BVR
What It's Worth

ECONOMIC OUTLOOK UPDATE

MONTHLY

JUNE 2021

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 June 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.

Kenneth Woo Economic and Data Editor
Adam Manson Director, Valuation Data
David Foster CEO
Lucretia Lyons President
Sarah Foster Customer Service

The *Economic Outlook Update* (ISSN 1558-4062) is published monthly and quarterly by Business Valuation Resources, LLC, 111 SW Columbia Street, Suite 750, Portland, OR 97201-5814. The annual subscription price for the *Economic Outlook Update* is $369. Site licenses are available for those who wish to distribute the *EOU* throughout their firms. Contact our sales department at info@bvresources.com or 503-479-8200 ext. 2 for details. You can also reach us via email at customerservice@bvresources.com, phone at 503-479-8200, fax at 503-291-7955 or visit our website at www.BVResources.com.

ECONOMIC UPDATE AT A GLANCE JUNE 2021 SUMMARY

The string of strong performances by the U.S. LEI continued in June, with the index rising by 0.7%, to 115.1 points. Following the rise, the U.S. LEI broke its previous record high reached in May 2021 and has fully recovered and passed its peak from before its contraction caused by the coronavirus outbreak. The Conference Board now forecasts real GDP growth in the second quarter could reach 6.6% for 2021 and 3.8% for 2022.

The Chicago Fed's National Activity Index suggests that economic activity moderated in June following a decline in the index from +0.26 to +0.09. Three of the four broad categories of indicators used to construct the index made positive contributions in June, but two of the four categories improved from May. In addition, the three-month average decreased to +0.06 from +0.80.

The Consumer Confidence Index improved in June, to 127.3 points, and has risen to its highest level since the onset of the coronavirus pandemic. The rise of 7.3 points came as the survey results showed that a large proportion of consumers are planning to purchase homes, automobiles, and major appliances in the near future, a positive sign for economic growth. The current conditions component, which measures consumers' assessment of current business and labor market conditions, increased by 9.0 points, to 157.7. The expectations component, which measures consumers' short-term outlook for income, business, and labor market conditions, rose 6.1 points, to 107.0 points. The Consumer Sentiment Index rose 2.6 points, to 85.5 points, in June. The improved outlook was driven by sentiment among consumers who earn more than $100,000 a year and mostly by their view of future economic conditions.

The NFIB Small Business Optimism Index increased 2.9 points, to 102.5, in June, which is the first time it exceeded the 100-point level since November 2020. The report noted that the survey indicates that small-business owners continue to be optimistic as the economy continues to open. Small-business owners do, however, continue to report on the shortages of finding qualified labor.

MetLife and the U.S. Chamber of Commerce published their second-quarter 2021 survey, which continued to highlight the recovery in the small-business economy. The second-quarter score,

Economic Summary June 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	↑
Wholesale Trade	↑
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.

which improved 4.1 points, was the fourth consecutive quarter of improvements, after falling in the second quarter of 2020, when the coronavirus pandemic began. At 60.0 points, the score remains below prepandemic levels, when it was 71.7 points in the first quarter of 2020.

The survey highlighted three key findings for the quarter:

1. Fifty-two percent of small businesses rate their overall business health as good, unchanged from last quarter. This measure has stayed consistent since June 2020.

2. Currently, 27% of small businesses rate the overall U.S. economy as good, which is up from 21% in the first quarter. Still, however, this is far below prepandemic levels, when 60% saw the national economy as good in the first quarter of 2020. However, fewer small businesses (46%) are seeing the national economy as poor. This is the first time this measure has fallen below 50% during the pandemic. Just last quarter, 59% of small businesses said the economy was poor.

3. Small businesses' revenue expectations significantly improved this quarter, driven upward by a large bump in revenue expectations. Currently, 57% of small businesses anticipate their revenue increasing this year, an increase of 10 percentage points from revenue expectations from last quarter. Only 9% expect a decline in revenue compared to 25% who expected a decline in June 2020. Furthermore, the current reading is just three points shy of revenue expectations before the pandemic struck, when it was 60%.

Middle-market business sentiment, as reported by the RSM U.S. Middle Market Business Index, rose by 4.1 points in the second quarter reading, 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 unexpectantly rose 0.6% in June, beating expectations for a slight decline, according to a poll by the AP. The overall total, $621.3 billion, serves as an indication that, as the country continues to improve from the coronavirus pandemic, consumers are eager to return to their prepandemic ways. Overall, retail sales are ahead of prepandemic levels. Over the past 12 months, retail sales are up 18.0%, although the figure dates to the period covering the initial lockdowns caused by the onset of the coronavirus pandemic. Nine of the 13 retail sales categories saw an increase in June. Core retail sales increased 1.1% in June and are up 15.8% 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%.

In June, nonfarm payrolls posted their strongest figure since August 2020 after adding 850,000 jobs to the economy. The report also included revisions to the prior two months' figures, with jobs in April decreasing by 9,000 jobs and the figures from May increasing by 24,000 jobs, for a net increase of 15,000 jobs.

In June, the unemployment rate worsened by 0.1 percentage point, to 5.9%, and although the rate has improved from the lows reached at the onset of the pandemic, the rate has fluctuated higher and lower since April. The U6 unemployment rate improved 0.4 percentage point, to 9.8%.

Initial claims for unemployment insurance decreased in the last week of June by 51,000 from the prior week's 364,000 claims and totaled 3,469,000. The figure is notable as 26 states ended unemployment benefits at the end of June.

Wages increased 0.10 cents in June, to $30.40. Real average hourly earnings, seasonally adjusted from June 2020 to June 2021, increased 1.05 cents, or nearly 3.6%.

The manufacturing sector eased in June, as the Institute for Supply Management's manufacturing index (PMI) fell 0.6 percentage point. At 60.6%, the score in June indicates an expansion in the manufacturing economy for the 13th 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 59.1%.

The Institute for Supply Management's Services PMI index, formerly referred to as NMI, decreased 3.9 percentage points, to 60.1%. In June, despite the decline, the overall score represented growth for the 13th consecutive month after a two-month contraction in May 2020 and June 2020 at the onset of the coronavirus pandemic. The survey results indicated that rate of expansion is very strong, citing the reopening of businesses and an increase in production capacity. However, some capacity constraints, material shortages, weather-related delays, and challenges in logistics and employment resources continue. Over the past 12 months, the Services PMI has averaged 58.9%.

Investors shook off concerns of inflation after the Fed announced its belief that inflationary pressures will only be temporary, which helped boost the major U.S. stock market indices in June. As a result, all five indices produced gains, although the Dow Jones Industrial Average inched up only 0.02%. The S&P 500 Index rose 2.3%, although the Nasdaq Composite rose by 5.5%. Smaller stocks included in the Russell MidCap and the Russell 2000 moved up 1.5% and 1.9%, respectively. Volatility, as measured by the Chicago Board Options Exchange Volatility Index, produced its lowest score of the year, 14.1, which resulted in a monthly average, 17.0, lower than that of the average in all of 2021, 20.6.

Consumer prices, as measured by the Consumer Price Index, rose 0.9% in June after rising 0.6% in May. Over the past year, CPI has risen 5.4%, its largest annual increase since August 2008. Chained CPI increased 0.9% in June and follows a rise of 0.8% in May. Over the past 12 months, the figure is 5.3% higher. Core CPI, which excludes energy and food prices, increased 0.9% in June, after rising 0.7% in May. Core CPI is up 4.5% over the past 12 months, which is its largest annual gain since September 1991.

In June, producer prices increased 1.0%, surpassing forecasts for growth of 0.6%, according to a poll by the Dow Jones. Over the past year, PPI has increased 7.3%, which is the largest annual increase since the inception of the index in 2010. Core PPI, which excludes highly volatile food and energy prices, rose 1.0% in June and is up 5.5% over the past 12 months.

Residential construction continued to improve, producing a three-month high and its second strongest figure thus far in 2021, following a rise of 6.3%. In June, the seasonally adjusted rate of 1.643 million units is higher than the 1.546 million units in May, or 6.3% higher on a month-over-month comparison, and is 29.1% higher than one year ago. The monthly figure came in higher than forecasts for 1.59 million units, according to a survey by Bloomberg. The figure over the past two months suggests that the housing market is stabilizing despite supply chain issues and rising costs of materials. On the month, two of the four regions gained, with the South moving up 9.7% and the West climbing 12.6%. The number of building permits authorized, which measures how much construction is in the pipeline, fell 5.1% in June and is at its lowest rate since October 2020. Despite the decline, on a year-over-year basis, the figure is up 23.3%. The adjusted annual rate was 1.598 million. The number of building permits authorized fell 6.3% for single-family homes and 1.6% for multifamily homes when compared to one month ago.

Existing-home sales rebounded in June after a prolonged slump in the early months of 2021. On the month, sales rose 1.4% when compared to May and are up 22.9% on a year-over-year basis. The report credited the increase in housing supply for the uptick as well as sales remaining above prepandemic levels. The number of distressed home sales was less than 1.0% of sales in June, which is unchanged from May but down from 3.0% from one year ago. In June, the NAHB/Wells Fargo Housing Marking Index decreased 2.0 points, to 81.0 points. The three HMI components all fell in June, with the component measuring current sales conditions falling 2.0 points, to 86.0; the component gauging sales conditions over the next six months falling 2.0 points, to 79.0; and the component that measures buyer traffic moving down 2.0 points, to 71.0.

The National Association of Realtors' most recent "Commercial Market Insights," which analyzed the commercial real estate market through the first five months of 2021, found that commercial transactions were 1% higher than the level of one year ago. Commercial real estate prices continue to firm up, but valuations were still broadly down by 1% in May compared to one year ago.

INDEX OF LEADING INDICATORS

The Conference Board's Leading Economic Index (LEI) increased 0.7% in June, to a record-high 115.1 points. While the score in June slowed from prior months, the overall growth in the second quarter suggests that economic growth will continue in the near term. Strengths among the leading indicators were widespread despite negative contributions from housing permits and average workweek. In the six-month period ending June 2021, the U.S. LEI has increased at a rate of 5.0% (about a 10.3% annual rate), slower than the accelerated growth of 6.6% (about a 13.7% annual rate) in the previous six months.

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

														CONSENSUS FORECASTS**						
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027-2031
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	6.7	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	1.3	3.2	-0.8	-7.2	5.8	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	8.1	4.1	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	6.0	4.5	-1.9	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	8.4	5.6	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	13.6	6.2	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	1.9	1.5	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	3.5	2.6	2.2	2.2	2.2	2.2	2.1
Core PCE*							1.6	1.2	1.6	1.7	2.0	1.7	1.4	2.7	2.5	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	5.5	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	1.590	1.560	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*, June 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.

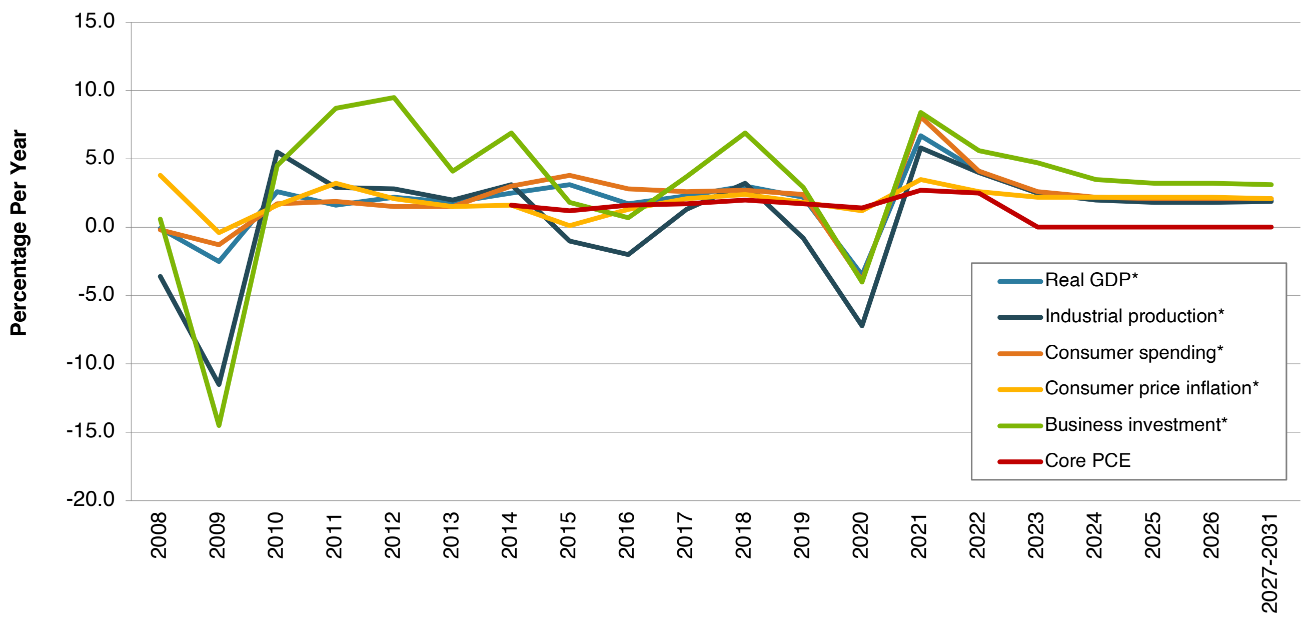
Every month, Consensus Economics surveys a panel of 30 prominent United States economic and financial forecasters for their predictions on a range of variables including future growth, inflation, current account and budget balances, and interest rates.

The board's coincident index, designed to reflect current economic conditions, increased 0.4% in June, to 105.5, but the lagging index went unchanged, coming in at 105.8.

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:

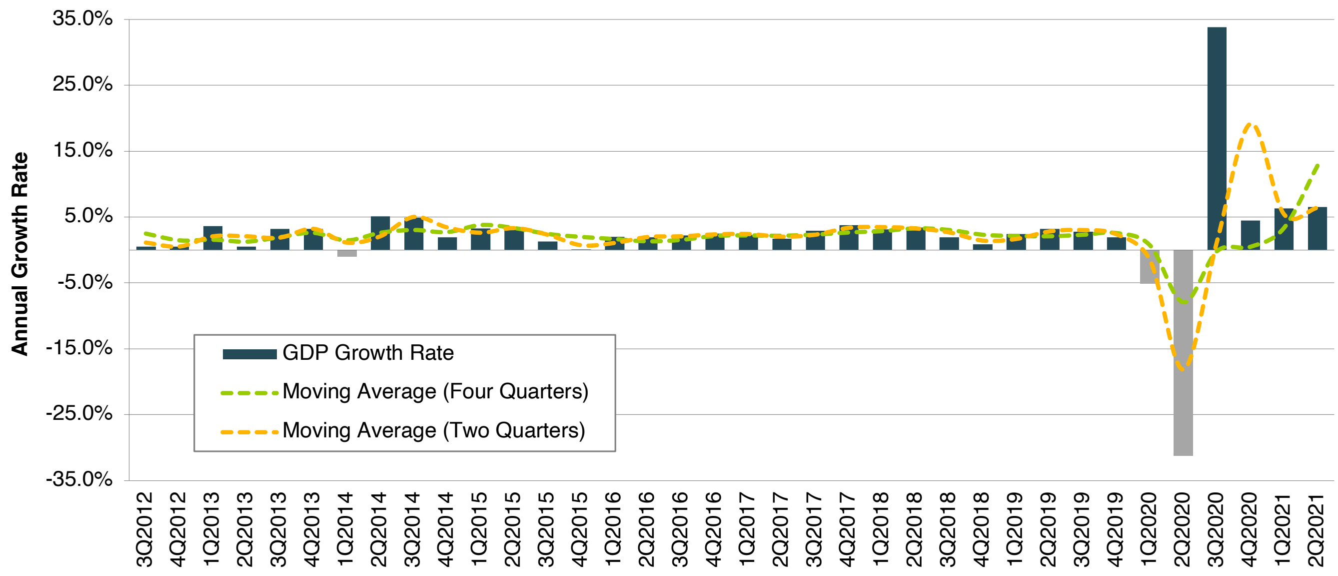
- Average weekly hours, manufacturing;
- Average weekly initial claims for unemployment insurance;
- Manufacturers' new orders, consumer goods and materials;
- Institute for Supply Management's Index of New Orders;
- Manufacturers' new orders, nondefense capital goods excluding aircraft orders;
- Building 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

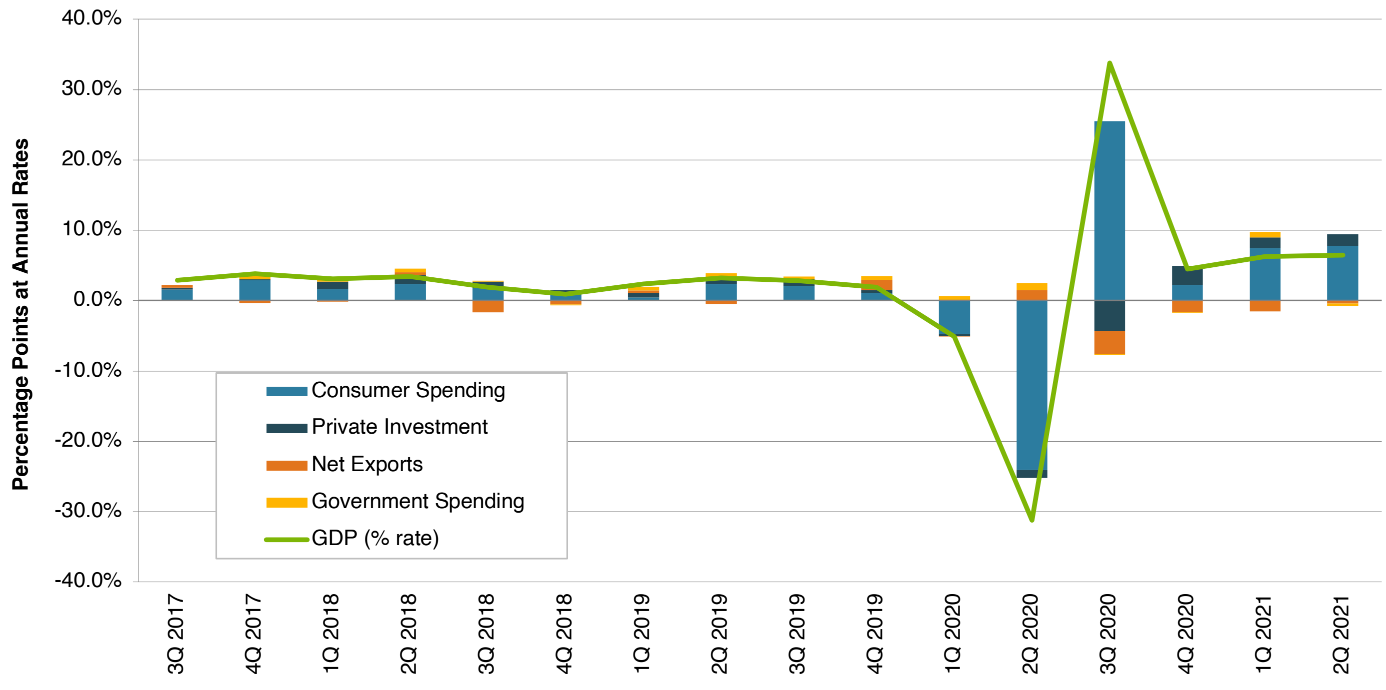
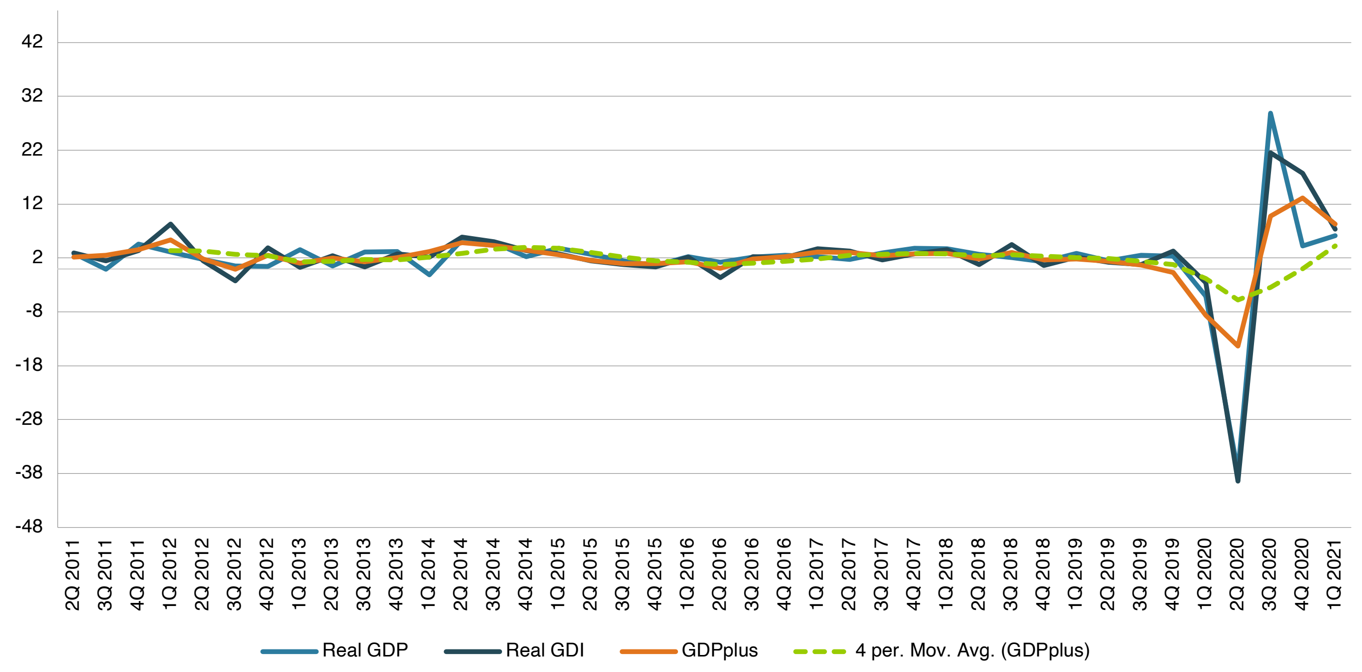


EXHIBIT 3C: GDPplus



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 moderated in June following a decline in the index from +0.26 to +0.09. The score received positive contributions from three of the four broad categories of indicators used to construct the index, but two of the four categories declined from their levels in May.

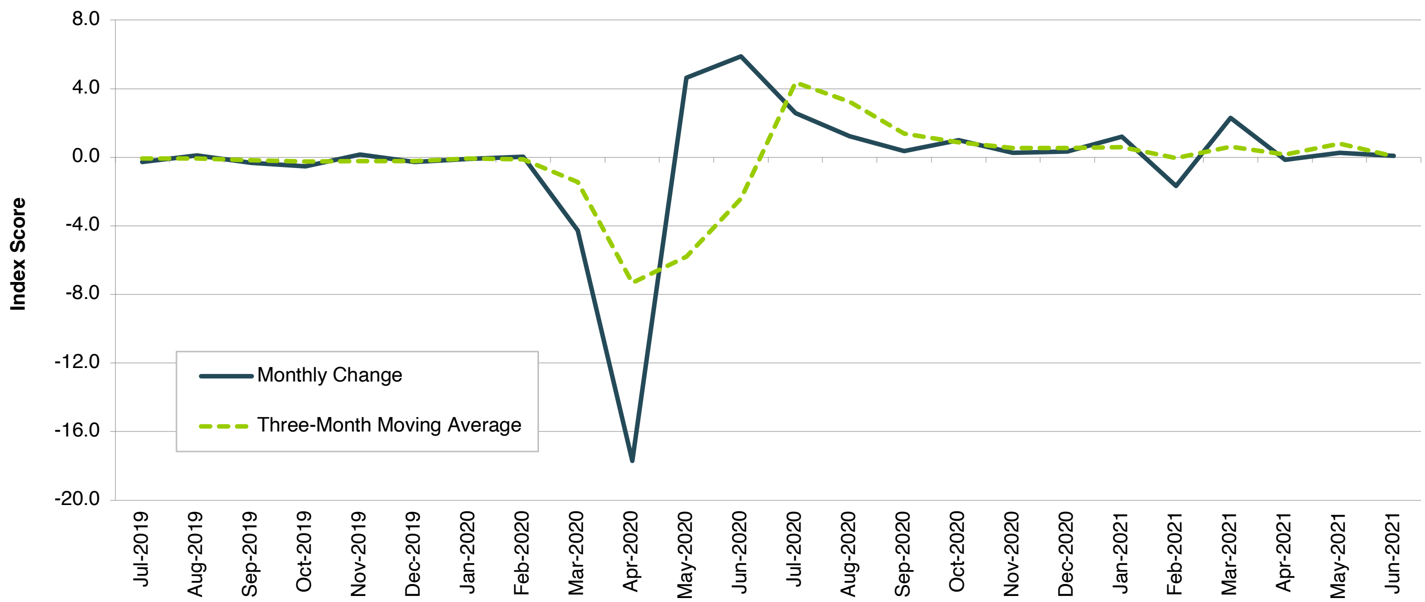
The CFNAI Diffusion Index, which is also a three-month moving average, decreased to +0.13 in June from +0.40 in May. Forty-five of the 85 individual indicators made positive contributions to the CFNAI in June, while 40 made negative contributions. Forty-five indicators improved from May to June, while 40 indicators deteriorated. Of the indicators that improved, 13 made negative contributions.

Production-related indicators contributed 0.01 to the CFNAI in June, moving down from +0.26 in May. Industrial production moved up 0.4% in June after increasing 0.7% in May. The contribution of the sales, orders, and inventories category to the CFNAI increased to +0.06 in June from -0.04 in May.

The contribution of the employment, unemployment, and hours category to the index moved down to +0.09 in June from +0.15 in May. Nonfarm payrolls rose by 850,000 in June after increasing by 583,000 in May, but the unemployment rate ticked up to 5.9% in June. The personal consumption and housing category contributed -0.08 to the index in June, up slightly from -0.11 in May. Housing starts increased to 1,643,000 annualized units in June from 1,546,000 in May, but housing permits decreased to 1,598,000 annualized units in June from 1,683,000 in the previous month.

The CFNAI was constructed using data available as of July 20, 2021. At that time, June data for 50 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index. The May monthly

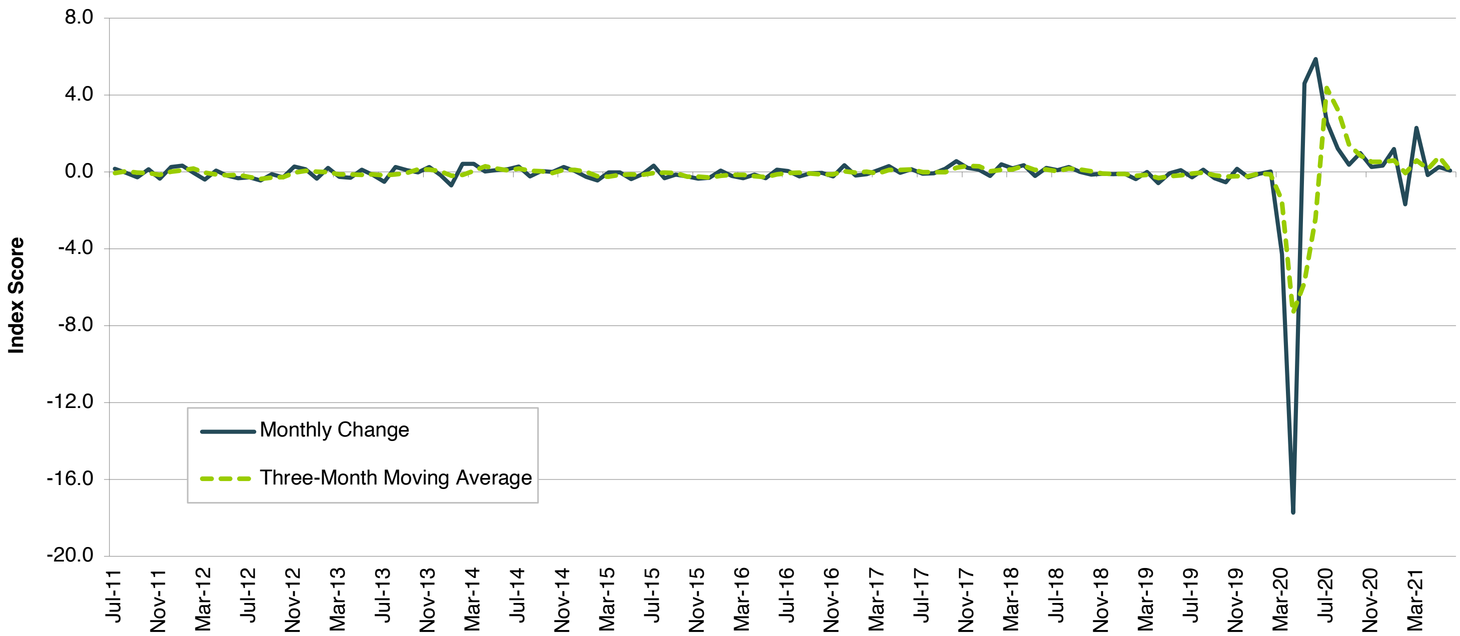
EXHIBIT 4A: National Activity Index—Past 24 Months



index value was revised to +0.26 from an initial estimate of +0.29, and the April monthly index value was revised to -0.16 from last month's estimate of -0.09. Revisions to the monthly index can be attributed to two main factors: revisions in previously published data and differences between the estimates of previously unavailable data and subsequently published data.

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, -17.72, was recorded in April 2020 and the highest score, 5.88, 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 improved in June and has risen in each month in 2021. The index rose 7.3 points, to 127.3 points. The increase came as consumers' short-term optimism rebounded, buoyed by expectations that business conditions and their own financial prospects will continue improving in the months ahead. While short-term inflation expectations increased, it had little impact on consumers' confidence or purchasing intentions. Among the consumers surveyed, the results showed that a large proportion intend to purchase homes, automobiles, major appliances, and to go on vacation, all serving as indications of an improving economy.

The Conference Board's Present Situation Index rose in June, moving up 9.0 points, to 157.7 points. The index measures consumers' confidence in the present and near-term future economy. The percentage saying business conditions are "good" increased, from 19.9% to 24.5%, while the percentage of those saying business conditions are "bad" decreased, from 20.6% to 19.5%. Consumers' assessment of the labor market also improved in June, as the percentage of consumers stating jobs are "plentiful" rose, from 48.5% to 54.4%, while the percentage of those claiming jobs are "hard to get" fell, from 20.6% to 19.5%.

Consumers' optimism about the short-term outlook improved in June, as the Expectations Index increased 6.1 points, to 107.0. The survey results showed the percentage of consumers expecting business conditions to improve over the next six months increased, from 31.0% to 33.3%, while those expecting business conditions to worsen improved from 14.4% to 10.6%. Consumers' outlook for the labor market was mixed, as the percentage of those expecting more jobs in the months ahead decreased, from 27.7% to 25.7%, and those expecting fewer jobs in the months ahead decreased, from 17.5% to 16.0%. The percentage of consumers expecting an improvement in their incomes increased, from 16.2% to 18.6%, and the percentage expecting a decrease fell, from 9.3% to 8.5%.

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 June, rising 2.6 points, to 85.5 points. The report noted that consumers continued to pay close attention to three critical factors: inflation, unemployment, and interest rates. While inflationary pressures are of concern, the decline in June from the peak of May eased consumers' expectations that inflation may only be temporary.

The report highlighted that, although consumer sentiment slipped in late June, it remained 3.1% above the May reading and the second highest since the start of the pandemic. All of the June gain was among households with incomes above $100,000 and mainly in the way they judged future economic prospects.

The Index of Consumer Expectations increased 4.7 points, to 83.5 points, and is 11.2 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, fell 0.8 point in June, to 88.6 points, but is 1.5 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 rose to its highest level since November 2020 following an increase of 2.9 points in June, to 102.5 points. The report noted that the overall economy is running "hot" although the small-business economy does express concerns over hiring and inflation. In June, the NFIB uncertainty index increased four points, to 83.

In June, seven of the 10 components that make up the Small Business Optimism Index increased and three declined.

The component that measures the frequency of reports of positive profit trends improved six points, to a net -15% reporting quarter-on-quarter profit improvement. Among owners reporting lower profits, 35% blamed weaker sales, 25% cited a rise in the cost of materials, 8% cited the usual seasonal change, 9% cited labor costs, 9% cited lower prices, and 5% cited higher taxes or regulatory costs. For owners reporting higher profits, 66% credited sales volumes, 13% cited usual seasonal change, and 19% cited higher prices.

The report continues to point out the struggles that small businesses are having to fill open position but points to a strong job market overall in June. Overall, 63% reported hiring or trying to hire in June, which is 6.0 percentage points higher than it was in May. Forty-six percent of all owners reported job openings they could not fill in the current period, down 2.0 percentage points from May but still far above the 48-year historical average of 22%. Owners have plans to fill open positions, with a seasonally adjusted net 28% planning to create new jobs in the next three months, which is up 1.0 percentage point. Finding qualified employees remains a problem, as 56% of owners reported few or no "qualified" applicants for the positions they were trying to fill in June, which is down 1.0 percentage point from May. Where there are open positions, labor quality remains a problem. Thirty-two percent of owners reported few qualified applicants for their open positions, and 24% reported none.

In June, the percentage of owners reporting making capital outlays in the last six months decreased 6.0 percentage points, to 53%. Of those making expenditures, 36% reported spending on new equipment, 23% acquired vehicles, 23% acquired vehicles, and 14% improved or expanded facilities. Six percent of owners acquired new buildings or land for expansion, and 11% spent money on new fixtures and furniture. Twenty-five percent of owners plan capital outlays in the next few months, which is unchanged from May.

Seasonally adjusted, a net 9% of all owners reported higher nominal sales in the past three months, which is up 2.0 percentage points from May. The net percentage of owners expecting higher real sales volumes improved 5.0 percentage points, to 7%.

The net percentage of owners reporting inventory increases rose 2.0 percentage points, to a net 1%. Owners viewing current inventory stocks as "too low" increased 3.0 percentage points in June, to a net 11%. A record-high 11% of owners plan inventory investment in the coming months, which is up 5.0 percentage points from May.

The percentage of owners raising average selling prices increased 7.0 percentage points, to a net 47%, the highest percentage since January 1981. Price hikes were the most frequent in wholesale, evidenced by the rate for higher prices being 82% compared to the 4% rate for lower prices, and in retail, with 63% reporting higher prices compared to 1% reporting lower prices. Seasonally adjusted, a net 44% plan price hikes.

A net 39% of owners reported raising compensation, which is up 5.0 percentage points from May, while a net 26% plan to do so in the coming months. Only 8% of owners cited labor costs as their top business problem, and 26% said that labor quality was their top business problem.

The frequency of reports of positive profit trends declined six points, to a net -5% reporting quarter-on-quarter profit improvement. Among owners reporting lower profits, 35% blamed weaker sales, 8% cited the usual seasonal change, 25% cited a higher cost of materials, 9% cited labor costs, and 5% cited higher taxes or regulatory costs. For owners reporting higher profits, 66% credited sales volumes, 8% cited usual seasonal change, and 9% cited higher prices.

Only 3% of owners reported that all their borrowing needs were not satisfied, which is unchanged from May. Twenty-five percent reported all credit needs met, and 59% said they were not interested in a loan. A net 2% 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 second-quarter 2021 Small Business Index, which improved 4.1 percentage points. The second-quarter index stands at 60.0% and 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 second quarter, the index improved for the fourth consecutive quarter. Overall, other small-business owners' views about their current operations are largely unchanged. Fifty-two percent of small businesses rate their overall business health as good, unchanged from last quarter. This measure has stayed consistent since June 2020. More than six in 10 small businesses are comfortable with their current cash flow. Currently, 33% of small businesses plan to increase investment in the upcoming year, on par with last quarter's 35%. As for staffing plans, 52% of small businesses continue to anticipate retaining the same staffing level, compared to 49% in the first quarter, and 32% plan to increase staffing. Eleven percent plan to decrease staffing over the next year.

The second-quarter report noted that 52% of small businesses rate their overall business health as good, which is unchanged from last quarter. This measure has stayed consistent since June 2020. Across regions, 45% of small businesses in the Midwest are least likely to report good business health, which is lower than other regions. Similar to trends throughout the pandemic, professional services are generally more optimistic about business health, while retailers and manufacturers are less optimistic. Fifty-three percent of service businesses, compared to 58% of professional services firms, say their business is in good health, although 45% of retailers and 48% of manufacturers agree.

Sixty-four percent of small businesses are comfortable with their current cash flow, slightly up from the 62% reported in the first quarter. Overall, 57% of small businesses continue to report they have retained the same size staff over the past year, while 18% have increased staff and 23% have reduced staff. Interestingly, the number of small businesses that say they have reduced staff remains higher than in 2020, a shift first noticed last quarter. While the reported headcount has not changed overall since earlier this year, there are some subtle shifts under the surface. For example, Midwestern businesses are more likely now to say they have retained the same size staff than last quarter. Across sectors, those in the service industry say in larger numbers that they have increased staff, while manufacturers report being less likely to reduce staff, with 29% reporting they reduced staff.

Currently, 27% of small businesses rate the overall U.S. economy as good, up from 21% in the first-quarter report. This, however, remains far below prepandemic levels, when it was 60% as recently as the first quarter of 2020. However, what is really driving things is that fewer small businesses are seeing the economy as poor. While 46% continue to say the national economy is poor, this is the first time this measure has fallen below 50% during the pandemic. Just last quarter, 59% of small businesses said the economy was poor. A growing number of small businesses rate their local economy's health as good. Currently, 33% rate their local economy as good, 36% rate it as average, and 29% rate it as poor. Regionally, small businesses in the South and Northeast are more likely to feel positively toward the national economy than those in the Midwest and West, though Midwestern small businesses feel more positive than last quarter.

In the first quarter of 2021, just 6% of those in the services industry said the U.S. economy was in good health. In the current quarter, this sentiment has more than tripled, to 21%. Still, however, 54% of service-related small businesses rate the U.S. economy as poor, more than any other sector.

The RSM U.S. Middle Market Business Index (MMBI) rose 4.1 points in the second quarter reading, 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 the second quarter report, 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 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 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% 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

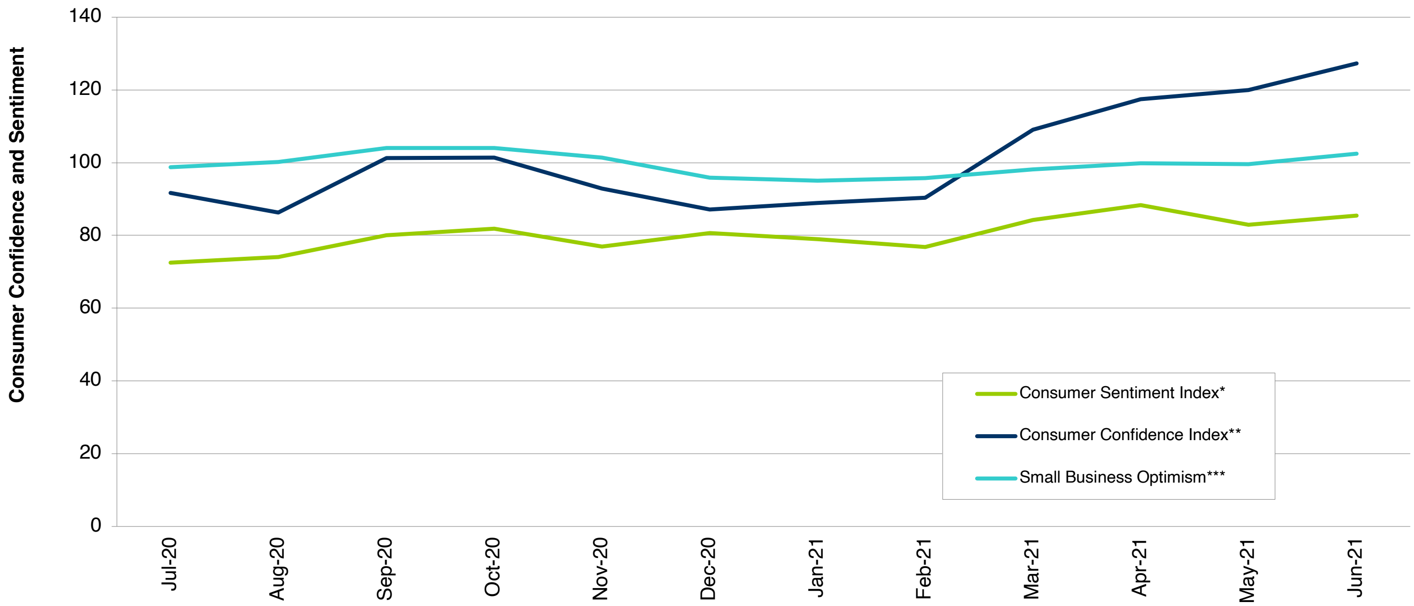
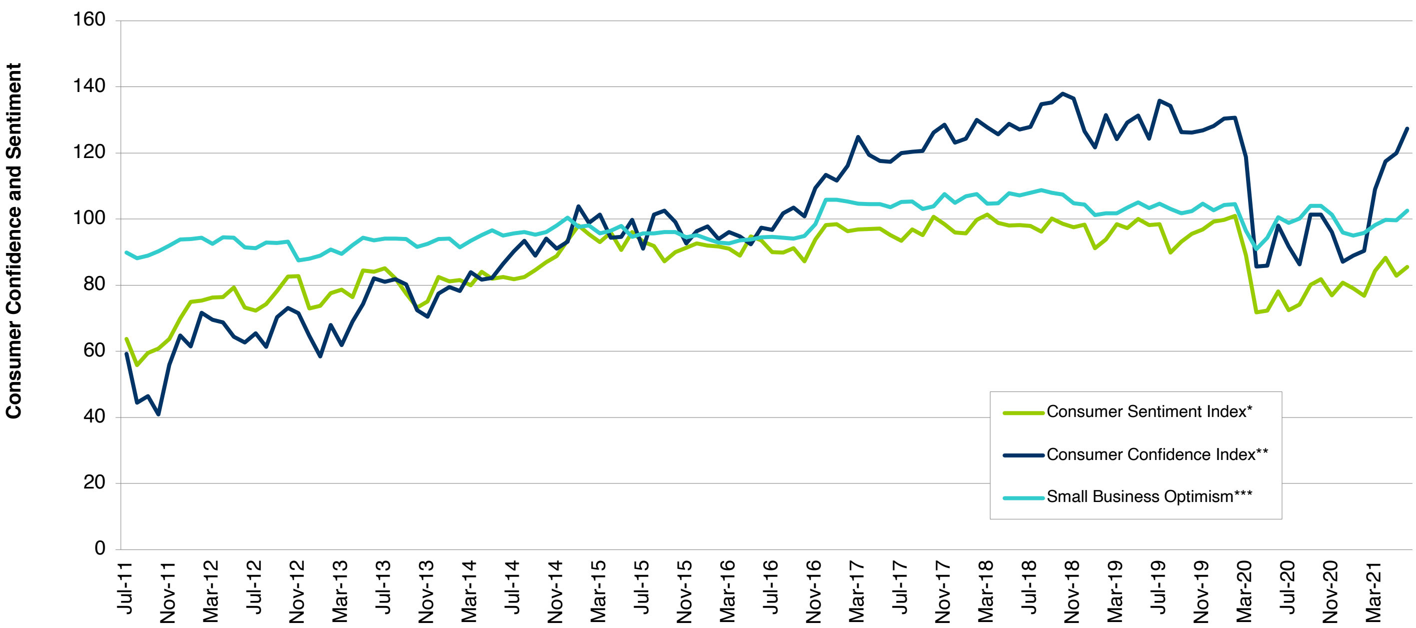


EXHIBIT 5B: Consumer Confidence and Small Business Optimism—10 Years



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

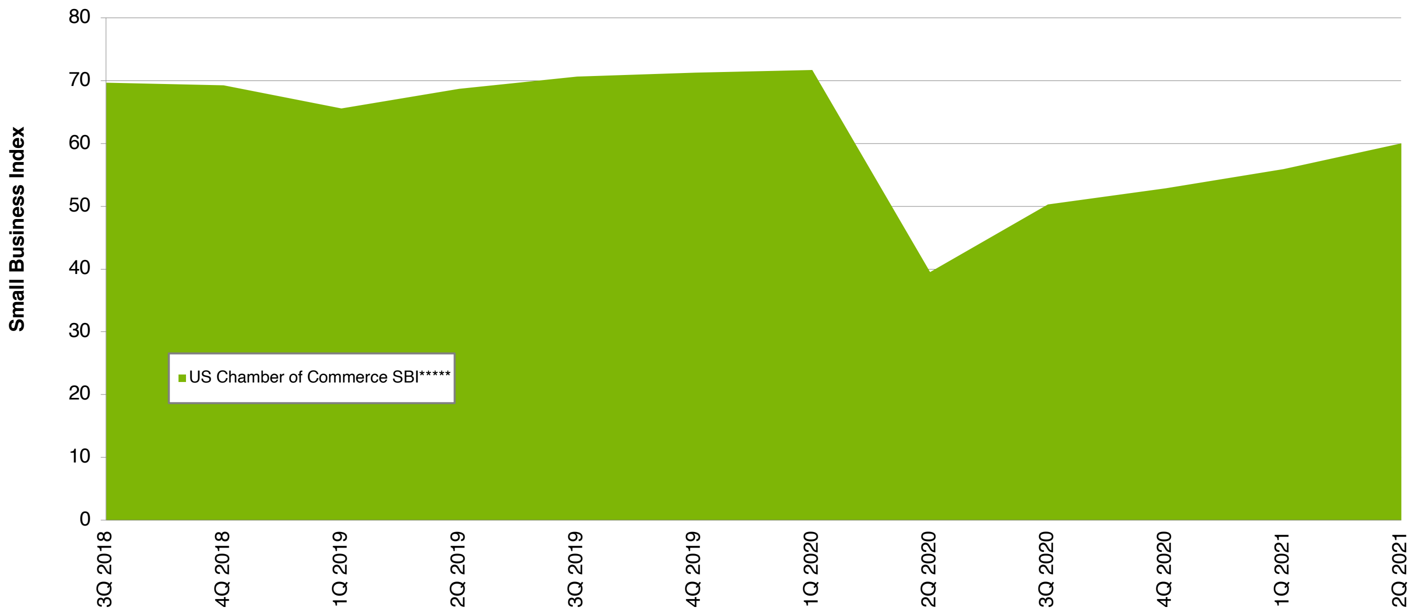
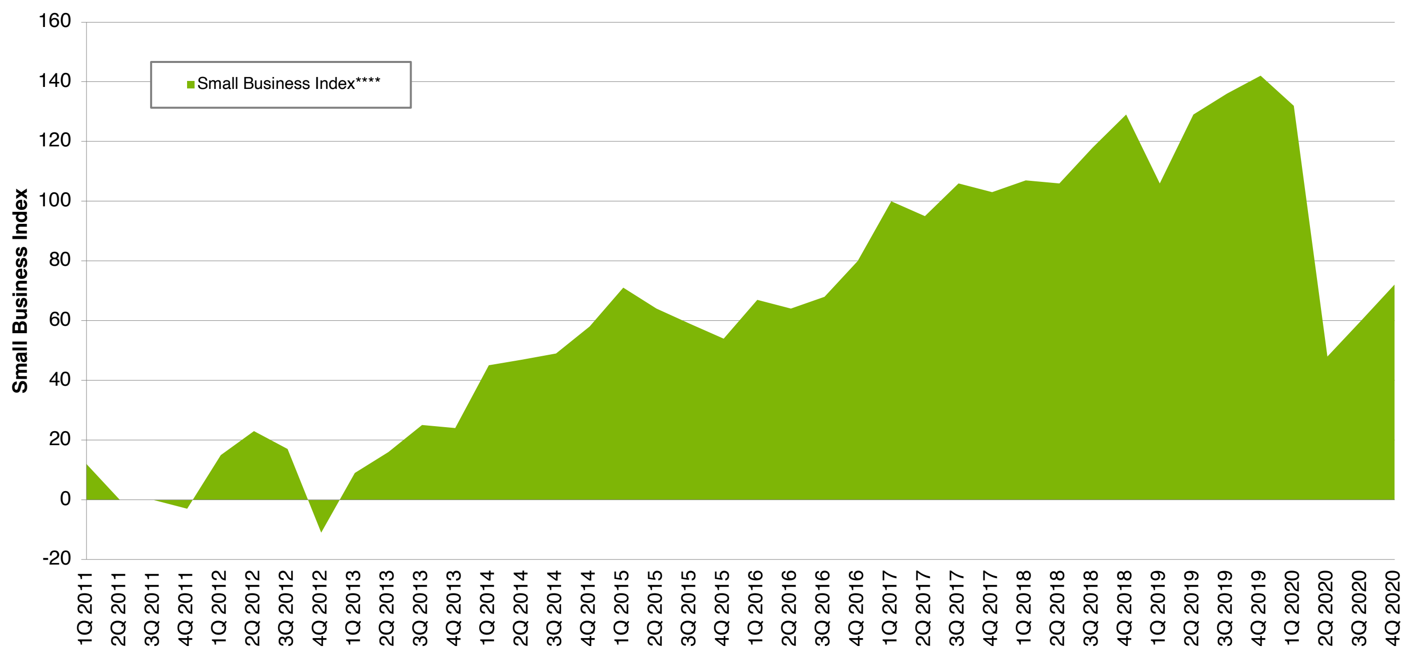


EXHIBIT 5D: Wells Fargo/Gallup Small Business Index—10 Years



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

RETAIL SALES AND WHOLESALE INVENTORY, SALES, AND TRADE

U.S. retail and food services sales rose 0.6% in June as increased consumer spending netted $621.3 million in sales. The data showed that consumers spent more on clothing, electronics, and dining out as the continued reopening of the U.S. economy has fueled sales in these areas. Economists view retail sales as a key economic indicator since consumer spending accounts for nearly two-thirds of the U.S. economy.

Nine of the 13 major categories in the "Advance Monthly Retail Trade Report," which highlights sales figures across most retail categories, had higher sales. Clothing and clothing accessories stores saw a rise of 2.6%, electronic and appliance stores saw an increase of 3.3%, and food services and drinking places increased 2.3%.

Retail sales figures over the past 12 months increased 18.0%, although the figure is aided by the period 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 47.1%, sales at electronics and appliance stores rose 37.3%, and sales at food services and drinking places rose 40.2%.

Core retail sales rose 1.1% in June. 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 15.8%.

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.

Wholesale trade improved 0.8% in May compared to one month ago and by 36.8% from one year ago. In May, sales of merchant wholesalers, except manufacturers' sales branches and offices, after adjustment for seasonal variations and trading day differences but not for price changes, were $576.5 billion. The March 2021-to-April 2021 percentage change was revised from the preliminary estimate of 0.8% to 1.1%.

Total inventories of merchant wholesalers, except manufacturers' sales branches and offices, after adjustment for seasonal variations and trading day differences but not for price changes, were $709.8 billion at the end of May, which is up 1.3% from March and 8.2% from one year ago.

The inventory-to-sales ratio came in at 1.23x in May, which is up 0.01 percentage point from the ratio in April but is down from 1.56x from one year ago.

EXHIBIT 6A: Total Retail Sales—Past 24 Months

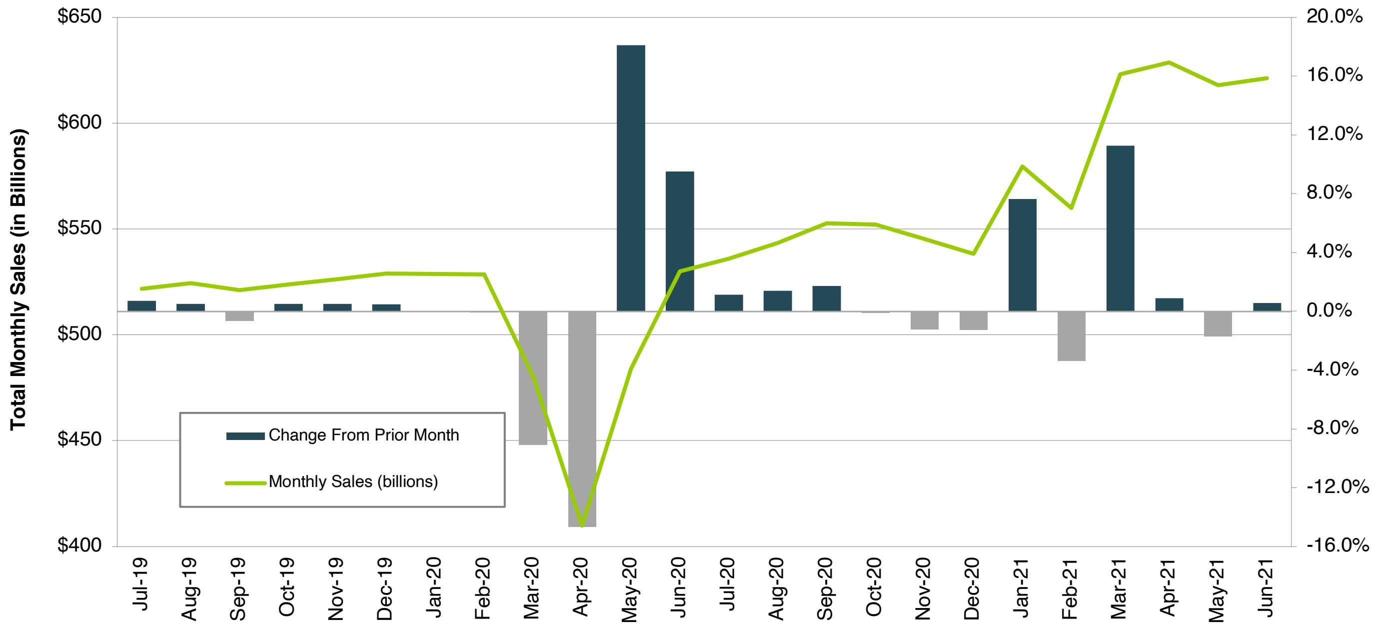
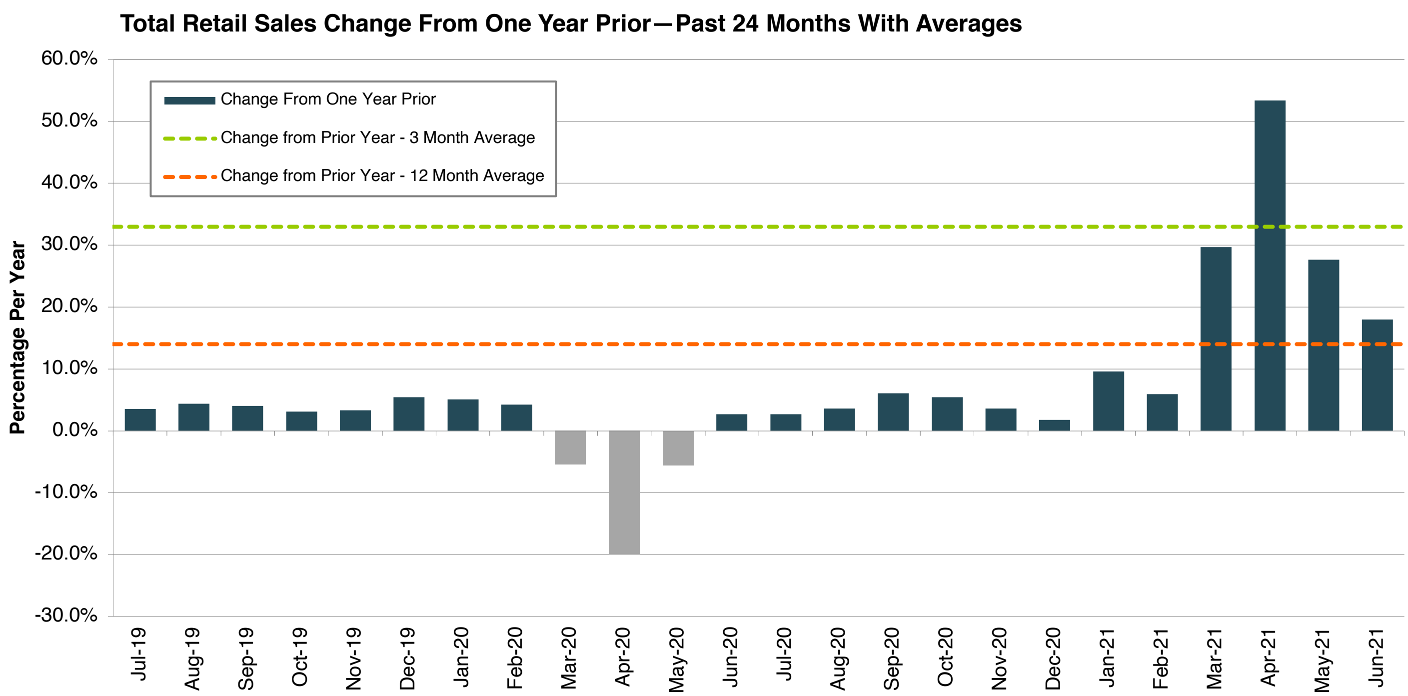


EXHIBIT 6B: Total Retail Sales Change From One Year Prior—Past 24 Months With Averages



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

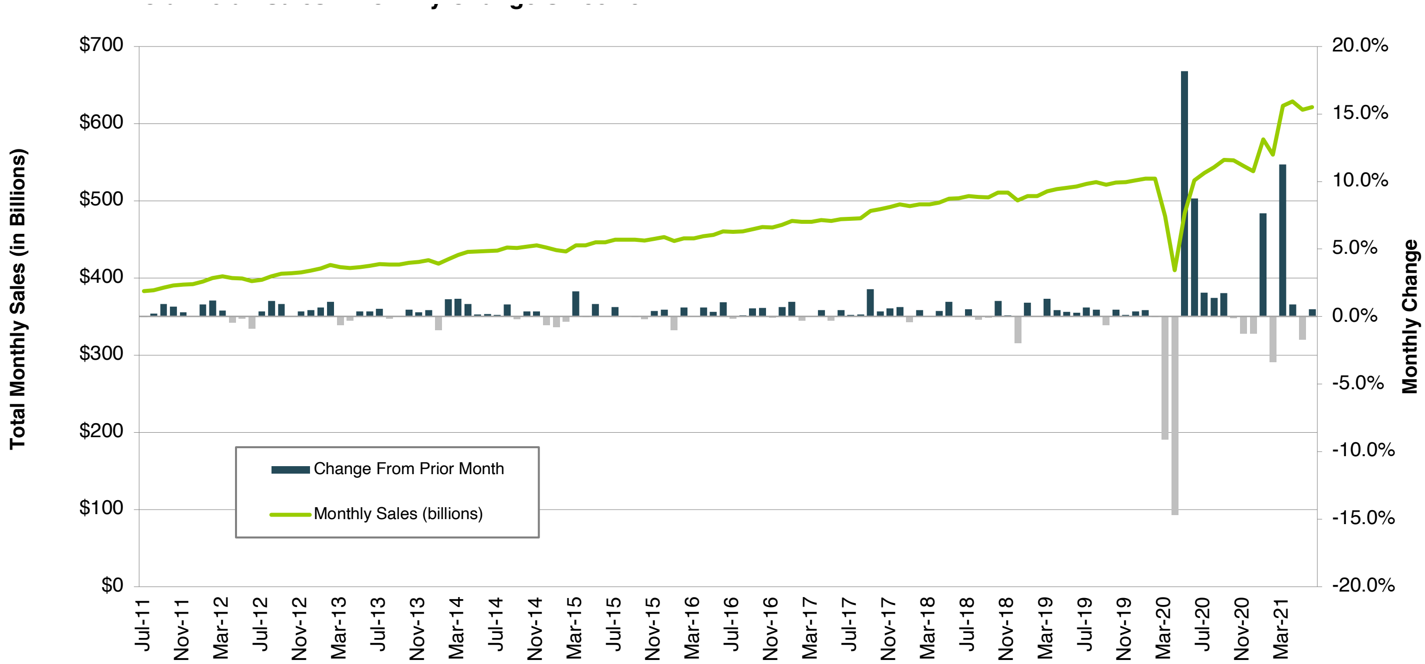
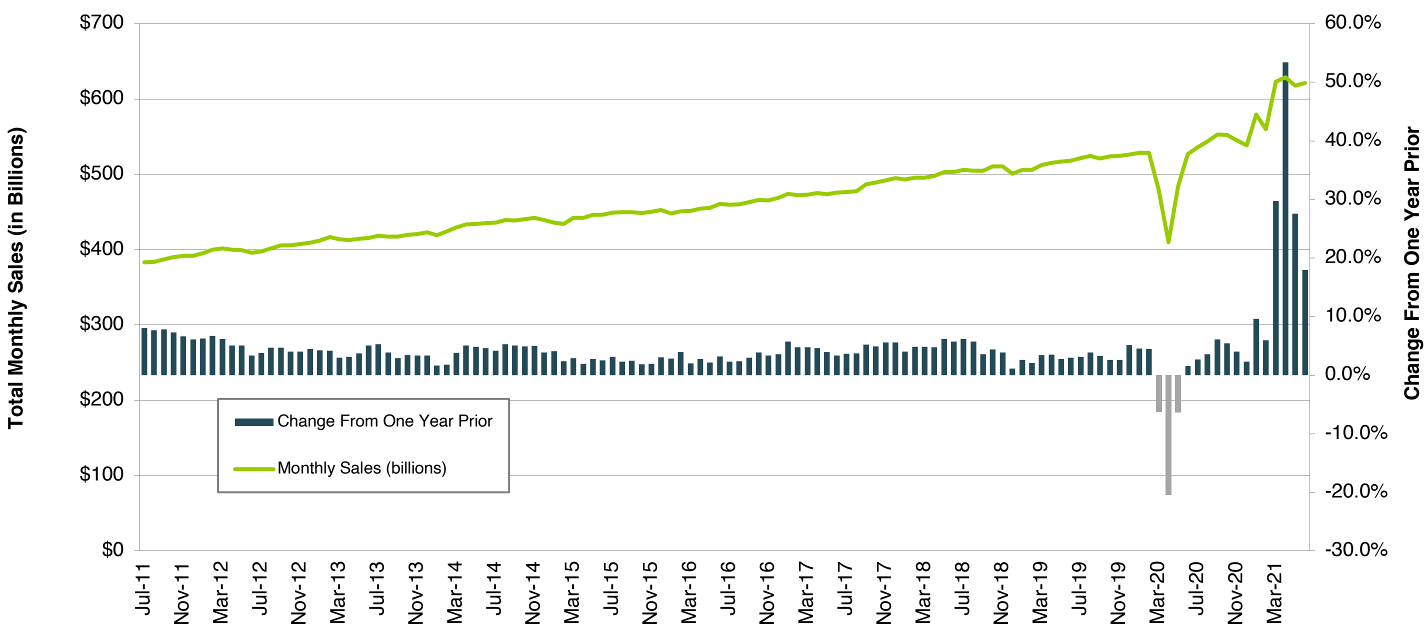


EXHIBIT 6D: Total Retail Sales—Percentage Change From One Year Prior Since 2011



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

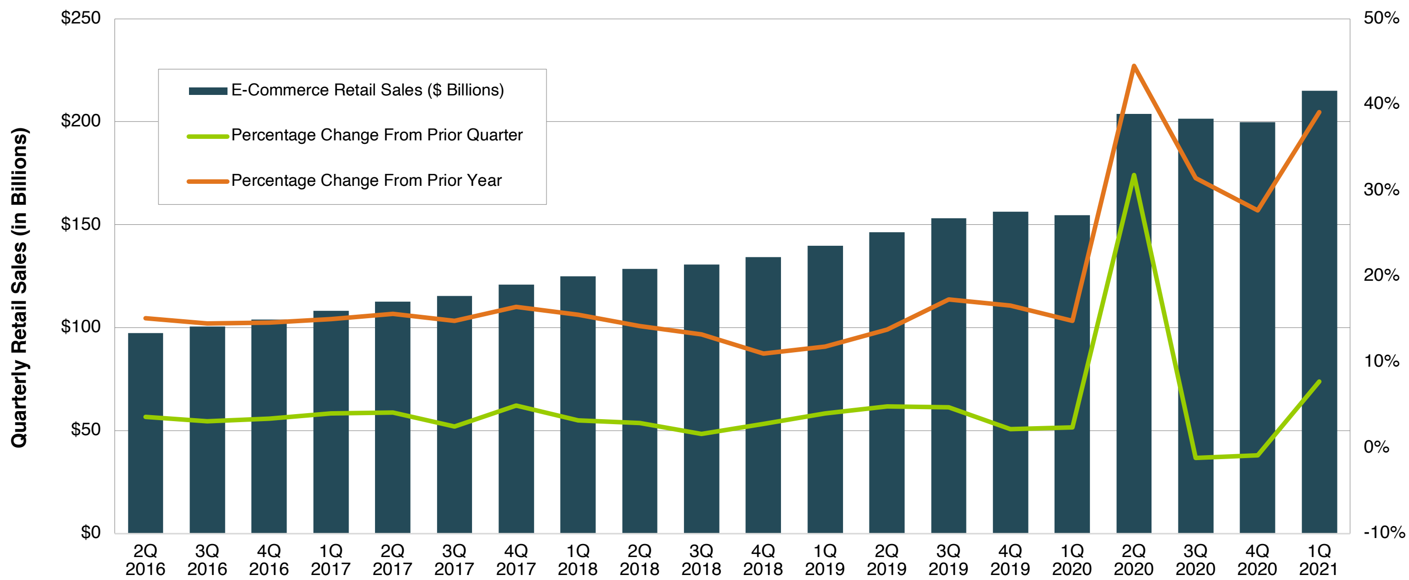
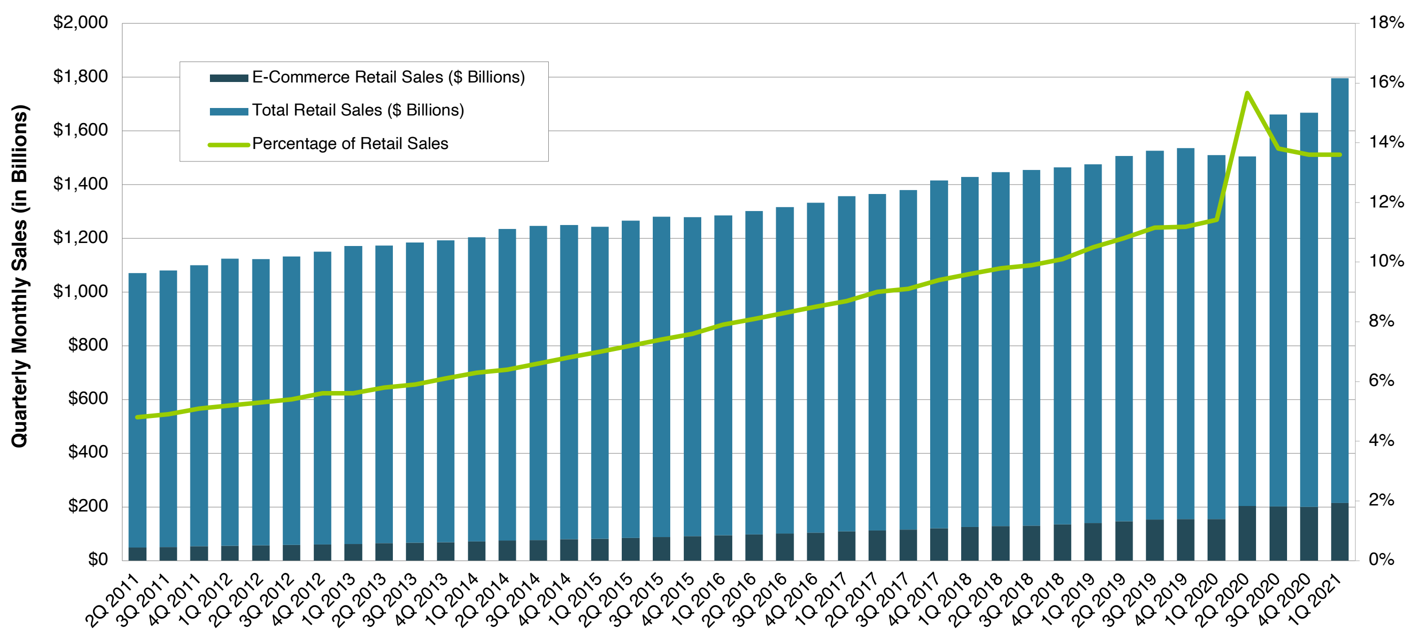


EXHIBIT 6F: E-Commerce Retail Sales Compared to Retail Sales 10 Years



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

EXHIBIT 6G: Total Monthly Sales of Merchant Wholesalers—Past 24 Months

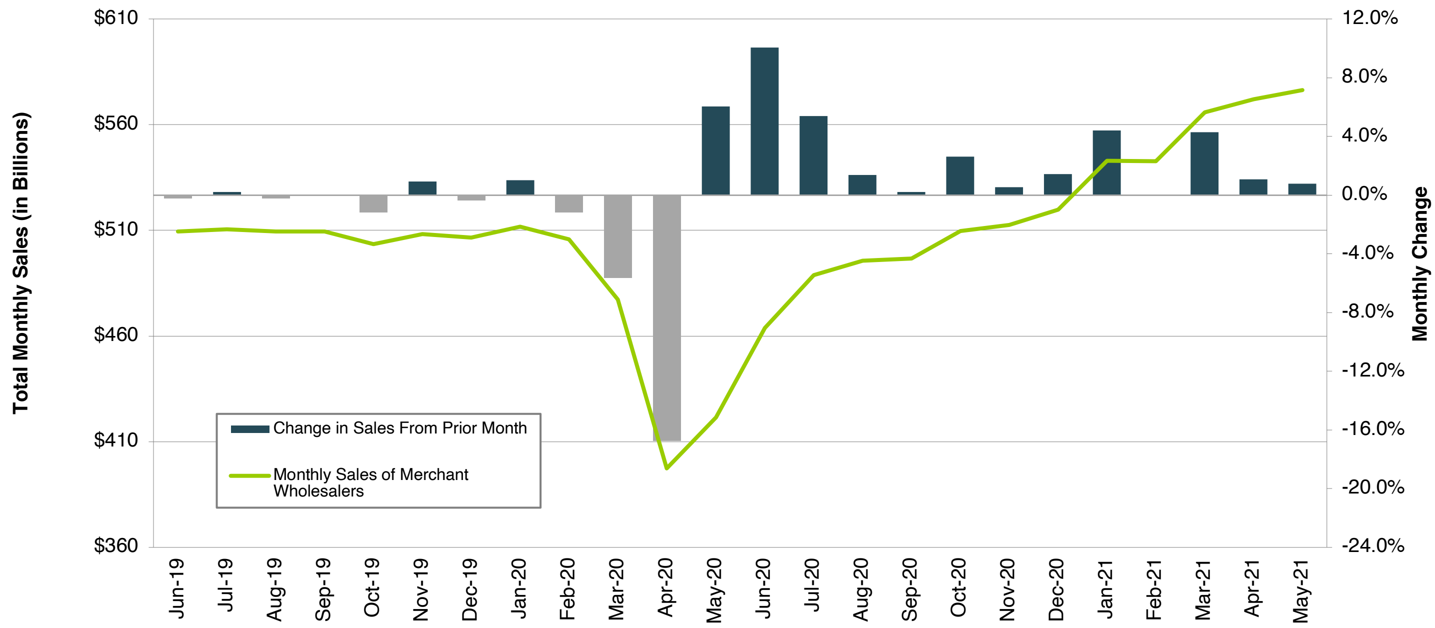
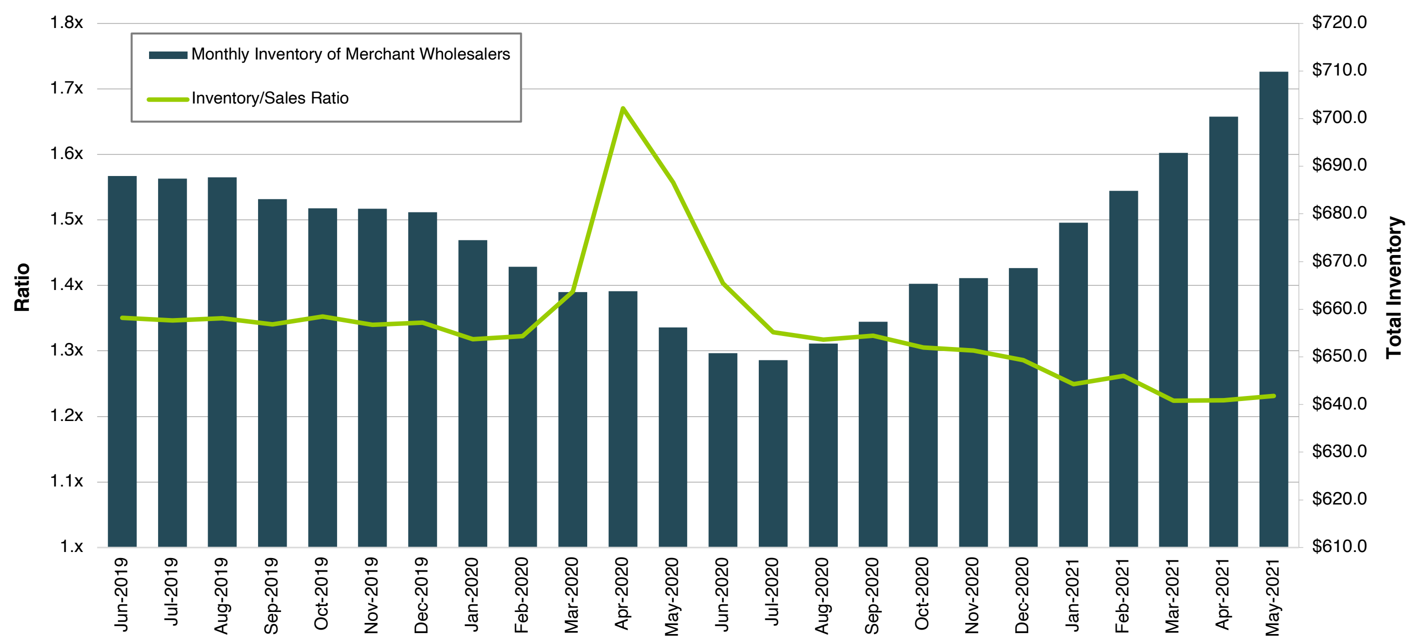
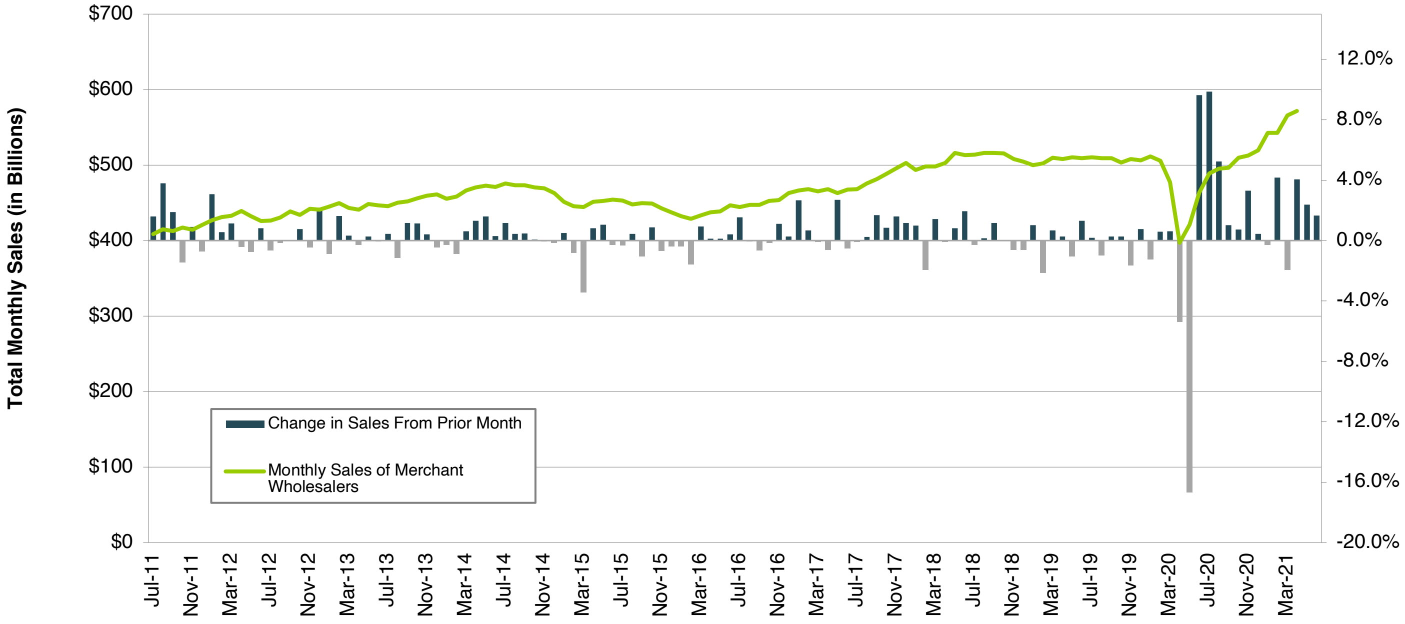


EXHIBIT 6H: Monthly Inventory-to-Sales Ratio of Merchant Wholesalers—Past 24 Months



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

EXHIBIT 6I: Total Monthly Sales of Merchant Wholesalers—Monthly Change Since 2011



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

UNEMPLOYMENT

In June, job growth had its strongest month since August 2020, with the U.S. economy adding 850,000 jobs, exceeding forecasts for growth of 706,000 jobs, according to poll by the Dow Jones. In addition, the report included revisions to the prior two months' figures, which showed 15,000 more jobs than originally reported, with the figure for April being revised lower, to 269,000 jobs from 278,000 jobs, and the figure for May rising to 559,000 jobs from to 583,000 jobs.

In June, the share of employed persons who teleworked because of the coronavirus pandemic edged down, to 14.4% from 16.6% in May. 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 June, 6.2 million persons, which is down from 7.9 million persons in May, 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 June that they were unable to work because of pandemic-related closures or lost business, 10.0% 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 June, 1.6 million persons were prevented from looking for work due to the pandemic. This measure is down from 2.5 million from May.

Among the unemployed, the number of job leavers, or unemployed persons who quit or voluntarily left their previous job and began looking for new employment, increased by 164,000, to 942,000, in June. The number of persons on temporary layoff, at 1.8 million, was essentially unchanged over the month. This measure is down considerably from the high of 18.0 million in April 2020 but is 1.1 million above the February 2020 level. The number of permanent job losers, at 3.2 million, was also essentially unchanged over the month but is 1.9 million higher than in February 2020.

Employment in the leisure and hospitality sector gained 343,000 jobs in June, but, despite the rise, the figure remains 2.2 million, or 12.9%, below the figure from February 2020. Employment in the government sector rose 155,000 jobs but is down 414,000 jobs from one year ago. The professional and business services sector gained 72,000 jobs, the retail trade sector added 67,000 jobs, and employment in the other services sector increased by 56,000 jobs.

The construction sector subtracted 7,000 jobs and is down 238,000 jobs since February 2020. Employment in other industries changed little in June.

The report found that labor-force participation was unchanged in June, at 61.6%, but is 1.7 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, was also unchanged in June, at 58.0%, but is 0.6 percentage point higher than its rate in December 2020. The number of long-term unemployed (those jobless for 27 weeks or more) increased by 233,000 in June, coming in at 4.0 million, which is 2.9 million higher than the figure from February 2020.

Despite the strong growth in jobs, the U3 unemployment rate worsened 0.1 percentage point, to 5.9%. The rate in May had been the lowest since the start of the coronavirus pandemic.

The broadest measure of labor underutilization, the U6 unemployment rate, improved 0.4 percentage point in June, to a seasonally adjusted 9.8%. The U6 unemployment rate has continually improved over the past six months after hitting 22.8% in May, 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 692,000 jobs. The report showed broad gains across all businesses, with large-sized businesses adding 240,000 jobs, small businesses adding 215,000 jobs, and midsized businesses adding 236,000 jobs. The number of service-sector jobs rose by 624,000, and the number of goods-producing jobs increased by 68,000. Within the small-sized-business segment, the service sector saw gains of 200,000 and the goods-producing sector added 15,000 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 April 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 0.10 cents in June, to $30.40, and remain higher by 1.05 cents, or 3.6%, over the past 12 months. Average hourly earnings for private-sector production and nonsupervisory employees increased 0.10 cents in June, to $25.68. Over the last 12 months, average hourly earnings for private-sector production and nonsupervisory employees have increased 0.91 cents, or 3.7%.

The average workweek for all private workers decreased 0.1 hour in June, to 34.7 hours, but is up 0.1 hour from one year ago. The manufacturing workweek decreased 0.2 hour in June, to 40.2 hours, and the number of manufacturing overtime hours fell 0.1 hour, to 3.2 hours. The average workweek for production and nonsupervisory employees declined 0.2 hour in June, to 34.1 hours.

Compensation costs for civilian workers for the three-month period ending June 2021, as measured by the Employment Cost Index, increased 0.7% as wages and salaries (which comprise 70% of compensation costs) increased 0.9% and benefit costs (which make up the remaining 30%) increased 0.4%. Over the past 12 months, compensation costs for civilian workers increased 2.9%, which is 0.3 percentage point higher than the first-quarter reading and 0.2 percentage point higher than the figure from one year ago.

Compensation for private-industry workers increased 3.1% over the past year, which is higher by 0.4 percentage point from one year ago. Wages and salaries increased 3.5% for the 12-month period ending June 2021, while the costs of benefits increased 2.0% over the same period. Employer costs for healthcare benefits increased 0.4% for the 12-month period ending June 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

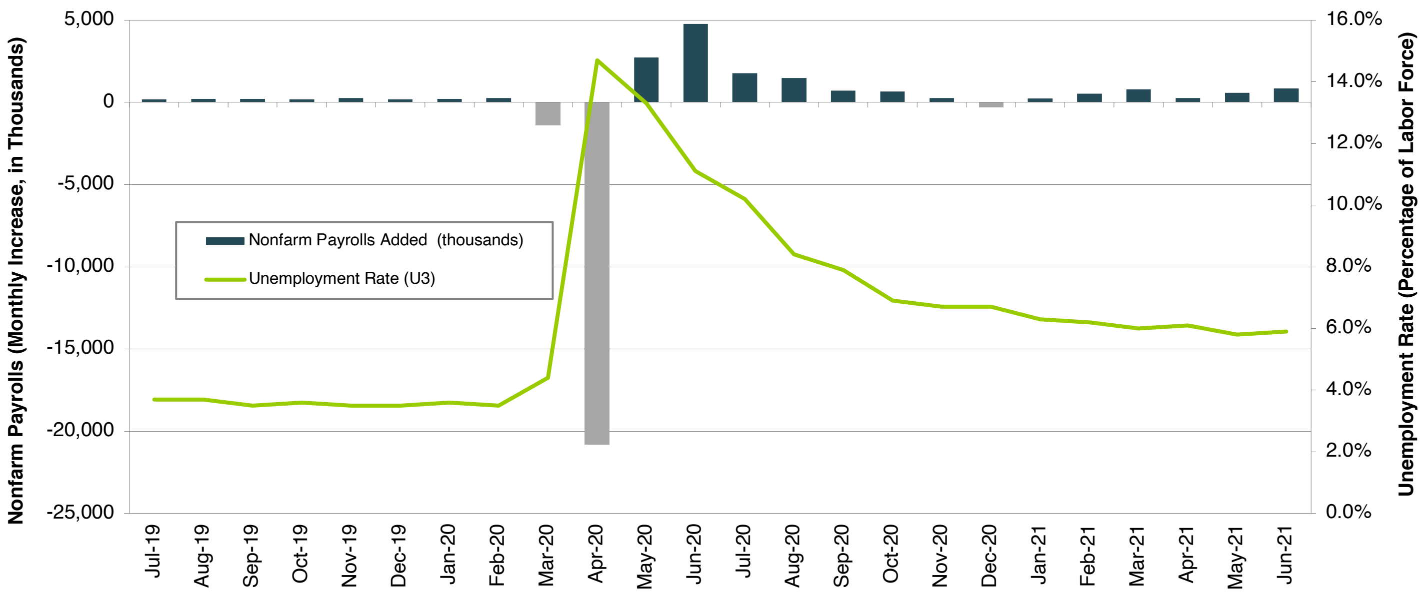
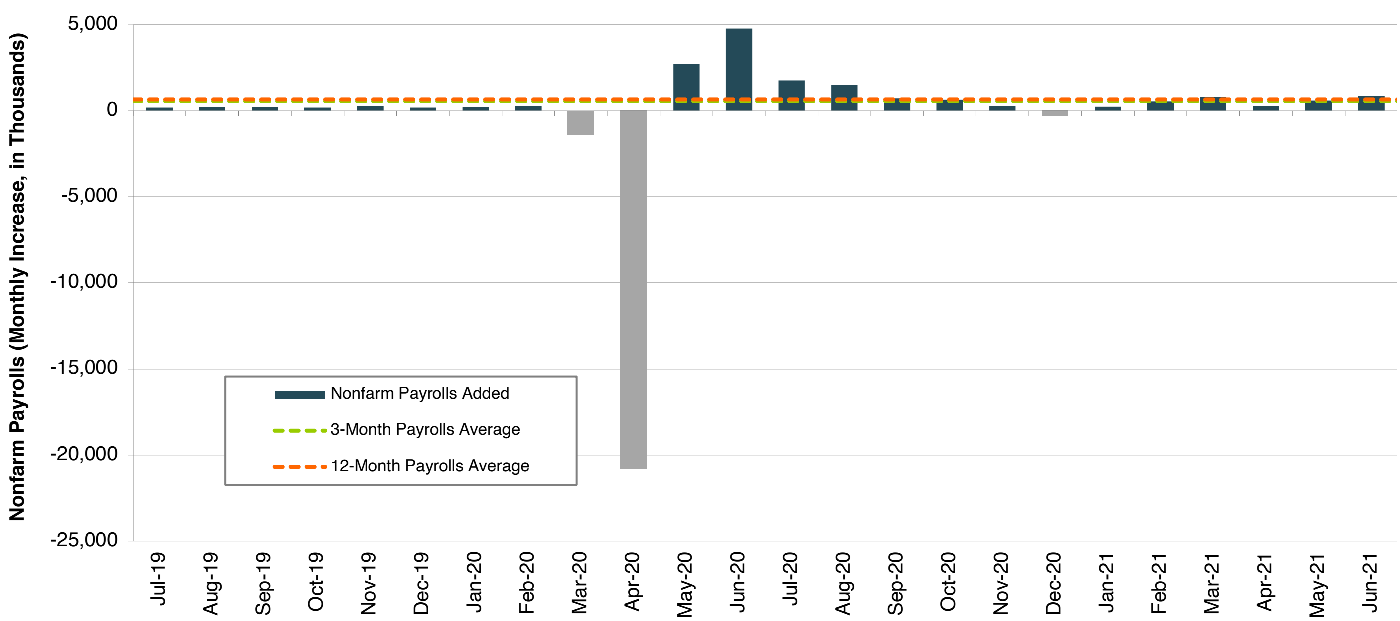


EXHIBIT 7B: U.S. Employment—Past 24 Months With Averages



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

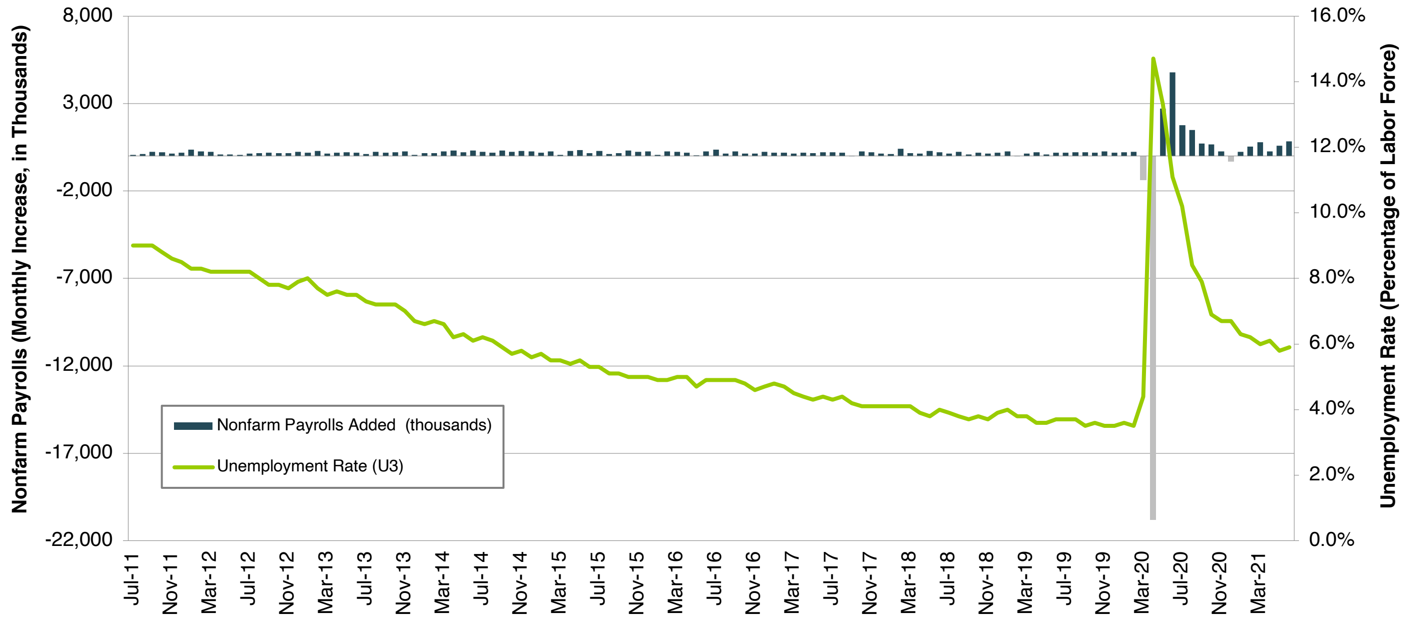
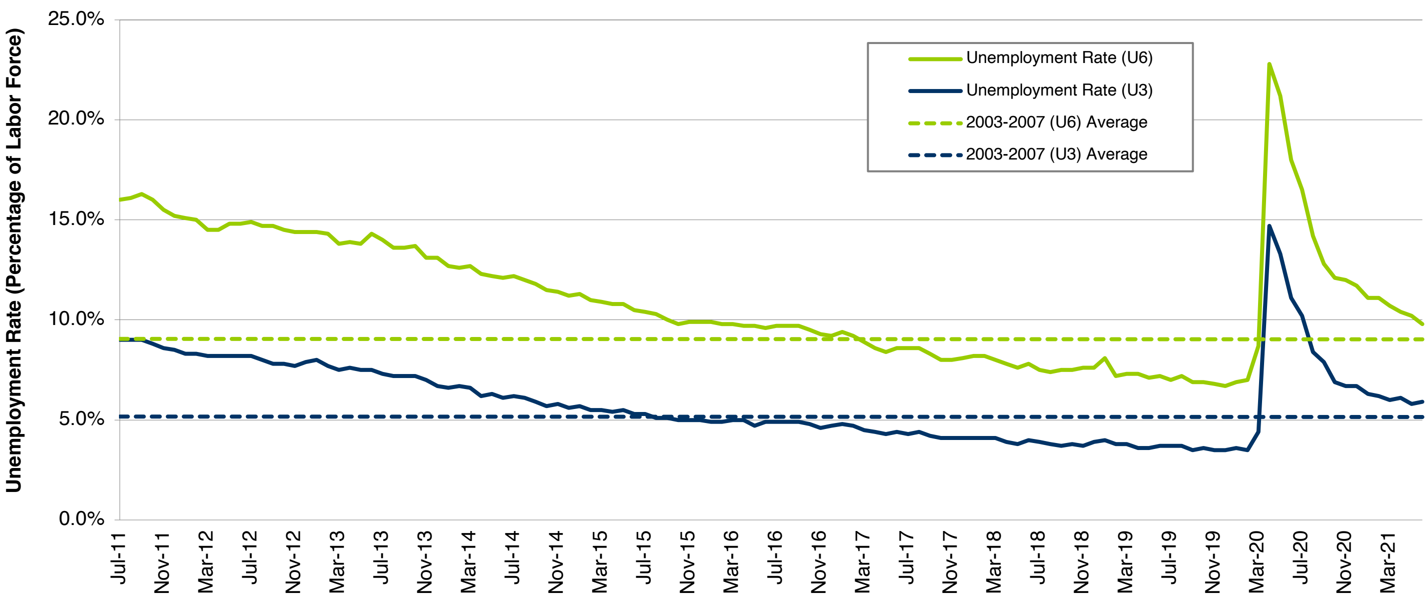


EXHIBIT 7D: U3 Unemployment Compared With U6 Unemployment—10 Years



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.

MANUFACTURING PMI

The manufacturing sector declined in June after the manufacturing index (PMI) fell 0.6 percentage point as reported by the Institute for Supply Management (ISM). Despite the decline, the score in June, 60.6%, indicates expansion in the overall economy for the 13th consecutive month. Panelists reported that their companies and suppliers continue to struggle to meet increasing levels of demand and are experiencing record-long raw-material lead times, wide-scale shortages of critical basic materials, rising commodities prices, and difficulties in transporting products. Still, optimism within the industry was widespread, evident by the ratio of 16 positive comments per every one cautious comment, though the figure has decreased significantly from the rate in May when there were 36 positive comments for every one cautious comment.

The breakdown of the components in June are as follows: Demand expanded, with the New Orders Index growing, supported by the New Export Orders Index continuing to expand; the Customers' Inventories Index remained at very low levels; and the Backlog of Orders Index continued at a very high level. Consumption (measured by the Production and Employment indexes) improved in the period, posting a combined 1.3-percentage-point increase to the Manufacturing PMI calculation. The Employment Index, which held back further expansion, contracted after six straight months of expansion, as panelists continued to note significant difficulties in attracting and retaining labor at their companies' and suppliers' facilities. Inputs, which are expressed as supplier deliveries, inventories, and imports continued to support input-driven constraints to production expansion, at higher rates compared to May, due to continued trouble in supplier deliveries. The Prices Index expanded for the 13th 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 June Manufacturing PMI, at 60.6%, indicates the 13th 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 June score was above the 12-month average of 59.1%.

Seventeen of the 18 manufacturing sectors surveyed in June reported growth. The report stated that, based on the past relationship between Manufacturing PMI and the overall economy, if Manufacturing PMI for June (60.6%) were annualized, it would correspond to a 5.0% increase in GDP annually.

The 17 manufacturing industries that reported growth in June were: furniture and related products; machinery; electrical equipment, appliances, and components; computer and electronic products; plastics and rubber products; chemical products; fabricated metal products; transportation equipment; miscellaneous manufacturing; nonmetallic mineral products; textile mills; primary metals; food, beverage and tobacco products; paper products; printing and related support activities; wood products; and petroleum and coal products.

The component for new orders decreased 1.0 percentage point in June, to 66.0%. Despite the decline, the component remains at a level that indicates the 13th 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). Fifteen of 18 industries reported growth in new orders in June.

The component for production increased 2.3 percentage points in June, to 60.8%, with the component at a level indicating growth for the 13th consecutive month. 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 June.

Employment in the manufacturing sector moved down 1.0 percentage point in June, to 49.9%, and, as a result, fell to a level that indicates contraction for the first time after being at a level that indicates expansion for each of the past six months. An Employment Index above 50.8%, over time, is generally consistent with an increase in the Bureau of Labor Statistics' data on manufacturing employment. Ten of the 18 industries reported employment growth in June.

The component that measures prices increased 4.1 percentage points in June, to 92.1%, and is now at its highest level since July 1979. Following the rise, the index is at a level indicating expansion for the 13th consecutive month. Virtually all basic and intermediate manufacturing materials are experiencing price increases as a result of product scarcity and the dynamics of supply and demand, with an increasing number of panelists reporting higher prices compared to May. A Prices Index reading 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 June.

In June, order backlogs decreased 6.1 percentage points, to 64.5%, and, despite the decline, remain at a level indicating expansion for the 12th consecutive month. Twelve of the 18 industries reported growth in order backlogs in June.

The new export orders index increased 0.8 percentage point in June, to 56.2%. Following the rise, the index has now grown for the 12th consecutive month. Five of the Big Six industries expanded, and nine of the 18 industries reported growth in new order exports in June.

The imports index increased 7.0 percentage points in June, to 61%. Following the rise, the index remains at levels indicating expansion for the 12th consecutive month. Panelists commented that there were increases in U.S. factory demand and a measurable amount of throughput improvement in ports of entry. Overland-transport challenges and container shortages continue to persist across the global supply chain, but to a slightly lesser degree. Imports will continue to be challenged through the third quarter of 2021. Eleven of the 18 industries grew in June, and three reported a decrease.

The index that tracks the average commitment lead time for capital expenditures decreased by four days in June, to 144 days. The average lead time for maintenance, repair, and operating supplies increased three days, to 45 days, and the average lead time for production materials increased three days, to 88 days.

The Institute for Supply Management published its most recent "Semiannual Economic Forecast" in May, and the report forecasts that the expectations for the remainder for 2021 have strengthened somewhat, compared to December 2020, as there is hope that the corner has been turned on the coronavirus pandemic; both manufacturing and services sectors are signaling expansion. Specifically, revenues are expected to increase in all 18 of the manufacturing industries and produce an average increase of 7.2%, which is 0.3 percentage point higher than the December 2020 forecast.

The survey results showed that 59% of respondents say that revenues for 2021 will increase, on average, 13.8% over 2020. Only 8% say revenues will decrease, on average, 13%, and 33% indicate no change. With the operating rate at 88.3%, an expected capital-expenditures increase of 8.7%, an expected increase of 8.1% in prices paid for raw materials, and an expected employment increase by 2.8% by the end of 2021, manufacturing continues its comeback from the turmoil of 2020.

Purchasing managers reported that their companies are currently operating, on average, at 88.3% of normal capacity, or 2.6 percentage points more than the rate reported in June. Forty-four percent of respondents expect capacity increases of, on average, 16.8%, while 5% expect decreases of, on average, 17.3%, and 51% expect no change. Sixteen of the 18 industries are expecting production capacity increases in 2021.

Survey respondents expect an 8.7% increase in capital expenditures in 2021, which is higher than the prior forecast of 2.4% from the December survey. Currently, 27% of respondents predict increased capital expenditures in 2021, with an average increase of 46%, while 16% said their capital spending would decrease and 57% expect no change. Eleven industries are expecting increases in capital expenditures in 2021 compared to 2020.

In the December 2020 forecast, respondents predicted an increase of 2.5% in prices paid during the first four months of 2021; they report prices increased by 8.3%. The 74% who say their prices are higher now than at the end of 2020 report an average increase of 11.4%, while the 2% who report lower prices indicate an average decrease of 4.8%. The remaining 23% report no change for the period. All 18 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 8.1% for all of 2021, higher than the 2.9% reported from the December survey. Seventy-four percent of those surveyed reported prices increased by an average of 8.3% through June 2021. All of the 18 industries predicted price increases for all of 2021.

ISM's Manufacturing Business Survey respondents forecast that manufacturing employment will increase by 2.8% by the end of 2021 compared to 2020. Thirty-nine percent of respondents expect employment to be 9.3% higher, on average, while 12% of respondents predict employment to be lower by 7.3%. The remaining 49% of respondents expect their employment levels to be unchanged for the remainder of 2021. Fifteen manufacturing industries expect growth in employment in 2021.

The highlights of the semiannual survey are:

- Operating rate is currently at 88.3% of normal capacity;
- Production capacity is expected to increase 6.6% in 2021;
- Capital expenditures are expected to increase 8.7% in 2021;
- Prices paid are expected to increase 8.1% in 2021;
- Manufacturing employment is expected to increase by 2.8% in 2021;
- Manufacturing revenue is expected to increase 7.2% in 2021; and
- The manufacturing sector is expected to grow in 2021.

SERVICES PMI

The Services PMI, formerly the nonmanufacturing index (NMI), declined 3.9 percentage points in June, retreating from its record high set in May, but, at 60.9%, the score in June remains higher than the 12-month average. The decline came as respondents noted supply chain disruptions and inflationary pressures that are impacting the marketplace. 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 June, 60.1%, indicates growth in the overall economy and the services economy for the 13th consecutive month.

Sixteen of the 18 nonmanufacturing sectors surveyed in June 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 June (60.1%) were annualized, it would correspond to a 3.8% increase in GDP. Over the past 12 months, the Services PMI score averaged 58.9%.

The component that measures business activity decreased 5.8 percentage points in June, to 60.4%. The June reading indicates expansion for the 13th consecutive month. Sixteen of the 18 industries in the index reported growth in business activity for the month.

The new orders component of the index decreased 1.8 percentage points, to 62.1%, but remains at a level that indicates growth for the 13th consecutive month. Sixteen of the 18 industries in this index reported an increase in new orders for the month.

Employment in the nonmanufacturing sector contracted in June, ending the streak of expansion at five months. In June, the index fell 6.0 percentage points, to 49.3%. Twelve of the 18 industries reported an expansion in employment.

The supplier deliveries component decreased 1.9 percentage points in June, to 68.5%. A reading above 50% indicates slower deliveries, while a reading below 50% indicates faster deliveries. The report noted that port congestion continues to delay product deliveries and that manufacturers continue to indicate capacity, employment, and other issues are impacting the demand-versus-supply ratio. Seventeen of the 18 industries reported slower deliveries on the month.

Prices nonmanufacturing organizations paid for purchased materials and services decreased 1.1 percentage points, to 79.5%, in June after hitting their highest level since September 2005 in May. Seventeen of the 18 industries reported an increase in prices paid in June.

Orders and requests for services and other nonmanufacturing activities to be provided outside of the U.S. by domestically based companies declined in June, after the index decreased 9.3 percentage points, to 50.7%. Of the total respondents in June, 73.0% indicated they either do not perform, or do not separately measure, orders for work outside of the U.S. Six of the 18 industries reported an increase in new export orders in the month of June.

The component that measures inventory sentiment decreased 3.3 percentage points in June, to 37.2%, which indicates that inventories are too low in correlation to their level of business. Four of the six industries reported that their inventory level was still too high in June.

The Institute for Supply Management published its most recent “Semiannual Economic Forecast” in May, with the report noting that services supply management executives expect their 2021 revenues to be greater than they were in 2020. They expect a 5.4% net increase in overall revenues for 2021, compared to a 1.6% increase from the December forecast. Sixteen of the 18 industries are forecasting increased revenues in 2021. Forty-eight percent of nonmanufacturing supply management executives expect their 2021 revenues will increase, on average, 15% compared to 2020, and 11% expect that their revenues will decrease, on average, 16.6%.

Nonmanufacturing purchasing and supply executives report that their organizations are currently operating at 89.4% of normal capacity. This is 2.8 percentage points higher than what was reported in December 2020. They forecast that their capacity to produce products and provide services will rise by 2.3% during 2021 and capital expenditures will increase by 5.7%. Services panel members also predict their overall employment will increase by 2.4% during 2021.

Respondents are expecting an increase of 5.7% in capital expenditures in 2021, compared to 2020. The 31% of respondents expecting to spend more on capital expenditures predict an average increase of 29% compared to 11% who anticipate a decrease averaging 29.9%. Fifty-eight percent expect to spend the same on capital expenditures in 2021 as they did in 2020. Thirteen of the 18 industries are expecting an increase in capital-expenditure spending in 2021.

Services survey respondents predict their purchases in 2021 will cost an average of 5.7% more than they did in 2020 and have already risen 4.9% more through the first five months than they did in 2020. Thirty-one percent of services respondents predict the prices they pay will increase an average of 29% in 2021, 11% anticipate a decrease of 29.9%, and 58% expect no change. Sixty percent of services respondents report that prices increased, on average, 8.6% during the first part of 2021; 2% reported price decreases of, on average, 9.9%; and 38% indicate no change. Thirteen of the 18 industries expect an increase in prices paid in 2021, and all 18 of the industries reported an increase through the first five months of 2021.

Nonmanufacturing supply managers expect that, for all of 2021, services supply management executives expect their prices to increase an average of 4.9% compared to 2020. Sixty-three percent of respondents expect increases averaging 8.3%, 3% anticipate prices to drop an average of 12%, and 34% foresee no change in prices during the next year. All 18 of the industries expect price increases in 2021.

Purchasing and supply executives expect a 2.4% increase in labor and benefit costs services industries in 2021. For the remaining months of 2021, 36% expect employment to increase, on average, 9.9%; 7% anticipate employment to decrease, on average, 15.7%; and 57% expect no change in employment levels.

Nonmanufacturing survey respondents forecast that business revenues for 2021 will improve by an average of 5.4% compared to 2020. This is 3.8 percentage points higher than the 1.6% increase forecast in December 2020 and 10.2 percentage points higher than the 4.8% decrease reported for 2020 compared to 2019. Forty-eight percent of respondents indicate revenues for 2021 will increase, on average, 15%; 11% say their revenues will decrease, on average, 16.6%; and 41% expect no change. Sixteen of the 18 nonmanufacturing industries expect revenue to increase in 2021.

HOSPITAL PMI

Economic activity in the hospital subsector expanded in June, after an increase of 1.8 percentage points to the index brought the score to 63.1%. In June, hospitals indicated volumes and patient mixes were back to precoronavirus levels. Employment rebounded, but the majority of employment-related comments indicated difficulties in recruiting and retaining talent. There were indications of improved availability of personal protective equipment (PPE), but the panel was split on whether there was pricing relief. Slow supplier deliveries, back orders, and shortages of non-PPE supplies continued to be serious problems.

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. Therefore, the index score, 63.1%, represents growth to the industry for the 13th consecutive month. Over the past 12 months, the Hospital PMI has averaged 61.9%.

The Days Payable Outstanding Index decreased 4.0 percentage points, to 46.5%. The Technology Spend Index increased 9.5 percentage points, to 57.5%.

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, in collaboration with the Association for Health Care Resource and Materials Management and Strategic Marketplace Initiatives.

INDUSTRIAL PRODUCTION

The Federal Reserve reported that total industrial production increased 0.4% in June after rising 0.7% in May. At 100.1% of its 2017 average, total industrial production in June was 9.8% higher than it was in June 2020 but lower by 1.2 percentage points from its prepandemic levels. Capacity utilization for the industrial sector increased 0.3 percentage point in June, to 75.4%, a rate that is 4.2 percentage points below its long-run (1972-to-2020) average.

Manufacturing production decreased 0.1% in June and is 0.8% below its prepandemic levels. The index for durable manufacturing fell 0.2%, with the bulk of the decrease resulting from a decline of more than 1.0% for nonmetallic mineral products. The output of nondurable goods rose 0.2%.

The output of mining increased 1.4% in June and has grown by 25.6% in the second quarter.

Capacity utilization for manufacturing decreased 0.1 percentage point in June, to 75.3%. The operating rate for mining increased 1.1 percentage points, to 76.7%, in June, while the capacity utilization rate for utilities rose 1.8 percentage points, to 74.5%.

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

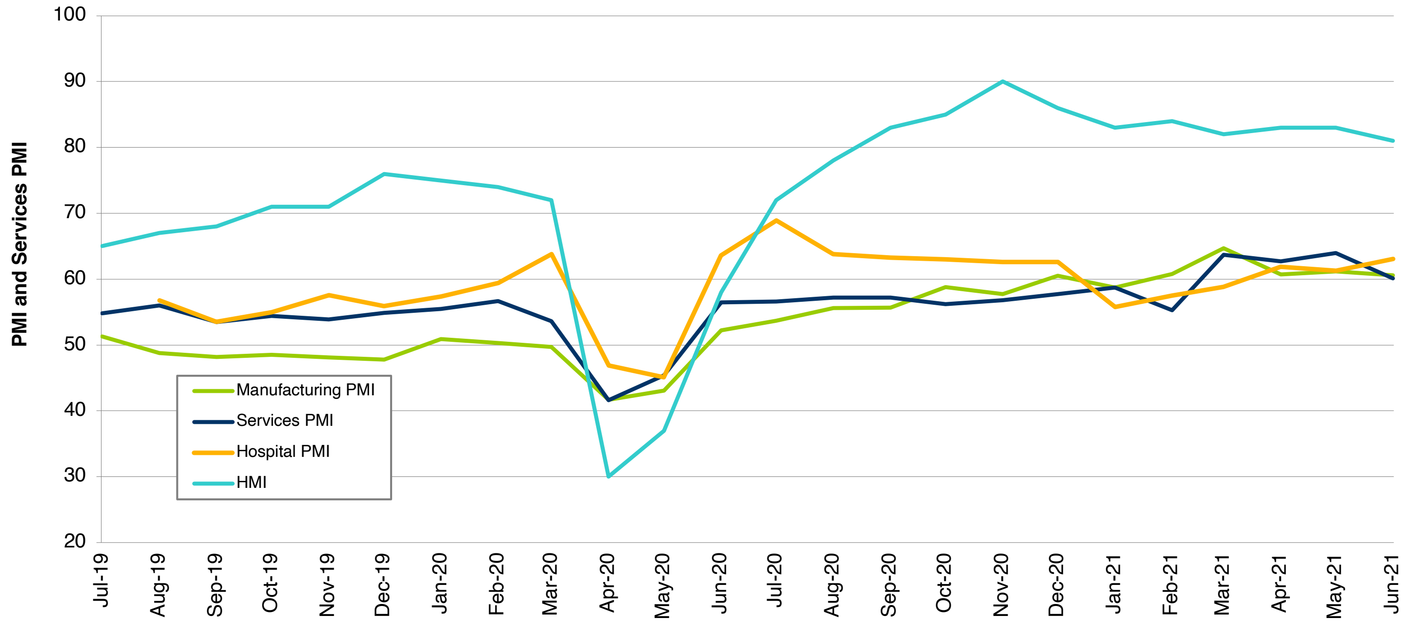
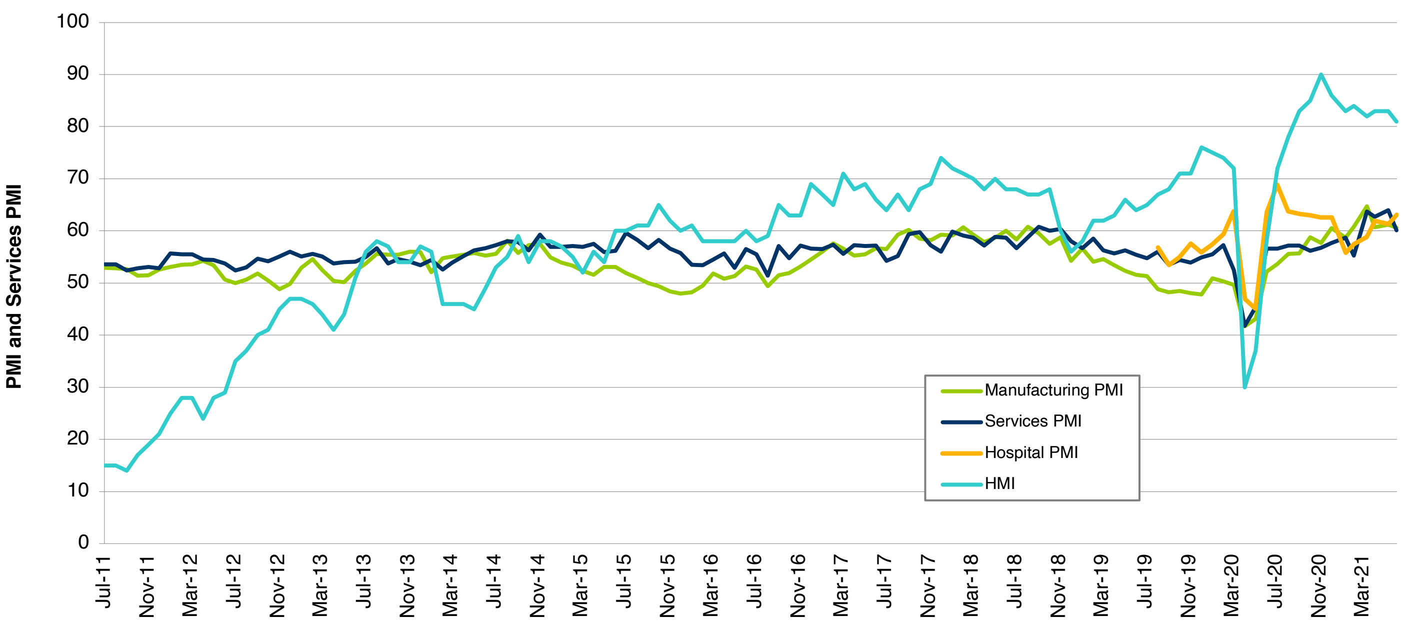


EXHIBIT 8B: Manufacturing, Services, Hospital Supply Chains, and Housing Indicators—10 Years



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

The Fed eased investors' concern over rising inflation with comments indicating its belief that inflation will only be temporary. As a result, all the major U.S. indices rose in June, albeit the Dow Jones Industrial Average eked out a gain of only 0.02%. The S&P 500 moved up 2.3%, while the Nasdaq Composite rose 5.5%. Smaller-cap stocks rose, as the Russell MidCap increased 1.5% and the Russell 2000 Index advanced 1.9%.

In June, the Chicago Board Options Exchange Volatility Index eased when compared to the prior month, particularly notable as the index in June produced its lowest figures on the year. In June, the index yielded a monthly average of 17.0 and had a monthly range of 14.1 to 21.8. The trend over the past few months, of volatility gradually decreasing from the beginning of the year, as the annual average decreased to 20.6, comes as the economy continues to emerge from the coronavirus pandemic. 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*

Index	June-21	Year-to-Date
Dow Jones Industrial Average	0.0%	13.8%
S&P 500	2.3%	15.3%
Nasdaq Composite	5.5%	12.5%
Russell Midcap	1.5%	16.3%
Russell 2000	1.9%	17.5%

Source of data: T. Rowe Price

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

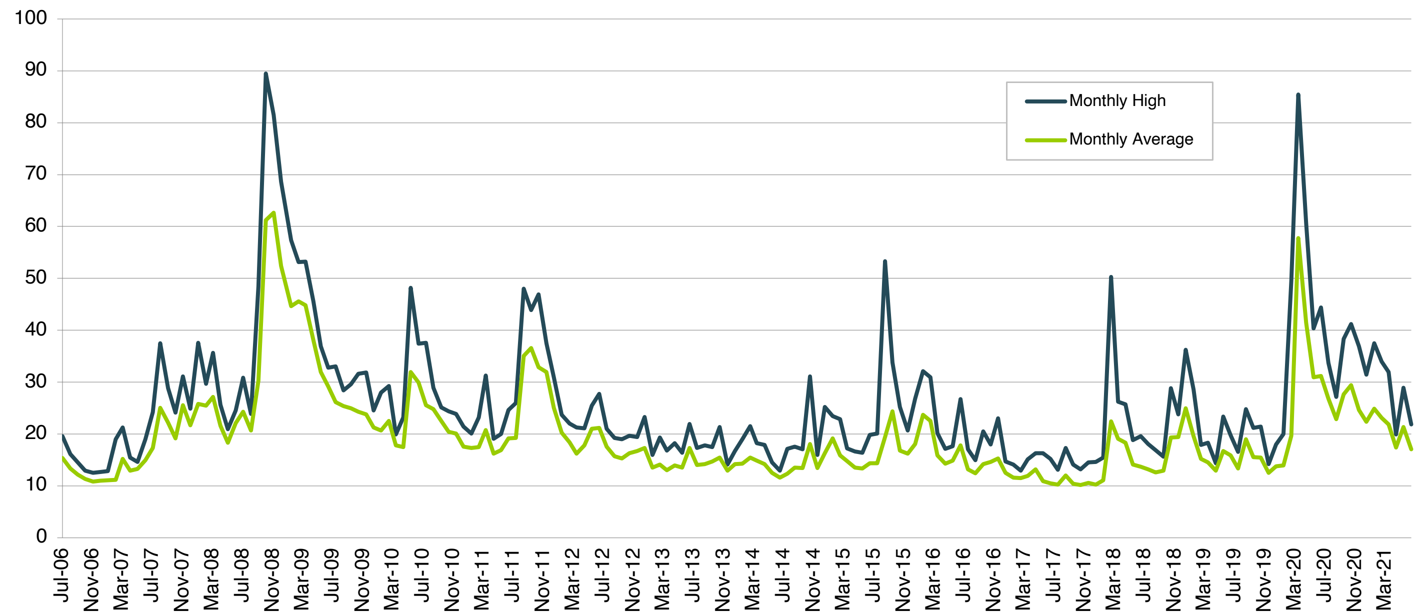
VOLATILITY

VIX*	June-21	Year-to-Date
High	21.8	37.5
Low	14.1	14.1
Average	17.0	20.6

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 0.9% in June, after rising 0.6% in May. The rise in the index was higher than forecasts for a rate of 0.5%, according to a poll by CNBC. The figure represents the clearest indication so far of mounting inflationary pressures, evident in higher consumer prices. The index for used cars rose 10.5% and is up 45.2% over the past 12 months. The index for energy rose by 24.5% over the past 12 months, while the index for gasoline is up 45.1% over the same period. Over the past 12 months, the CPI is up 5.4%, which is the largest one-year gain since August 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 the 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 0.9% in June, after a rise of 0.8% in May. Over the past 12 months, the index is up 5.3%. 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 June, after a rise of 0.7% in May. Core CPI has risen 4.5% over the past 12 months, which is the fastest pace since September 1991.

PRODUCER PRICE

The Producer Price Index (PPI) increased 1.0% in June after a rise of 0.8% in May. The rise in June 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 7.3%, the largest annual increase since the inception of the index, breaking the record set last month. 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 0.5% in June, after rising 0.7% in May. Over the past 12 months, prices for final demand less foods, energy, and trade services increased 5.5%.

In June, prices for final demand services increased 0.8%. Prices for final demand goods less foods and energy, or Core PPI, rose 1.0% in June. Core PPI is up 5.5% over the past 12 months, which is its largest rise since the inception of the index in August 2014.

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

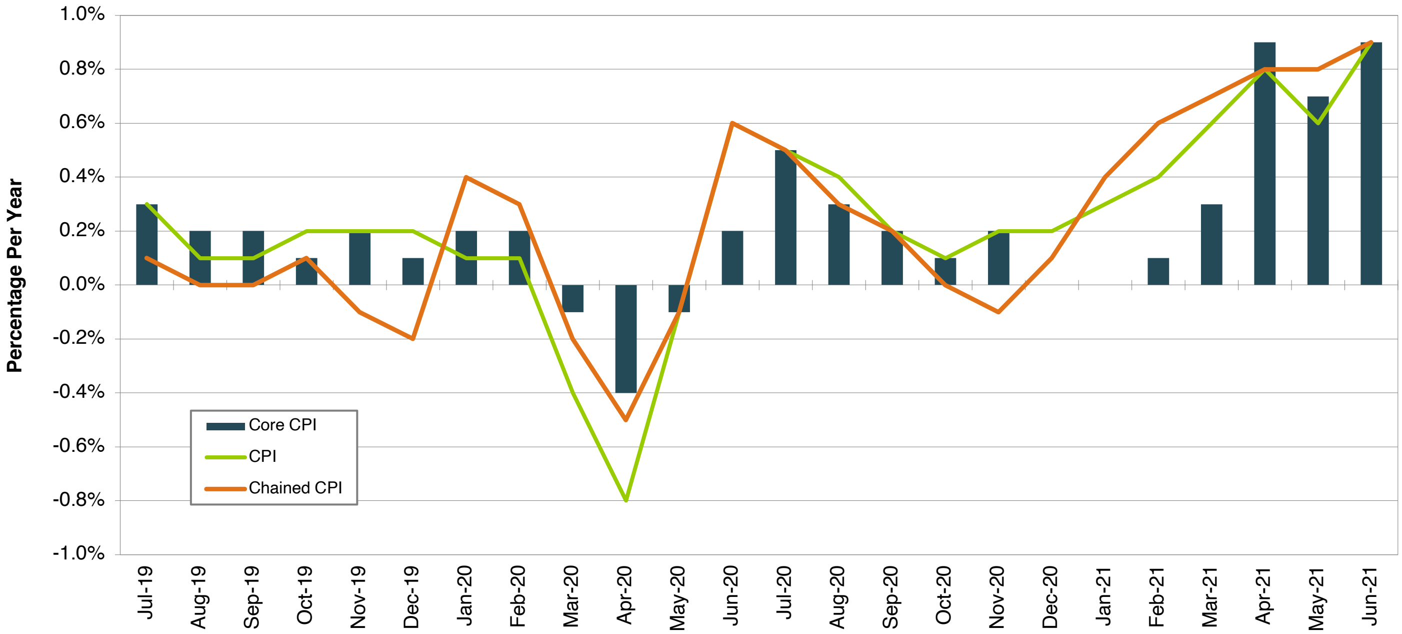


EXHIBIT 10B: U.S. Consumer Price Index—Past 24 Months With Averages

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

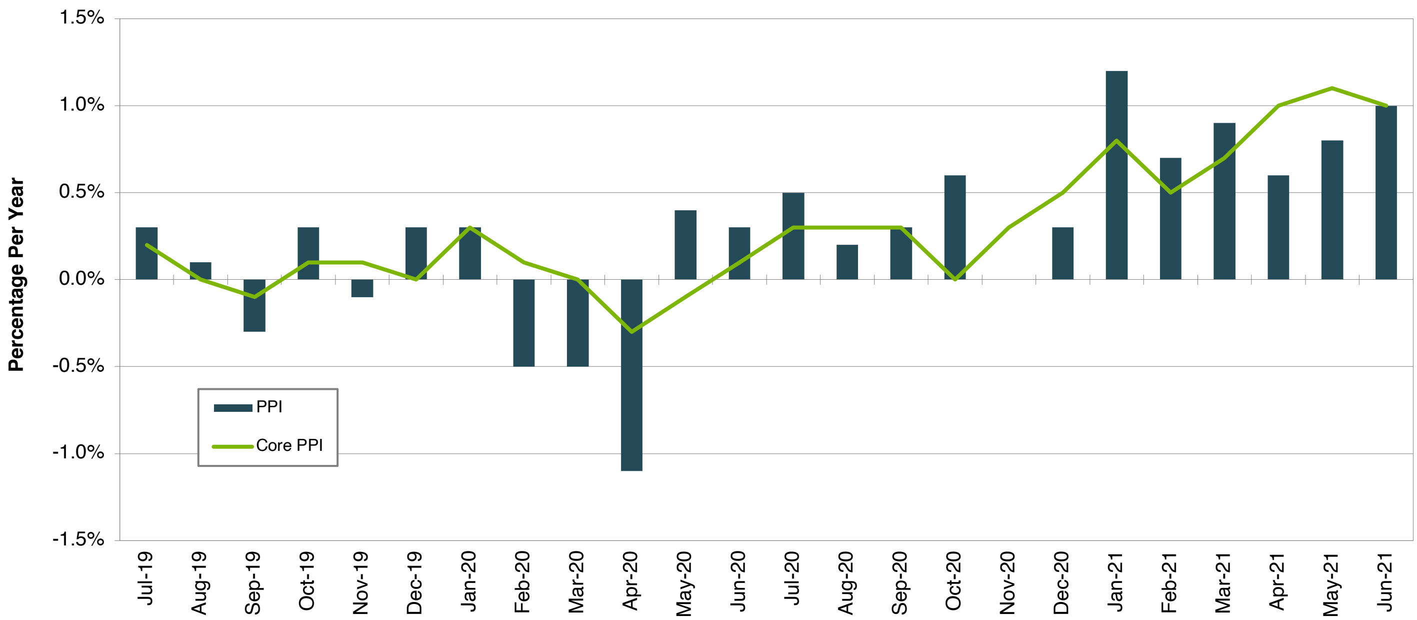
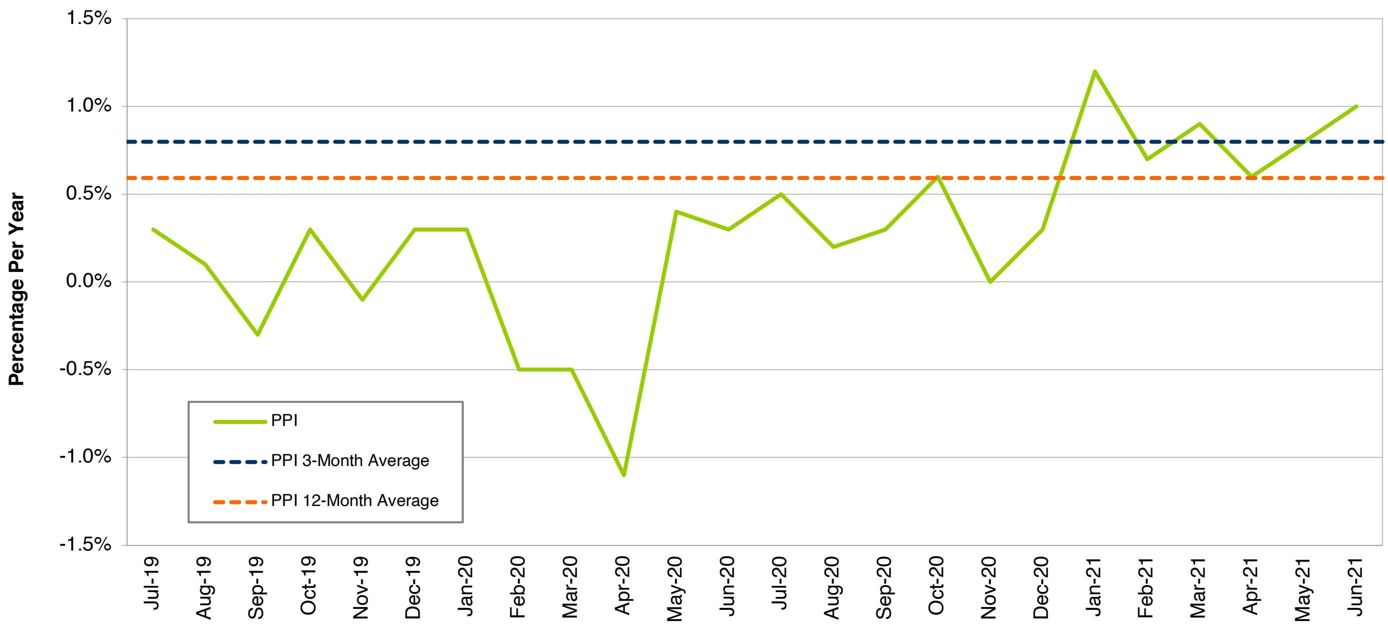


EXHIBIT 10D: U.S. Producer Price Index—Past 24 Months With Averages



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.

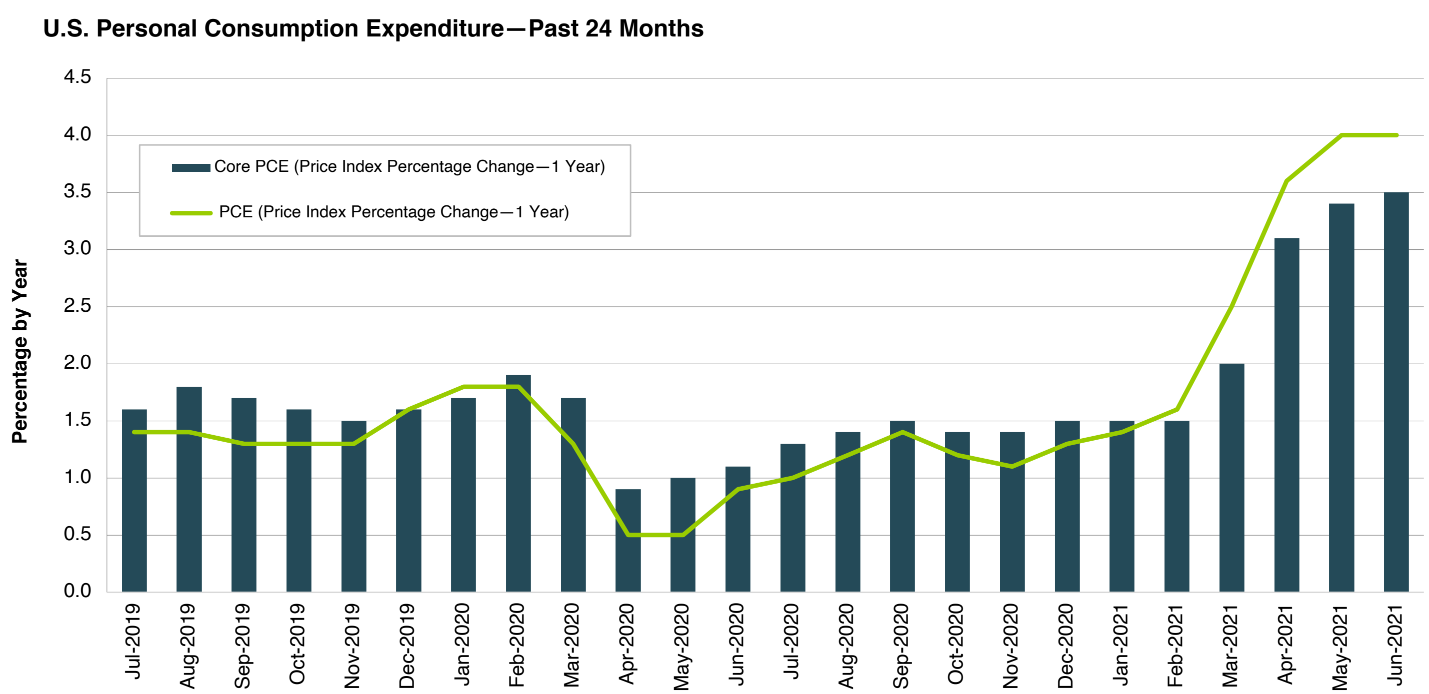
PERSONAL CONSUMPTION EXPENDITURE

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 June report, rose 1.0% after a decline of 0.1% in May. Included in the report were revisions dating back to November 2020.

The PCE price index increased 0.5% in June, matching the increase in May. Following the rise in June, the PCE price index has risen sharply in the past four consecutive months, an indication that inflation is running high. Core PCE, which excludes the volatile food and energy components, rose 0.4% in June after a rise 0.5% in May. From June 2020 to June 2021, the PCE price index is up 4.0% and core PCE has risen 3.5%, higher than the rate in May when it was already the fastest annual increase since 1992. 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 June 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



HOUSING STARTS AND BUILDING PERMITS

U.S. home construction continued to trend higher in June, rising 6.3% higher than from May. The two-month rise changes course from the slow start in 2021 for the housing construction industry, which had ended on a strong note in 2020. In June, housing starts stood at 1.643 million, up from the 1.546 million homes in May and higher than the 1,273,000 from one year ago. On a year-over-year basis, housing starts are up 29.1%. Single-family housing starts increased 6.3% on the month and are up 28.5% from one year ago. The multifamily sector rose 6.8% in June and is up 30.6% 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, decreased 5.1% in June, coming in at a seasonally adjusted rate of 1,643,000. Despite the monthly decline, over the past 12 months, the figure is 23.3% higher. Building permits for single-family housing units fell 6.3% compared to May but are up 25.1% from one year ago. Building permits for multifamily housing units fell 1.6% in June but are up 19.3% from one year ago.

Housing completions were at a seasonally adjusted rate of 1,324,000 in June, which is 1.4% below the rate in May but is 6.5% above the rate from one year ago. Single-family housing completions in June were at a rate of 902,000, which is 6.1% below the revised May rate of 961,000. The rate for multifamily housing completions was 416,000 in June.

Builders remained confident in June, although the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) fell 2.0 points, to 81.0 points. The report noted a score above 80.0 indicates strong demand but noted that builder confidence in the market waned due to rising costs and a declining availability for softwood lumber and other building materials. An HMI reading above 50.0 indicates that more builders view sales conditions as good, rather than poor.

The three HMI components all moved down 2.0 points in June, with the component measuring current sales conditions falling to 86.0; the component gauging sales conditions over the next six months falling to 79.0; and the component that measures buyer traffic falling to 71.0.

Looking at the three-month moving averages for the regional HMI indexes, the Northeast fell 5.0 points, to 78.0; the Midwest fell 3.0 points, to 72.0; the West fell 1.0 point, to 89.0; and the South rose 1.0 point, to 85.0.

HOME SALES, PRICES, AND INVENTORY

Existing-home sales rebounded after declines in the prior four months. In June, existing home sales rose 1.4% when compared to May and are up 22.9% from one year ago. The report credited the supply of housing inventory for the improvement in sales. At a broad level, home prices are in no danger of a decline due to tight inventory conditions, although the report expects prices to appreciate at a slower pace by the end of the year.

The number of existing-home sales in June was at an annual pace of 5.86 million, and all but one of the four major U.S. regions witnessed month-over-month gains in home sales and each registered double-digit year-over-year gains for June.

All-cash sales were 23% of transactions in June, which is unchanged from May but up 7.0 percentage points from one year ago. Individual investors, who account for many cash sales, purchased 14% of homes in June, which is down 3.0 percentage points from May but up 5.0 percentage points from one year ago. First-time buyers accounted for 31% of sales in June, which is unchanged from May but down 4.0 percentage points from one year ago.

According to a report from Comerica, mortgage applications for purchase fell by 1.1% for the last week in June. Noticeably for a booming housing market, it was the second consecutive weekly decline. On a four-week moving average basis, purchase apps were down 17.9% from a year earlier. Refi apps were down 2.3% from a year ago. According to the Mortgage Bankers Association, the rate for a 30-year fixed rate mortgage inched up to 3.15%.

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 gains in three of the four major regions in June. Home sales in the Northeast increased 2.8% in June and are up 45.1% from a year ago. Sales in the Midwest grew 3.1% in June and are up 18.8% from one year ago. Sales in the South were unchanged from last month but are up 19.4% from one year ago. Sales in the West rose 1.7% and are up 23.7% from one year ago.

The national median existing-home price for all housing types was $363,300 in June, which is up 23.4% from a year ago. June's price increase marked the 112th consecutive month of year-over-year price gains. In June, home prices in the Northeast moved up 23.6% from one year ago. The prices in the Midwest increased 18.5%. Home prices in the South rose 21.4%, and prices in the West increased 17.6% over the last 12 months. The median time on the market for all homes sold in June was 17 days, remaining at an all-time low set in April and down from 24 days from one year ago. Eighty-nine percent of homes sold in June were on the market for less than a month.

A report published by Redfin highlighted that, in June, 65% of home offers faced competition, down from a revised rate of 72.1% in May and a pandemic peak of 74.1% in April. Still, that's higher than the 56.8% bidding-war rate in June 2020, when the housing market was starting to rebound from the pandemic shutdowns. Buyer fatigue is likely one factor pushing down the competition rate as well as an improving supply situation as new listings were up 4% year over year.

Total housing inventory was at 1.25 million existing homes for sale in June, up 3.3% from May but down 18.8%, or from 1.54 million, from one year ago. Unsold inventory was at a 2.6-month supply at the current sales pace in June, which was 0.1 month higher than the rate in May but down from 3.9 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, which showed U.S. housing prices increasing 1.7% in May compared to the prior month. Over the past 12 months, U.S. housing prices increased 18.0%. The index measures housing prices across nine census regions and showed a range of growth of 1.0% in the Middle Atlantic region and 2.4% in the Pacific region.

NAR reports that, according to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage increased, to 2.98%, in June from the 3.96% rate in the prior month. The average 30-year rate in 2020 was 3.11%.

In June, the NAR's Realtors Confidence Index Survey reported that its Buyer Traffic Index decreased 6.0 points, to 71.0 points, but is up 7.0 points from one year ago. The Seller Traffic Index rose 2.0 points, to 45.0 points, and is up 9.0 points from one year ago. The report noted that realtors had a higher share of buyers, at 87%, who purchased a property in a suburban, small-town, rural, or resort area, than the rate from one year ago, 84%. In addition, the percentage of buyers making less than 20% down payment has decreased to 71%, compared to the rate of 77% from one year ago. Every home sold still had nearly five 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 through May 2021 and reported that commercial sales transactions from the period covering January 2021 through May 2021 were up 1% from one year ago. The figure received a boost from the apartment sector, which is emerging as this year's strongest asset class. The dollar volume of apartment transactions from January 2021 to May 2021 rose 24%. This accounts for the largest deal volume, at $62.9 billion. Acquisitions for hotel and seniors housing and healthcare also increased, but the deal volumes are small, each at below $10 billion. However, acquisitions of office, retail, and industrial properties were down from one year ago. Investors continue to shy away from office acquisitions as working from home appears to be emerging as part of the new style of office work.

Commercial real estate prices continue to firm up. As of May 2021, the Green Street Commercial Price Index, an appraisal-based index of high-quality properties held by REITs, is now just 1% below the prepandemic level in January 2020. The index fell by as much as 10% year-over-year in the second quarter of 2020. The Core Properties Index, comprised of multifamily, office, industrial, and retail properties, is down by just 0.6% from January 2020.

As prices continue to firm up, cap rates continue to compress. Acquisitions for apartment properties had the lowest risk spread, at 3.4%, compared to one year ago, when they were at 4.6%, followed by industrial acquisitions (4.2% now, 5.4% one year ago). Hotel acquisitions had the highest risk spread (6.8% now, 8% one year ago). For office acquisitions, the risk-adjusted cap rate was 4.9%, compared to 5.8% one year ago. The risk-adjusted cap rates for retail properties have also declined (4.9% now, 5.9% one year ago). As of May, the 10-year T-bond was 1.62%.

The total return on REITs invested in various types of assets has turned from negative in 2020 to positive as of May 2021, except for office REITs, which continue to show a total return of -7% compared to January 2020, and healthcare, with a total return of -4.4%. The highest total returns as of May 2021 relative to January 2020 were in self-storage, 37%; industrial, 26%; and infrastructure, 20%.

Finally, as the economy continues to recover, delinquency rates continue to fall, to 6.2%. The highest loan delinquencies are in lodging, at 14.2%, and the lowest was industrial, at less than 1%.

USG Corp. and the U.S. Chamber of Commerce published their quarterly Commercial Construction Index for the second quarter of 2021, which improved 3.0 points, to 65.0. The second-quarter survey continued to show improvement after its decline in the second quarter, but the index score remained well below prepandemic levels, when it was at 74.0 points in the first quarter of 2020.

The key drivers for this quarter's survey included a score of 72.0 points for the ideal backlog total, which is up 3.0 points from last quarter and is the closest it has been to its prepandemic score of 76.0 points from the first quarter of 2020. The ability of contractors to provide new business increased 3.0 points, to 62.0, 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 61.0 points, the component that measures contractors' expectations to see revenue increase or at least remain the same improved 4.0 points from last quarter. Among the survey respondents, an increase from 36% to 38% expect revenues to increase compared to 6% who expect to see a decline, an improvement from the 13% reported in the last quarter.

The second-quarter survey spotlighted the impact of the coronavirus within the industry, with the first spotlight noting that, although the impact has declined, product shortages remain a top concern. In the second quarter, 72% of contractors are reporting delays due to COVID-19. This is down 8.0 percentage points from last quarter. While worker health and safety and project delays have remained top of mind for contractors in recent quarters, the percentage of contractors reporting these concerns is decreasing. In contrast, the percentage of those reporting product shortages is increasing. Just under half—or, specifically, 46%—of contractors say less availability of building products has been a big concern lately. This is up from 33% who said the same last quarter.

The quarterly survey also focused on labor issues, with 88% of contractors reporting moderate to high levels of difficulty finding skilled workers and, as a result, 35% of contractors have reported turning down jobs due to labor shortages. Going forward, 52% of contractors expect to hire more employees over the next six months, which is up 6.0 percentage points from last quarter. However, 87% of contractors are concerned about the cost to hire skilled labor.

When asked about their revenue expectations, 39% expect their revenue to increase in the next year compared to 55% who expect their revenue to remain about the same and 6% who expect a decrease. Twenty-four percent of contractors expect their profit margins to increase in the next year, which is up from 17% from last quarter. Just 6% of contractors expect their profit margins to decrease, down from 14% last quarter, and 70% expect them to remain about the same.

For the first time in a year, the percentage of contractors planning to spend more on tools and equipment was higher than those who say they will not spend more, with 44% of contractors reporting they will increase spending on tools and equipment in the next six months, up from 37% in the prior quarter. However, despite this, the vast majority of contractors are experiencing at least one shortage in building materials as contractors say lumber and steel are the two items most likely to be in short supply. This quarter, 84% of contractors are experiencing at least one product shortage, up from 71% last quarter. Most often, contractors are experiencing a shortage in wood and lumber, with 33% saying they are experiencing this shortage, up from 22% in the prior 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 7.1% in the third quarter of 2021 and increase by 5.1% in the fourth 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 6.7% in 2021 and 4.1% in 2022.

They forecast that consumer spending will increase at a rate of 6.6% in the third quarter of 2021 and rise 4.4% in the fourth quarter of 2021. They expect consumer spending to increase 8.1% in 2021 and 4.1% in 2022.

The forecasters believe unemployment will average 5.2% in the third quarter of 2021 and 4.7% in the fourth quarter of 2021. They predict that unemployment will average 5.5% 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 third quarter of 2021 and 0.1% at the end of the fourth quarter of 2021. They predict the 10-year Treasury bond yield will be 1.8% at the end of the third quarter of 2021 and 1.9% at the end of the fourth quarter of 2021.

They also believe consumer prices will rise at a rate of 3.2% in the third quarter of 2021 and 2.2% in the fourth quarter of 2021. They expect consumer prices to increase 3.5% in 2021 and 2.6% in 2022. They expect producer prices to increase 3.0% in the third quarter of 2021 and 2.1% in the fourth quarter of 2021. The forecasters anticipate producer prices will rise 6.0% in 2021 and 2.3% in 2022.

The forecasters believe real disposable personal income will fall 6.8% in the third quarter of 2021 and 3.3% in the fourth quarter of 2021. They believe real disposable personal income will increase 4.5% in 2021 but fall 1.9% in 2022.

The forecasters expect industrial production to increase 6.8% in the third quarter of 2021 and 5.1% in the fourth quarter of 2021. They forecast that industrial production will increase 5.8% in 2021 and rise 4.0% in 2022.

Nominal pretax corporate profits are expected to increase 13.6% in 2021 and 6.2% in 2022. The forecasters also project housing starts will be 1,590,000 in 2021 and 1,560,000 in 2022.

The most recent release of The Livingston Survey (the Survey) predicts GDP growth of 6.7% for the second half of 2021, making an upward revision from the previously forecasted rate of 3.7% 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 first half of 2022. The forecasters predict a lower unemployment rate compared with their expectations in December. In the upcoming year, they see the unemployment rate steadily decreasing from 5.7% in June 2021 to 4.7% in December 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 June 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 May and June to address the public health emergency and to assist affected households, businesses, and state and local governments directly. 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 in June increased 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 6.5%, which is better than its prior forecast for a rise of 4.2%. GDP is forecasted to grow by 3.3% in 2022 and by 2.2% in 2023. The unemployment rate is now projected at 4.5% for 2021, less than the previously forecasted rate, 5.0%, from the December forecast. Unemployment is expected to be at 3.9% in 2022 and 3.5% in 2023. The Federal Reserve forecasts PCE to be at 2.4% in 2021 but to fall to 2.0% in 2022 and rise to 2.1% in 2023. Core PCE is forecasted to be 2.2% in 2021 before falling to 2.0% in 2022 and rise to 2.1% in 2023.

The Energy Information Administration (EIA) predicts that the West Texas Intermediate crude oil spot price will average approximately $65.85 per barrel in 2021 and $62.97 per barrel in 2022, compared with $39.17 per barrel in 2020. The EIA expects retail prices for regular-grade gas to average $2.85 per gallon in 2021 and $2.74 per gallon in 2022, compared with $2.18 per gallon in 2020.

The EIA believes the Henry Hub natural gas spot price will average $3.22 per million Btu (MMBtu) in 2021 and $3.00 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 $1.88 per MMBtu in 2021 and $1.85 per MMBtu in 2022. Residential electricity prices, which averaged 13.20 cents per kilowatt-hour (kWh) in 2020, are expected to average 13.57 cents per kWh in 2021 then rise to 13.81 cents per kWh in 2022. The airline ticket price index, which averaged 217.55 in 2020, is expected to be 202.04 in 2021 before rising to 222.69 in 2022.

The National Association of Realtors' Realtors Confidence Index (RCI) survey reported that its Buyer Traffic Index fell 6.0 points, to 71.0, but is up from 64.0 points from one year ago. The Seller Traffic Index rose 2.0 points, to 45.0, in June. 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 quarterly U.S. economic outlook, projects existing-home sales in 2021 to be 6.220 million (+10.3%) but expects them fall to 6.200 million (-0.3%) in 2022. It believes that new single-family home sales will be 1.000 million (+19.9%) in 2021, before increasing to 1.060 million (+6.0%) in 2022. NAR believes the median existing-home price will be $323,900 (+9.2%) in 2021, before increasing to $334,000 (+3.1%) in 2022. NAR believes the median new-home price will be $344,600 (+2.3%) in 2021, before rising to $352,000 (+2.1%) in 2022. It expects housing starts to increase to 1,602,000 (+16.0%) in 2021, then to 1,680,000 (+4.9%) in 2022. NAR believes the 30-year fixed mortgage rate will average 3.2% in 2021 and rise to 3.5% in 2022 and the 5-1 hybrid adjustable-rate mortgage will average 2.9% in 2021 and 3.1% 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 over the next three years, from 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 2021 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.

ECONOMIC OUTLOOK UPDATE DATA SOURCES

ADP. Available from www.adpemploymentreport.com.
Bloomberg. Available from www.bloomberg.com.
Bureau of Economic Analysis, U.S. Department of Commerce. Available from www.bea.gov.
Bureau of Labor Statistics, U.S. Department of Labor. Available from www.bls.gov.
CFA Institute. Available from www.cfainstitute.org.
CNN Business. Available from www.cnn.com/business.
Comerica Bank. Available from www.comerica.com.
Conference Board, The. Available from www.conference-board.org.
Congressional Budget Office. Available from www.cbo.gov.
Consensus Forecasts—USA, Consensus Economics Inc. Available from www.consensuseconomics.com.
Council of Economic Advisers, The White House. Available from www.whitehouse.gov.
Economic Policy Institute. Available from www.epi.org.
Energy Information Administration. Available from www.eia.gov.
Federal Housing Finance Agency. Available from www.fhfa.gov.
Federal Reserve Bank of Philadelphia. Available from www.phil.frb.org.
Federal Reserve Bank of St. Louis. Available from www.stlouisfed.org.
Federal Reserve Board, The. Available from www.federalreserve.gov.
Forbes. Available from www.forbes.com.
Hamilton Project, The. Available from www.hamiltonproject.org.
Institute for Supply Management. Available from www.ism.ws.
Investopedia. Available from www.investopedia.com.
MarketWatch. Available from www.marketwatch.com.
MasterCard SpendingPulse. Available from www.newsroom.mastercard.com.
Mortgage Bankers Association. Available from www.mortgagebankers.org.
National Association of Homebuilders. Available from www.nahb.org.
National Association of Real Estate Investment Trusts. Available from www.reit.com.
National Association of Realtors. Available from www.realtor.org.
National Council of Real Estate Investment Fiduciaries. Available from www.ncreif.com.
National Federation of Independent Business. Available from www.nfib.com.
National Retail Federation. Available from www.nrf.com.
RSM US. Available from www.rsmus.com.
T. Rowe Price. Available from www.troweprice.com.
Thomson Reuters. Available from www.thomsonreuters.com.
Trulia. Available from www.trulia.com.
U.S. Census Bureau, U.S. Department of Commerce. Available from www.census.gov.
U.S. Chamber of Commerce. Available from www.uschamber.com.
Urban Land Institute. Available from www.uli.org.
Vanguard Group, The. Available from www.vanguard.com.
Wall Street Journal Online, The. Available from online.wsj.com.
Wells Fargo. Available from www.wellsfargo.com.
White House Economic Council. Available from www.whitehouse.gov.
Yahoo! Finance. Available from www.finance.yahoo.com.

SOURCES FOR STATE ECONOMIC INFORMATION

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

DISCLAIMER AND PERMISSION STATEMENT

This Economic Outlook Update *reflects the general economic conditions at the end of June 2021. This report is based on data available as of the above date and should be updated to reflect material changes in subsequent weeks and months. No statement in this report is to be construed as advice for a valuation engagement. It is the responsibility of the individual appraiser or analyst to relate the information contained herein to the valuation engagement. The editors and Business Valuation Resources, LLC, while considering the contents to be accurate as of the date of publication of this report, take no responsibility for the information contained herein.*

As long as the individual subscriber to the Economic Outlook Update™ *complies with the Single User License Agreement, he or she may quote portions of the* Update *or the entire* Update *in a valuation report, provided the following attribution and disclaimer are included as a footnote:*

"Part/All [choose one] of the contents of the economic outlook section of this valuation report are quoted from the Economic Outlook Update™ *May 2021 published by Business Valuation Resources, LLC, © 2021, reprinted with permission. The editors and Business Valuation Resources, LLC, while considering the contents to be accurate as of the date of publication of the Update, take no responsibility for the information contained therein. Relation of this information to this valuation engagement is the sole responsibility of the author of this valuation report."*