, 59% reported hiring or trying to hire in April, which is 3.0 percentage points higher than it was in March. Owners have plans to fill open positions, with a seasonally adjusted net 21% planning to create new jobs in the next three months, which is down 1.0 percentage point from March but 10.0 percentage points above its historical average. Finding qualified employees remains a problem, as 54% of owners reported few or no "qualified" applicants for the positions they were trying to fill in April, which is up 3.0 percentage points from March. Where there are open positions, labor quality remains a problem. Thirty-one percent of owners reported few qualified applicants for their open positions, and 23% reported none.

Down two points from March, 57% of owners reported capital outlays in the next six months. Of those making expenditures, 42% reported spending on new equipment, 25% acquired vehicles, and 15% improved or expanded facilities. Six percent of owners acquired new buildings or land for expansion, and 12% spent money on new fixtures and furniture. Twenty-seven percent of owners plan capital outlays in the next few months, which is seven percentage points higher than it was in March.

Seasonally adjusted, a net 3% of all owners reported higher nominal sales in the past three months, which is up 9.0 percentage points from March. The net percentage of owners expecting higher real sales volumes improved 1.0 percentage point, to 1%.

The net percentage of owners reporting inventory increases rose 3.0 percentage points, to a net 3%. Owners viewing current inventory stocks as “too low” increased 4.0 percentage points in April, at a net 7%. A net 5% of owners plan inventory investment in the coming months, which is up 1.0 percentage point from March.

The percentage of owners raising average selling prices increased 10 percentage points, to a net 36%, the highest percentage since April 1981. Price hikes were the most frequent in wholesale, evidenced by the rate for higher prices being 62% compared to the 3% rate for lower prices, and in retail, with 46% reporting higher prices compared to 6% reporting lower prices. Seasonally adjusted, a net 36% plan price hikes, the highest reading since July 2008.

A net 31% of owners reported raising compensation, which is up 3.0 percentage points from March, while a net 20% plan to do so in the coming months. Only 8% of owners cited labor costs as their top business problem, and 24% said that labor quality was their top business problem.

The frequency of reports of positive profit trends improved eight points, to a net -7% reporting quarter-on-quarter profit improvement. Among owners reporting lower profits, 39% blamed weaker sales, 16% cited the usual seasonal change, 14% cited a higher cost of materials, 6% cited labor costs, and 4% cited higher taxes or regulatory costs. For owners reporting higher profits, 62% credited sales volumes, 15% cited usual seasonal change, and 10% cited higher prices.

Only 2% of owners reported that all their borrowing needs were not satisfied, which is unchanged from March. Twenty-six percent reported all credit needs met, and 59% said they were not interested in a loan. A net 3% of owners reported their last loan was harder to get than in previous attempts. One percent reported that financing was their top business problem.

The Small Business Optimism Index is compiled from a survey of the NFIB's 350,000 members that is conducted each month. NFIB, founded in 1943, began conducting its survey quarterly in 1974, transitioning to a monthly survey in 1986. The index is a composite of 10 seasonally adjusted components based on questions about the following: plans to increase employment, plans to make capital outlays, plans to increase inventories, whether members expect the economy to improve, whether they expect real sales will be higher, current inventory, current job openings, expected credit conditions, whether now is a good time to expand, and earnings trends. Analysts watch the index because small businesses are responsible for most of the new job creation and the NFIB focuses on this sector of the economy.

MetLife and the U.S. Chamber of Commerce published their first-quarter 2021 Small Business Index, which improved 3.0 percentage points. The first-quarter index stands at 55.9%, which continues the trend of higher scores after the second-quarter 2020 score fell to 39.5%, when the coronavirus caused the index to spiral downward from a record 2020 first-quarter score. For the first quarter, the index reached a new high for the third consecutive quarter. Overall, the survey found that small-business owners view their own business health as good despite seeing a worsening economy. A majority also see the distribution of coronavirus vaccines as a positive step for the business climate but see six months to a year before the business climate returns to normal.

The first-quarter report highlighted five takeaways, with the first signaling that the outlook is looking more positive. The report indicated that, in this quarter, 62% of small-business owners were more comfortable with their cash flow than they were last quarter, when 59% said they were more comfortable. What's more, cash-flow comfort is close across all small-business sectors, at between 60% and 65%, and all sectors are near or above their prepandemic readings. In another potential positive sign, more small businesses are expecting to hire in the coming year, with 32% of small businesses planning to increase hiring over the next year, which is up 27% in the last quarter. Many

anticipate keeping staff levels steady, and almost half, 49%, of small businesses plan on retaining their current staff size over the next year.

The second takeaway was on the national and local economy. When asked whether the small-business climate was still on the mend and needing more help, a majority, 59%, rated the overall health of the U.S. economy as poor. For comparison, before the pandemic, only 12% of small businesses said the national economy was poor. That same downbeat assessment includes their local economies, with 43% of small businesses rating their local economy's overall health as poor.

When asked about their expectations for business conditions to improve, 59% of small-business owners predict that it will take six months to one year to get back to normal, despite the growing availability of vaccines that have become available. In addition, more small businesses envision operating indefinitely in the new business climate, with 45% of small businesses indicating that they can operate indefinitely without shutting down in the current environment.

The next takeaway indicated that minority-owned businesses are more concerned about the impact of the pandemic, with 86% of minority-owned small businesses expressing concern about the impact of the pandemic on their business's future. This includes an increased concern about employee mental health and businesses actively providing employees with resources to help them cope. Minority-owned small businesses are more likely to be concerned about employee mental health.

Lastly, most small businesses say the widening availability of vaccines is giving them hope about the future of their business and that they are likely to require their employees to get vaccinated. Fifty-four percent of small businesses say the availability of vaccines has made them feel more optimistic about their own business's future. Small-business owners also want the vaccine themselves. Overall, 70% of small-business owners say they are likely to get the COVID-19 vaccine as soon as it is made available to them. Just 28% say they are unlikely to do so.

The RSM U.S. Middle Market Business Index (MMBI) rose 4.1 points in April, to 132.1 points. The report noted that the index score is statistically significant at a 0.05% level with seven of the 10 questions in the survey about business conditions improving over the past month. The three other questions were either unchanged or declined.

The report stated that the undeniable strength in middle-market business conditions is best illustrated by the strong jump in current economic prospects over the past two months, from 34% of survey respondents indicating an improvement in overall economic conditions in February to 49% in April. This is matched by the increase to 47% of respondents noting an improvement in gross revenues and 48% in net earnings in the most recent quarter. Roughly half of respondents reported an increase in revenues and net earnings in the recent quarter, which is now just below the prepandemic 2019 average. However, the survey was taken from April 7 to April 28, just before the Colonial Pipeline shutdown disrupted gasoline distribution on the East Coast.

In April, 62% of survey respondents said that they intended to engage in productivity-enhancing capital expenditures over the next six months in contrast with the 35% who in April said they did so over the recent quarter.

Even more optimistically, when asked about the next six months, 74% of respondents expect an improved economy, 72% anticipate better revenues, and 71% expect rising net earnings. These responses underscore the noticeably improved condition of the American real economy through the first quarter of the year. Respondents expect that surging demand will, however, continue to constrain supply chains that remain impaired. That, in turn, is likely to continue to cause pricing pressures that are associated with the reopening of the economy. As a result, roughly

82% of respondents said they expect to pay more for the inputs used in their operations over the next six months, breaking the record set in last month's survey. In addition, 69% of respondents stated in April that they paid higher prices for goods this quarter compared to the previous quarter, with only 43% noting that they received prices downstream this quarter.

Employment in the middle-market economy remains muted, with only 39% of respondents indicating in April that they stepped up hiring in the recent quarter compared to the previous one, but, optimistically, 60% indicated that they intend to do so over the next six months. Compensation increases also remained restrained, with 39% in April noting they paid more for labor and 64% implying they will pay more to recruit and retain labor. This denotes that service-sector inflation, which is up 2.4% on a year-ago basis, will most likely rise as it traditionally does after emerging from economic downturns.

The RSM U.S. Middle Market Business Index (MMBI) is based on quarterly survey data RSM U.S. LLP and Nielsen N.V. collected and is developed in partnership with Moody's Analytics. The MMBI survey and data began in the first quarter of 2015, and the survey panel consists of 700 middle-market executives. An MMBI reading above 100 generally indicates that the middle market is expanding, and a reading below 100 generally indicates that the middle market is contracting.

EXHIBIT 5A: Consumer Confidence and Small Business Optimism—One Year

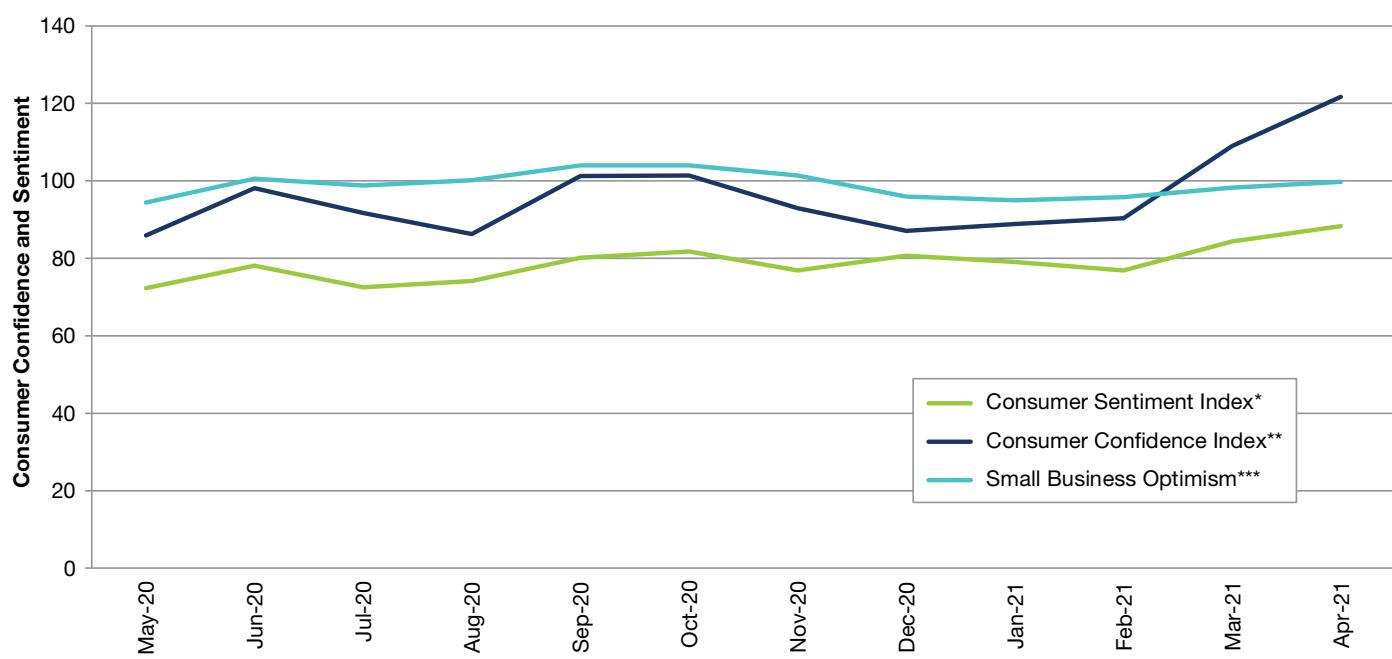
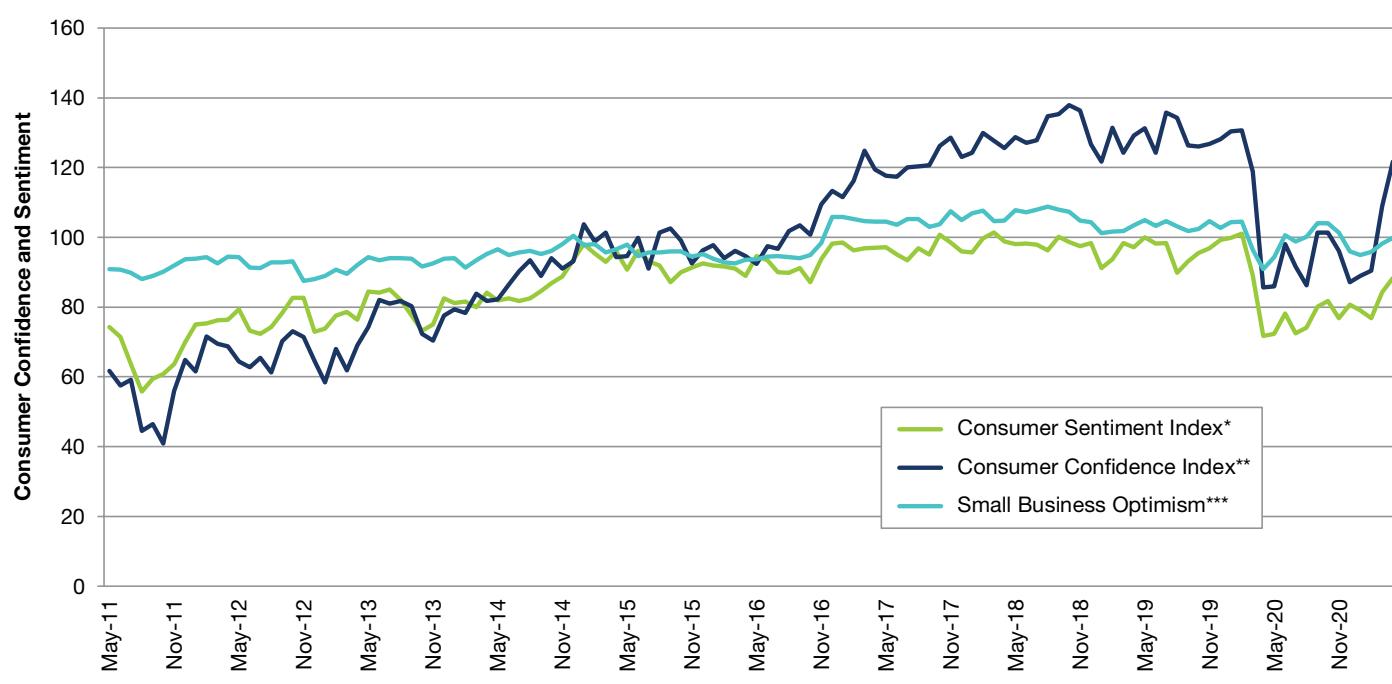


EXHIBIT 5B: Consumer Confidence and Small Business Optimism—10 Years



Sources of data: The Conference Board, Thomson Reuters/University of Michigan, National Federation of Independent Business, Wells Fargo, MetLife, U.S. Chamber of Commerce.

Notes:

* Thomson Reuters/University of Michigan Index of Consumer Sentiment

** The Conference Board Consumer Confidence Index®

*** National Federation of Independent Business Small Business Optimism Index

**** Wells Fargo/Gallup Small Business Index

***** MetLife and U.S. Chamber of Commerce Small Business Index

EXHIBIT 5C: MetLife and U.S. Chamber of Commerce Small Business Index—Prior 12 Quarters

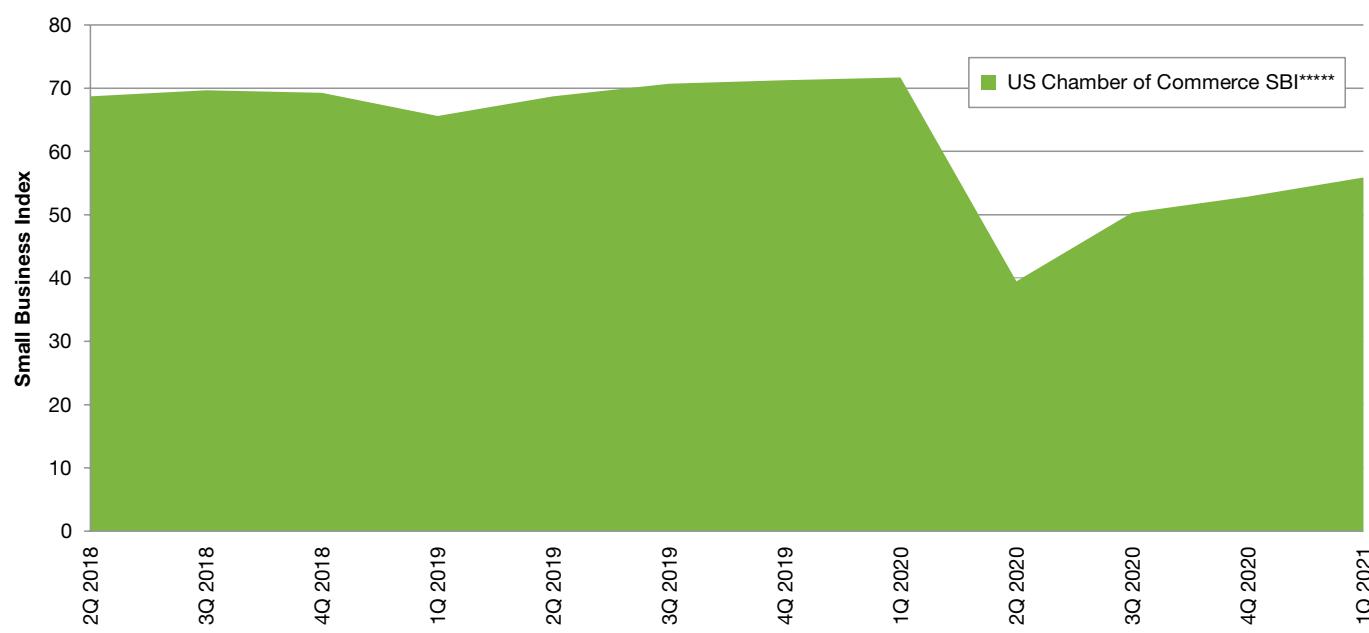
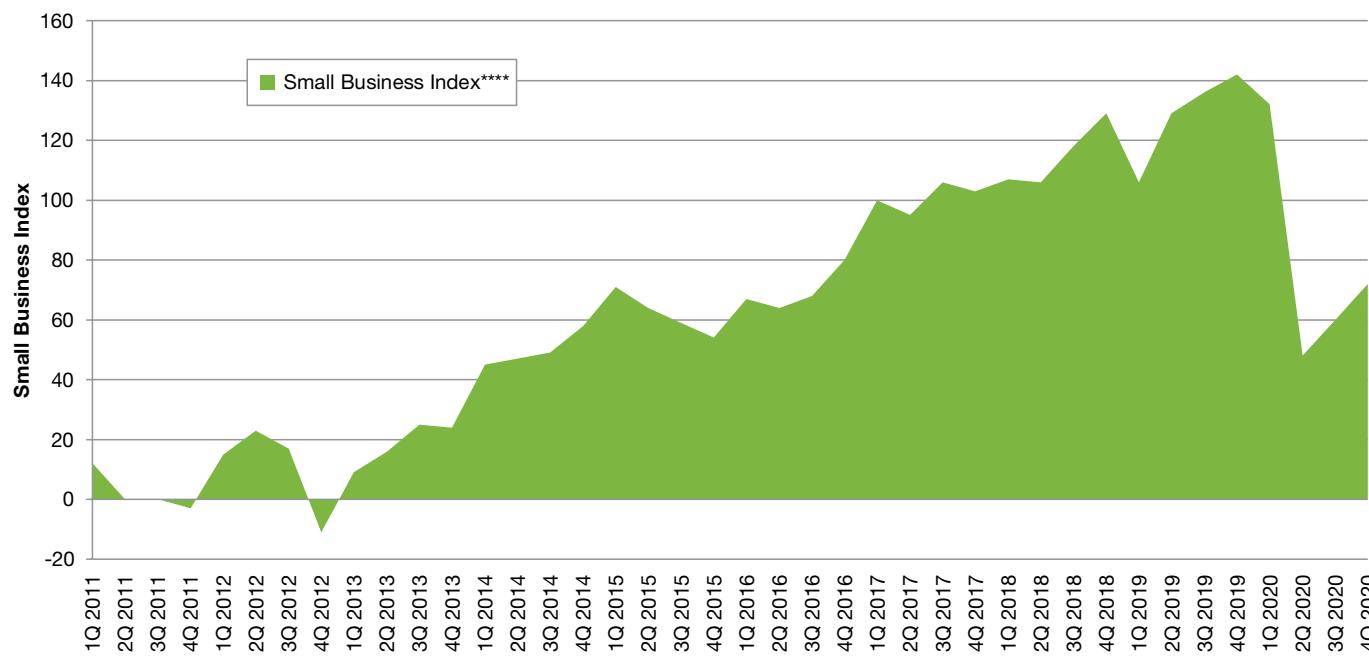


EXHIBIT 5D: Wells Fargo/Gallup Small Business Index—10 Years



Sources of data: The Conference Board, Thomson Reuters/University of Michigan, National Federation of Independent Business, Wells Fargo, MetLife, U.S. Chamber of Commerce.

Notes:

* Thomson Reuters/University of Michigan Index of Consumer Sentiment

** The Conference Board Consumer Confidence Index®

*** National Federation of Independent Business Small Business Optimism Index

**** Wells Fargo/Gallup Small Business Index

***** MetLife and U.S. Chamber of Commerce Small Business Index

U.S. RETAIL AND FOOD SERVICE SALES

U.S. retail and food services sales stagnated in April, a month after producing their largest monthly gain since May 2020. The aggregate total of \$619.9 million remains a strong figure, which was fueled by an additional round of stimulus aid as well as the easing of dining and entertainment venues. Economists view retail sales as a key economic indicator since consumer spending accounts for nearly two-thirds of the U.S. economy.

Five of the 13 major categories in the “Advance Monthly Retail Trade Report,” which highlights sales figures across most retail categories, had higher sales. Food services and drinking places rose 3.0%, while motor vehicle and parts dealers rose 2.9%.

Retail sales figures over the past 12 months increased 51.2%, although the figure is aided by the anniversary of the initial government-mandated lockdowns that forced the shutdown of all nonessential businesses. All 13 retail categories saw an increase in sales. Sales at clothing and clothing accessories stores grew 726.8%; furniture and home furnishing stores rose by 196.4%; sporting goods, hobby, and musical instruments stores rose by 155.0%; and motor vehicles and parts dealers rose 104.5%.

Core retail sales fell 0.8% in April. The core retail sales figure excludes sales of automobiles, gasoline, building materials, and food services and corresponds most closely with the consumer-spending component of gross domestic product. Over the past 12 months, core retail sales have risen 37.6%.

E-commerce retail sales fell modestly in the first quarter of 2021 when compared to the fourth quarter of 2020. Online sales were at \$215.0 billion in the first quarter, or roughly 7.7% higher than the \$199.7 billion reported in the fourth quarter of 2020. Over the past 12 months, e-commerce sales are up 39.1%.

As a percentage of overall retail sales, e-commerce retail sales in the first quarter totaled 13.6%, unchanged from the fourth quarter but higher than the rate of 11.4% from one year ago.

EXHIBIT 6A: Total Retail Sales—Past 24 Months

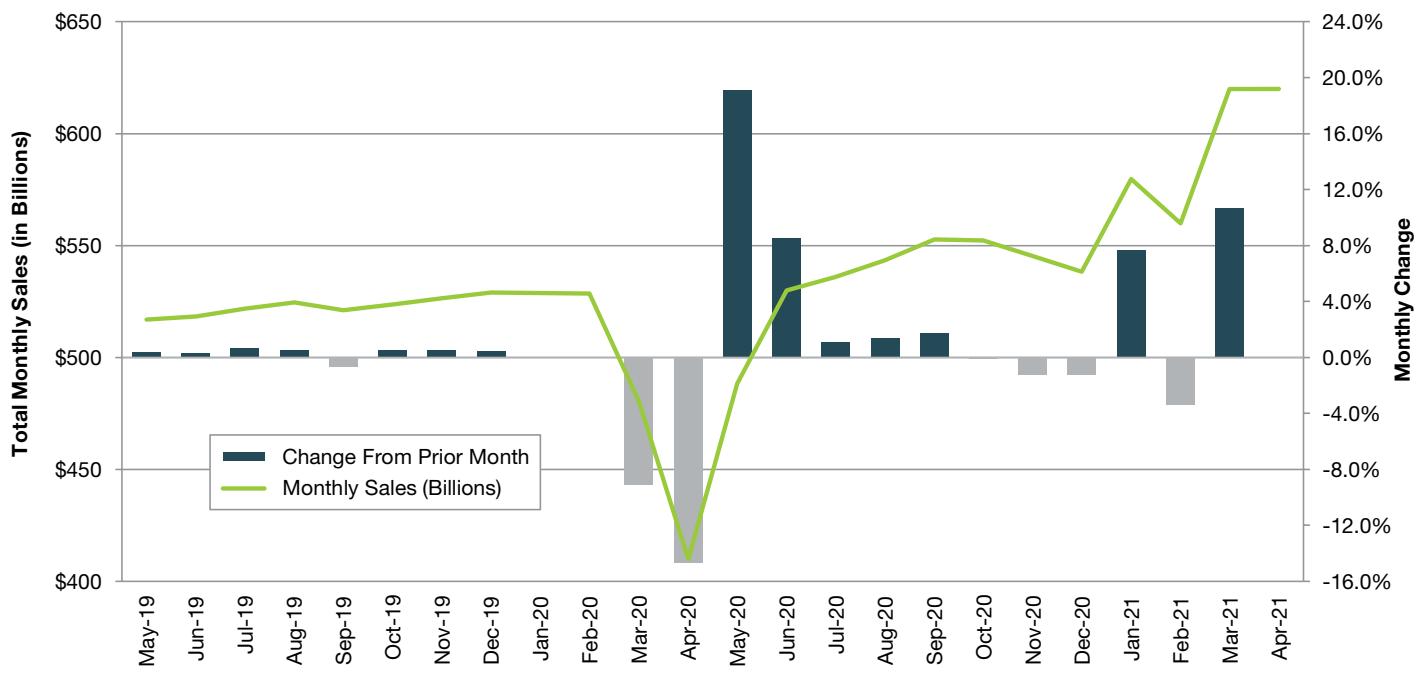
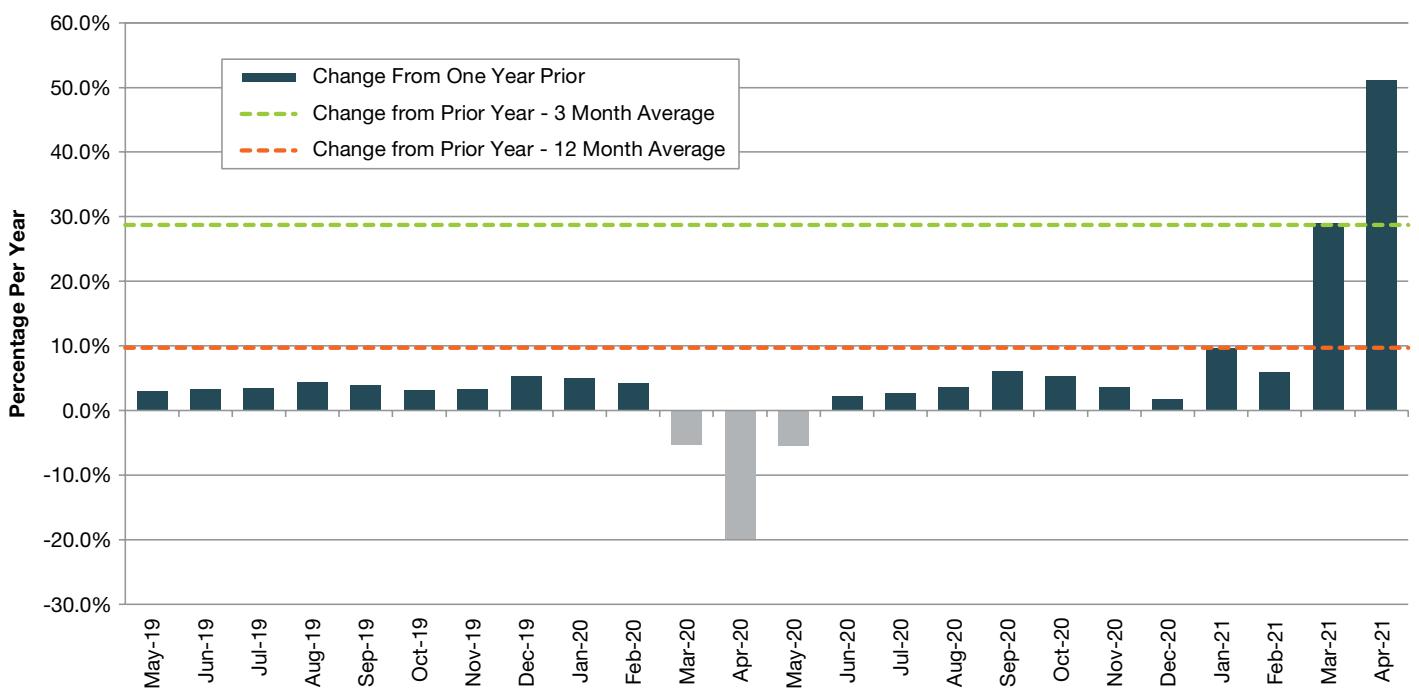


EXHIBIT 6B: Total Retail Sales Change From One Year Prior—Past 24 Months With Averages



Source of data: U.S. Department of Commerce.

Note: Monthly retail and food services sales are seasonally adjusted.

EXHIBIT 6C: Total Retail Sales—Monthly Change Since 2011

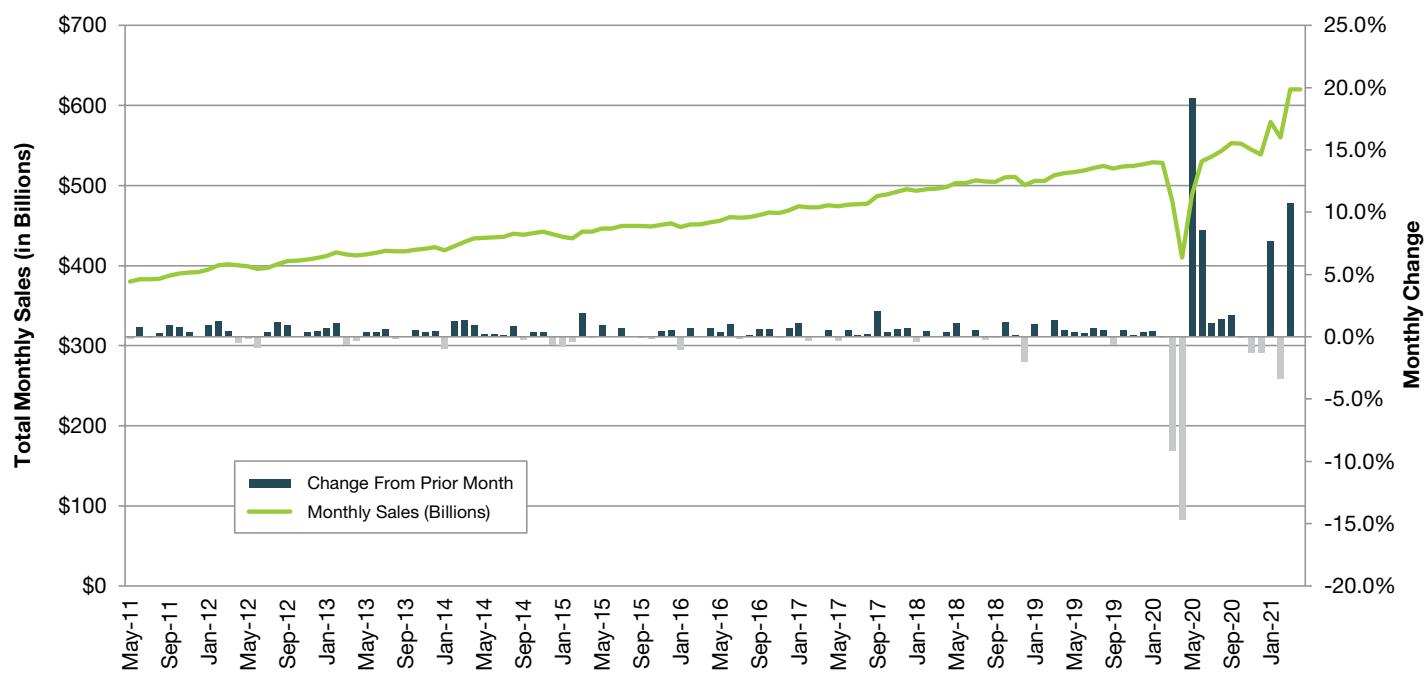
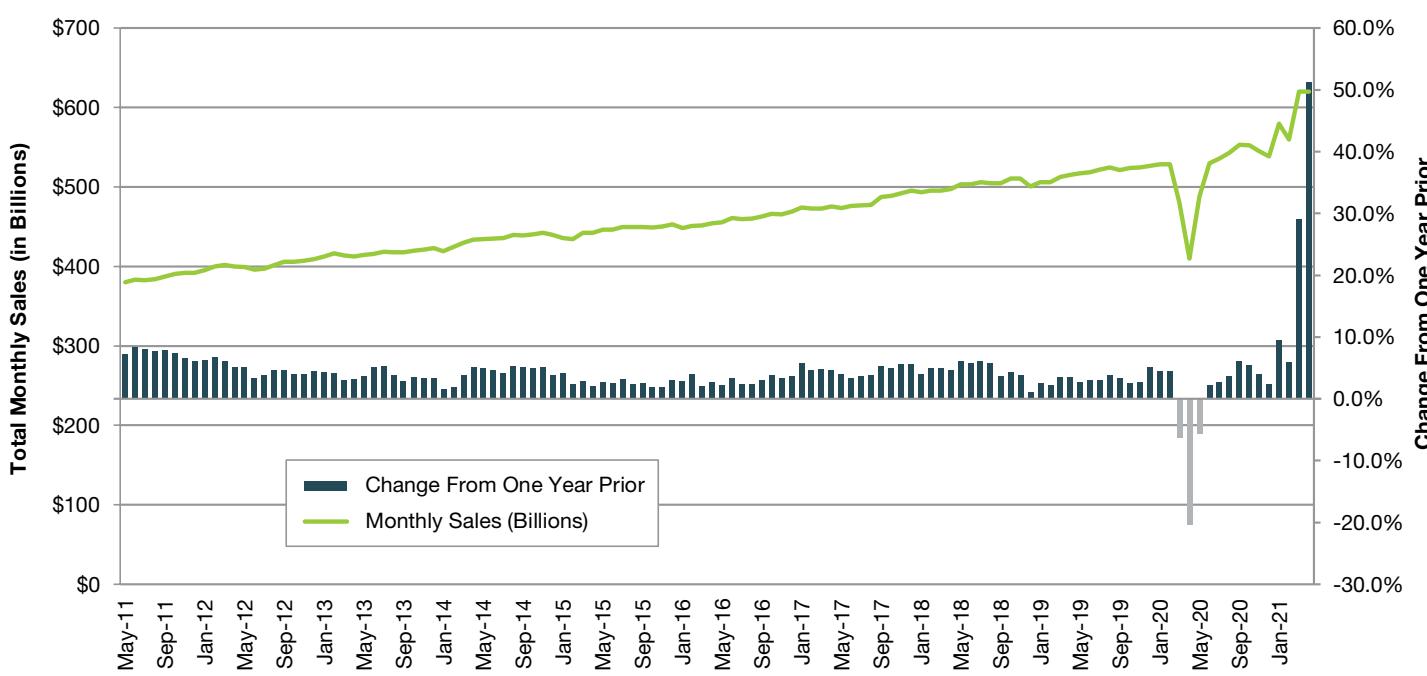


EXHIBIT 6D: Total Retail Sales—Percentage Change From One Year Prior Since 2011



Source of data: U.S. Department of Commerce.

Note: Monthly retail and food services sales are seasonally adjusted.

EXHIBIT 6E: E-Commerce Retail Sales 20 Quarters

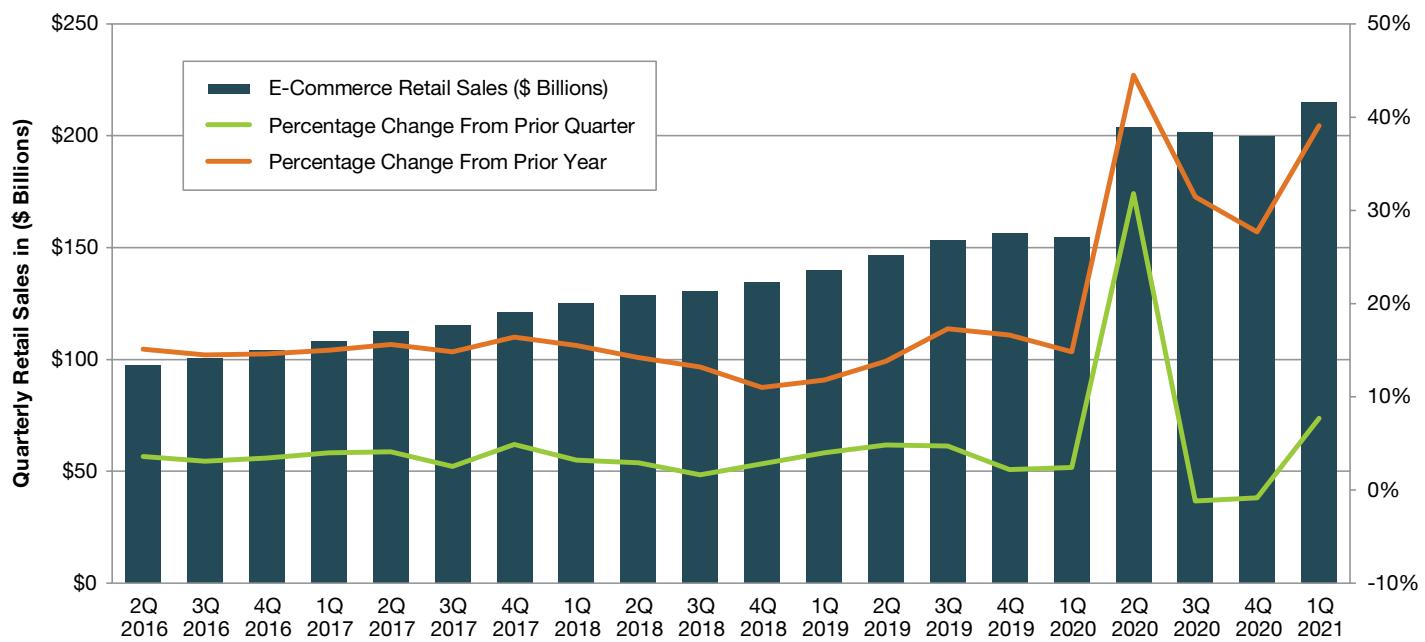
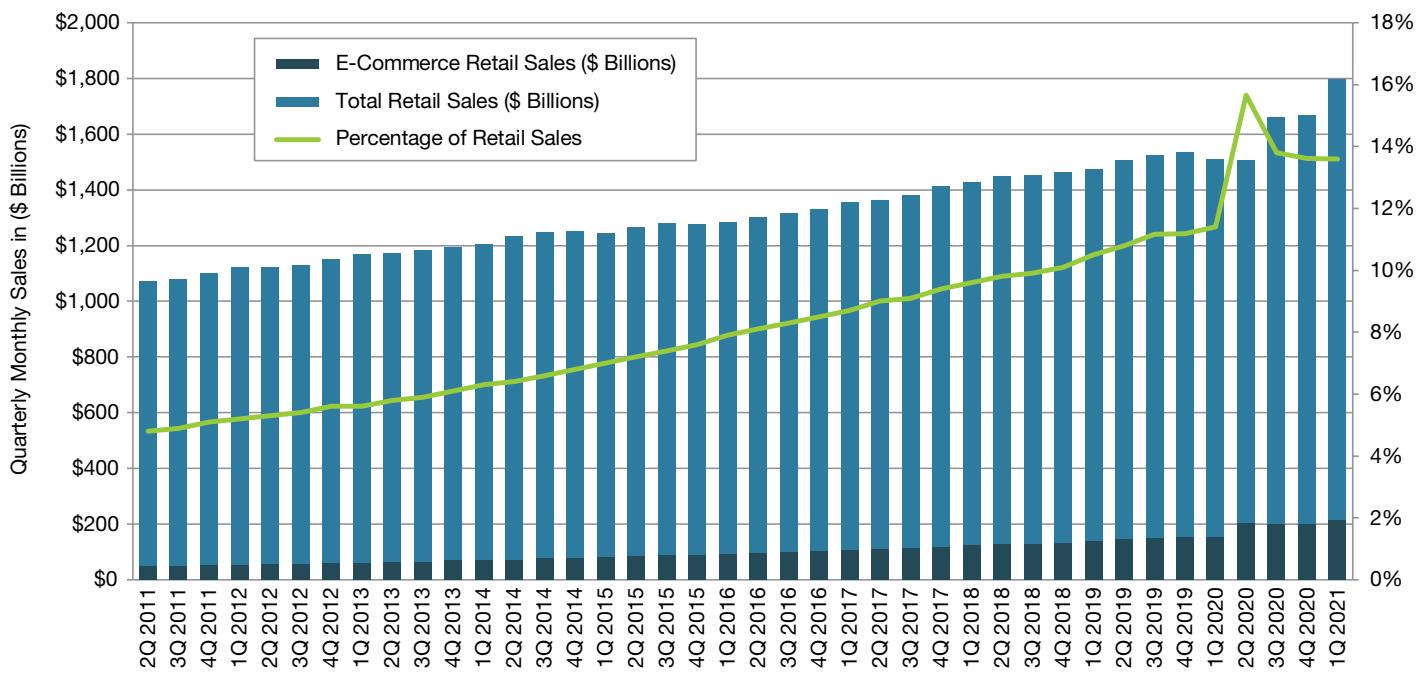


EXHIBIT 6F: E-Commerce Retail Sales Compared to Retail Sales 10 Years



Source of data: U.S. Department of Commerce.

U.S. EMPLOYMENT

UNEMPLOYMENT

Job growth disappointed in April after adding 266,000 jobs to the economy, which, despite being a solid figure overall, fell well short of expectations for gains of 1 million jobs, according to a poll by the Dow Jones. The report also showed revisions to the prior two months' figures, which showed 78,000 less jobs than originally reported, with the figure for March being revised downward, from 916,000 jobs to 770,000 jobs, and the figure for February being increased, from 468,000 jobs to 536,000 jobs.

In April, the share of employed persons who teleworked because of the coronavirus pandemic edged down, to 18.3% from 21.0% in March. These data refer to employed persons who teleworked or worked at home for pay at some point in the last four weeks specifically because of the pandemic. In April, 9.4 million persons, which is down from 11.4 million persons in March, reported that they had been unable to work because their employer closed or lost business due to the pandemic—that is, they did not work at all or worked fewer hours at some point in the last four weeks due to the pandemic.

Among those who reported in April that they were unable to work because of pandemic-related closures or lost business, 9.3% received at least some pay from their employer for the hours not worked, little changed from the previous month. Among those not in the labor force in April, 2.8 million persons were prevented from looking for work due to the pandemic. This measure is down from 3.7 million from March.

Employment in the leisure and hospitality sector gained 331,000 jobs in April, and, although 5.4 million jobs have been added to the sector over the year, the figure remains 2.8 million below the figure from February 2020. Employment in professional and business services added 66,000 jobs but is down 685,000 jobs from one year ago. Employment in the manufacturing sector gained 53,000 jobs, and employment in the transportation and warehousing industry increased 48,000 jobs.

Within professional and business services, employment in temporary help services declined by 111,000 in April and is 296,000 lower than in February 2020. Business support services lost 15,000 jobs in April, the transportation and warehousing sector fell by 77,000 jobs, and manufacturing employment edged down 18,000 jobs.

The report found that labor-force participation improved 0.2 percentage point in April, to 61.7%, but is 1.6 percentage points lower than its rate in February 2020. The employment-population ratio, which is the share of the working-age population with a job, increased 0.1 percentage point in April, to 57.9%, and is 0.5 percentage point higher than its rate in December 2020. The number of long-term unemployed (those jobless for 27 weeks or more) changed little in April, coming in at 4.2 million but is up 3.1 million from February 2020.

In April, the U3 unemployment rate rose 0.1 percentage point, to 6.1%, after improving 0.2 percentage point in March. This was the first increase in the unemployment rate since April 2020.

The broadest measure of labor underutilization, the U6 unemployment rate, improved 0.3 percentage point in April, to a seasonally adjusted 10.4%. The U6 unemployment rate has continually improved over the past six months after hitting 22.8% in April, which was the highest level on record since the data series began in 1994. U6 unemployment is broader than U3 and includes "marginally attached workers" and people who are looking for and want

full-time work but have settled for part-time employment. Marginally attached workers are people who are not actively looking for work but have indicated they want a job and have looked for work (without success) sometime in the past 12 months. This class also includes “discouraged workers,” those who have completely given up on finding a job because they feel they would be unable to do so.

In the jobs report published by ADP, private-sector employment increased by 742,000 jobs. The report showed broad gains across all businesses, with large-sized businesses adding 277,000 jobs, small businesses adding 230,000 jobs, and midsized businesses adding 235,000 jobs. The number of service-sector jobs rose by 636,000, and the number of goods-producing jobs increased by 106,000. Within the small-sized-business segment, the service sector saw gains of 221,000 and the goods-producing sector added 14,000 jobs.

The Biden administration published its American Jobs Plan, which outlined its plan for small businesses across the United States. Under the plan, the administration would:

- Increase federal contracting opportunities for small businesses;
- Launch a historic effort to empower small-business creation and expansion in underserved communities;
- Encourage small businesses, especially underserved small businesses, to fully engage in the innovation economy;
- Help minority-owned manufacturing businesses access capital;
- Create a new financing facility for small manufacturers;
- Increase access to billions of dollars of lending and investment capital; and
- Strengthen manufacturing supply chains and innovation ecosystems.

The report specifically noted the COVID-19 package that passed in March as a first step. However, the plan also includes a two-step plan of rescue and recovery to get through the crisis and to a better, stronger, and more secure America. The first step of the American Rescue Plan is to tackle the pandemic and get direct financial relief to Americans who need it the most. If passed, an analysis by Moody's estimates says that the American Rescue Plan would create 7.5 million jobs just in 2021. The Build Back Better Recovery Plan adds on further, looking to create more than 18 million jobs over a four-year period.

HOURLY EARNINGS AND WORKWEEK

Wages increased 0.21 cents in April, to \$30.17, and remain higher by \$0.10 cents, or 0.003%, over the past 12 months. Average hourly earnings for private-sector production and nonsupervisory employees increased 0.20 cents in April, to \$25.45. Over the last 12 months, average hourly earnings for private-sector production and non-supervisory employees have increased \$0.29 cents, or 1.2%.

The average workweek for all private workers increased 0.1 hour in April, to 35.0 hours, and is up 0.8 hour from one year ago. The manufacturing workweek remained unchanged in April, at 40.5 hours, and the number of manufacturing overtime hours remained unchanged, at 3.2 hours. The average workweek for production and nonsupervisory employees remained unchanged in April, at 34.4 hours.

Compensation costs for civilian workers for the three-month period ending March 2021, as measured by the Employment Cost Index, increased 0.9% as wages and salaries (which comprise 70% of compensation costs)

increased 1.0% and benefit costs (which make up the remaining 30%) increased 0.6%. Over the past 12 months, compensation costs for civilian workers increased 2.6%, which is 0.1 percentage point higher than the fourth-quarter reading and 0.2 percentage point higher than the figure from one year ago.

Compensation for private-industry workers increased 2.8% over the past year, which is unchanged from one year ago. Wages and salaries increased 3.0% for the 12-month period ending March 2021, while the costs of benefits increased 2.5% over the same period. Employer costs for healthcare benefits increased 2.1% for the 12-month period ending March 2021.

The Employment Cost Index is published quarterly by the Bureau of Labor Statistics and draws from a sample of 25,300 observations from 6,200 private businesses as well as 7,800 observations from 1,400 government offices.

EXHIBIT 7A: U.S. Employment—Past 24 Months

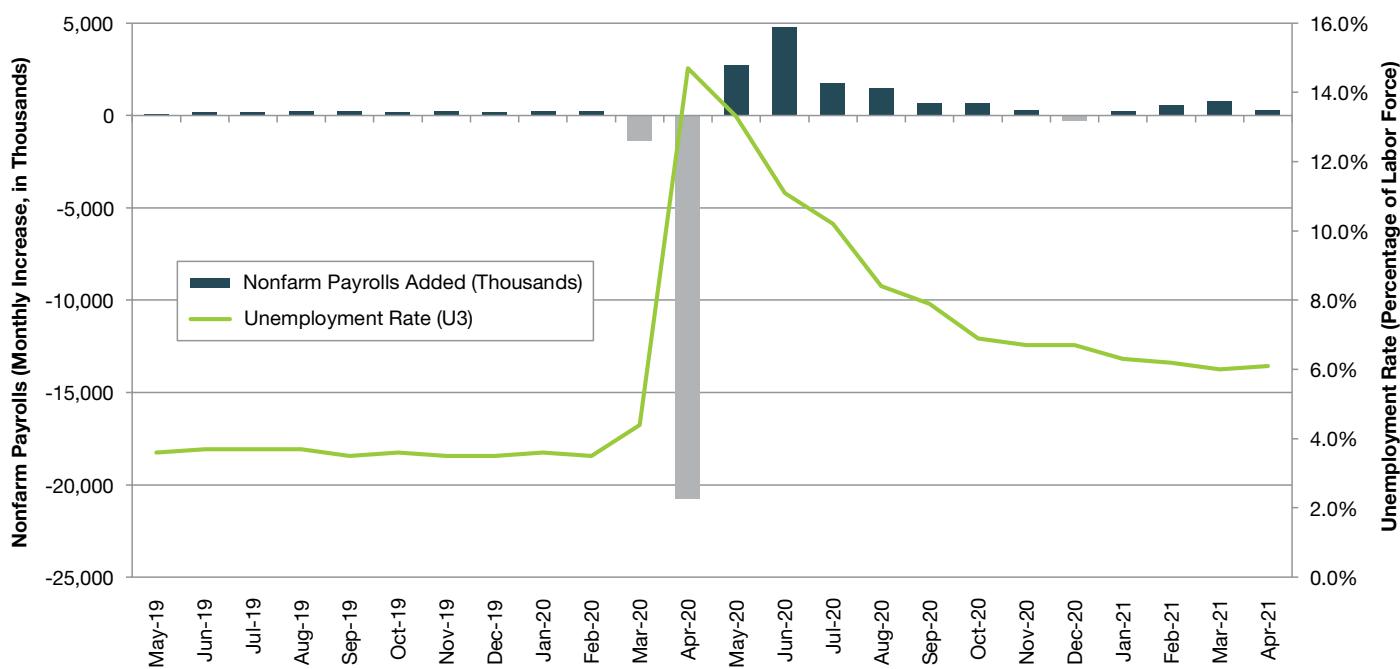
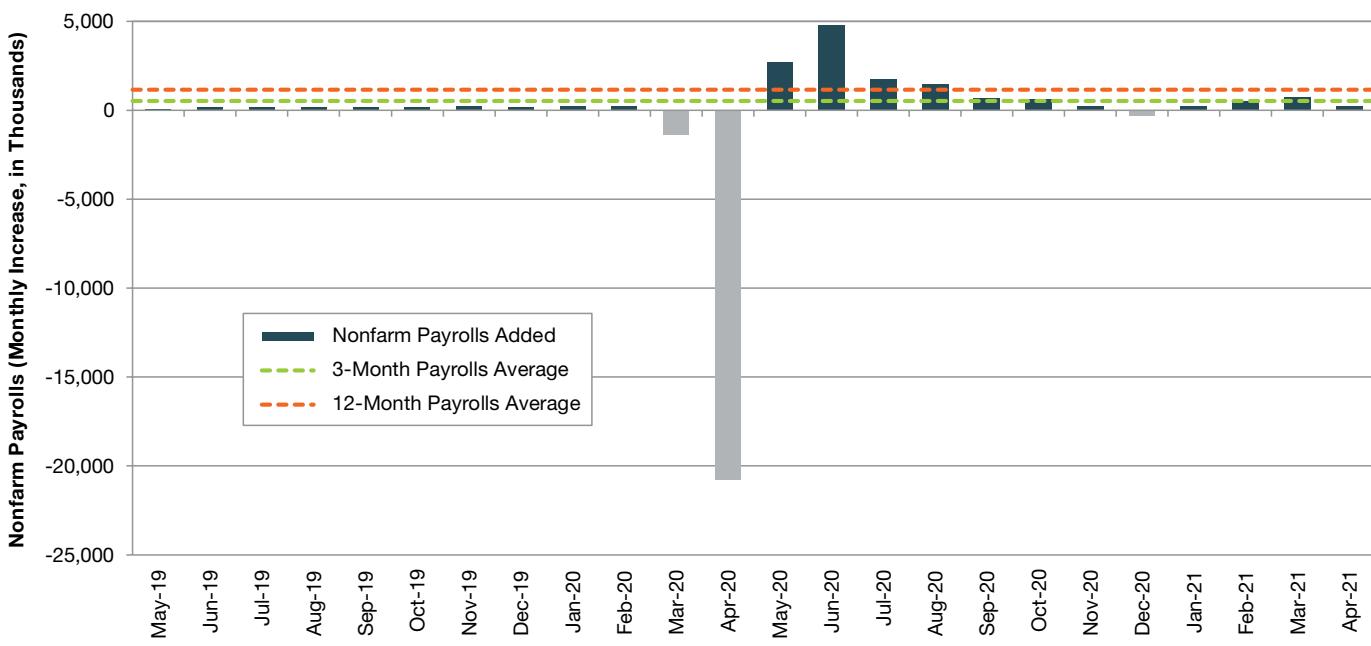


EXHIBIT 7B: U.S. Employment—Past 24 Months With Averages



Source of data: U.S. Department of Labor.

Notes: U3 is the official unemployment rate per the International Labour Organization definition and occurs when people are without jobs and they have actively looked for work within the past four weeks. U6 unemployment is broader than U3 to include “marginally attached workers” and people who are looking for and want full-time work but have to settle on part-time employment. “Marginally attached workers” are people who are not actively looking for work, but who have indicated that they want a job and have looked for work (without success) sometime in the past 12 months. This class also includes “discouraged workers” who have completely given up on finding a job because they feel that they just won’t find one.

EXHIBIT 7C: U.S. Employment—10 Years

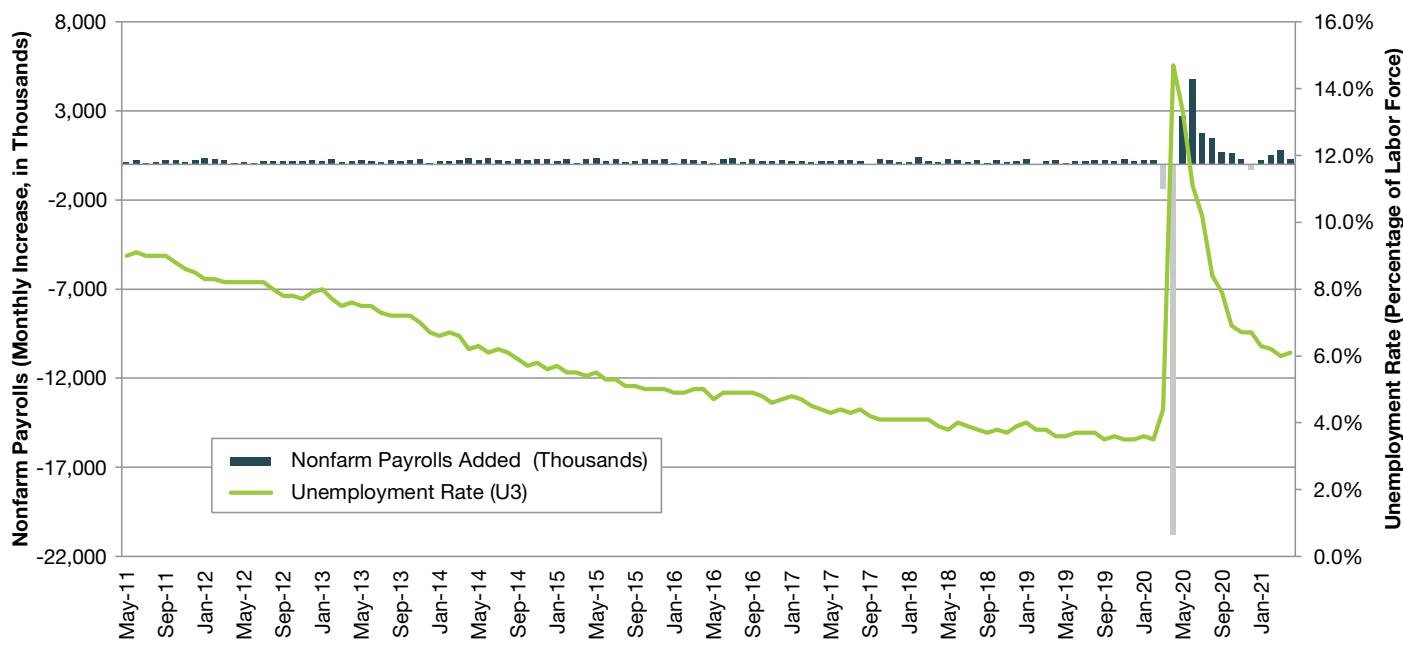
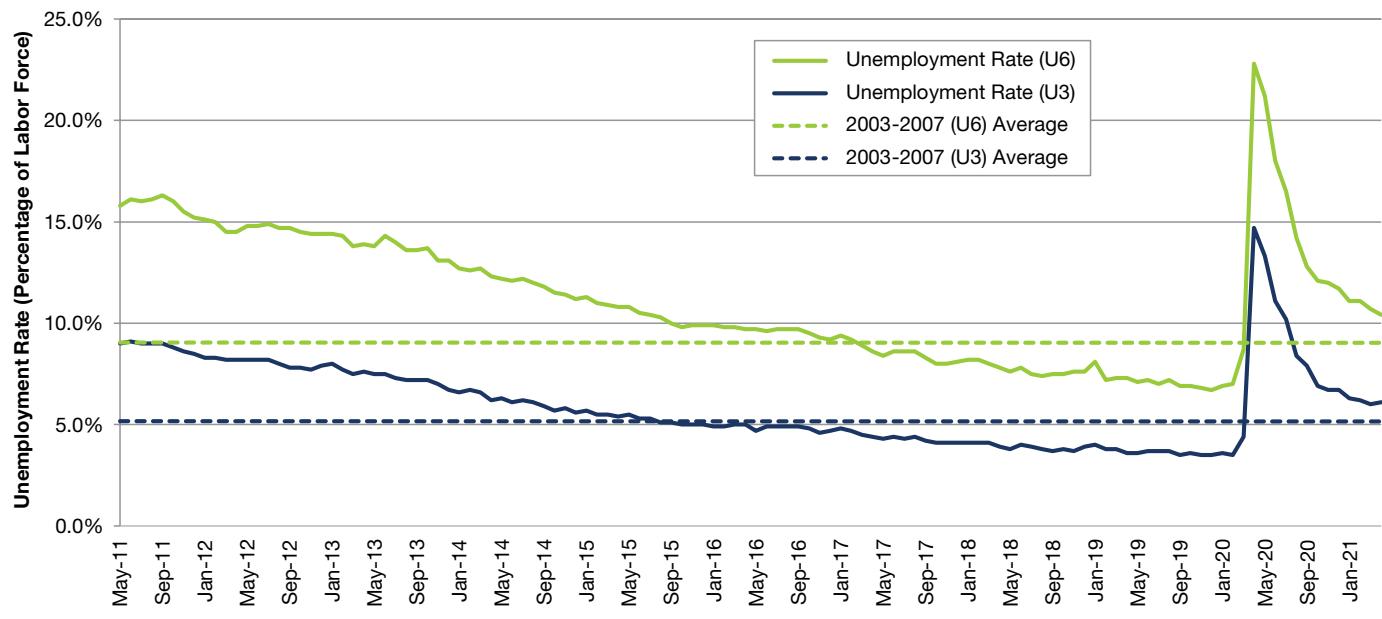


EXHIBIT 7D: U3 Unemployment Compared With U6 Unemployment—10 Years



Source of data: U.S. Department of Labor.

Notes: U3 is the official unemployment rate per the International Labour Organization definition and occurs when people are without jobs and they have actively looked for work within the past four weeks. U6 unemployment is broader than U3 to include "marginally attached workers" and people who are looking for and want full-time work but have to settle on part-time employment. "Marginally attached workers" are people who are not actively looking for work, but who have indicated that they want a job and have looked for work (without success) sometime in the past 12 months. This class also includes "discouraged workers" who have completely given up on finding a job because they feel that they just won't find one.

PMI INDEXES AND INDUSTRIAL PRODUCTION

MANUFACTURING PMI

The manufacturing sector slowed in April after the manufacturing index (PMI) fell 4.0 percentage points as reported by the Institute for Supply Management (ISM). Despite the decline, the score in April, 60.7%, indicates expansion in the overall economy for the 11th consecutive month. Panelists' comments suggested that their companies and suppliers continue to struggle to meet increasing rates of demand due to coronavirus impacts limiting availability of parts and materials. Following the April rise, the manufacturing economy has now expanded for the 11th consecutive month. Still, there were 11 positive comments for every one cautious comment.

The breakdown of the components in April are as follows: Demand expanded, with the New Orders Index growing at a strong level, supported by the New Export Orders Index continuing to expand. Customers' Inventories Index remained at an all-time low, while the Backlog of Orders Index remained at an all-time high. Consumption, which is measured by the production and employment indexes, contributed positively, with a 10.1-percentage-point decrease, to the Manufacturing PMI calculation. All six industries reported moderate to strong expansion. The Employment Index expanded for the fifth straight month, but panelists continue to note difficulties in attracting and retaining labor at their companies and supplier facilities. Inputs, which are expressed as supplier deliveries, inventories, and imports, continued to support input-driven constraints to production expansion, were at lower rates compared to March. The importation of items marginally slowed in the period, driven by port backlogs. The Prices Index expanded for the 11th consecutive month, indicating continued supplier pricing power and scarcity of supply chain goods.

A reading above 50.0% indicates that the manufacturing economy is generally expanding. Therefore, the April Manufacturing PMI, at 60.7%, indicates the 11th month of expansion in the manufacturing economy. A Manufacturing PMI in excess of 42.9%, over a period, generally indicates an expansion of the overall economy. The April score was above the 12-month average of 56.9%.

All 18 manufacturing sectors surveyed in April reported growth. The report stated that, based on the past relationship between Manufacturing PMI and the overall economy, if Manufacturing PMI for April (60.7%) were annualized, it would correspond to a 5.0% increase in GDP annually.

The 18 manufacturing industries that reported growth in April were: electrical equipment, appliances, and components; textile mills; furniture and related products; machinery; fabricated metal products; primary metals; miscellaneous manufacturing; chemical products; plastics and rubber products; food, beverage, and tobacco products; computer and electronic products; nonmetallic mineral products; apparel, leather, and allied products; transportation equipment; paper products; petroleum and coal products; printing and related support activities; and wood products.

The component for new orders decreased 3.7 percentage points in April, to 64.3%. Despite the decline, the score remains at a level that indicates the 11th consecutive month of expansion. A New Orders Index above 52.8%, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders (in constant 2000 dollars). Sixteen of 18 industries reported growth in new orders in April.

The component for production decreased 5.6 percentage points in April, to 62.5%. Despite the decline, the component for production is only one month removed from its highest score since January 2004. An index above 51.7%, over time, is generally consistent with an increase in the Federal Reserve Board's industrial production figures. Fourteen of the 18 industries reported growth in production during the month of April, and two of the industries reported a decrease in production.

Employment in the manufacturing sector moved down 4.5 percentage points in April, to 55.1%, which is the fifth month at levels indicating expansion. An Employment Index above 50.8%, over time, is generally consistent with an increase in the Bureau of Labor Statistics' data on manufacturing employment. Thirteen of the 18 industries reported employment growth in April, and two of the industries reported a decrease in employment.

The component that measures prices increased 4.0 percentage points in April, to 89.6%, with the score indicating expansion for the 11th consecutive month. Aluminum, copper, chemicals, all varieties of steel, plastics, transportation costs, wood, and lumber products all continued to experience price increases as a result of product scarcity. A Prices Index above 52.5%, over time, is generally consistent with an increase in the Bureau of Labor Statistics' Index of Manufacturers Prices. All 18 industries reported paying higher prices for raw materials in April.

In April, order backlogs increased 0.7 percentage point, to 68.3%, and have now expanded for the 10th consecutive month as backlogs expanded at faster rates than in March. Fourteen of the 18 industries reported growth in order backlogs in April.

The new export orders index increased 0.4 percentage point in April, to 54.9%. Following the rise, the index has now grown for the 10th consecutive month. Four of the Big Six industries expanded, and seven of the 18 industries reported growth in new order exports in April.

The imports index decreased 4.5 percentage points in April, to 52.2%. Following the rise, the index remains at levels indicating expansion for the 10th consecutive month. Panelists continued to note backlogs in ports of entry, as well as difficulties in arranging drayage and operating within the domestic transportation market. Seven of the 18 industries grew in April, and six reported a decrease.

The index that tracks the average commitment lead time for capital expenditures increased by two days in April, to 147 days. The average lead time for maintenance, repair, and operating supplies increased five days, to 45 days, and the average lead time for production materials increased four days, to 79 days.

The Institute for Supply Management published its most recent "Semiannual Economic Forecast" in December, and the report forecasts that the expansion that began in June will continue and that growth in the second half of 2021 is expected to be greater than it was in the first half of 2021. Specifically, revenues are expected to increase in 15 of 18 manufacturing industries and 12 of 18 services-sector industries. Capital expenditures are expected to increase by 2.4% in the manufacturing sector compared to a decline of 2.4% in 2020.

The survey results showed that 59% of respondents from the panel of manufacturing supply management executives predict their revenues will be greater in 2021 than in 2020. The panel of purchasing and supply executives expects a 6.9% net increase in overall revenues for 2021, compared to a 1.3% decrease reported for 2020. Fifteen of the 18 manufacturing industries expect revenue improvement in 2021.

Purchasing managers reported that their companies are currently operating, on average, at 85.7% of normal capacity, or 9.8 percentage points more than the rate reported in May. Overall, production capacity in manufacturing

is expected to increase 2.4% in 2021 from 2020. In 2020, production capacity declined by 2.4% from 2019. Eleven of the 18 industries reported an average capacity of 85.7% or above.

Survey respondents expect a 2.4% increase in capital expenditures in 2021, compared to the decline of 2.4% in 2020. Currently, 29% of respondents predict increased capital expenditures in 2021, with an average increase of 26.4%, and 55% said their capital spending remained the same as in 2020. Sixteen percent say they will reduce their spending by 32.7%. Ten industries are expecting increases in capital expenditures in 2021 compared to 2020.

In the March 2019 forecast, 52% of respondents predicted an increase of 6.1% in prices paid in early 2021. At the same time, 12% anticipate decreases averaging 5.8% and 36% said they expect no change in prices in the first five months of 2021. Purchasers expect a net average overall price increase of 2.5%. Eleven of the manufacturing industries reported an increase in prices paid for the first part of 2021.

Survey respondents expect an increase in net average prices of 2.9% for all of 2021. Fifty-seven percent of those surveyed project prices to increase by an average of 6.9% for the full year, 16% anticipate decreases averaging 6.3%, and 27% expect no change in prices. Eleven of the 18 industries predicted price increases for all of 2020.

ISM's Manufacturing Business Survey respondents forecast that manufacturing employment will increase by 2.5% by the end of 2021. Thirty-seven percent of respondents expect employment to be 9.1% higher, on average, while 12% of respondents predict employment to be lower by 7.9%. The remaining 51% of respondents expect their employment levels to be unchanged for the remainder of 2021. Thirteen manufacturing industries expect growth in employment in 2021.

The highlights to the semiannual survey are:

- Operating rate is currently at 85.7% of normal capacity;
- Production capacity is expected to increase 0.5% in 2021;
- Capital expenditures are expected to increase 2.4% in 2021;
- Prices paid are expected to increase 2.5% in 2021;
- Manufacturing employment is expected to increase by 2.5% in 2021; and
- Manufacturing revenue is expected to increase 6.9% in 2021.

SERVICES PMI

The Services PMI, formerly the nonmanufacturing index (NMI), slipped 1.0 percentage point in April, to 62.7%. The score retreated only a month after reaching an all-time high, although comments from panelists remain optimistic. The Services PMI measures the strength of the services sector and is based on data compiled from purchasing and supply executives nationwide.

A Services PMI reading above 50.0% indicates that the services sector of the economy is generally expanding, whereas a reading below 50.0% indicates that the services sector is generally contracting. A Services PMI in excess of 49.0%, over time, generally indicates an expansion in the overall economy. Therefore, the score in April, 62.7%, indicates growth in the overall economy and the services economy for the 11th consecutive month.

Seventeen of the 18 nonmanufacturing sectors surveyed in April reported growth during the month. The report noted that, based on the past relationship between the Services PMI and the overall economy, if the Services PMI for April (62.7%) were annualized, it would correspond to a 4.7% increase in GDP. Over the past 12 months, the Services PMI score averaged 57.0%.

The component that measures business activity decreased 6.7 percentage points in April, to 62.7%. Despite the decline, the April reading indicates expansion for the 11th consecutive month. Seventeen of the industries in the index reported growth in business activity for the month.

The new orders component of the index decreased 4.0 percentage points, to 63.2%. Despite the decline, the index remains at a level that indicates growth for the 11th consecutive month. Seventeen of the industries in this index reported an increase in new orders for the month.

Employment in the nonmanufacturing sector grew in April, after a rise of 1.6 percentage points, to 58.8%. Eleven of the 18 industries reported an expansion in employment.

The supplier deliveries component increased 5.1 percentage points in April, to 66.1%. A reading above 50% indicates slower deliveries, while a reading below 50% indicates faster deliveries. The report noted that import logistics challenges, port delays, and shipping delays impacted respondents. Seventeen of the 18 industries reported slower deliveries on the month.

Prices nonmanufacturing organizations paid for purchased materials and services increased 2.8 percentage points, to 76.8%, in April. They are now at their highest reading since July 2008. All 18 industries reported an increase in prices paid in April.

Orders and requests for services and other nonmanufacturing activities to be provided outside of the U.S. by domestically based companies declined in April, after the index reported an increase of 3.1 percentage points, to 58.6%. Of the total respondents in April, 79.0% indicated they either do not perform, or do not separately measure, orders for work outside of the U.S. Eight of the 18 industries reported an increase in new export orders in the month of April.

The component that measures inventory sentiment decreased 5.9 percentage points in April, to 46.8%. It is now at a level that indicates inventories are too low. Six industries reported that their inventory level was still too high in April.

The Institute for Supply Management published its most recent “Semiannual Economic Forecast” in December, with the report noting that services supply management executives expect their 2021 revenues to be greater than they were in 2020. They expect a 1.6% net increase in overall revenues for 2021, compared to a 4.8% decrease reported for 2020. Twelve of the 18 industries are forecasting increased revenues in 2021. Forty-six percent of non-manufacturing supply management executives expect their 2021 revenues will increase, on average, 1.6%, and 4.8% expect that their revenues will decrease.

Nonmanufacturing purchasing and supply executives report that their organizations are currently operating at 86.6% of normal capacity. This is 13.3 percentage points higher than what was reported in May 2020. They forecast that their capacity to produce products and provide services will rise by 3.2% during 2021 and capital expenditures will increase by 12.7%. Services panel members also predict their overall employment will increase by 1.6% during 2021.

Respondents are expecting an increase of 12.7% in capital expenditures in 2021, above the decrease of 13.4% for 2020 they reported in May. The 35% of respondents expecting to spend more on capital expenditures predict an average increase of 50.2%. An additional 18% anticipate a decrease averaging 28.5%. Forty-seven percent expect to spend the same on capital expenditures in 2021 as in 2020. Eight of the 18 industries are expecting an increase in capital expenditure spending in 2021.

Services survey respondents predict their purchases in the first five months of 2021 will cost an average of 3.7% more than they did at the end of 2020. This is more than the increase reported for calendar year 2020. Fifty-eight percent of services respondents predict the prices they pay will increase an average of 7.8% in the first part of 2021. Four percent of respondents expect price decreases averaging 17.5%. The remaining 38% predict no change in prices in the first five months of 2021. Eight of the 18 industries reported an increase in prices paid in the first part of 2021.

Nonmanufacturing supply managers expect that, for all of 2021, services supply management executives expect their prices to increase an average of 3.5%. Fifty-seven percent of respondents expect increases averaging 7.5%, 7% anticipate prices to drop an average of 12.2%, and 36% foresee no change in prices during the next year. Seven industries expect an average price increase greater than 3.5% by the end of 2021.

Purchasing and supply executives expect a 2.2% increase in labor and benefit costs services industries in 2021. Forty-three percent of respondents expect such costs to increase by an average of 6.1%. Another 3% of respondents expect labor and benefit costs to shrink by an average of 11%, and 54% believe costs will remain stable during 2021.

Nonmanufacturing survey respondents forecast that business revenues for 2021 will improve by an average of 1.6%. This is more than the 4.8% decrease reported for 2020 and less than the 3.4% increase predicted one year ago for 2020 revenues. The 40% of respondents forecasting better business in 2021 estimate an average revenue increase of 11.3%. This contrasts with an average decrease of 17.2% forecast by the 17% who predict worse business in 2021. The remaining 43% see no change. Twelve of the 18 nonmanufacturing industries expect revenue to contract in 2020.

HOSPITAL PMI

Economic activity in the hospital subsector improved in April, rising 3.1 percentage points, to 61.9%. In April, most hospitals experienced continued growth in outpatient and elective procedures as their coronavirus cases went down. However, there were notable COVID-19 “hot spot” exceptions to this trend. Business Survey Committee panelists attributed growth in business activity and new orders to the increase in vaccinated adults.

The Hospital PMI is based on data compiled from hospital purchasing and supply executives nationwide. A Hospital PMI index reading above 50% indicates that the hospital subsector is generally expanding; a reading below 50% indicates that it is generally declining. For the subindexes, except Supplier Deliveries, an index reading above 50% indicates that the subindex is generally expanding; a reading below 50% indicates that it is generally contracting. A Supplier Deliveries Index above 50% indicates slower deliveries, and a reading below 50% indicates faster deliveries. Over the past 12 months, the Hospital PMI has averaged 59.7%.

The Case Mix Index increased 1.5 percentage points, to 55.5%. The Case Mix Index change is consistent with slower growth in surgical cases. The Days Payable Outstanding Index increased 13.0 percentage points, to 57.0%. The Technology Spend Index increased 4.0 percentage points, to 55.0%.

The Institute for Supply Management (ISM) launched its first Hospital PMI, which assesses domestic hospital supply chains and is the first vertical ISM Report on Business. ISM collaborated with the Association for Health Care Resource and Materials Management and Strategic Marketplace Initiatives in creating the index.

INDUSTRIAL PRODUCTION

The Federal Reserve reported that total industrial production increased 0.7% in April after rising 2.4% in March. At 106.3% of its 2012 average, total industrial production in April was 16.5% higher than its level from April 2020. Capacity utilization for the industrial sector increased 0.5 percentage point in April, to 74.9%, a rate that is 4.7 percentage points below its long-run (1972-to-2020) average.

Manufacturing production increased 0.4% in April. The index for motor vehicles and parts fell 4.3%; excluding the motor vehicle sector, factory output advanced 0.7%, primarily reflecting a further recovery in chemicals as additional factories that had sustained weather-related damage during February reopened.

The output of mining increased 0.7% in April with a sizable gain in gas extraction contributing most of the gain. Despite the rise, the index remains 2.4% below its levels from one year ago.

Capacity utilization for manufacturing increased 0.3 percentage point in April, to 74.1%. The operating rate for mining increased 0.7 percentage point, to 82.1%, in April, while the capacity utilization rate for utilities increased 1.7 percentage points, to 71.4%.

EXHIBIT 8A: Manufacturing, Services, Hospital Supply Chains, and Housing Indicators—Past 24 Months

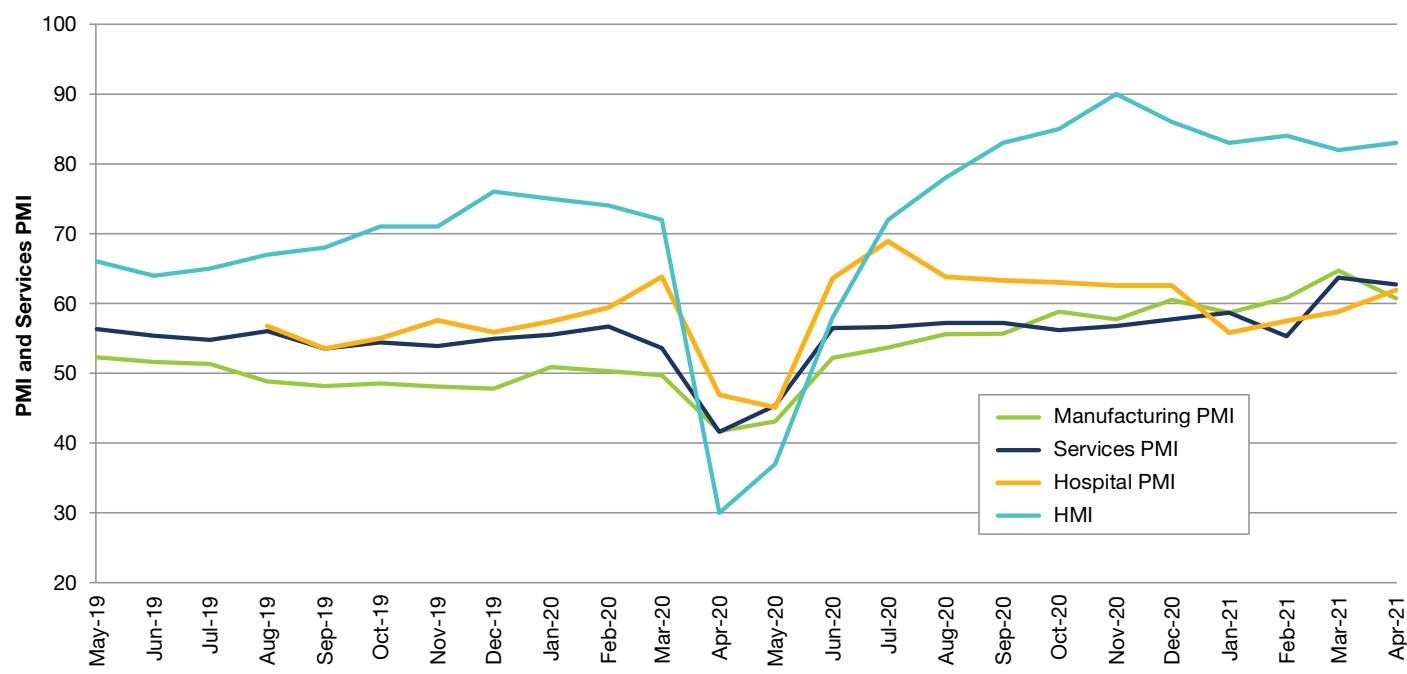
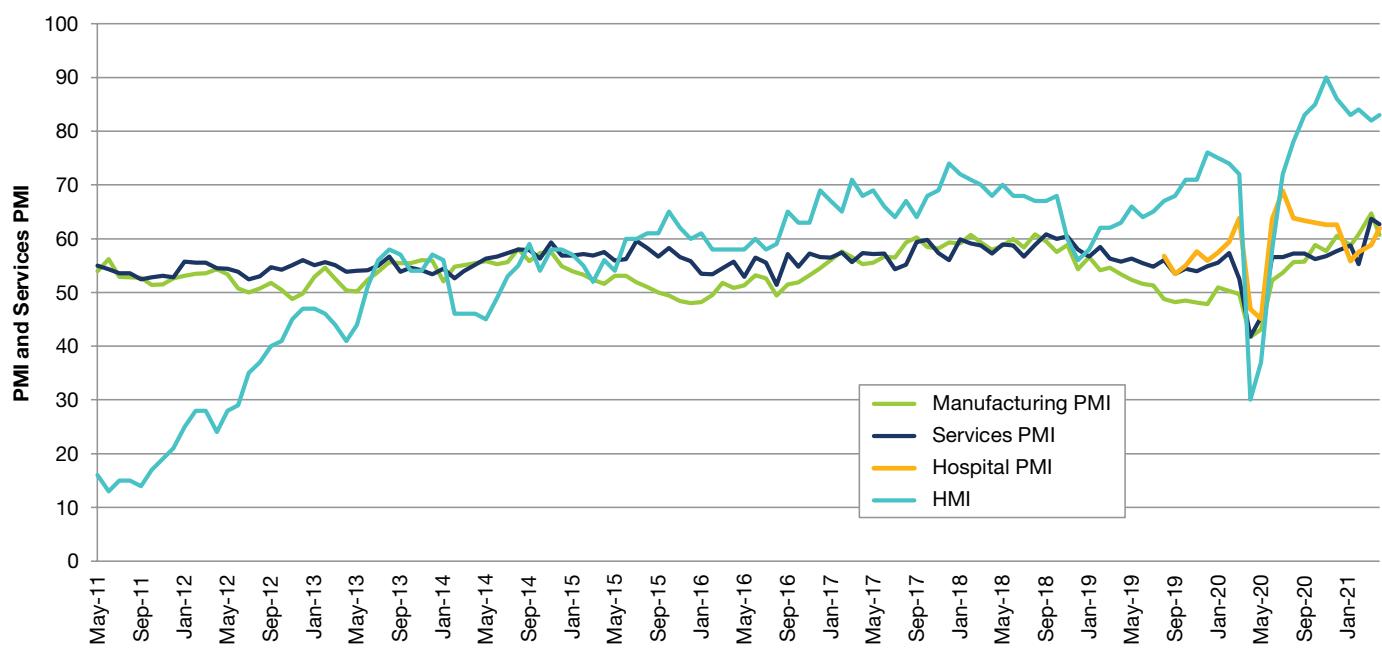


EXHIBIT 8B: Manufacturing, Services, Hospital Supply Chains, and Housing Indicators—10 Years



Sources of data: Institute for Supply Management and the National Association of Home Builders.

Notes: PMI is the Institute of Supply Management's Manufacturing Index—any reading above 50.0% suggests growth in the manufacturing economy, whereas a reading below 50.0% indicates contraction. Services PMI measures the strength of the services sector—any reading above 50.0% suggests growth, whereas a reading below 50.0% indicates contraction. Hospital PMI is the Institute of Supply Management's Hospital Index—any reading above 50.0% suggests growth, whereas a reading below 50.0% indicates contraction. HMI is the National Association of Home Builders/Wells Fargo Housing Market Index—any reading over 50 indicates that more builders view sales conditions as good than poor.

STOCK MARKET AND VOLATILITY

Despite the concerns of investors over rising inflation and the proposal to increase long-term capital gains taxes, investors lifted the major U.S. indices to gains in April. On the month, the Dow Jones Industrial Average rose 2.8%, the S&P 500 moved up 5.3%, and the Nasdaq Composite advanced 5.4%. The Russell MidCap rose 5.1%, and the Russell 2000 Index climbed 2.1%.

In April, the Chicago Board Options Exchange Volatility Index moderated, producing its lowest figures on the year, with a monthly average of 17.4 and a monthly range of 15.4 to 19.9. As a result, the annual average decreased to 21.7. The VIX represents the implied volatility of 30-day options on the Standard & Poor's 500 stocks and has been termed by analysts and investors as the "fear gauge." Accordingly, the VIX represents the expected volatility of the market, as represented by the Standard & Poor's 500 index. Stock market professionals use the VIX to gauge investor sentiment. Values greater than 30 are generally associated with a large amount of volatility because of investor fear or uncertainty, while values below 20 generally correspond to less stressful, even complacent, times in the markets.

EXHIBIT 9A: Stock Market and Volatility

TOTAL RETURN*			VOLATILITY		
Index	Apr-21	Year-to-Date	VIX*	Apr-21	Year-to-Date
Dow Jones Industrial Average	2.8%	11.3%	High	19.9	37.5
S&P 500	5.3%	11.8%	Low	15.4	15.4
Nasdaq Composite	5.4%	8.3%	Average	17.4	21.7
Russell Midcap	5.1%	13.7%			
Russell 2000	2.1%	15.1%			

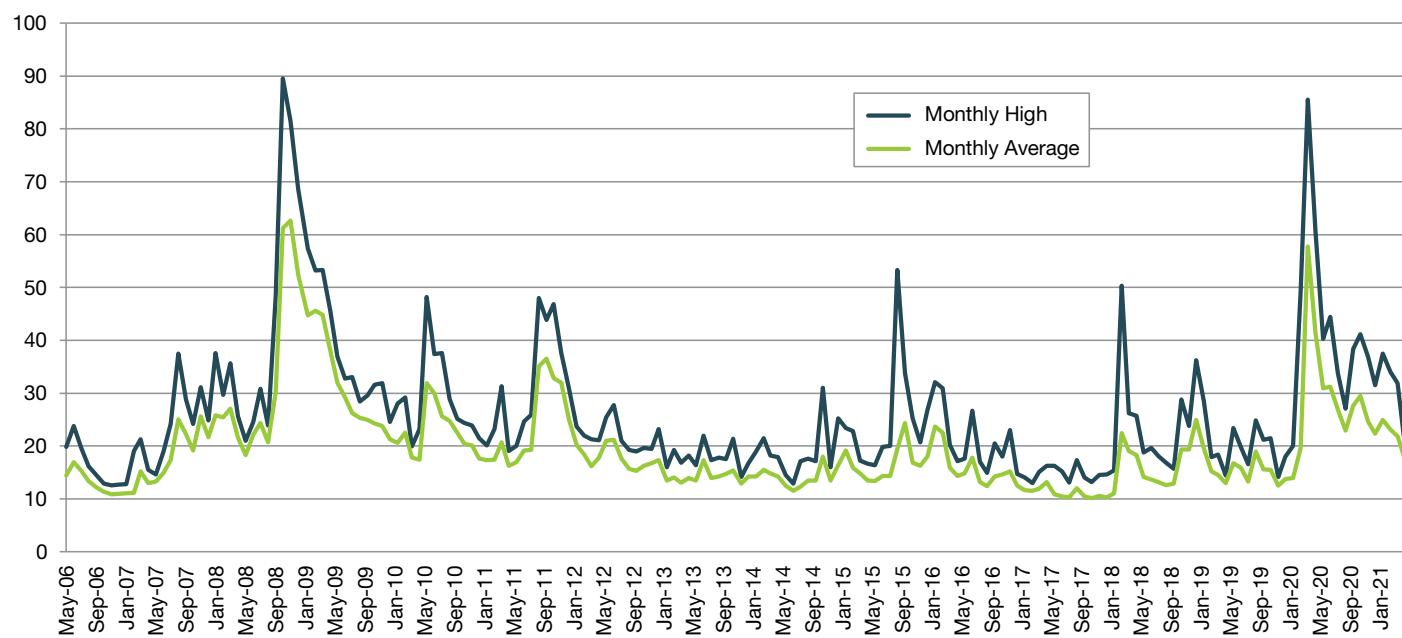
Source of data: T. Rowe Price

*Returns are for the periods ended April 30, 2021. The returns include dividends based on data compiled by T. Rowe Price, except for the Nasdaq Composite, whose return is principal only.

Source of data: Yahoo! Finance

*The Chicago Board Options Exchange Volatility Index (VIX)—a popular volatility measure—represents the implied volatility of 30-day options on the Standard & Poor's 500 stocks and has been termed by analysts and investors as the "fear gauge." Investopedia says the following: "VIX values greater than 30 are generally associated with a large amount of volatility as a result of investor fear or uncertainty, while values below 20 generally correspond to less stressful, even complacent, times in the markets."

EXHIBIT 9B: CBOE Volatility Index—15 Years



CONSUMER PRICE INDEX AND PRODUCER PRICE INDEX

CONSUMER PRICES

Consumer prices rose 0.8% in April, after rising 0.6% in March. The rise in the index came in higher than forecasts for a rate of 0.2%, according to a poll by the Dow Jones. The figure represents the clearest indication so far of mounting inflationary pressures, evident in higher consumer prices. The index for used cars rose 10.0% and is up 21% over the past 12 months. The index for energy rose by 25.1% over the past 12 months, while the index for gasoline is up 49.6% over the same period. Over the past 12 months, the CPI is up 4.2%, which is the largest one-year gain since September 2008.

CPI is a measure of a basket of products and services—including housing, electricity, food, and transportation—and is used as a measure of inflation. CPI is comprised of three main indexes: the food index, the energy index, and all items less food and energy index (also known as “Core CPI”). Core CPI is a measure of inflation that excludes volatile food and energy costs.

The Chained Consumer Price Index for all urban consumers rose 0.8% in April, after a rise of 0.7% in March. Over the past 12 months, the index is up 4.1%. The Chained Consumer Price Index was designed to be a closer approximation of a cost-of-living index in that it, in its final form, accounts for any substitution that consumers make across item categories in response to changes in relative prices.

Core CPI rose 0.9% in April, after a rise of 0.3% in March. Core CPI has risen 3.0% over the past 12 months.

PRODUCER PRICE

The Producer Price Index (PPI) increased 0.6% in April after a rise of 1.0% in March. The rise in April continues the recent months’ trend of higher inflationary pressures as the economy reopens amid an improved labor market and massive government aid. Over the past 12 months, PPI has grown at an annual rate of 6.2%, the largest annual increase since the inception of the index. PPI for final demand is comprised of two main indexes: final demand services and final demand goods.

The index for final demand less foods, energy, and trade services increased 0.7% in April, after rising 0.6% in March. Over the past 12 months, prices for final demand less foods, energy, and trade services increased 4.6%.

In April, prices for final demand services increased 0.6%. Prices for final demand goods less foods and energy, or Core PPI, rose 1.0% in April. Core PPI is up 4.6% over the past 12 months.

EXHIBIT 10A: U.S. Consumer Price Index—Past 24 Months

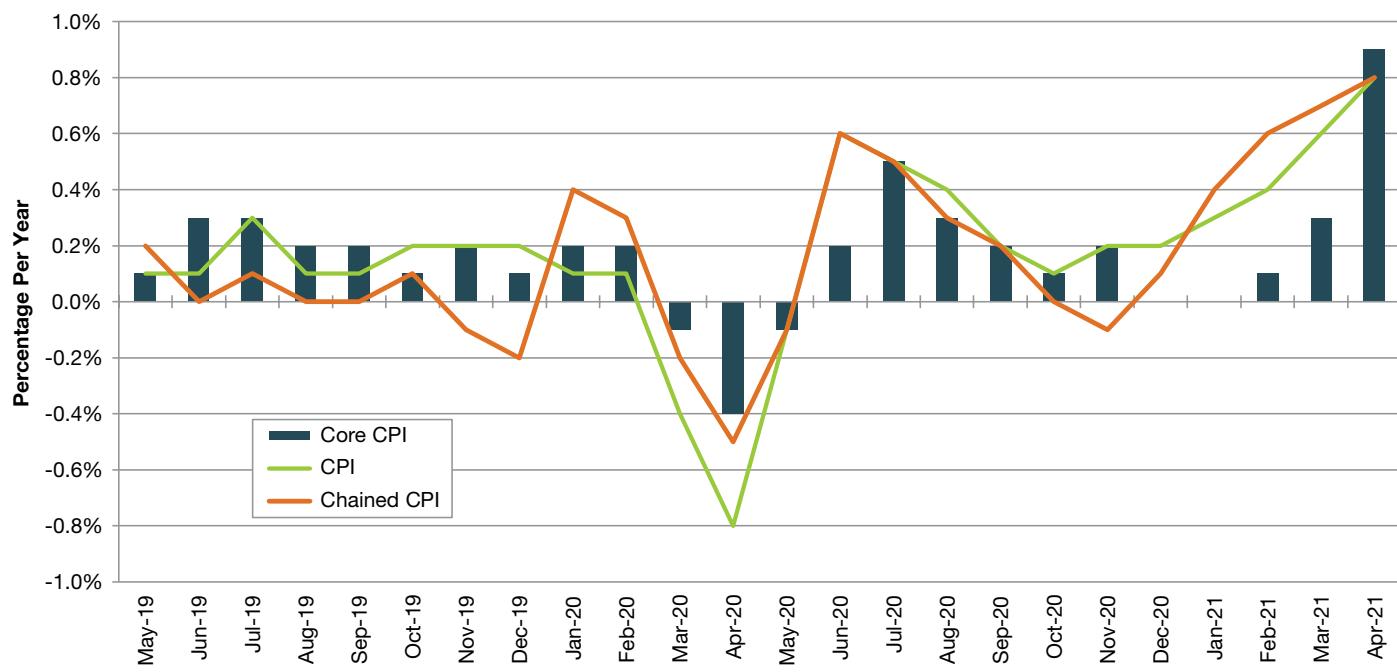
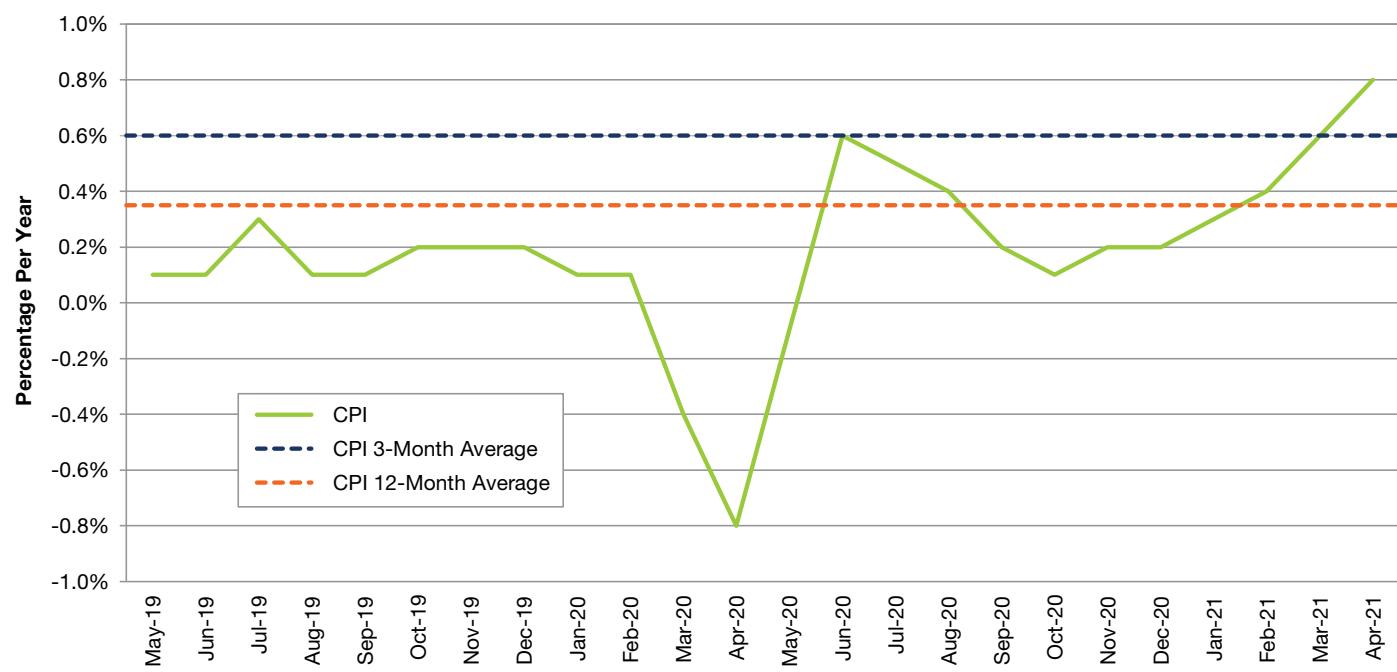


EXHIBIT 10B: U.S. Consumer Price Index—Past 24 Months With Averages



Source of data: U.S. Department of Labor.

Notes: Data are seasonally adjusted change from the prior month. Core CPI is the All Items Less Food and Energy Index. Core PPI is the Final Demand Goods Less Foods and Energy Index.

EXHIBIT 10C: U.S. Producer Price Index—Past 24 Months

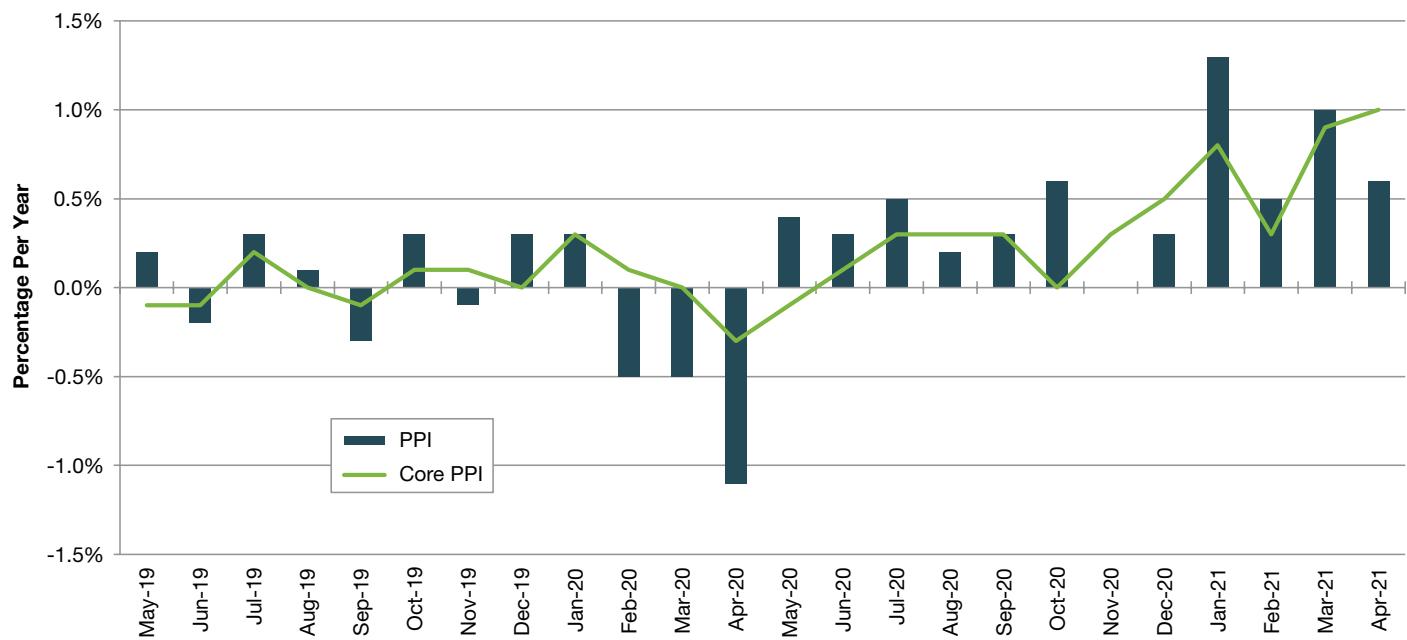
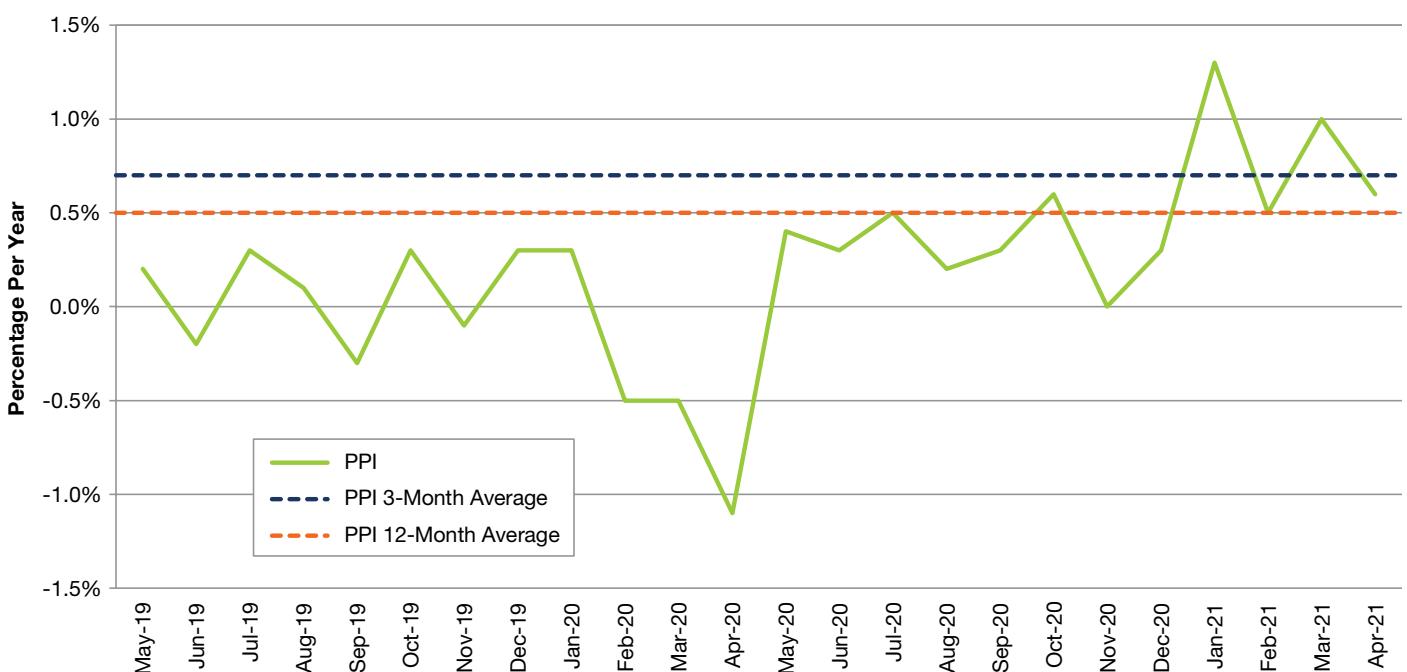


EXHIBIT 10D: U.S. Producer Price Index—Past 24 Months With Averages



Source of data: U.S. Department of Labor.

Notes: Data are seasonally adjusted change from the prior month. Core CPI is the All Items Less Food and Energy Index. Core PPI is the Final Demand Goods Less Foods and Energy Index.

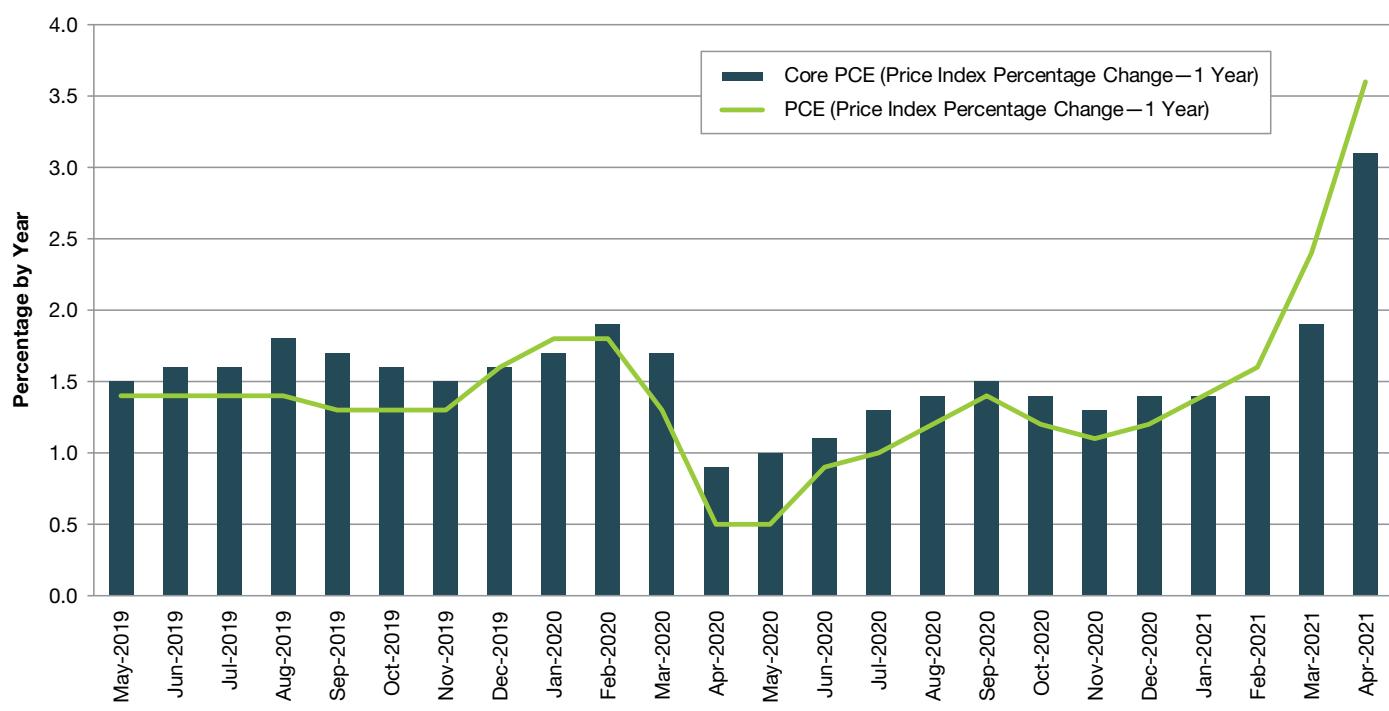
PERSONAL CONSUMPTION EXPENDITURE

The Federal Reserve often emphasizes the price inflation measure for personal consumption expenditures (PCE), which the Department of Commerce produces, largely because the PCE index covers a wide range of household spending and is less volatile than some other measures. Prices, as measured in current dollars highlighted in the April report, increased 0.5% in April after an increase of 4.7% in March.

The PCE price index increased 0.6% in April, after an increase of 0.6% in March. Core PCE, which excludes the volatile food and energy components, rose 0.7% in April, for its largest monthly rise since 2008. From April 2020 to April 2021, the PCE price index is up 3.6% and core PCE has risen 3.1%, the fastest annual increase since 1994. Core PCE, which is the Federal Reserve's preferred inflation measure, rose above the Federal Reserve's long-term rate, 1.99%, and was higher than the U.S. central bank's 2.0% inflation target.

The response to the spread of COVID-19 impacted the report for the April estimate, as federal economic recovery payments were distributed and governments continued with "stay-at-home" orders. The full economic effects of the COVID-19 pandemic cannot be quantified in the personal income and outlays estimate because the impacts are generally embedded in source data and cannot be separately identified.

EXHIBIT 11: U.S. Personal Consumption Expenditure—Past 24 Months



REAL ESTATE

HOUSING STARTS AND BUILDING PERMITS

U.S. home construction continued to slump in 2021 after a decline of 9.5% in April. To start the year, housing starts have fallen in three of the four months, with a rise occurring in March. In April, housing starts stood at 1.569 million, down from the 1.733 million homes in March but higher than the 938,000 from one year ago. On a year-over-year basis, housing starts are up 67.3%. Single-family housing starts decreased 13.4% on the month but are up 58.7% from one year ago. The multifamily sector rose 4.0% in April and is up 97.5% from the levels from one year ago. The multifamily-home sector, which consists of buildings with five units or more, tends to be more volatile than the single-family-home sector.

Building permit authorizations for privately owned housing units, considered a leading indicator of demand for new homes, increased 0.3% in April, coming in at a seasonally adjusted rate of 1,760,000. Over the past 12 months, the figure is 60.9% higher. Building permits for single-family housing units fell 3.8% compared to March but are up 70.7% from one year ago. Building permits for multifamily housing units rose 11.1% in April and are up 44.4% from one year ago.

Housing completions were at a seasonally adjusted rate of 1,449,000 in April, which is 4.4% below the rate in March but is 21.7% above the rate from one year ago. Single-family housing completions in April were at a rate of 1,045,000, which is 0.1% above the revised March rate of 1,044,000. The rate for multifamily housing completions was 401,000 in April.

Builder confidence improved slightly in April, as the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) improved 1.0 point in April, to 83.0. The report noted that buyer traffic rose to its highest level since November, which helped boost demand for housing despite obstacles such as rising costs of building materials, rising interest rates, and a shortage of homes available for sale. An HMI reading above 50.0 indicates that more builders view sales conditions as good, rather than poor.

The three HMI components produced mixed results in April, with the component measuring current sales conditions rising 1.0 point, to 88.0; the component gauging sales conditions over the next six months falling 2.0 points, to 81.0; and the component that measures buyer traffic moving up 3.0 points, to 75.0.

Looking at the three-month moving averages for the regional HMI indexes, the Northeast rose 6.0 points, to 86.0; the Midwest fell 2.0 points, to 78.0; the West held steady, at 90.0; and the South rose 1.0 point, to 83.0.

HOME SALES, PRICES, AND INVENTORY

Existing-home sales fell for the third consecutive month in April, moving down 2.7% from March and to its slowest pace since August. Still, despite the decline, sales are up 33.9% from one year ago. The report stated that an improvement in the near future will occur as more inventory is expected to come to the market later this year as further COVID-19 vaccinations are administered and potential home sellers become more comfortable listing and showing their homes. The falling number of homeowners in mortgage forbearance will also bring about more inventory.

The number of existing-home sales in April was at an annual pace of 5.85 million, and, although all but one of the four major U.S. regions witnessed month-over-month drops in home sales, each registered double-digit year-over-year gains for April.

All-cash sales were 25% of transactions in April, which is up 2.0 percentage points from March and 10.0 percentage points from one year ago. Individual investors, who account for many cash sales, purchased 17% of homes in April, which is up 2.0 percentage points from March and up 7.0 percentage points from one year ago. First-time buyers accounted for 31% of sales in April, which is down 1.0 percentage point from March and down 4.0 percentage points from one year ago.

According to a report from Comerica, mortgage applications for purchase fell by 2.5% for the last week in April, the fifth weekly decline in the past six weeks. Tight supply remains a binding constraint on home sales, reinforcing moderate-to-strong price gains in all major markets. On a four-week moving average basis, purchase apps were up 41.9% over the previous 12-month period. Refi apps were little changed for the week and 22.7% lower than they were a year ago. According to the Mortgage Bankers Association, the rate for a 30-year fixed rate mortgage inched up to 3.18%.

Shares of distressed home sales, which include both foreclosures and short sales, were less than 1.0%, which is unchanged from last month but down from 3.0% from one year ago.

The report showed declines in three of the four major regions in April. Home sales in the Northeast decreased 3.9% in April but are up 30.4% from a year ago. Sales in the Midwest grew 0.8% in April and are up 13.2% from one year ago. Sales in the South fell 3.7% but are up 39.0% from one year ago. Sales in the West fell 3.1% but are up 53.8% from one year ago.

The national median existing-home price for all housing types was \$347,400 in April, which is up 20.3% from a year ago. April's price increase marked the 110th consecutive month of year-over-year price gains. In April, home prices in the Northeast moved up 22.0% from one year ago. The prices in the Midwest increased 13.5%. Home prices in the South rose 15.8%, and prices in the West increased 19.9% over the last 12 months. The median time on the market for all homes sold in April was 17 days, a new all-time low, and down from 18 days in March and from 27 days from one year ago. Eighty-eight percent of homes sold in April were on the market for less than a month.

A report published by Redfin highlights the U.S. housing market and the meteoric rise during the coronavirus pandemic. The report credits the boom in the housing market to record-low mortgage rates and a wave of new buyers looking for homes due to their remote working environment. The report highlights that 60% of people expect to continue working from home at least part time after the pandemic, which has resulted in homebuyers moving to a different metro area in the last year. As a result, the surplus of home buyers has led to a shortage of housing inventory, which, in turn, led to home values, price growth, and selling speed all hitting new heights. In 2021, Redfin forecasts a record \$2.53 trillion worth of home sales in America, or roughly a 17% year-over-year gain that would mark the largest annual increase in percentage terms since 2013. The South is expected to lead the way, with \$1.09 trillion of home sales forecast for 2021, followed by the West, with \$696.3 billion, the Midwest, with \$422.6 billion, and the Northeast, with \$322.8 billion.

Total housing inventory was at 1.16 million existing homes for sale in April, up 10.5% from March but down 20.5%, or from 1.46 million, from one year ago. Unsold inventory was at a 2.4-month supply at the current sales pace in April, which was 0.3 month higher than the rate in March but down from 4.0 months from one year ago. Six months of inventory is considered a balanced market that equally benefits buyers and sellers.

The Federal Housing Finance Agency (FHFA) published its House Price Index for the first quarter of 2021, which showed U.S. housing prices increasing 3.5% compared to the fourth quarter of 2020. From February 2020 to February 2021, U.S. housing prices increased 12.6%. The index measures housing prices across nine census regions.

NAR reports that, according to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased, to 3.06%, in April from the 3.08% rate in the prior month. The average 30-year rate in 2020 was 3.11%.

In April, the NAR's Realtors Confidence Index Survey reported that its Buyer Traffic Index increased 1.0 point, to 80.0 points, and is up 50.0 points from one year ago. The Seller Traffic Index rose 5.0 points, to 40.0 points, and is up 20.0 points from one year ago. The report noted that realtors had a higher share of buyers, at 85%, who purchased a property in a suburban, small-town, rural, or resort area, which is unchanged from one year ago. The report noted that 60% of realtors reported they had potential buyers looking for work-from-home features such as an extra room, a finished basement, or a bigger home. Every home sold still had nearly four offers. The RCI is a key indicator of housing market strength based on a monthly survey of over 50,000 real estate practitioners.

COMMERCIAL REAL ESTATE

NAR's most recent "Commercial Markets Insight" analyzed the trends in the commercial market in the first quarter of 2021. The report provides information on acquisitions of properties or portfolio acquisitions of \$2.5 million or more, noting that specifically commercial sales dropped 28% in the first quarter when compared to one year ago. Transactions were down across all property types except for hotel properties, where acquisitions rose 13%. Investors could be acquiring some hotels to be converted into other uses, such as multifamily housing. Apartment buildings accounted for a third of the closed transactions.

In the first quarter, the dollar volume of acquisitions of \$2.5 million or over fell in the office sector by 36%, the retail sector by 42%, the industrial sector by 41%, and the multifamily sector by 12%.

Risk spreads continue to decline and are on par with the levels one year ago, with a brighter outlook with the COVID-19 vaccination targeted for completion by the end of summer. Investors of properties of \$2.5 million or over placed the lowest level of risk on apartment properties, with the risk spread at 3.6% and followed by industrial, at 4.5%. Hotel acquisitions had the highest risk spread, at 7.3%. Retail and office property acquisitions risk spread were both at 5.3%. The risk spreads are about 0.1% higher from one year ago for office and hotel and the same for office.

REITS invested in commercial real estate continue to show mixed performance. The return on the price of a REITS fund invested in office, retail, and multifamily is still negative as of April 2021 and has been since January 2020. Industrial has the highest return, at 22%. The return across all REITS funds averaged 5%. Surprisingly, there's a 5% return on REITS funds invested in lodging as of April 2021 from January 2020.

USG Corp. and the U.S. Chamber of Commerce published their quarterly Commercial Construction Index for the first quarter of 2021, which improved 3.0 points, to 62.0. The first-quarter survey continued to show improvement after its decline in the second quarter, but the index score remained well below prepandemic levels.

The key drivers for this quarter's survey included a score of 69.0 points for the ideal backlog total, which is down 1.0 point from last quarter. The ability of contractors to provide new business increased 2.0 points, to 59.0, which

suggests that contractors have a moderate to high level of confidence they will provide sufficient new business opportunities in the next 12 months. At 57.0 points, the component that measures contractors' expectations to see revenue increase or at least remain the same improved 5.0 points from last quarter. Among the survey respondents, an increase from 25% to 36% expect revenues to increase compared to 13% who expect to see a decline, an improvement from the 14% reported in the last quarter.

One of the key trends highlighted in the first-quarter survey was that 80% of all contractors are experiencing some kind of delay to their projects due to COVID-19-related issues, which is down 3.0 percentage points from last quarter. Looking ahead three months, delays are expected to remain steady, with contractors expecting an average share of 21% of projects delayed. Looking ahead six months, however, the average share of delayed projects drops to 15%.

The quarterly survey also focused on labor shortage issues, specifically as they relate to the COVID-19 pandemic. Eighty-five percent of contractors continue to report moderate to high levels of difficulty in finding skilled workers. This includes 45% of contractors who have reported a high level of difficulty, which is up three percentage points. Moreover, 94% of contractors express a moderate to high degree of concern about workers having adequate skill levels.

While many contractors plan to retain their current staff levels, this quarter, more said they have plans to either hire or let go of staff. Forty-six percent of contractors indicate they plan to employ more people, up nine percentage points from the last quarter. Meanwhile, 3% expect to reduce their staffing, also down nine percentage points from the last quarter. Forty-six percent expect to keep the same number of workers on staff.

When asked about revenues and profit margins, more contractors expect their revenue to increase. Thirty-six percent of contractors expect a revenue increase, up from 25% in the fourth quarter. On the other hand, 13% expect a revenue decrease over the next year. Fifty-one percent of contractors expect their revenues to remain the same in the next 12 months, and 68% expect their profit margin will change very little or not at all. Conversely, 14% of contractors expect a decrease in profit margins over the coming year, up from 12% last quarter.

FORECAST

Consensus Economics Inc., publisher of *Consensus Forecasts—USA*, reports that the consensus of U.S. forecasters believe that real GDP will rise at a seasonally adjusted annual rate of 8.4% in the second quarter of 2021 and increase by 7.4% in the third quarter of 2021. Every month, Consensus Economics surveys a panel of 30 prominent U.S. economic and financial forecasters for their predictions on a range of variables, including future growth, inflation, current account and budget balances, and interest rates. The forecasters expect GDP to increase 6.2% in 2021 and 4.1% in 2022.

They forecast that consumer spending will increase at a rate of 8.7% in the second quarter of 2021 and rise 7.9% in the third quarter of 2021. They expect consumer spending to increase 7.1% in 2021 and 4.4% in 2022.

The forecasters believe unemployment will average 5.7% in the second quarter of 2021 and 5.1% in the third quarter of 2021. They predict that unemployment will average 5.4% in 2021 and 4.2% in 2022.

The forecasters believe that the three-month Treasury bill rate will be 0.1% at the end of the second quarter of 2021 and 0.1% at the end of the third quarter of 2021. They predict the 10-year Treasury bond yield will be 1.7% at the end of the second quarter of 2021 and 1.8% at the end of the third quarter of 2021.

They also believe consumer prices will rise at a rate of 2.5% in the second quarter of 2021 and 2.4% in the third quarter of 2021. They expect consumer prices to increase 2.6% in 2021 and 2.3% in 2022. They expect producer prices to increase 4.2% in the second quarter of 2021 and 2.7% in the third quarter of 2021. The forecasters anticipate producer prices will rise 4.1% in 2021 and 2.0% in 2022.

The forecasters believe real disposable personal income will fall 9.2% in the second quarter of 2021 and 7.9% in the third quarter of 2021. They believe real disposable personal income will increase 3.0% in 2021 but fall 1.2% in 2022.

The forecasters expect industrial production to increase 6.8% in the second quarter of 2021 and 6.2% in the third quarter of 2021. They forecast that industrial production will increase 6.4% in 2021 and rise 4.0% in 2022.

Nominal pretax corporate profits are expected to increase 13.4% in 2021 and 5.7% in 2022. The forecasters also project housing starts will be 1,540,000 in 2021 and 1,540,000 in 2022.

The most recent release of The Livingston Survey (the Survey) predicts GDP growth of 2.9% for the first half of 2021, making a downward revision from the previously forecasted rate of 7.2% in the prior survey. The Survey, conducted by the Federal Reserve Bank of Philadelphia, is the oldest continuous survey of economists' expectations. It summarizes the forecasts of economists from industry, government, banking, and academia. The survey forecasts GDP growth of 3.7% in the second half of 2021. The forecasters predict a lower unemployment rate compared with their expectations in June. In the upcoming year, they see the unemployment rate steadily decreasing from 6.7% in January 2020 to 5.5% in January 2021.

The Congressional Budget Office (CBO) provided its baseline economic forecast that is used as the basis for updating its budget projections for 2020 to 2030. In the report, the CBO projects that, if current laws governing federal taxes and spending generally remain in place, the economy will grow rapidly during the third quarter of this year.

Real (inflation-adjusted) gross domestic product (GDP) is expected to grow at a 12.4% annual rate in the second half of 2020 and is expected to recover to its prepandemic level by the middle of 2022. The unemployment rate is projected to peak at over 14% in the third quarter of 2020 and then to fall quickly as output increases in the second half of 2020 and throughout 2021.

One major driver of CBO's forecast of the economy for the next several years is the agency's projections about how the pandemic and social distancing will unfold. CBO projects that the degree of social distancing will decline by about two-thirds from its April 2020 peak during the second half of this year, leading to an increase in social activities and commerce. That projection is in the middle of the distribution of possible outcomes, in CBO's assessment. It allows for regional and seasonal variation, and it accounts for the possibility of multiple waves of increased transmission of the virus and retightening of social distancing measures, as well as other steps people might take to protect their health while engaging in economic activity.

Another major factor underlying the economic forecast is the agency's projections of the economic effects of the four laws enacted in March and April to address the public health emergency and to directly assist affected households, businesses, and state and local governments. Those laws, which together are projected to increase the federal deficit by \$2.2 trillion in fiscal year 2020 and by \$0.6 trillion in 2021, will, in CBO's assessment, partially mitigate the deterioration in economic conditions and help spur the recovery.

From the third quarter of 2020 through the third quarter of 2021, the degree of social distancing is projected to gradually diminish to zero (even though social distancing may increase at times in some areas), and the effects of fiscal and monetary policy actions are expected to take hold. Real GDP and employment are projected to rebound quickly in response. In CBO's projections, strong GDP growth continues through 2024 but at a slower pace. Meanwhile, the unemployment rate decreases from a peak of over 14% in the third quarter of 2020 to 5.9% by the end of 2024.

The Federal Reserve published its summary of economic projections, which is released with the FOMC meeting minutes. For 2021, the Federal Reserve forecasts GDP to increase by 4.2%, which is better than its prior forecast for a rise of 4.0%. GDP is forecasted to grow by 3.2% in 2022 and by 2.4% in 2023. The unemployment rate is now projected at 5.0% for 2021, less than the previously forecasted rate, 5.5%, from the September forecast. Unemployment is expected to be at 4.2% in 2022 and 3.7% in 2023. The Federal Reserve forecasts PCE to be at 1.8% in 2021 and to rise to 1.9% in 2022 and 2.0% in 2023. Core PCE is forecasted to be 1.8% in 2021 before rising by 1.9% in 2022 and 2.0% in 2023.

The Energy Information Administration (EIA) predicts that the West Texas Intermediate crude oil spot price will average approximately \$58.91 per barrel in 2021 and \$56.99 per barrel in 2021, compared with \$39.17 per barrel in 2020. The EIA expects retail prices for regular-grade gas to average \$2.68 per gallon in 2021 and \$2.59 per gallon in 2022, compared with \$2.18 per gallon in 2020.

The EIA believes the Henry Hub natural gas spot price will average \$3.05 per million Btu (MMBtu) in 2021 and \$3.02 per MMBtu in 2022, compared with \$2.03 per MMBtu in 2020. The cost of coal delivered to electricity-generating plants, which averaged \$1.92 per MMBtu in 2020, is expected to average \$1.96 per MMBtu in 2021 and \$1.98 per MMBtu in 2022. Residential electricity prices, which averaged 13.20 cents per kilowatt-hour (kWh) in 2020, are expected to average 13.50 cents per kWh in 2021 then rise to 13.70 cents per kWh in 2022. The airline ticket price index, which averaged 217.55 in 2020, is expected to be 184.41 in 2021 before rising to 207.79 in 2022.

The National Association of Realtors' Realtors Confidence Index (RCI) survey reported that its Buyer Traffic Index rose 1.0 point, to 80.0, and is up from 50.0 points from one year ago. The Seller Traffic Index rose 5.0 points, to 50.0, in April. The RCI is a key indicator of housing market strength based on a monthly survey of over 50,000 real estate practitioners. Practitioners are asked about their expectations for home sales, prices, and market conditions.

NAR, in its U.S. economic outlook, projects existing-home sales in 2021 to be 6.490 million (+15.1%) but expects them fall to 6.440 million (-0.8%) in 2022. It believes that new single-family home sales will be 1.010 million (+24.5%) in 2021, before increasing to 1.060 (+5.0%) in 2022. NAR believes the median existing-home price will be \$316,000 (+6.6%) in 2021, before increasing to \$326,000 (+3.1%) in 2022. NAR believes the median new-home price will be \$342,500 (+2.8%) in 2021, before rising to \$354,000 (+3.4%) in 2022. It expects housing starts to increase to 1,570,000 (+13.7%) in 2021, then to 1,620,000 (+3.2%) in 2022. NAR believes the 30-year fixed mortgage rate will average 1.9% in 2021 and rise to 2.3% in 2022, and the 5-1 hybrid adjustable-rate mortgage will average 2.9% in 2021 and 2.9% in 2022.

The most recent three-year outlook from the Urban Land Institute (ULI) and Ernst & Young (EY) found that real estate economists and analysts believe the economy, which was severely impacted in 2020, will markedly improve U.S. economic and property market conditions over the next three years, 2021 to 2023. The forecast also projects employment growth will be at 5.5 million in 2021, 3.0 million in 2022, and 2.1 million in 2023, which will be a partial recovery from the 9.4 million jobs lost in 2020. The *ULI/EY Real Estate Consensus Forecast*, a semiannual publication, is based on a survey of 43 of the industry's top economists and analysts representing 37 of the country's leading real estate investment, advisory, and research firms and organizations. The forecast for each indicator is the median forecast from the 43 survey respondents. The key findings from the *Real Estate Consensus Forecast* include:

- U.S. real estate transaction volumes are predicted to increase to \$500 billion in 2021, to \$550 billion in 2022, and to \$590 billion in 2023, all well above the long-term annual average of \$347 million, and up from the actual \$427 billion in 2020.
- Commercial property prices are projected to rise by 4.2% in 2021 and by 5.0% in 2022 and 2023. The index rose by 5.2% in 2020.
- Office vacancy rates are predicted to rise more than rates for other property types in 2021, following a weak 2020. Vacancy rates will rise 150 basis points, to 16.5%, in 2021 after rising 280 basis points in 2020. The office vacancy rate is forecast to exceed its long-term average (14.3%) over the entire forecast period.
- Single-family housing starts are projected to be 1.1 million in 2021, compared with a predicted 940,000 units just six months ago. In 2022 and 2023, it is estimated that there will be 1.2 million new starts.
- NCREIF total returns, which were positive for 11 consecutive years, are expected to be 4.5% in 2021, up from the 3.0% predicted six months ago. Total returns are predicted to be 5.9% in 2022 and 6.5% in 2022. With an actual return of 1.6% in 2020, private real estate returns weathered the COVID-19 downturn with positive total returns throughout, a much better performance than during the global financial crisis of 2007-2008.
- In 2021, the vacancy/availability rates for apartment performance will be similar to that of industrial, with little change in the vacancy rate over the forecast period, although expensive urban markets such as New York City and San Francisco have reportedly weakened while suburban and Sun Belt markets have improved over the past year or so.

- Commercial property rent growth differs widely by property type, as well. In 2021, industrial is predicted to lead all property types in rent growth over the forecast period, averaging 3.6% per year from 2021 to 2023. Apartment rent growth will average 2.6%, whereas office and retail rent growth will be slightly negative. For hotels—which track revenue per available room (RevPAR), combining rental rates and occupancy—growth will average 19.9% over the next three years, bouncing back from a 47.4% decline in 2020.

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A current list of sources for state economic information can be found at: news.bvresources.com/EOU/eouissues.aspx. Login is required.

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