BVR
What It's Worth

ECONOMIC OUTLOOK UPDATE

MONTHLY

MARCH 2021

ECONOMIC UPDATE AT A GLANCE (MARCH 2021 SUMMARY)

In March, the U.S. LEI improved 1.3%, to 111.6 points, which follows a decrease of 0.1% in February and a 0.5% rise in January. The report was a little more optimistic about the future outlook, highlighting that the strengths among the leading indicators remained very widespread. In addition, the report noted that economic momentum is increasing in the near term.

The Chicago Fed's National Activity Index suggests that economic activity improved in March following a sizable gain in the index from -1.20 to +1.71 in March. All four broad categories of indicators used to construct the index made positive contributions in March, and all four of the categories increased from February. In addition, the three-month average increased from +0.07 to +0.54.

The Consumer Confidence Index surged 19.3 points in March, to 109.7 points, reaching its highest level in a year. The rise is attributed to the ongoing vaccination rollout that has given consumers a positive outlook on the labor market and the overall economy. The current conditions component, which measures consumers' assessment of current business and labor market conditions, increased by 20.4 points, to 110.0. The expectations component, which measures consumers' short-term outlook for income, business, and labor market conditions, rose 18.7 points, from 89.6 points to 110.0 points. The Consumer Sentiment Index rose 8.1 points, to 84.9 points, in March. The improvement came as consumers became more optimistic after the third round of stimulus checks were distributed and the continued rollout of the coronavirus vaccine pointed to an improved labor market and economy in the coming months.

The NFIB Small Business Optimism Index advanced 2.4 points, to 98.2, in March, returning above its 47-year average of 98 for the first time since November 2020. The report credited the easing of state and local regulations and restrictions for small-business owners with the rise.

The Wells Fargo/Gallup Small Business Report published its fourth-quarter survey, which continued to reflect a pattern in which owners' forecast for the future is more positive than their ratings of the present. The fourth-quarter score continued to trend higher, rising 12.0 points, to 72.0 points, although it remains well

Economic Summary March 2021

Change from previous month unless otherwise noted

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

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

below its prepandemic levels. The key drivers for this quarter's index include:

- *The economy and the impact of COVID-19 on business operations:* Owners' positive views of the current state of the economy plunged as the pandemic began and remain low in this latest update, with just 32% saying the national economy is either "excellent" or "good." At the same time, the trend indicates that small-business owners are beginning to feel more confident in the direction of the economy than they did at the start of the pandemic. The percentage saying the U.S. economy is growing is at 29%, up from 6% in April, and fewer now say the economy is in either a depression or recession.
- *Length of the recovery:* While small-business owners are more optimistic about their current and future financial situations and the economy, they do not see a financial recovery for the overall U.S. economy or their own business until well into 2021 and beyond.
- *Challenges affecting small businesses:* The pandemic continues to be far and away the top challenge facing small businesses, dwarfing all other issues owners mentioned, at 29%. This top-of-mind recognition of the impact of the pandemic has been consistent since the start of the spring, although mentions of COVID-19 are down from the April score of 44%. The survey shows that 41% of small-business owners said the election results made them more optimistic about their business going into 2021, while an equal percentage, 40%, said the election results made them less optimistic. Nineteen percent of owners said the election results caused "no change" in their optimism going into 2021.

The Present Situation score rose 5.0 points in the fourth quarter, coming in at 24.0 points, after having fallen to 9.0 points in the second quarter. The Future Expectations score rose 7.0 points, to 48.0 points, in the fourth quarter of 2020, after having fallen to 39.0 points in the second quarter.

Middle-market business sentiment, as reported by the RSM U.S. Middle Market Business Index, rose by 5.4 points in March, to 127.4, which is its highest score since the onset of the pandemic. The report was more optimistic after citing the forward-looking data forecasting substantial job gains over

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 of the economic outlook is fundamental to developing reasonable expectations about a subject company's future 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 March 2021. This summary provides an overview of some selected economic factors that prevailed at that time as well as a discussion of the factors that are crucial over an extended period. Topics addressed include general economic conditions, gross domestic product, consumer prices and inflation rates, energy prices, interest rates, unemployment, consumer spending, the stock and bond markets, construction, manufacturing, real estate markets, and the future economic outlook.

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the remainder of 2021 with improved productivity to follow, which would help offset rising prices that survey participants note they are facing.

Total retail sales boomed in March, rising 9.8%, which is their largest gain since May 2020. The rise came as the latest round of stimulus checks were dispersed as well as the easing of restrictions on restaurants and bars. Over the past 12 months, retail sales are up 27.7%. All 13 retail sales categories saw an increase in March. Core retail sales increased 8.2% in March and are up 17.9% over the past 12 months.

E-commerce retail sales fell by 1.2% in the fourth quarter of 2020, to $206.7 billion, when compared to the third quarter of 2020. The decline in the fourth quarter came as the resurgence of the coronavirus forced more lockdowns following the period in the third quarter when businesses had reopened. Over the past 12 months, e-commerce sales are up 32.1%.

Nonfarm payrolls blew past expectations in March after adding 916,000 jobs to the economy, which topped forecasts for growth of 675,000, according to a survey by the Dow Jones. The report also showed increased job figures from the prior to months, after revisions added 156,000 jobs in January and February. The hospitality sector continued to contribute a large portion of the job figures, although gains were broad-based across all sectors as well.

Initial claims for unemployment insurance increased in the last week of March, by 61,000, after dropping the week before. New claims hit 719,000 for the week, still showing a downside breakout from the range of 750,000 to 800,000 where initial claims were stuck for about six months through February. Continuing claims dropped by 46,000 for the week of March 20, to hit 3,794,000. The total number of continued claims for all benefit programs fell by 1.5 million, to hit 18,213,575 for the week ending March 13.

The unemployment rate improved 0.2 percentage point in March, to 6.0%, and has steadily improved since its peak one year ago. The U6 unemployment rate improved 0.4%, to 10.7%.

Wages decreased 0.04 cents in March, to $29.96. Real average hourly earnings, seasonally adjusted from March 2020 to March 2021, increased 1.22 cents, or nearly 4.2%.

The manufacturing sector improved in March, moving up 3.9 percentage points, as reflected in the Institute for Supply Management's manufacturing index (PMI). The score in March, 64.7%, continues the trend higher since the initial collapse after the onset of the coronavirus pandemic. 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 55.3%.

In March, the Institute for Supply Management's Services PMI index, formerly referred to as NMI, increased 8.4 percentage points, to 63.7%. Survey respondents noted that the lifting of coronavirus pandemic-related restrictions has released pent-up demand for many of their respective companies' services. Still, however, production-capacity constraints, material shortages, weather, and challenges in logistics and human resources continue to cause supply-chain disruption. An index reading above 50% indicates the nonmanufacturing-sector economy is generally expanding, while a reading below 50% indicates the nonmanufacturing sector is generally contracting. Over the past 12 months, the Services PMI has averaged 55.2%.

Stock markets ended their early swoon in 2021 after all the major indexes rose in March, boosting the major indexes into positive territory in 2021. With the continued vaccination rollout and the passing of additional stimulus aid, investors lifted the Dow Jones Industrial Average by 6.8%, the S&P 500 Index by 4.4%, and the Nasdaq Composite by 0.4%. Smaller stocks saw gains as well, with the Russell MidCap climbing 2.7% and the Russell 2000 moving up 1.0%. In March, volatility remained, ranging from a low of 18.7 to a high of 31.9, for an average of 21.8.

Consumer prices, as measured by the Consumer Price Index, rose 0.6% in March after rising 0.4% in February. The 0.6% increase in March is the largest one-month rise since August 2012. Over the past year, CPI has risen 2.6%, its largest annual increase since August 2018. Chained CPI increased 0.7% in March and follows a rise of 0.6% in February. Over the past 12 months, the figure is 2.5% higher. Core CPI, which excludes energy and food prices, increased 0.3% in March, after reporting an increase of 0.1% in February. Core CPI is up 1.6% over the past 12 months.

In March, producer prices increased 1.0%, after an increase in February of 0.5%. Over the past year, PPI has increased 4.2%, the largest annual increase in nine and a half years. It is expected that larger year-over-year gains will be seen in the months ahead, marking the start of higher inflation as the economy reopens amid an improved public health environment and massive government aid. Core PPI, which excludes highly volatile food and energy prices, rose 0.9% in March and is up 3.1% over the past 12 months, which is the biggest rise since September 2018.

Residential construction rebounded in March from its slow start in 2021 as housing starts rose by 19.4%. Following the rise, the seasonally adjusted rate stands at 1.739 million units, compared to the 1.457 million units in February. On a year-over-year basis, the figure is 37.0% higher than the 1.269 million units from one year ago. The rise came despite rising lumber and other material prices affecting the housing industry to which economists say that the lack of homes available to purchase is beginning to slow the market. On the month, substantial gains were seen in three of the four regions, with the West being the lone region to the decline. The number of building permits authorized, which measures how much construction is in the pipeline, rose 2.7% in March. On a year-over-year basis, the figure is up 30.2%. The adjusted annual rate was 1.766 million. The number of building permits authorized rose 1.6% for single-family homes and by 1.1% for multifamily homes when compared to one month ago.

The number of existing-home sales decreased 3.7% in March and has now fallen for the second consecutive month. Still, despite the decline, on a year-over-year basis, existing home sales remain 17.2% higher. The report noted that, despite the drop in sales for March, the market is still outperforming prepandemic levels, although the report cautioned that a possible slowdown in growth could come in the months ahead as higher prices and rising mortgage rates will cut into home affordability. The number of distressed home sales was less than 1.0% of sales in March, which is unchanged from February but down from 3.0% from one year ago. In March, the NAHB/Wells Fargo Housing Marking Index moved down 2.0 points, to 82.0. The three HMI components were mixed in March, with the component measuring current sales conditions falling 3.0 points, to 87.0; the component gauging sales conditions over the next six months improving 3.0 points, to 83.0; and the component that measures buyer traffic holding steady, at 72.0.

The National Association of Realtors' most recent "Commercial Market Insights," which analyzed the commercial real estate market in March 2021, found that sales volume fell by 59% year over year, which makes March the second consecutive month of year-over-year declines. Year to date, sales are 53% lower than one year ago.

INDEX OF LEADING INDICATORS

The Conference Board's Leading Economic Index (LEI) increased 1.3% in March, to 111.6 points. The rebound in March follows a decline of 0.1% in February and a gain of 0.5% in January. However, with a sizable gain in this reading, the score suggests that economic momentum is gaining in the short term. The widespread gains among the leading indicators are supported by an accelerating vaccination campaign, gradual lifting of mobility restrictions, as well as current and expected fiscal stimulus. The recent trend in the U.S. LEI is consistent with the economy picking up in the coming months, and the Conference Board now projects year-over-year growth could reach 6.0% in 2021.

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	5.7	4.0	2.5	2.1	2.0	2.0	2.0
Industrial production*	-3.6	-11.5	5.5	2.9	2.8	2.0	3.1	-1.0	-2.0	2.3	3.9	0.9	-6.6	6.7	4.1	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	6.3	4.3	2.6	2.2	2.1	2.1	2.1
Real disposable personal income*	1.5	-0.4	1.0	2.5	3.1	-1.4	4.0	4.1	1.8	3.1	3.6	2.2	5.8	2.1	-1.1	2.4	2.1	2.1	2.1	2.1
Business investment*	0.6	-14.5	4.5	8.7	9.5	4.1	6.9	1.8	0.7	3.7	6.9	2.9	-4.0	7.2	5.5	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	-6.3	12.4	4.8	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	0.8	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	2.4	2.2	2.2	2.2	2.2	2.2	2.1
Core PCE*	NA	NA	NA	NA	NA	NA	1.6	1.2	1.6	1.6	2.0	1.7	1.4	1.9	2.0	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	1.7	2.0	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	5.6	4.4	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	1.530	1.530	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*, March 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.

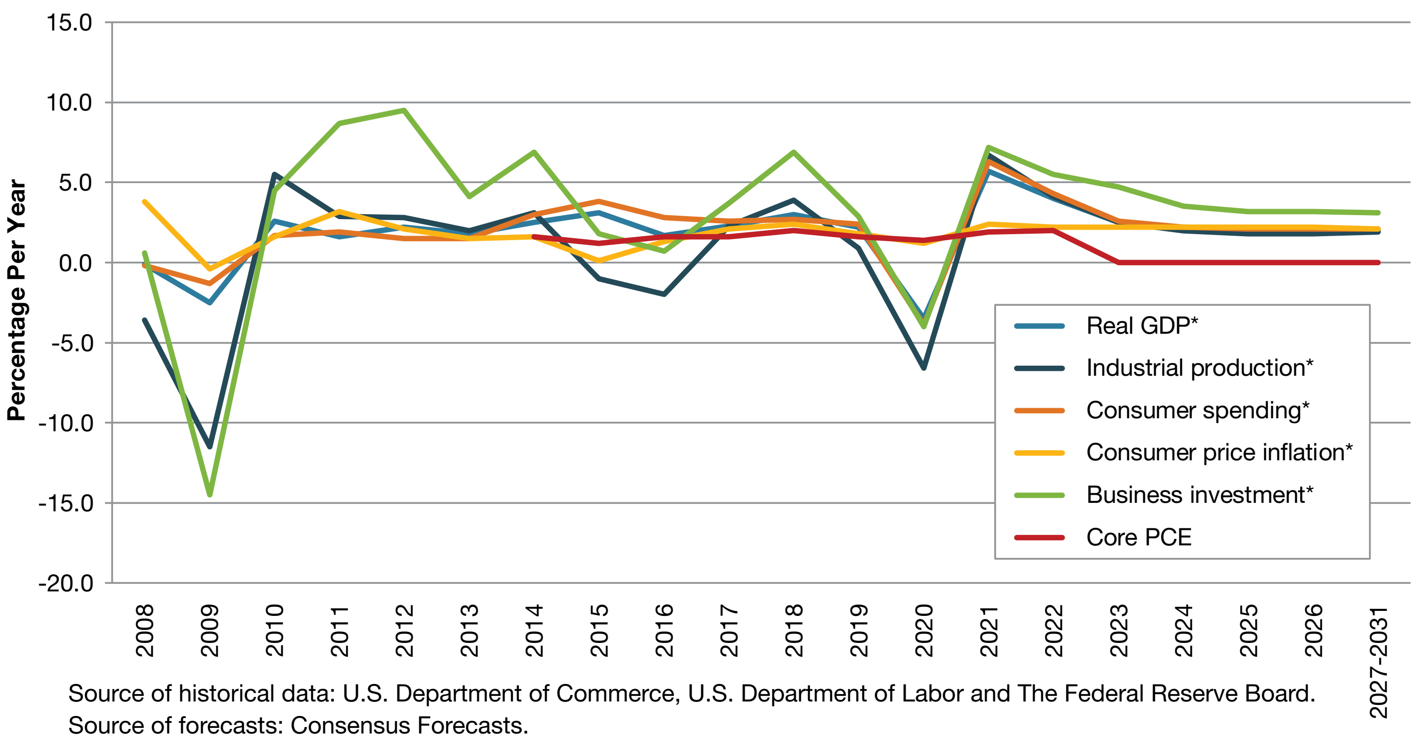
Every month, Consensus Economics surveys a panel of 30 prominent United States economic and financial forecasters for their predictions on a range of variables including future growth, inflation, current account and budget balances, and interest rates.

The board's coincident index, designed to reflect current economic conditions, increased 0.6% in March, to 104.0, but the lagging index decreased 0.5%, to 105.1.

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:

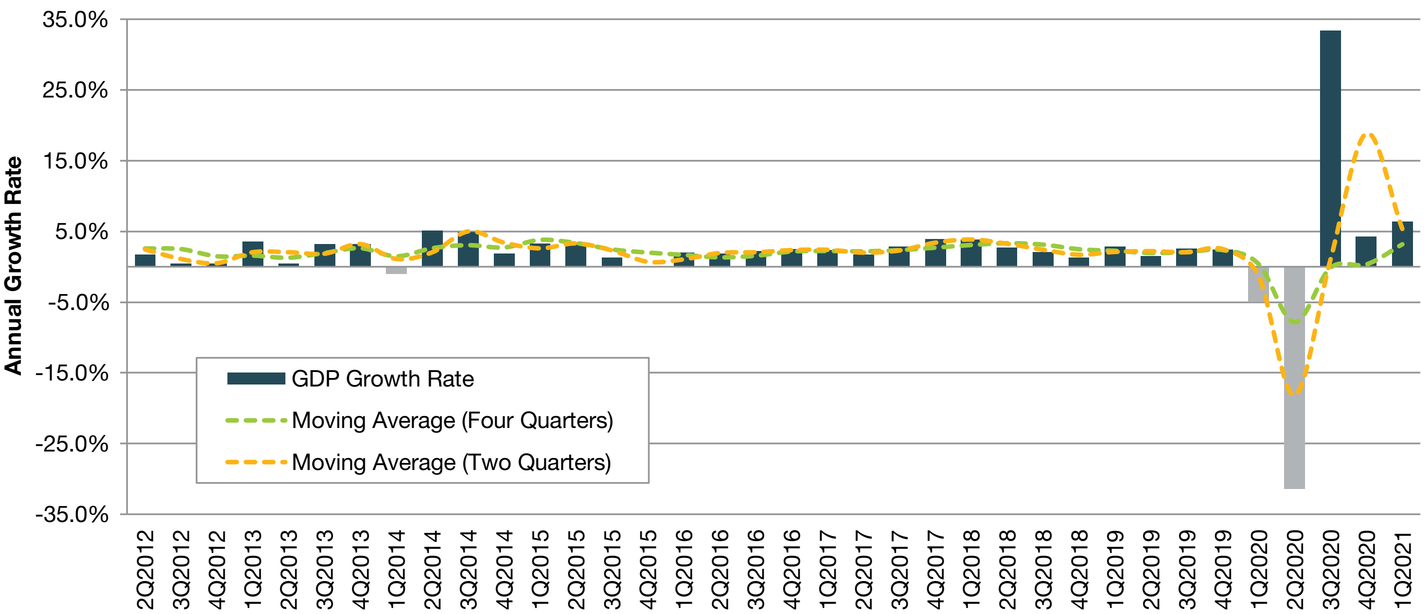
- Average weekly hours, manufacturing;
- Average weekly initial claims for unemployment insurance;
- Manufacturers' new orders, consumer goods and materials;
- Institute for Supply Management's Index of New Orders;
- Manufacturers' new orders, nondefense capital goods excluding aircraft orders;
- Building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

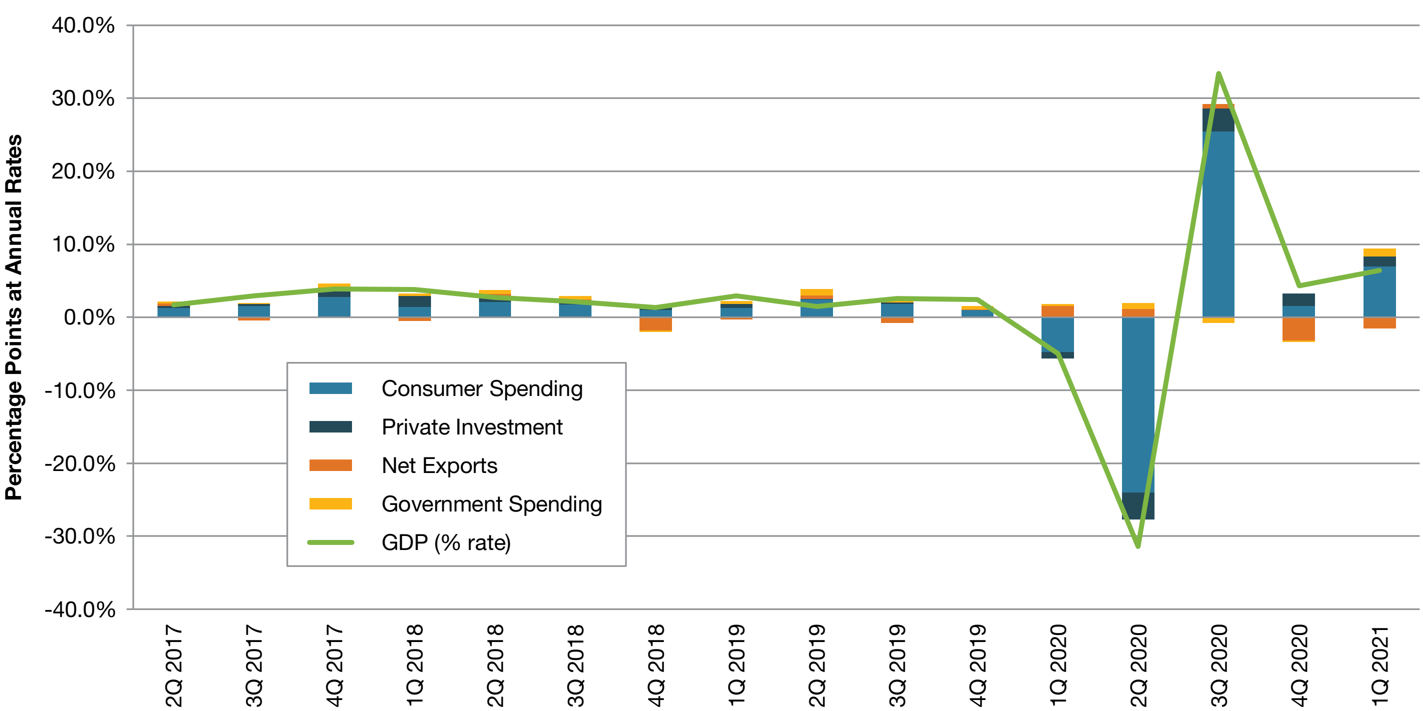
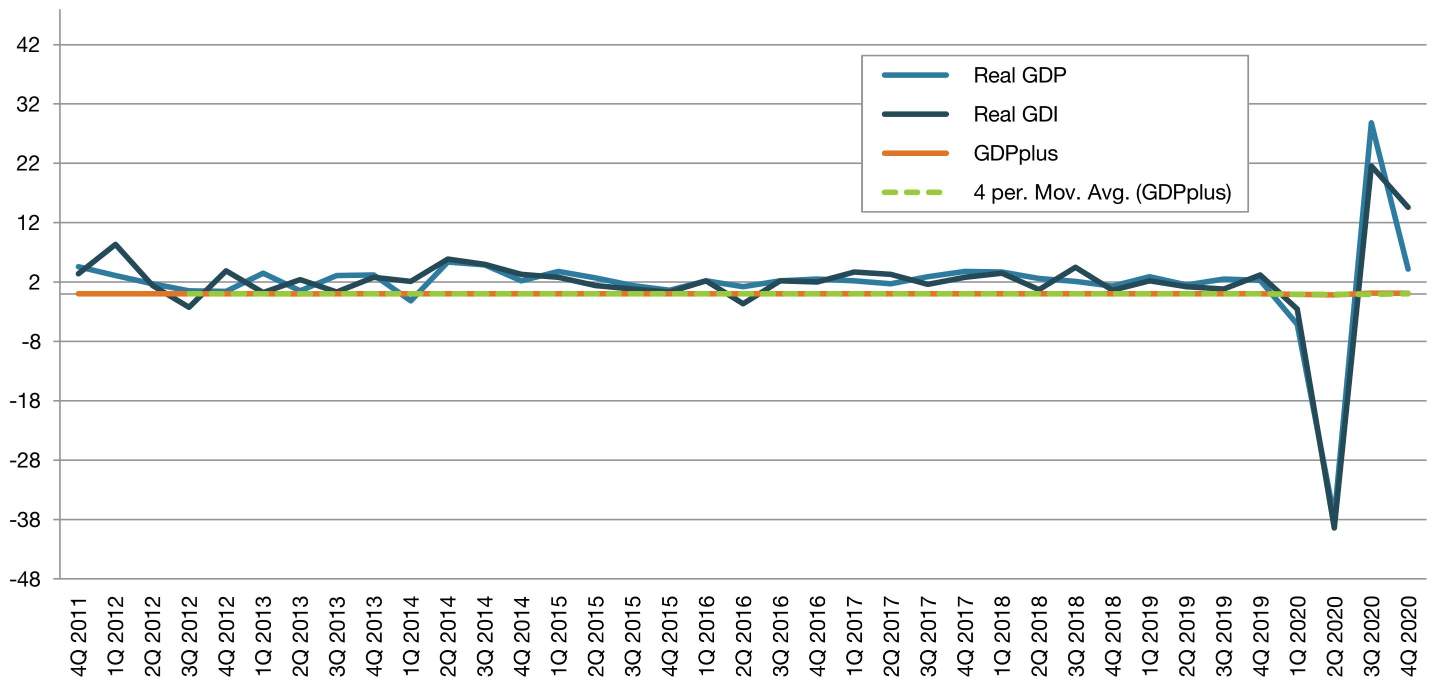


EXHIBIT 3C: GDPplus



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 rebounded in March following a sizable rise in the index from -1.20 to +1.71. The score received positive contributions from all four broad categories of indicators used to construct the index, and all four categories increased from their levels in February.

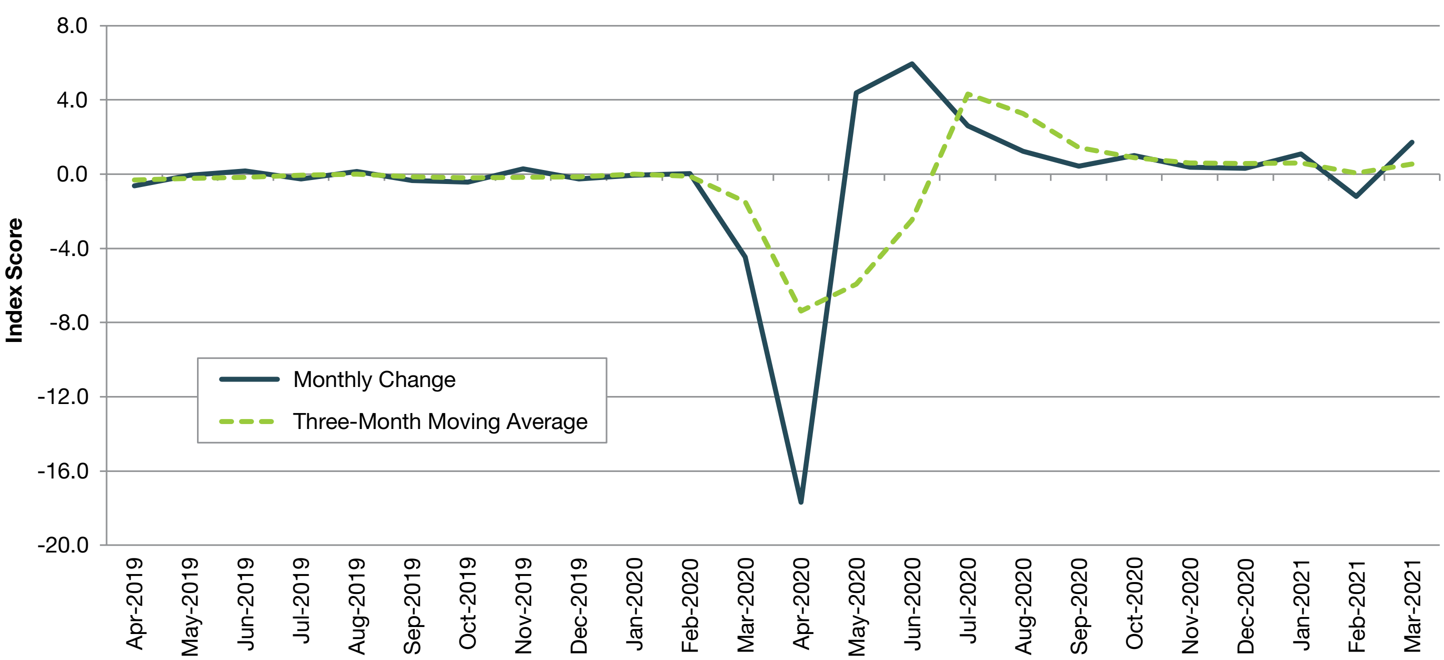
The CFNAI Diffusion Index, which is also a three-month moving average, moved up to +0.40 in March from +0.22 in February. Seventy of the 85 individual indicators made positive contributions to the CFNAI in March, while 15 made negative contributions. Sixty-nine indicators improved from February to March, while 16 indicators deteriorated. Of the indicators that improved, seven made negative contributions.

Production-related indicators contributed 0.63 to the CFNAI in March, moving up from -1.04 in February. Manufacturing production rose 2.7% in March after falling 3.7% in February, and manufacturing capacity utilization increased by 1.9 percentage points in March. The contribution of the sales, orders, and inventories category to the CFNAI moved up to +0.11 in March from -0.06 in February. The Institute for Supply Management's Manufacturing New Orders Index rose to 68.0 in March from 64.8 in the previous month.

The personal consumption and housing category contributed +0.63 to the CFNAI in March, moving up from -0.21 in February. The indicators in this category broadly improved from February. The contribution of the employment, unemployment, and hours category to the CFNAI increased from +0.12 to +0.34 in March.

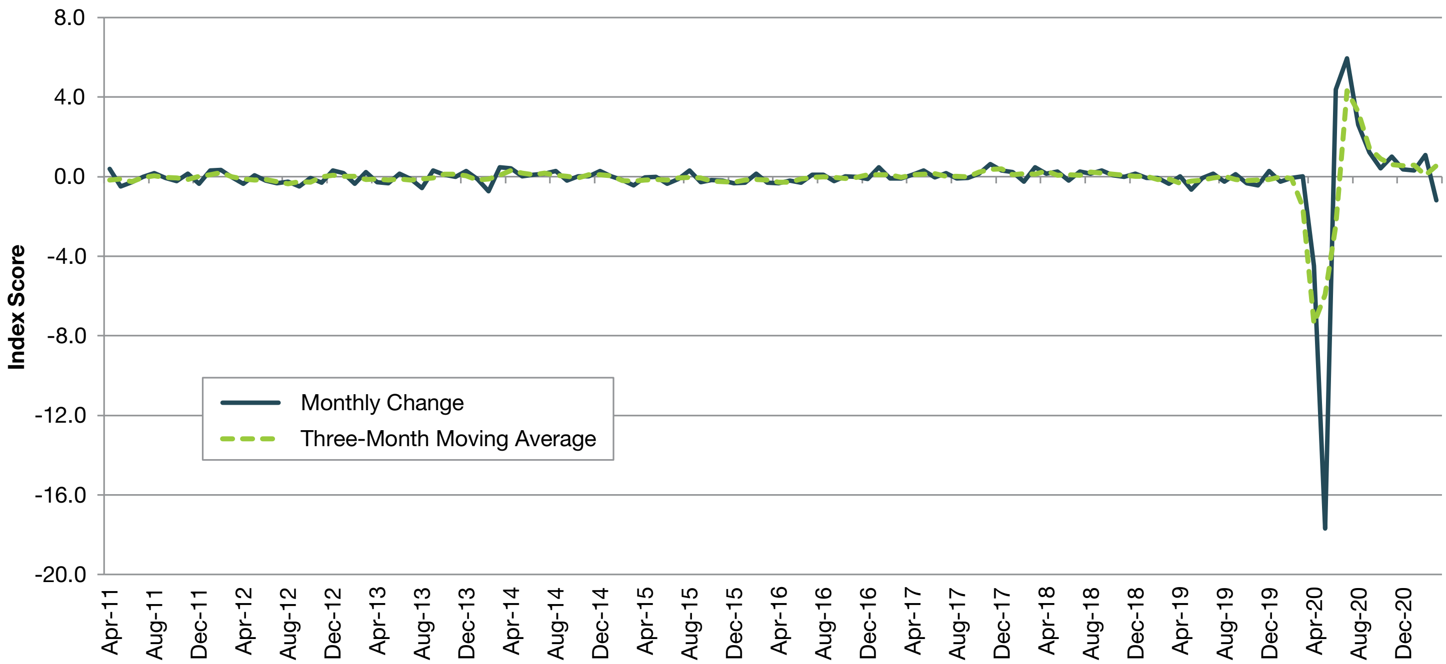
The CFNAI was constructed using data available as of April 20, 2021. At that time, March data for 50 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

EXHIBIT 4A: National Activity Index—Past 24 Months



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, -17.69, was recorded in April 2020 and the highest score, 5.95, 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 rose to its highest level in the past year after an increase of 19.3 points in March brought the index to 109.7 points. The report noted that the recovery in consumer confidence is set to continue in the coming months, buoyed by the combination of improving health conditions and wider vaccine distribution. However, concerns about inflation had also risen, likely because of rising gasoline prices, and this could temper spending in the months ahead.

The Conference Board's Present Situation Index bettered the rise from the main index in March, moving up 20.4 points, to 110.0 points. The index measures consumers' confidence in the present and near-term future economy. The percentage saying business conditions are "good" increased, from 16.1% to 18.5%, while the percentage of those saying business conditions are "bad" decreased, from 39.7% to 30.5%. Consumers' assessment of the labor market also improved in March, as the percentage of consumers stating jobs are "plentiful" rose from 21.6% to 26.3%, while the percentage of those claiming jobs are "hard to get" fell from 22.4% to 18.5%.

Consumers were also more optimistic about the short-term outlook in March, as the Expectations Index increased 18.7 points, to 109.6. The survey results showed the percentage of consumers expecting business conditions to improve over the next six months increased, from 30.7% to 40.8%, while those expecting business conditions to worsen decreased, from 17.7% to 11.0%. Consumers' outlook for the labor market was more favorable, as the percentage of those expecting more jobs in the months ahead increased, from 27.4% to 36.1%, while those expecting fewer jobs in the months ahead decreased, from 21.3% to 13.4%. The percentage of consumers expecting an improvement in their incomes improved from 14.8% to 15.5%; however, the percentage expecting a decrease fell, from 13.3% to 12.9%.

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

CONSUMER SENTIMENT

The Thomson Reuters/University of Michigan's Consumer Sentiment Index improved in March, climbing 8.1 points, to 84.9 points. Following the rise in March, the score now stands at its highest level in the past year and is now 1.5% below its historical average.

The report credited the disbursement of the third round of stimulus checks as well as the continued rollout of the coronavirus vaccine. In addition, consumers have credited the improving job market, which points to improved consumer spending in the coming months.

The Index of Consumer Expectations increased 12.7 points in March, to 79.7, and is the same reading from one year ago. The Index of Consumer Expectations focuses on three areas: how consumers view prospects for their own financial situation, how they view prospects for the general economy over the near term, and their view of prospects for the economy over the long term.

The Current Economic Conditions component, which measures how consumers feel about the economy right now, rose 7.9 points in March, to 93.0 points, but is down 10.3 percentage points from one year ago.

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

SMALL-BUSINESS OPTIMISM

The National Federation of Independent Business's (NFIB) Small Business Optimism Index increased 2.4 points in March, to 98.2 points. Following the rise, the index rose ahead of its 47-year average of 98 points, a signal that indicates that the easing of state and local restrictions have helped improve current business conditions. However, small-business owners expressed uncertainty with regard to whether it would be a good time to expand their business and make capital expenditures as the NFIB uncertainty index increased six points, to 81.

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

The report showed strong job growth in March. The report highlighted firms increasing employment by 0.42 workers per firm on average over the past few months, higher than the 0.34 workers per firm in February. Overall, 56% reported hiring or trying to hire in March, which is unchanged from February. Owners have plans to fill open positions, with a seasonally adjusted net 22% planning to create new jobs in the next three months, which is up 4.0 percentage points from February and 11.0 percentage points above its historical average. Finding qualified employees remains a problem, as 51% of owners reported few or no "qualified" applicants for the positions they were trying to fill in March, which is unchanged from February. Where there are open positions, labor quality remains a problem. Twenty-eight percent of owners reported few qualified applicants for their open positions, and 23% reported none.

Up two points from February, 59% of owners reported capital outlays in the next six months. Of those making expenditures, 41% reported spending on new equipment, 26% 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 percent of owners plan capital outlays in the next few months, which is three percentage points lower from February.

Seasonally adjusted, a net -6% of all owners reported higher nominal sales in the past three months, which is down 8.0 percentage points from February. The net percentage of owners expecting higher real sales volumes improved 8.0 percentage points, to a net 0%, a notable improvement but still at a weak level.

The net percentage of owners reporting inventory increases fell two percentage points, to a net -5%. Owners viewing current inventory stocks as "too low" decreased 2.0 percentage points in March, at a net 3%. A net 4% of owners plan inventory investment in the coming months, which is up 2.0 percentage points from February.

The percentage of owners raising average selling prices increased one percentage point, to a net 26%, while 8% reported lower average selling prices and 36% reported higher average prices. Price hikes were the most frequent in wholesale, evidenced by the rate for higher prices being 65% compared to the 5% rate for lower prices, and in retail, with 48% reporting higher prices compared to 5% reporting lower prices. Seasonally adjusted, a net 34% plan price hikes, which is unchanged from February.

A net 28% of owners reported raising compensation, which is up 3.0 percentage points from February, while a net 17% plan to do so in the coming months. Only 7% of owners cited labor costs as their top business problem, and 24% said that labor quality was their top business problem.

The frequency of reports of positive profit trends declined four points, to a net -15% reporting quarter-on-quarter profit improvement. Among owners reporting lower profits, 46% blamed weaker sales, 15% cited the usual seasonal change, 5% cited a higher cost of materials, 5% cited labor costs, and 4% cited higher taxes or regulatory costs. For owners reporting higher profits, 68% credited sales volumes, 13% cited usual seasonal change, and 7% cited higher prices.

Only 2% of owners reported that all their borrowing needs were not satisfied, which is unchanged from February. Twenty-seven percent reported all credit needs met, and 59% said they were not interested in a loan. A net 1% 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 net percentage of owners reporting paying a higher rate on their most recent loan was 0%, up two points from February.

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 the majority of new job creation and the NFIB focuses on this sector of the economy.

The 4Q 2020 Wells Fargo/Gallup Small Business Index rose 12.0 points in the fourth quarter, to 72.0 points. The rise continues the rebound after the index posted a historic decline of 84.0 points in the second quarter of 2020, which was caused by the onset of the coronavirus pandemic. The issues highlighted in the fourth-quarter survey were the path to recovery and the upcoming presidential election.

The fourth-quarter report zeroed in on small-business owners' views of their financial situation (one dimension of the index). Nearly seven in 10 owners are positive about their current financial situation, and about as many are positive about what their financial situation will be 12 months from now. Both ratings have improved since April but remain below where they were prepandemic.

Responses to other questions that are part of the index are more negative. Some 46% of owners say their revenues have decreased over the past 12 months, compared with 30% who say they have increased. And just 13% say the number of jobs at their company has increased over the past 12 months, down from 27% who said jobs were increasing last fall.

Beyond updating the index, the latest Wells Fargo/Gallup Small Business Survey focused on owners' perceptions of the state of the U.S. economy. Owners' positive views of the current state of the economy plunged as the pandemic began and remain low in this latest update, with just 32% saying the national economy is either "excellent" or "good." At the same time, the trend indicates that small-business owners are beginning to feel more confident in the direction of the economy than they did at the start of the pandemic. The percentage saying the U.S. economy is growing is at 29%, up from 6% in April, and fewer now say the economy is in either a depression or recession.

When focused on the bottom-line issues for this quarter, the report zeroed in on the COVID-19 pandemic and how it continues to negatively affect small-business owners in the U.S. But owners have, for the second straight quarter, become more positive about key business metrics such as their future financial situation, revenue, cash flow, capital spending, hiring, and credit. However, small-business owners expect to be in a difficult place for the foreseeable future, with full economic recovery some ways off. In addition, small-business owners said a major political shift is coming with the change in presidential administrations, although, at the time the survey was conducted in early March, owners were divided on whether the election results made them more or less optimistic about their business's future.

The Present Situation Index (how business owners gauge their perception of the past 12 months) rose 5.0 points, to 24.0 points, after falling by 24.0 points in the second quarter of 2020. The future expectations index (how business owners expect their businesses to perform over the next 12 months) rose by 7.0 points in the fourth quarter, to 48.0 points, after falling by 60.0 points in the second quarter of 2020.

Since August 2003, the Wells Fargo/Gallup Small Business Index has surveyed small-business owners on current and future perceptions of their business's financial situation. The Small Business Index is published once a quarter. This index consists of owners' ratings of their business's current situation and their expectations for the next 12 months, measured in terms of their overall financial situation, revenue, cash flow, capital spending, number of jobs, and ease of obtaining credit. Before the recession and financial crisis of 2008-2009, Small Business Index scores were generally in triple digits. The Small Business Index reached a peak of 142.0 in March 2019 and hit a low of -28.0 in July 2010.

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

The first-quarter report highlighted five takeaways, with the first signaling that the outlook is looking more positive. The report indicated that, in this quarter, 62% of small-business owners were more comfortable with their cash flow than they were last quarter, when 59% said they were more comfortable. What's more, cash-flow comfort is close across all small-business sectors, at between 60% and 65%, and all sectors are near or above their prepandemic readings. In another potential positive sign, more small businesses are expecting to hire in the coming year, with 32% of small businesses planning to increase hiring over the next year, which is up 27% in the last quarter. Many anticipate keeping staff levels steady, and almost half, 49%, of small businesses plan on retaining their current staff size over the next year.

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

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

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

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

The RSM U.S. Middle Market Business Index (MMBI) rose 5.3 points in March, to 127.4 points. The report noted that, while the improvement to the index in March is impressive, the forward view is even more encouraging. Executives' robust assessment of economic conditions, revenues, earnings, hiring, compensation, and capital expenditures over the next six months underscores the position that the U.S. economy will experience a boom in 2021 that will likely unleash the strongest period of American growth since the late 1980s, and, quite possibly, the post-World War II period.

Fifty-five percent of the survey respondents indicate that, over the next six months, they expect to increase productivity-enhancing capital expenditures, reflective of what we expect will be a hypercompetitive post-pandemic economy. This is the best reading in the capital spending subindex since just after the passage of the 2017 Tax Cuts and Jobs Act. Although only 35% of middle-market firms surveyed are deploying more capital right now, as the economy begins to reopen, the emergence of pent-up demand by businesses to invest in their own futures, along with higher household spending, will provide the foundation of the better-than-7% pace of growth that underscores the RSM US economic forecast this year.

However, along with robust growth, pricing pressures are expected as the economy opens amid constrained global supply chains that were damaged during the worst part of the coronavirus pandemic. The prices paid subindex currently implies that prices are increasing and are expected to continue to do so in the near term. Roughly 66% of survey participants state they are paying higher prices for goods used at earlier stages of production and for intermediate goods necessary to produce finished goods, while 76% of those expect to do so six months from now.

The data imply that, despite higher prices paid, only 43% of businesses are charging higher prices to customers, despite the increases in prices received. While 67% indicate they expect rising prices received in the near term, in the past, rising prices have been absorbed, resulting in thinner margins, or offset through improved productivity and efficiencies, mostly due to competitive pressures. Respondents noted that the goals of retaining market share and increasing global competitiveness have not receded and will continue to be part of the middle-market narrative. As constrained supply chains are reconstituted and prices come back to earth, middle-market firms are expected to behave in a similar manner as they have over the past 30 years and move cautiously on hiking prices.

Management of pricing issues, along with impending economic growth, will almost surely define the major narrative of the middle market over the next few years.

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

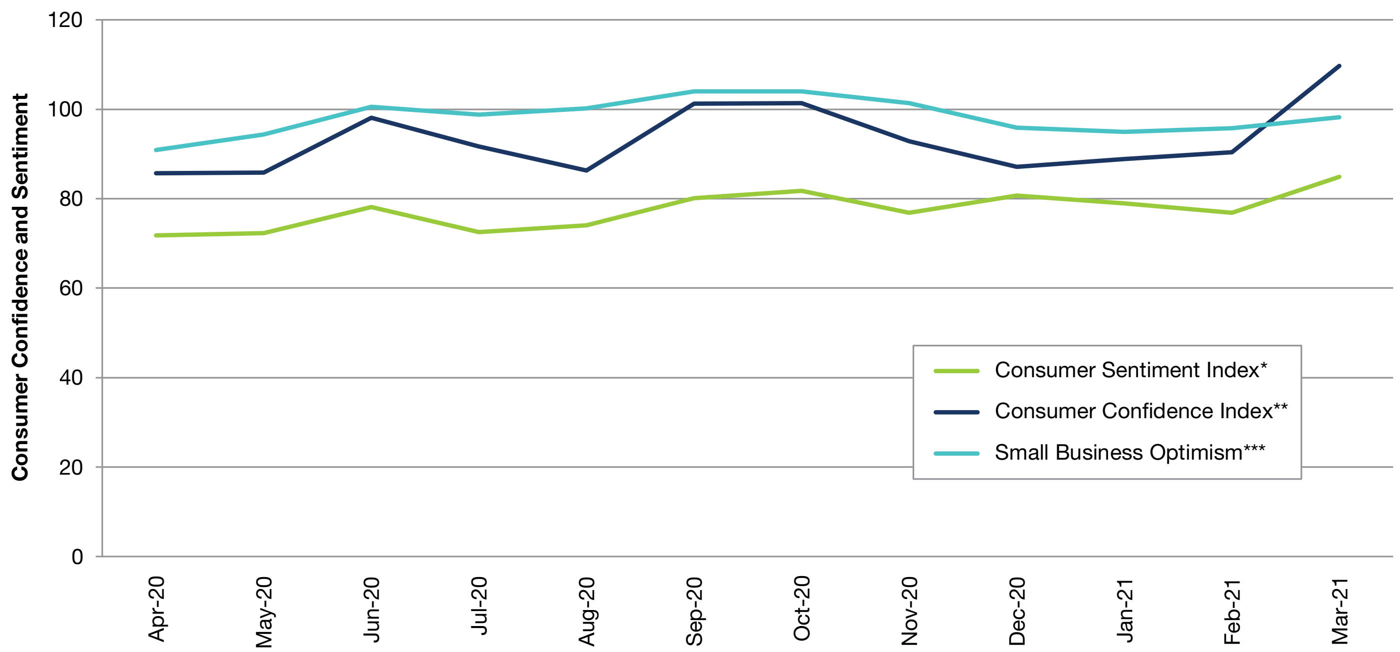
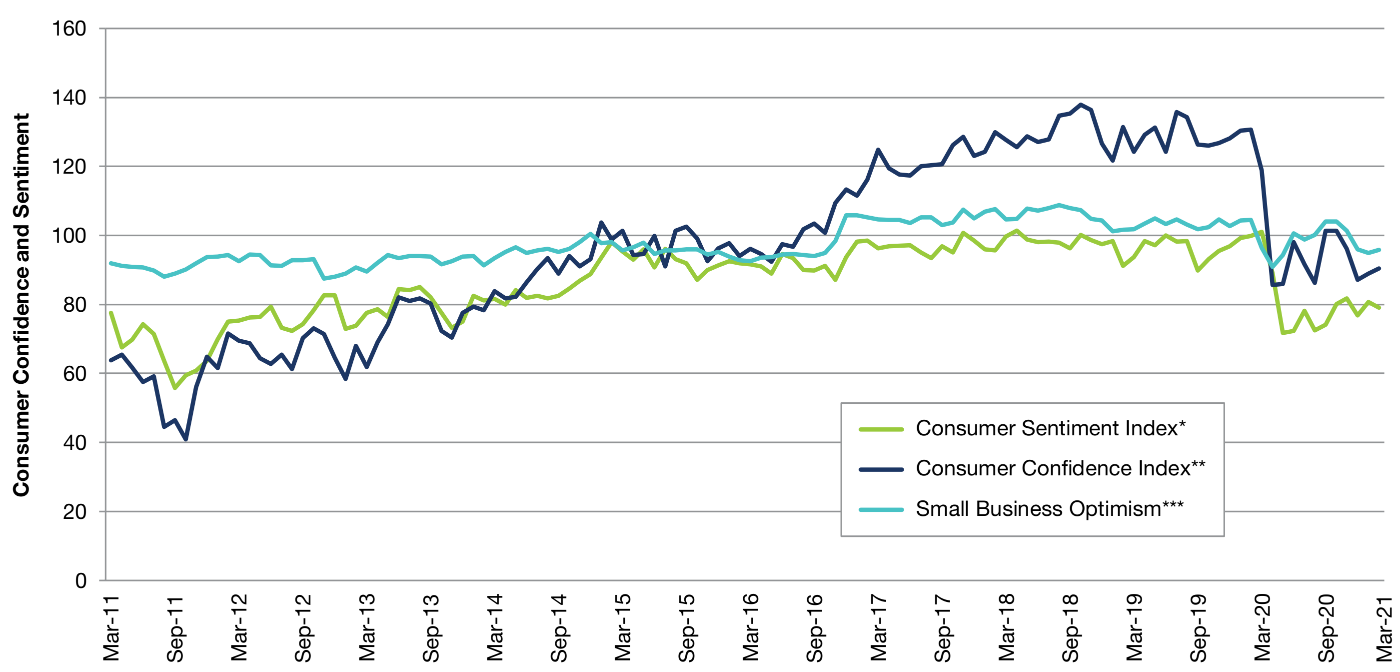


EXHIBIT 5B: Consumer Confidence and Small Business Optimism—10 Years



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

EXHIBIT 5C: Small Business Index—Prior 12 Quarters

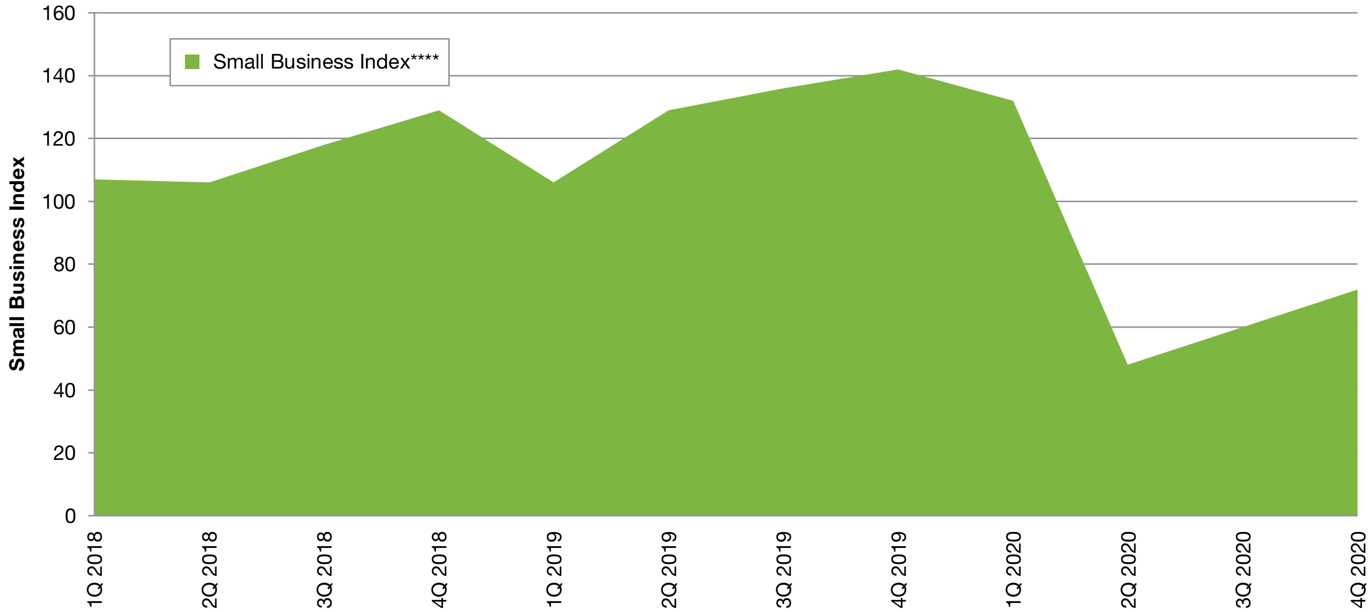
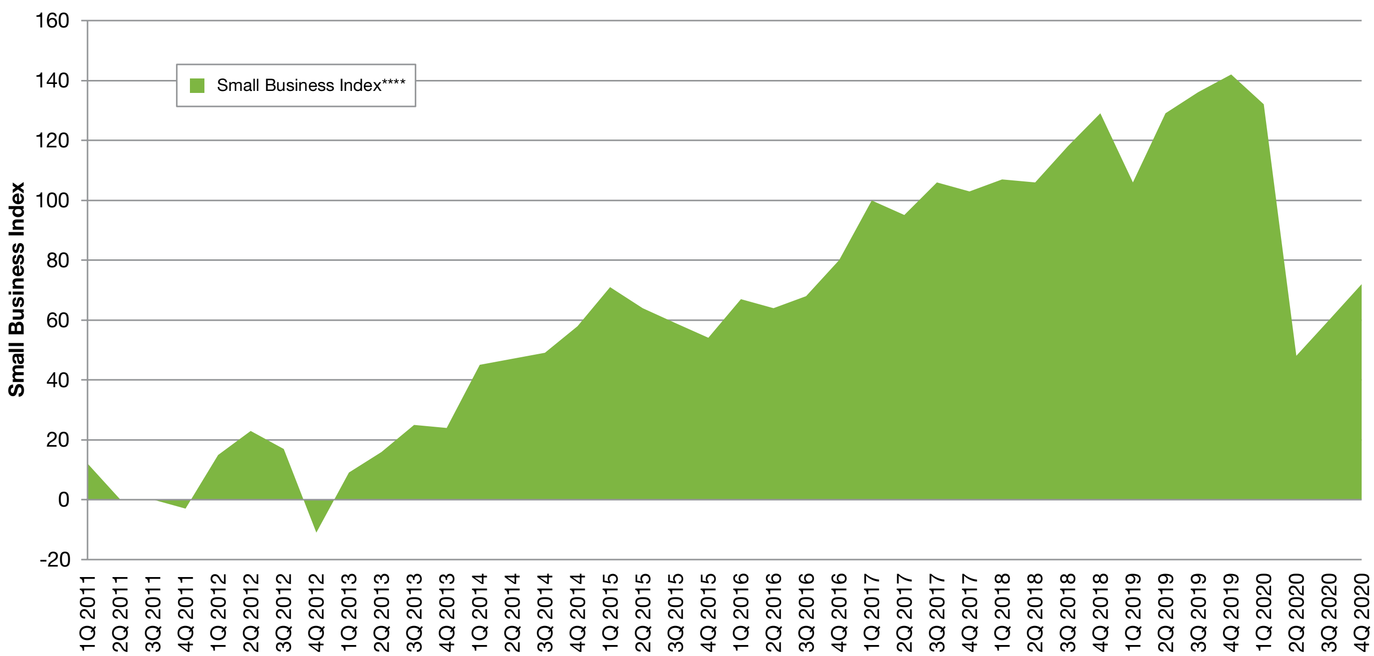


EXHIBIT 5D: Small Business Index—10 Years



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

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 (the index score for 2Q has not been reported)

U.S. RETAIL AND FOOD SERVICE SALES

U.S. retail and food services sales soared in March, producing its largest monthly gain since May 2020. The aggregate total of $619.1 million is 9.8% higher than the figure in February. The rebound in retail sales is attributed to the latest round of stimulus being distributed and the easing of restrictions on the hospitality sector. Economists view retail sales as a key economic indicator since consumer spending accounts for nearly two-thirds of the U.S. economy.

The "Advance Monthly Retail Trade Report," which highlights sales figures across most retail categories, saw all 13 major categories with higher sales. Miscellaneous store retailers rose 5.0%, while food and beverage stores rose 3.5%.

Retail sales figures over the past 12 months increased 27.7%. Twelve of the 13 retail sales categories saw an increase in sales. Sales at clothing and clothing accessories store grew 101.1%; sporting goods, hobby, and musical instruments rose by 73.5%, and motor vehicles and parts dealers rose 71.1%.

Core retail sales increased 8.2% in March. 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 17.9%.

E-commerce retail sales fell modestly in the fourth quarter of 2020 when compared to the third quarter of 2020. Online sales were at $206.7 billion in the fourth quarter, or roughly 1.2% lower than the $209.3 billion reported in the third quarter of 2020. Over the past 12 months, e-commerce sales are up 32.1%.

As a percentage of overall retail sales, e-commerce retail sales in the fourth quarter totaled 14.0%, down from 14.2% in the third quarter but higher than the rate of 11.3% from one year ago.

EXHIBIT 6A: Total Retail Sales—Past 24 Months

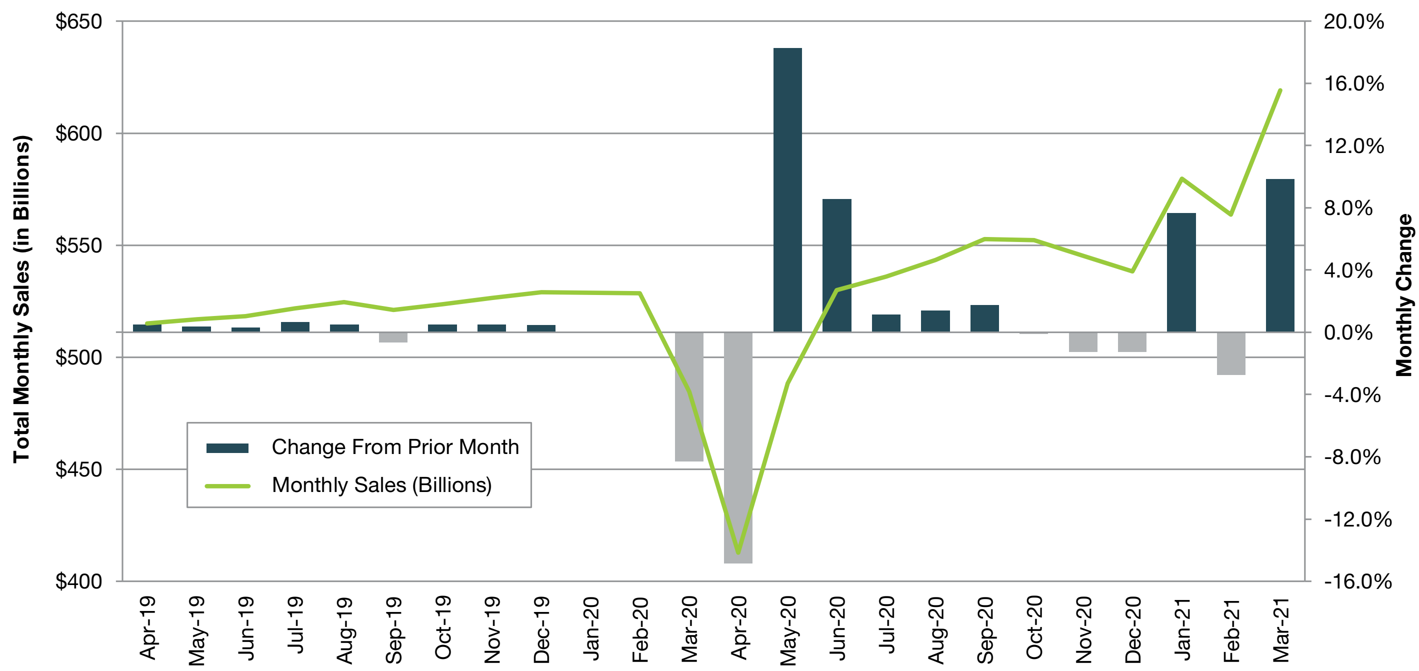
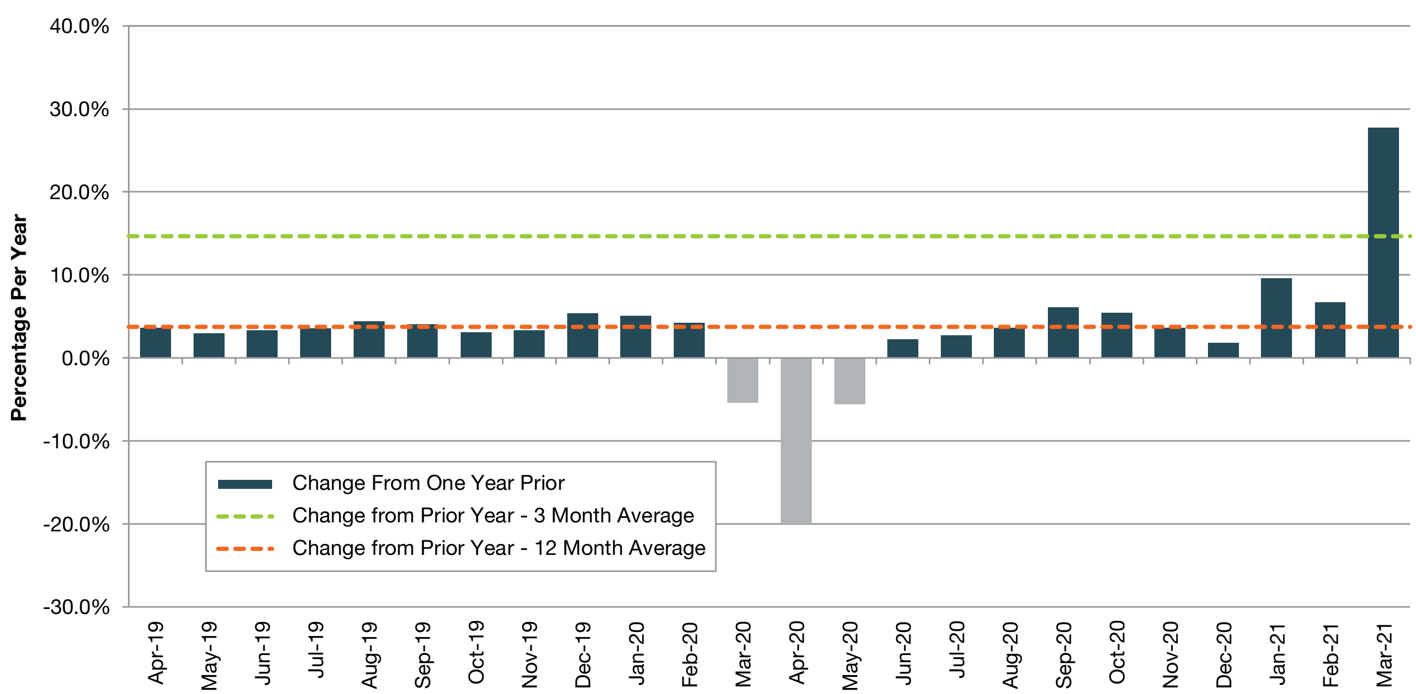


EXHIBIT 6B: Total Retail Sales Change From One Year Prior—Past 24 Months With Averages



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

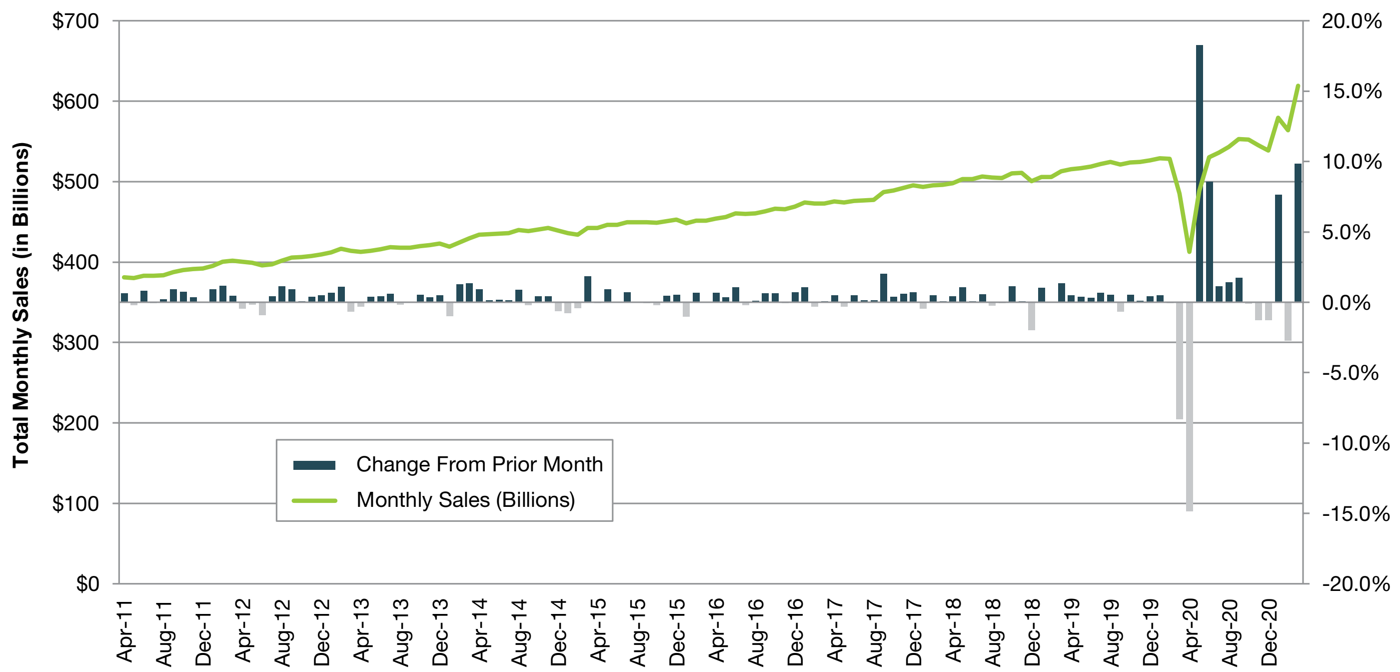
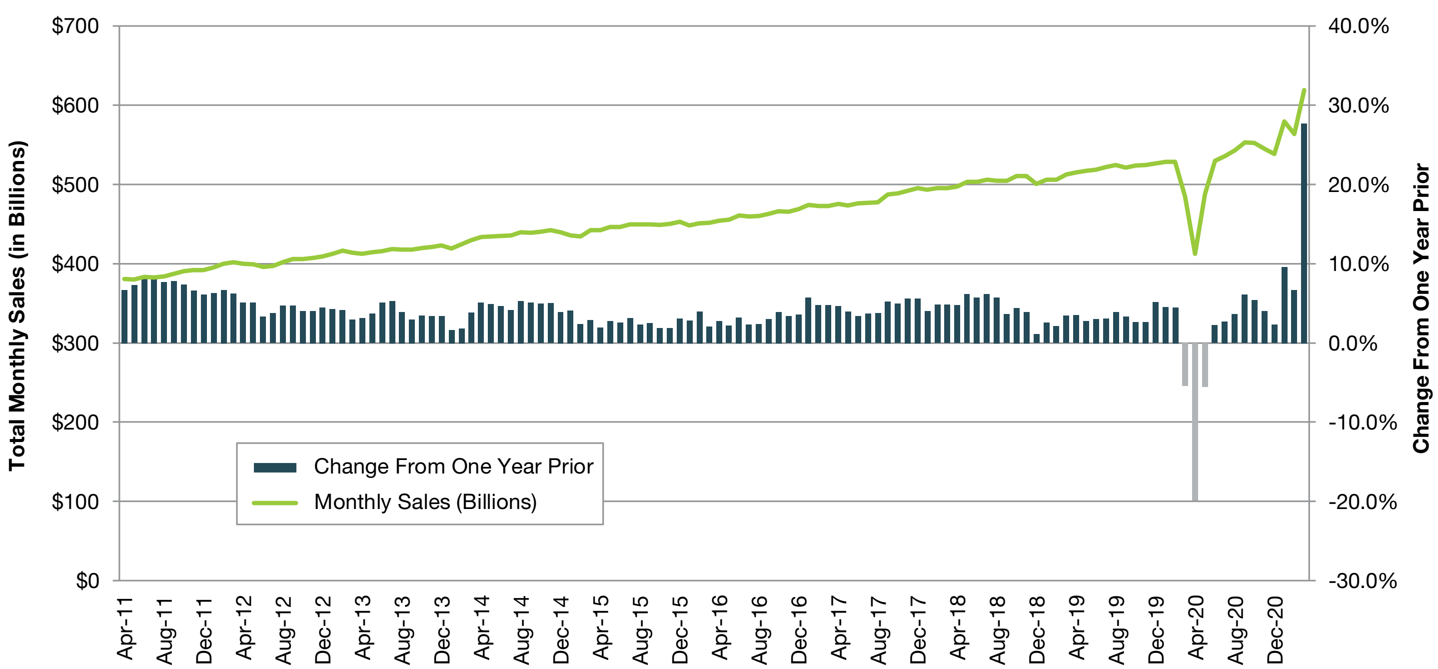


EXHIBIT 6D: Total Retail Sales—Percentage Change From One Year Prior Since 2011



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

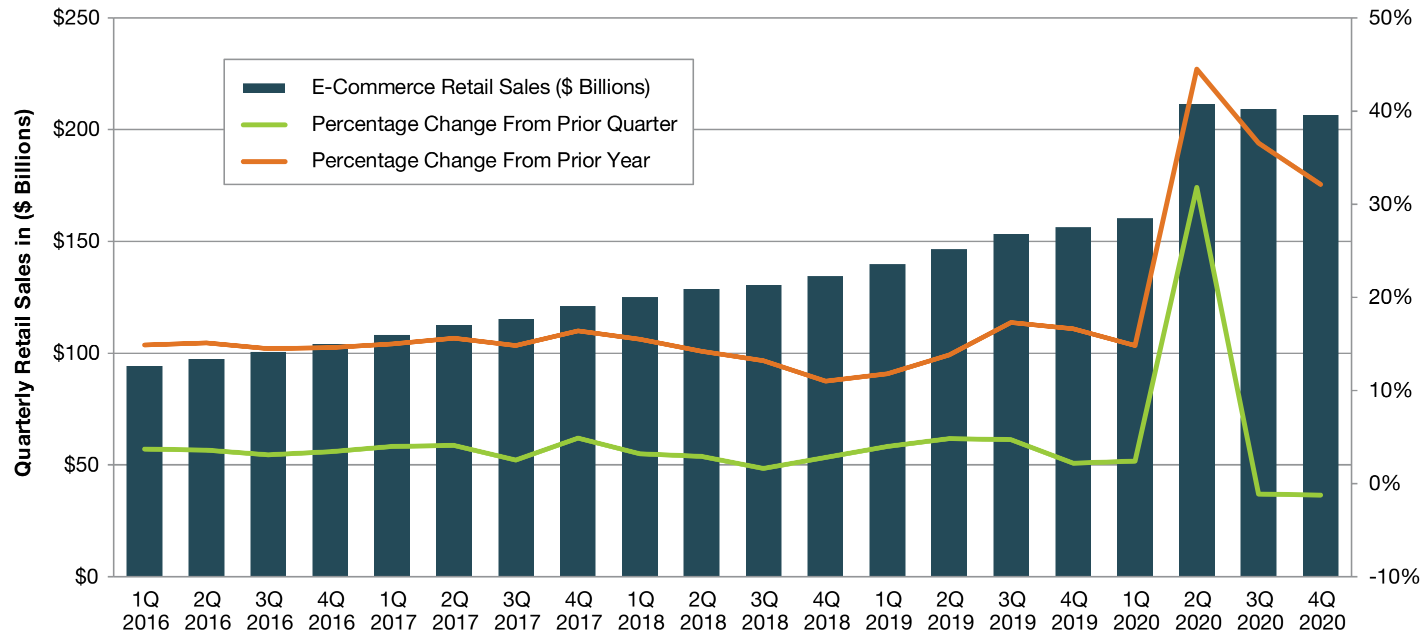
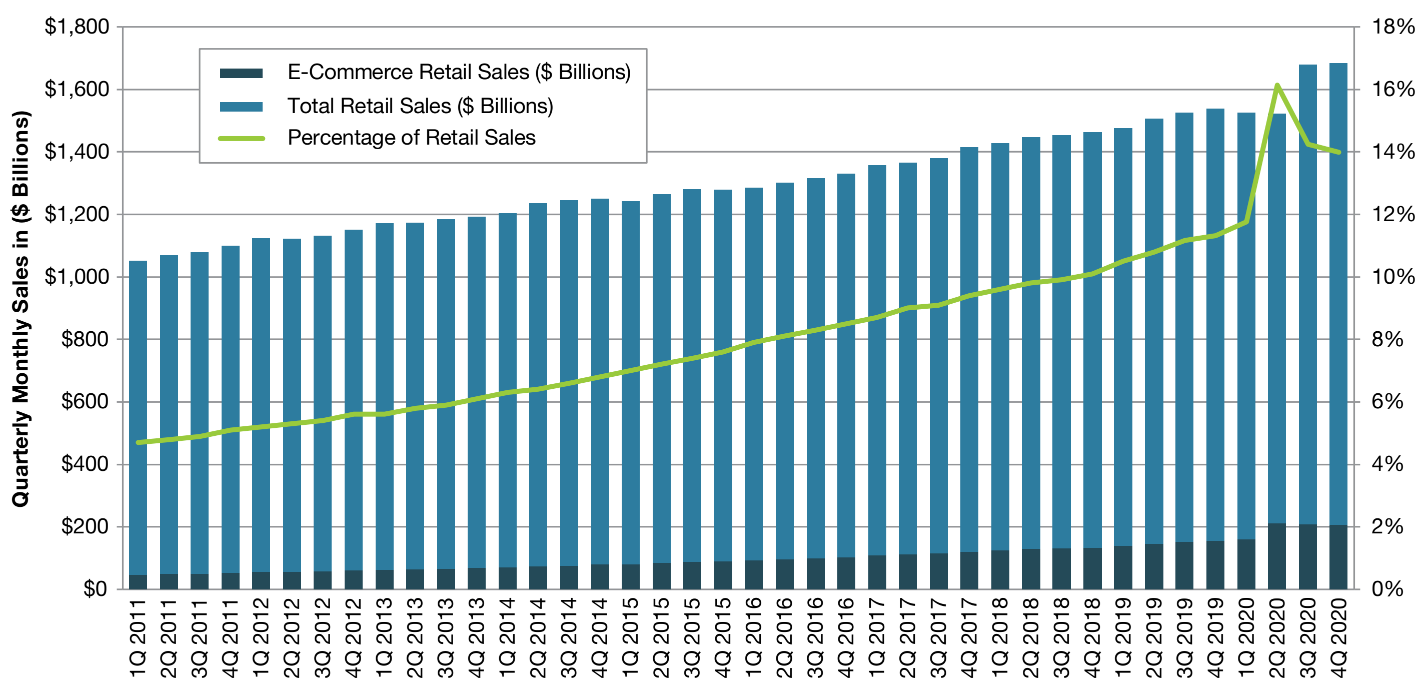


EXHIBIT 6F: E-Commerce Retail Sales Compared to Retail Sales 10 Years



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

UNEMPLOYMENT

Job growth soared in March, adding the largest monthly figure since August 2020, after 916,000 jobs were added to the economy. Gains were broad-based across most of the sectors, but a significant amount of the gains came from the hospitality industry, which added 280,000 jobs in March. Figures were also revised upward from the prior two months, with an additional gain of 67,000 jobs in January and an increase of 89,000 jobs in February, for a combined increase of 156,000 jobs.

In March, the share of employed persons who teleworked because of the coronavirus pandemic edged down, to 21.0% from 22.7% in February. 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 March, 11.4 million persons, which is down from 13.3 million persons in February, 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 March that they were unable to work because of pandemic-related closures or lost business, 10.2% 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 March, 3.7 million persons were prevented from looking for work due to the pandemic. This measure is down from 4.2 million from February.

Employment in the construction sector saw gains of 110,000 jobs in March, although the figure remains 182,000 below the figure from February 2020. Employment in professional and business services saw gains of 66,000 jobs but is down 685,000 jobs from one year ago. Employment in the manufacturing sector gained 53,000 jobs, and employment in the transportation and warehousing industry increased 48,000 jobs.

The report found that labor-force participation improved 0.1 percentage point in March, to 61.5%, but is 1.8 percentage points lower than its rate from February 2020. The employment-population ratio, which is the share of the working-age population with a job, increased 0.2 percentage point in March, to 57.8%, but is 3.3 percentage points lower than its rate in February 2020. The number of long-term unemployed (those jobless for 27 weeks or more) changed little in March, coming in at 4.2 million but is up 3.1 million from February 2020.

In March, the U3 unemployment rate improved 0.2 percentage point, to 6.0%, after reporting no change in February. Since May, the unemployment rate had steadily improved after hitting 14.7% in April.

The broadest measure of labor underutilization, the U6 unemployment rate, improved 0.4 percentage point in March, to a seasonally adjusted 10.7%. The U6 unemployment rate has continually improved over the past six months after hitting 22.8% in April, which was the highest level on record since the data series began in 1994. U6 unemployment is broader than U3 and includes "marginally attached workers" and people who are looking for and want full-time work but have settled for part-time employment. Marginally attached workers are people who are not actively looking for work but have indicated they want a job and have looked for work (without success) sometime in the past 12 months. This class also includes "discouraged workers," those who have completely given up on finding a job because they feel they would be unable to do so.

In the jobs report published by ADP, private-sector employment increased by 517,000 jobs. The report showed broad gains across all businesses, with large-sized businesses adding 155,000 jobs, small businesses adding 174,000 jobs, and midsized businesses adding 188,000 jobs. The number of service-sector jobs rose by 437,000, and the number of goods-producing jobs increased by 80,000. Within the small-sized-business segment, the service sector saw gains of 163,000 and the goods-producing sector added 11,000 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 February 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 a total of more than 18 million jobs over a four-year period.

HOURLY EARNINGS AND WORKWEEK

Wages decreased 0.04 cents in March, to $29.96, but remain higher by $1.22 cents, or 4.3%, over the past 12 months. Average hourly earnings for private-sector production and nonsupervisory employees increased 0.02 cents in March, to $25.21. Over the last 12 months, average hourly earnings for private-sector production and nonsupervisory employees have increased $1.06 cents, or 4.4%.

The average workweek for all private workers increased 0.3 hour in March, to 34.3 hours, and is up 0.9 hour from one year ago. The manufacturing workweek increased 0.2 hour in March, to 41.6 hours, and the number of manufacturing overtime hours increased 0.1 hour, to 4.3 hours. The average workweek for production and nonsupervisory employees increased 0.3 hour in March, to 34.3 hours.

Compensation costs for civilian workers for the three-month period ending December 2020, 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 0.6%. Over the past 12 months, compensation costs for civilian workers increased 2.5%, which is 0.1 percentage point higher than the third quarter reading but 0.2 percentage point lower from one year ago.

Compensation for private-industry workers increased 2.6% over the past year, which is 0.1 percentage point lower than from one year ago. Wages and salaries increased 2.8% for the 12-month period ending December 2020, while the costs of benefits increased 2.1% over the same period. Employer costs for healthcare benefits increased 1.9% for the 12-month period ending December 2020.

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

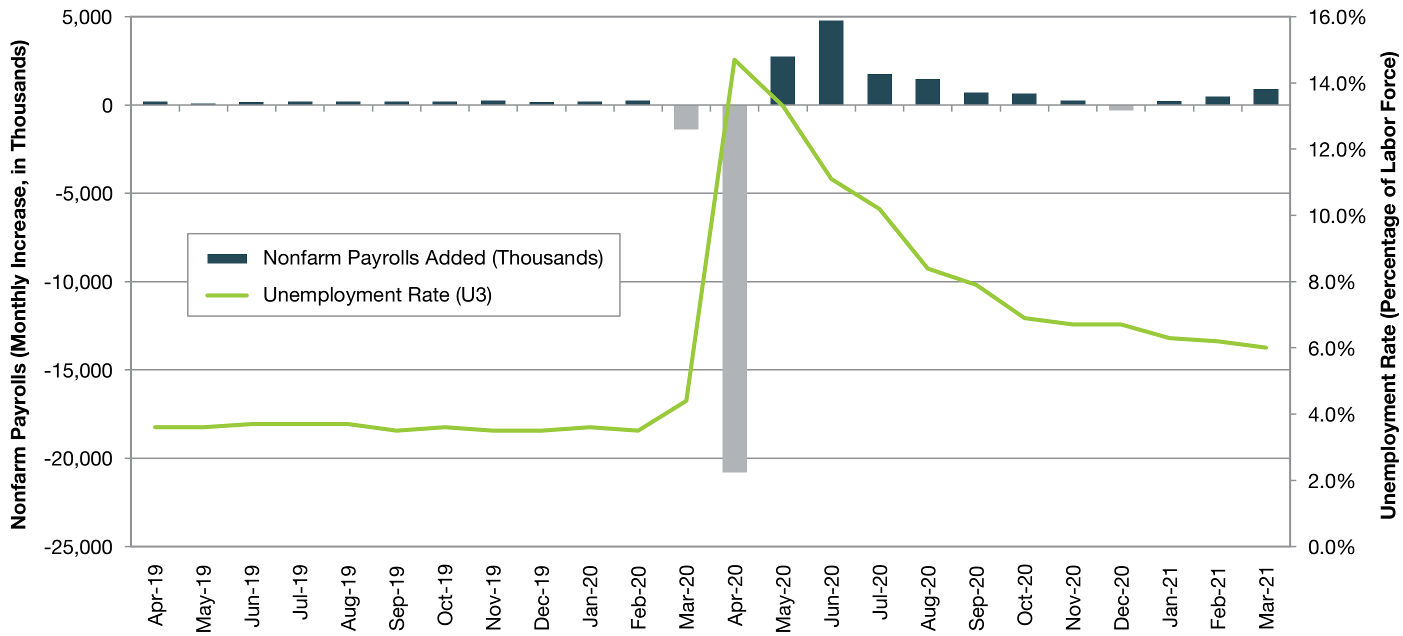
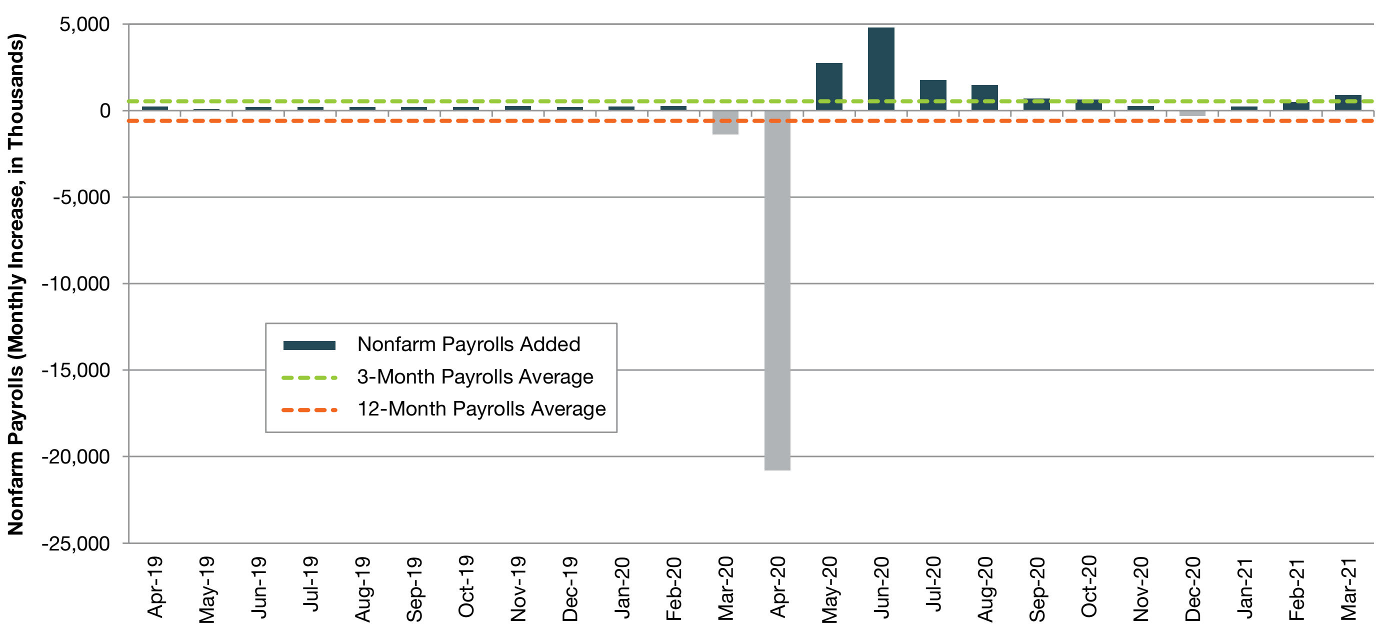


EXHIBIT 7B: U.S. Employment—Past 24 Months With Averages



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

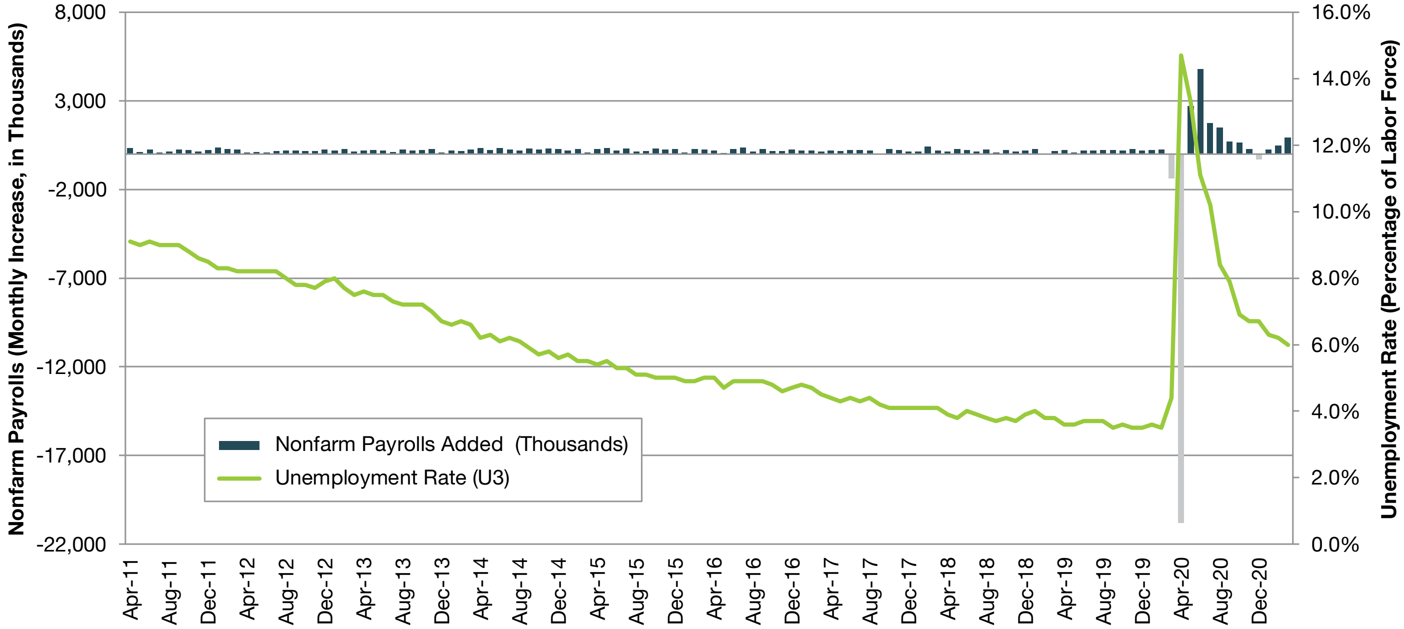
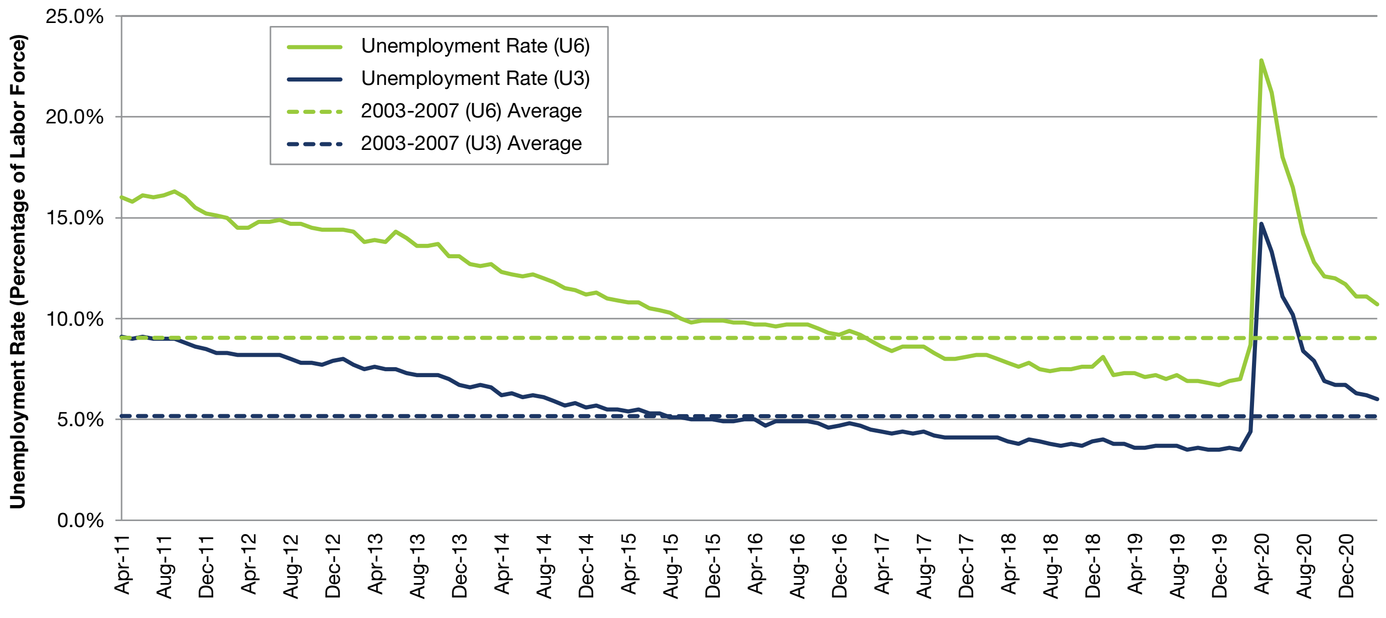


EXHIBIT 7D: U3 Unemployment Compared With U6 Unemployment—10 Years



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 improved in March after the manufacturing index (PMI) rose 3.9 percentage points as reported by the Institute for Supply Management (ISM). The score in March, 64.7%, indicates expansion in the overall economy for the 10th consecutive month. Panelists' comments were more optimistic in March than in the prior month, with five positive comments for every cautious comment. Following the March rise, the manufacturing economy has now expanded for the 10th consecutive month.

The breakdown of the components in March are as follows: Demand expanded, with the New Orders Index growing at a strong level, supported by the New Export Orders Index continuing to expand. Customers' Inventories Index remained at an all-time low, while the Backlog of Orders Index remained at an all-time high. Consumption, which is measured by the production and employment indexes, contributed positively, with a 10.1-percentage-point increase, to the Manufacturing PMI calculation. All six industries reported moderate to strong expansion. The Employment Index expanded for the fourth straight month, but panelists continue to note difficulties in attracting and retaining labor at their companies and supplier facilities. Inputs, which are expressed as supplier deliveries, inventories, and imports, continued to support input-driven constraints to production expansion, were at higher rates compared to February. The importation of items marginally slowed in the period, driven by port backlogs. The Prices Index expanded for the 10th 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 March Manufacturing PMI, at 64.7%, indicates the 10th 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 March score was above the 12-month average of 55.3%.

Seventeen of the 18 manufacturing sectors surveyed in March reported growth. The report stated that, based on the past relationship between Manufacturing PMI and the overall economy, if Manufacturing PMI for March (64.7%) were annualized, it would correspond to a 6.2% increase in GDP annually.

The 17 manufacturing industries that reported growth in March were: textile mills; electrical equipment, appliances, and components; machinery; computer and electronic products; apparel, leather, and allied products; furniture and related products; fabricated metal products; food, beverage, and tobacco products; primary metals; plastics and rubber products; paper products; transportation equipment; chemical products; nonmetallic mineral products; miscellaneous manufacturing; printing and related support activities; and petroleum and coal products. No manufacturing industries reported contracting in March.

The component for new orders increased 3.2 percentage points in March, to 68.0%, which marks the 10th consecutive month of expansion and is the highest score since January 2004. A New Orders Index above 52.5%, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders (in constant 2000 dollars). Five of the six largest manufacturing sectors expanded, and 15 of 18 industries reported growth in new orders in March.

The component for production increased 4.9 percentage points in March, to 68.1%, and is now at its highest level since January 2004. All the top-six industry sectors expanded moderately to strongly. 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 March, and none of the industries reported a decrease in production.

Employment in the manufacturing sector moved up 5.2 percentage points in March, to 59.6%, which is the fourth month at levels indicating expansion. Five of the six big industry sectors expanded on the month, although survey panelists' comments indicate that significantly more companies are hiring or attempting to hire than those reducing labor forces. An Employment Index above 50.8%, over time, is generally consistent with an increase in the Bureau of Labor Statistics' data on manufacturing employment. Fourteen of the 18 industries reported employment growth in March, and none of the industries reported a decrease in employment.

The component that measures prices decreased 0.4 percentage point in March, to 85.6%, with the score indicating expansion for the 10th consecutive month. Aluminum, copper, chemicals, all varieties of steel, plastics, transportation costs, and wood and lumber products all continued to record price increases as a result of product scarcity. A Prices Index above 52.5%, over time, is generally consistent with an increase in the Bureau of Labor Statistics' Index of Manufacturers Prices. All 18 industries reported paying higher prices for raw materials in March.

In March, order backlogs increased 3.5 percentage points, to 67.5%, and have now expanded for the eighth consecutive month as backlogs expanded at faster rates than in February. Five of the six big industry sectors' backlogs expanded, and 15 of the 18 reported growth in order backlogs in March.

The new export orders index decreased 2.7 percentage points in March, to 54.5%. Following the rise, the index has now grown for the ninth consecutive month. Four of the Big Six industries expanded, and eight of the 18 industries reported growth in new order exports in March.

The imports index increased 0.6 percentage point in March, to 56.7%. Following the rise, the index remains at levels indicating expansion for the ninth consecutive month. Panelists continued to note record-breaking backlogs in ports of entry, as well as difficulties in arranging drayage and operating within the domestic transportation market. Eleven of the 18 industries grew in March, and six reported a decrease.

The index that tracks the average commitment lead time for capital expenditures increased by three days in March, to 145 days. The average lead time for maintenance, repair, and operating supplies increased two days, to 40 days, and the average lead time for production materials increased eight days, to 75 days.

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

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

Purchasing managers reported that their companies are currently operating, on average, at 85.7% of normal capacity, or 9.8 percentage points more than the rate reported in May. Overall, production capacity in manufacturing is expected to increase 2.4% in 2021 from 2020. In 2020, production capacity declined by 2.4% from 2019. Eleven of the 18 industries reported an average capacity of 85.7% or above.

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

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

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

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

The highlights to the semiannual survey are:

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

SERVICES PMI

The Services PMI, formerly the nonmanufacturing index (NMI), soared 8.4 percentage points in March, to 63.7%, reaching an all-time high. The report highlighted the responses from those surveyed, with respondents remaining cautiously optimistic for continued improvement through the second half of the year and that, although COVID-19 issues continue to impact demand and supply across the globe, the new stimulus aid is expected to help the economy and lead to an increase in retail spending over the next few months. Production-capacity constraints, material shortages, and challenges in logistics and human resources are impacting the supply chain. 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 March, 63.7%, indicates growth in the overall economy and the services economy for the 10th consecutive month.

All 18 nonmanufacturing sectors surveyed in March 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 March (63.7%) were annualized, it would correspond to a 5.1% increase in GDP. Over the past 12 months, the Services PMI score averaged 55.2%.

The component that measures business activity increased 13.9 percentage points in March, to 69.4%, indicating expansion for the 10th consecutive month and reaching its highest level since the series began in 1997. Seventeen of the industries in the index reported growth in business activity for the month.

The new orders component of the index increased 15.3 percentage points, to 67.2%, which indicates that the index has now grown for the 10th consecutive month. Seventeen of the industries in this index reported an increase in new orders for the month.

Employment in the nonmanufacturing sector grew in March, after a rise of 4.5 percentage points, to 57.2%. Ten of the 18 industries reported an expansion in employment.

The supplier deliveries component increased 0.2 percentage point in March, to 61.0%. A reading above 50% indicates slower deliveries, while a reading below 50% indicates faster deliveries. The report noted that import logistics challenges, port delays, and shipping delays impacted respondents. Fourteen of the 18 industries reported slower deliveries on the month.

Prices nonmanufacturing organizations paid for purchased materials and services increased following a rise of 2.2 percentage points, to 74.0%, in March. All 18 industries reported an increase in prices paid in March.

Orders and requests for services and other nonmanufacturing activities to be provided outside of the U.S. by domestically based companies declined in March, after the index reported a decrease of 2.1 percentage points, to 55.5%. Of the total respondents in March, 79.0% 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 March.

The component that measures inventory sentiment decreased 1.6 percentage points in March, to 52.7%, and remains at a level that indicates inventories are too high. Eight industries reported that their inventory level was still too high in March.

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

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

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

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

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

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

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

HOSPITAL PMI

Economic activity in the hospital subsector improved in March, rising 1.3 percentage points, to 58.8%. Survey panelists' comments in March were cautiously optimistic, with panelists reporting continued declines in cases and a return to a more routine shift schedule. Supply-chain disruptions continued, especially for needles, syringes, and nitrile gloves. Availability and high prices were more of an issue for small providers and in rural areas.

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

The Case Mix Index increased 2.0 percentage points, to 54.0%. The Case Mix Index change is consistent with slower growth in surgical cases. The Days Payable Outstanding Index decreased 6.5 percentage points, to 44.0%. The Technology Spend Index decreased 7.0 percentage points, to 51.0%.

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

INDUSTRIAL PRODUCTION

The Federal Reserve reported that total industrial production increased 1.4% in March, rebounding from the decline of 2.6% in February. At 105.6% of its 2012 average, total industrial production in March was 3.4% lower than its prepandemic level from February 2020. Capacity utilization for the industrial sector increased 1.0 percentage point in March, to 74.4%, a rate that is 5.2 percentage points below its long-run (1972-to-2020) average.

Manufacturing production increased 2.7% in March. All major categories of durables registered increases, most of which were between 2% and 3%. The output of motor vehicles and parts rose 2.8% in March after falling 10% in February.

The output of mining increased 5.7% in March with a sizable gain in gas extraction contributing most of the gain. Despite the rise, the index remains well below its levels from one year ago.

Capacity utilization for manufacturing increased 1.9 percentage points in March, to 73.8%. The operating rate for mining increased 4.5 percentage points, to 82.2%, in March, while the capacity utilization rate for utilities decreased 9.0 percentage points, to 68.9%.

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

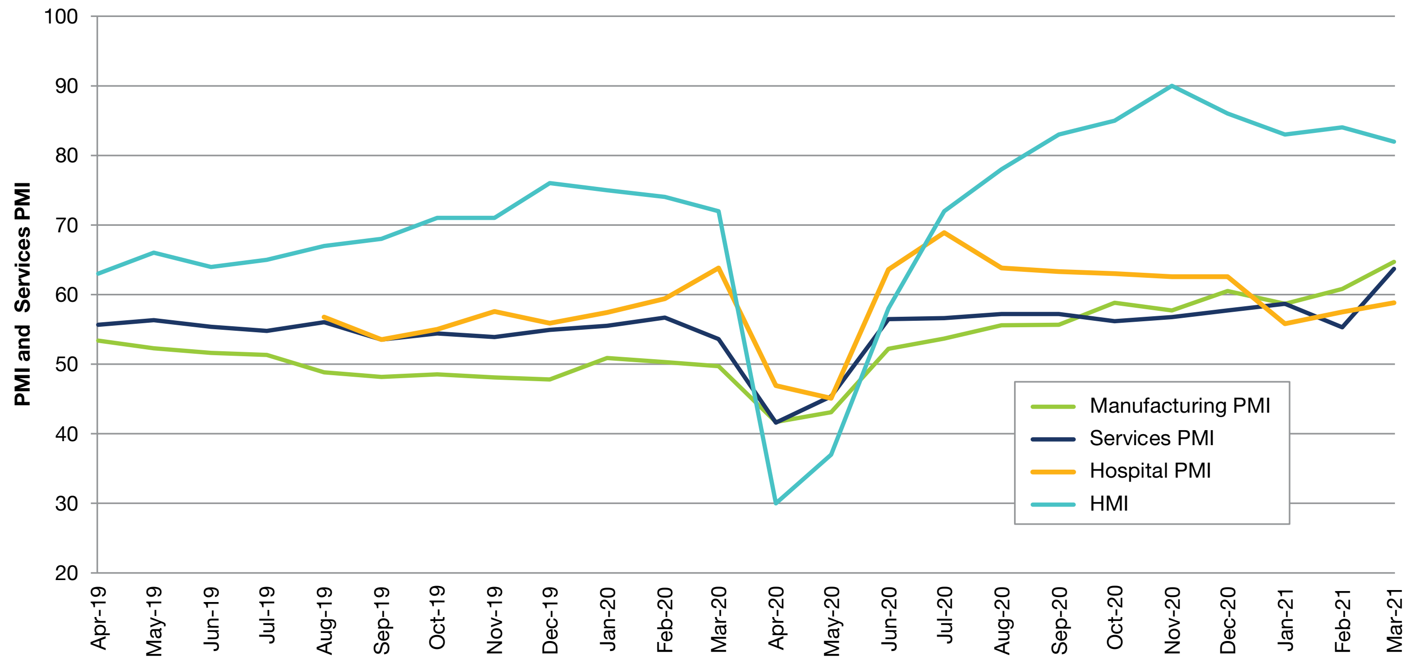
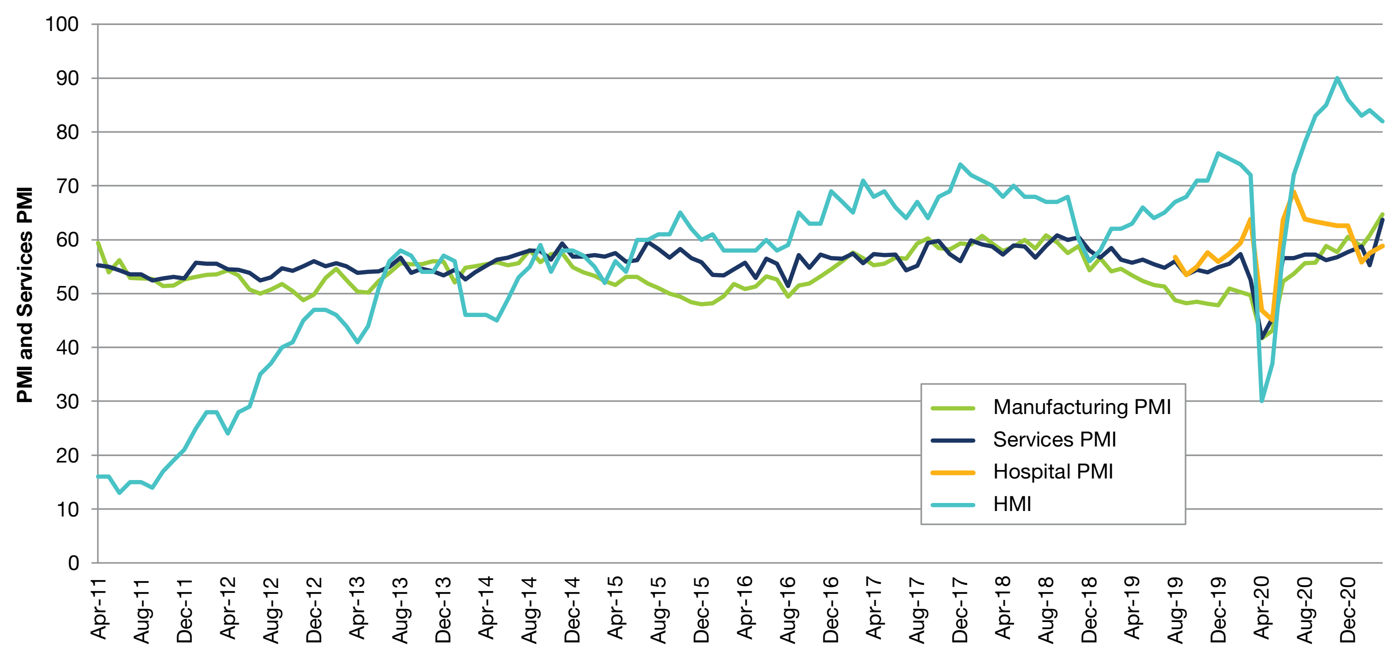


EXHIBIT 8B: Manufacturing, Services, Hospital Supply Chains, and Housing Indicators—10 Years



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

All the major U.S. indices posted sizable gains in March, reversing the downward trend from prior months and lifting all the major indexes into positive territory on the year. Investors cheered the passing of additional stimulus aid, which eased inflation concerns. In March, the Dow Jones Industrial Average rose 6.8%, the S&P 500 moved up 4.4%, and the Nasdaq Composite ticked up 0.4%. The Russell MidCap rose 2.7%, and the Russell 2000 Index climbed 1.0%.

In March, the Chicago Board Options Exchange Volatility Index remained elevated, ranging from 18.7 to 31.9. The VIX produced a monthly average of 21.8, lower than the average thus far in 2021, 23.2. 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	Mar-21	Year-to-Date
Dow Jones Industrial Average	6.8%	8.3%
S&P 500	4.4%	6.2%
Nasdaq Composite	0.4%	2.8%
Russell Midcap	2.7%	8.1%
Russell 2000	1.0%	12.7%

Source of data: T. Rowe Price

*Returns are for the periods ended March 31, 2021. The returns include dividends based on data compiled by T. Rowe Price, except for the Nasdaq Composite, whose return is principal only.

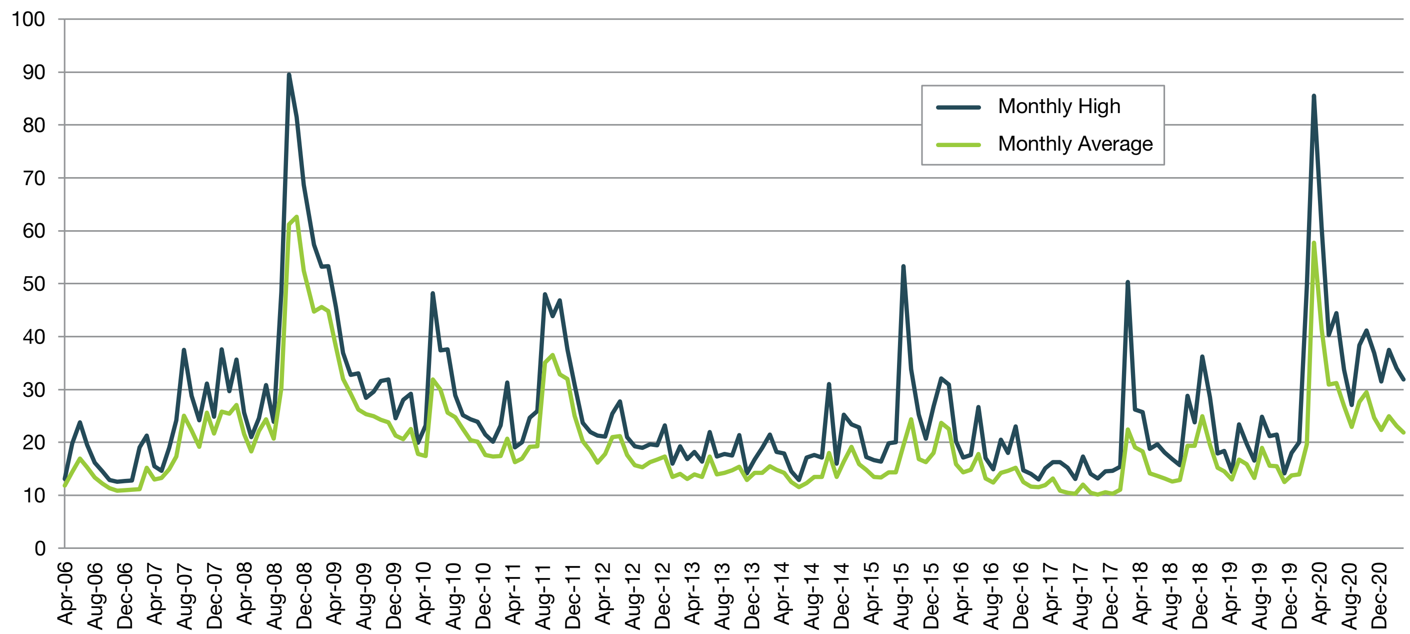
VOLATILITY

VIX*	Mar-21	Year-to-Date
High	31.9	37.5
Low	18.7	19.7
Average	21.8	23.2

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 0.6% in March, after rising 0.4% in February. The rise in the index came in higher than forecasts for a rate of 0.5%, according to a poll by the Dow Jones. The figure represents the clearest indication so far of mounting inflationary pressures, evident in higher consumer prices. The index for gasoline contributed to about half the gain to the index following a rise of 9.1%. Over the past 12 months, the CPI is up 2.6%, which is the largest one-year gain since August 2018.

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

The Chained Consumer Price Index for all urban consumers rose 0.7% in March, after a rise of 0.6% in February. Over the past 12 months, the index is up 2.5%. 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 0.3% in March, after a rise of 0.1% in February. Core CPI has risen 1.6% over the past 12 months.

PRODUCER PRICE

The Producer Price Index (PPI) increased 1.0% in March after a rise of 0.5% in February. The rise in March likely signals the start of higher inflation 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 4.2%, the largest annual increase in nine and a half years. 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 0.6% in March, after rising 0.2% in February. Over the past 12 months, prices for final demand less foods, energy, and trade services increased 3.1%.

In March, prices for final demand services increased 0.7%. Prices for final demand goods less foods and energy, or Core PPI, rose 0.9% in March. Core PPI is up 3.1% over the past 12 months.

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

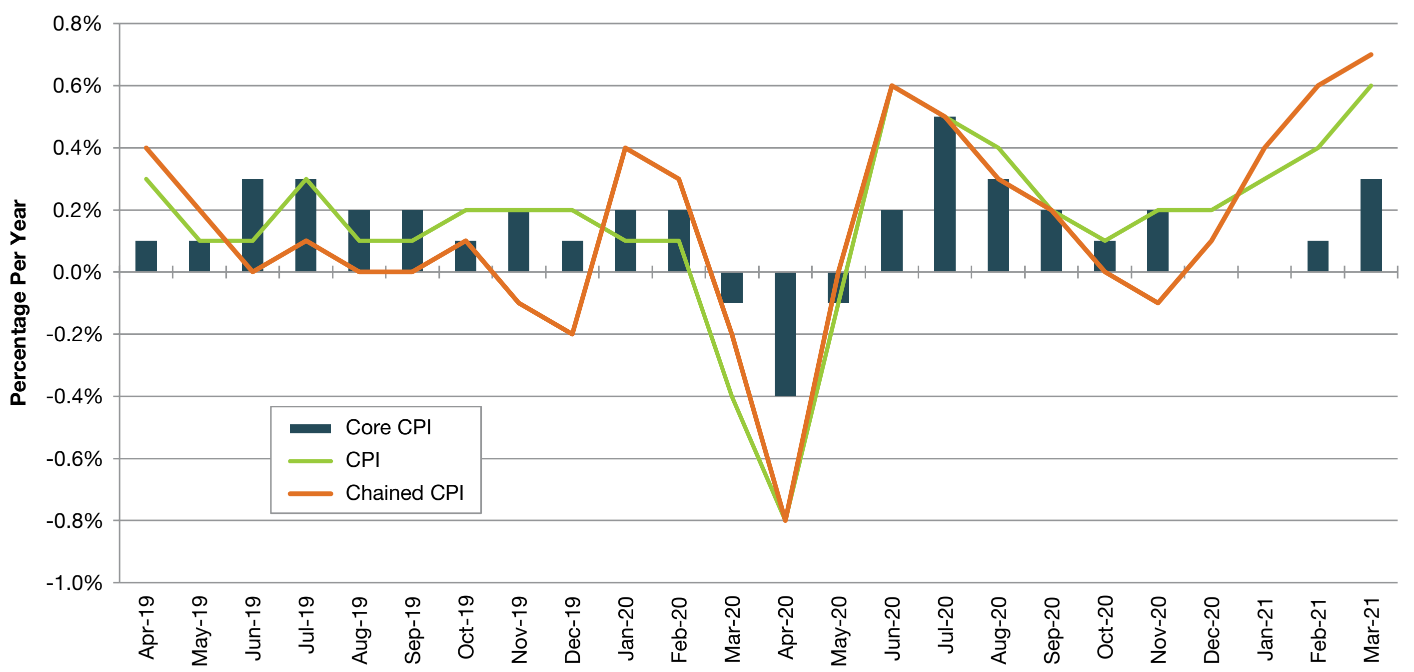
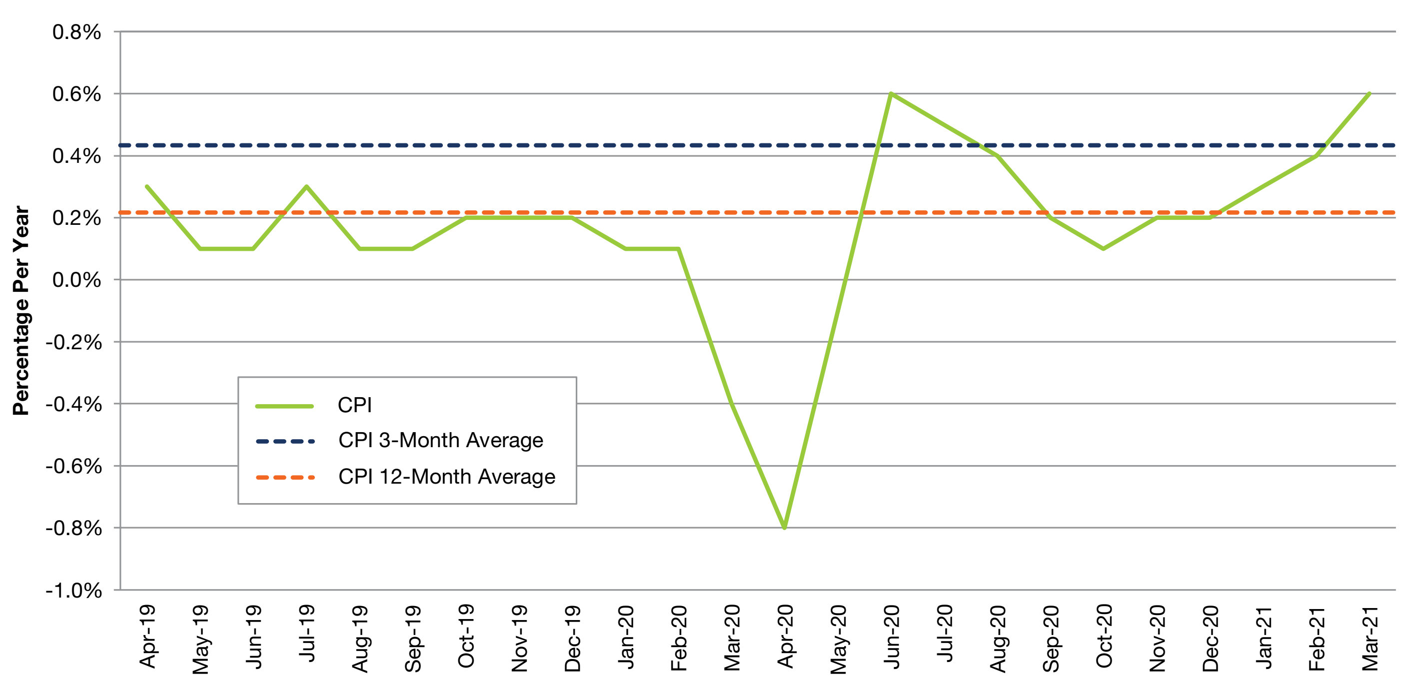


EXHIBIT 10B: U.S. Consumer Price Index—Past 24 Months With Averages



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

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

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

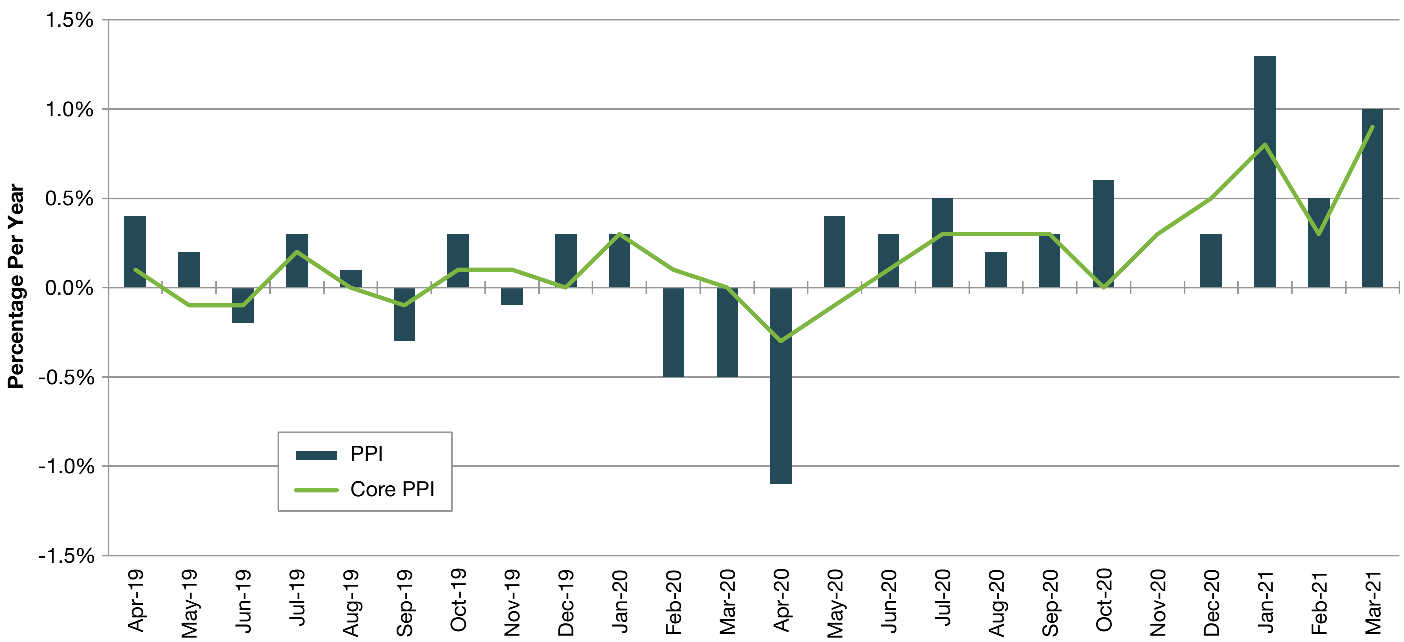
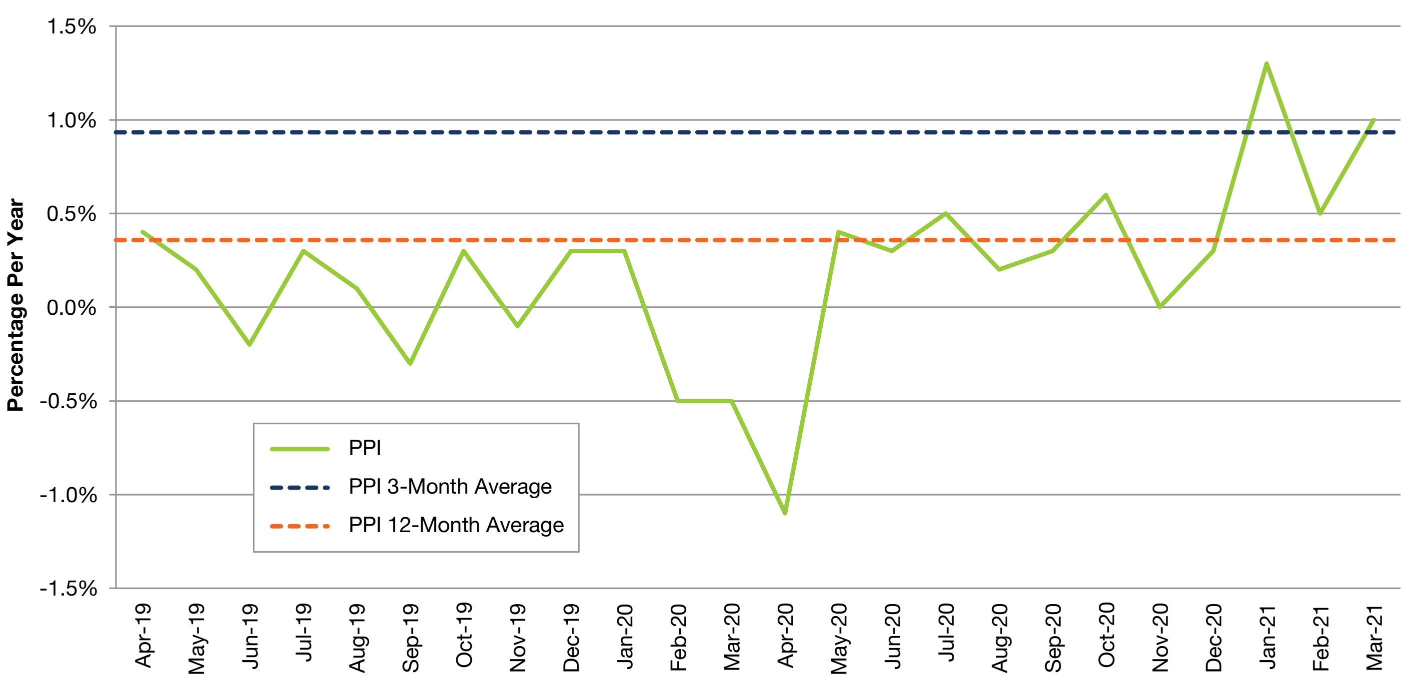


EXHIBIT 10D: U.S. Producer Price Index—Past 24 Months With Averages



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

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

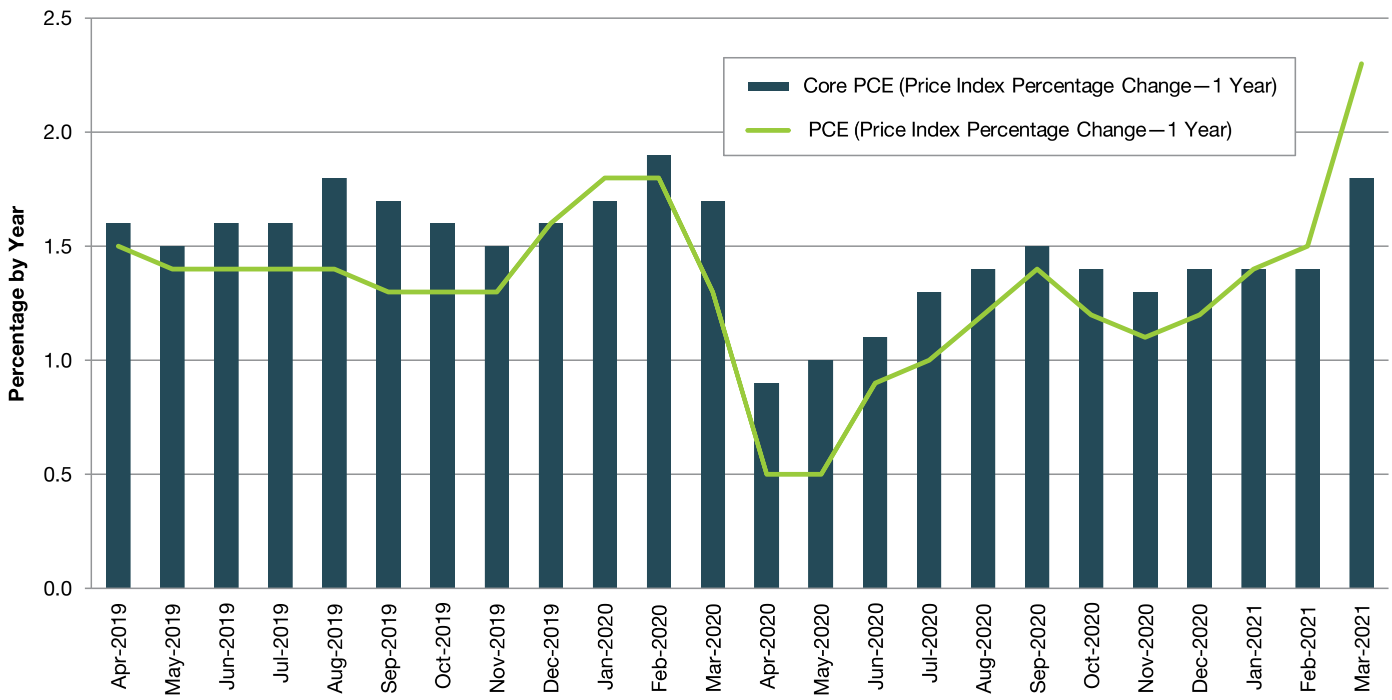
PERSONAL CONSUMPTION EXPENDITURE

The Federal Reserve often emphasizes the price inflation measure for personal consumption expenditures (PCE), which the Department of Commerce produces, largely because the PCE index covers a wide range of household spending and is less volatile than some other measures. Prices, as measured in current dollars highlighted in the March report, increased 4.2% in March after a decrease of 1.0% in February.

The PCE price index increased 0.5% in March, after an increase of 0.2% in February. Core PCE, which excludes the volatile food and energy components, rose 0.4% in March after a rise of 0.1% in February. From March 2020 to March 2021, the PCE price index is up 2.3% and core PCE has risen 1.8%. Core PCE, which is the Federal Reserve's preferred inflation measure, remained below the Federal Reserve's long-term rate, 1.99%, and below the U.S. central bank's 2.0% inflation target but has risen steadily in recent months.

The response to the spread of COVID-19 impacted the report for the March 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 rebounded from its slow start in 2021 in an impressive manner following a rise of 19.4% in March. Following its rise, housing starts stood at its highest level since June 2006, producing a monthly rate, 1.739 million homes, which was nearly the largest on record. On a year-over-year basis, housing starts are up 37.0%. Single-family housing starts increased 15.3% on the month and are up 40.7% from one year ago. The multifamily sector rose 30.0% in March and is up 26.9% from the levels from one year ago. The multifamily-home sector, which consists of buildings with five units or more, tends to be more volatile than the single-family-home sector.

Building permit authorizations for privately owned housing units, considered a leading indicator of demand for new homes, increased 2.7% in March, reporting at a seasonally adjusted rate of 1,766,000. Over the past 12 months, the figure is 30.2% higher. Building permits for single-family housing units rose 4.6% compared to February and are up 35.6% from one year ago. Building permits for multifamily housing units fell 3.6% in March but are up 19.2% from one year ago.

Housing completions were at a seasonally adjusted rate of 1,580,000 in March, which is 16.6% above the rate in February and is 23.4% above the rate from one year ago. Single-family housing completions in March were at a rate of 1,099,000, which is 5.3% above the revised February rate of 1,044,000. The rate for multifamily housing completions was 476,000 in March.

Builder confidence moderated in March, as the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) declined 2.0 points in March, to 82.0. The report noted that, although builders continue to see strong buyer traffic, recent increases for material costs and delivery times, particularly for softwood lumber, have depressed builder sentiment this month. Supply shortages and high demand have caused lumber prices to jump about 200% since last April. An HMI reading above 50.0 indicates that more builders view sales conditions as good, rather than poor.

The three HMI components produced mixed results in March, with the component measuring current sales conditions falling 3.0 points, to 87.0; the component gauging sales conditions over the next six months rising 3.0 points, to 83.0; and the component that measures buyer traffic holding steady, at 72.0.

Looking at the three-month moving averages for the regional HMI indexes, the Northeast rose 2.0 points, to 80.0; the Midwest fell 1.0 point, to 80.0; the West fell 3.0 points, to 90.0; and the South fell 2.0 points, to 82.0.

HOME SALES, PRICES, AND INVENTORY

Existing-home sales fell for the second consecutive month in March, moving down 3.7% from February and to its slowest pace since August. Still, despite the decline, sales are up 12.3% from one year ago. The report stated that, despite the decline, buyers are still actively in the market although they are facing much higher home prices, rising mortgage rates, and falling affordability. The report stated that sales for March would have been measurably higher had there been more inventory and that the forecasts are optimistic now that, according to some reports, at least half of the adult population has received a COVID-19 vaccination and job creation data are growing more encouraging.

The number of existing-home sales in March was at an annual pace of 6.01 million, and, despite being on the cusp of the usually busy spring sale season, the lack of inventory affected this month's totals.

All-cash sales were 23% of transactions in March, which is up 1.0 percentage point from February and 4.0 percentage points from one year ago. Individual investors, who account for many cash sales, purchased 15% of homes in March, which is down 2.0 percentage points from February but up 2.0 percentage points from one year ago. First-time buyers accounted for 32% of sales in March, which is up 1.0 percentage point from February but down 2.0 percentage points from one year ago.

According to a report from Comerica, mortgage applications for purchase fell by 4.6% for the last week in March, the second consecutive weekly decline after a four-week winning streak from late February through mid-March. On a four-week moving-average basis, purchase apps were up 28.9% from a year ago. Refinance apps continued their slide, coincident with rising mortgage rates, and were down by 5.3% for the week and 27.8% from a year earlier.

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

The report showed declines in all four major regions in March. Home sales in the Northeast decreased 1.3% in March but are up 16.9% from a year ago. Sales in the Midwest fell 2.3% in March but are up 13.5% from one year ago. Sales in the South fell 2.9% and are up 15.6% from one year ago. Sales in the West fell 8.0% and are up 15.5% from one year ago.

The national median existing-home price for all housing types was $329,100 in March, which is up 17.2% from a year ago. March's price increase marked the 109th consecutive month of year-over-year price gains. In March, home prices in the Northeast moved up 21.4% from one year ago. The prices in the Midwest increased 13.5%. Home prices in the South rose 15.6%, and prices in the West increased 16.8% over the last 12 months. The median time on the market for all homes sold in March was 18 days, a new all-time low, and down from 20 days in February and from 29 days from one year ago. Eighty-three percent of homes sold in March were on the market for less than a month.

A report published by Redfin detailed that the nation's top iBuying companies purchased 3,505 homes in the fourth quarter of 2020, down 48% from a year earlier. Still, that's an improvement from the third quarter's 78% year over year. The report noted that iBuyers bought 0.3% of homes that sold across the 418 U.S. metropolitan areas, which is down from 0.8% a year earlier but up slightly from 0.2% in the third quarter of 2020. The term "iBuyer" is short for instant buyer and is used to describe real estate companies that purchase houses from homeowners in quick cash transactions by using algorithms to evaluate a property's worth based on comparable market data. Nationally, the typical iBuyer-owned home found a buyer after being listed on the market for 14 days, which is the quickest pace since at least 2015 and is down from 42 days a year earlier and a revised 17 days in the third quarter. By comparison, the typical non-iBuyer home spent 30 days on the market, down from 46 days a year earlier and 33 days in the third quarter.

Total housing inventory was at 1.07 million existing homes for sale in March, up 3.9% from February but down 28.2%, or from 1.49 million, from one year ago. Unsold inventory was at a 2.1-month supply at the current sales pace in March, which was 0.1 month higher than the rate in February but down from 3.3 months from one year ago. Six months of inventory is considered a balanced market that equally benefits buyers and sellers.

The Federal Housing Finance Agency (FHFA) published its House Price Index for February 2021, which showed U.S. housing prices increasing 0.9% from the prior month to 319.7 points. From February 2020 to February 2021, U.S. housing prices increased 12.2%. The index measures housing prices across nine census regions, with the change in pricing ranging from 0.4% in the South-Atlantic region to 1.6% in the Mountain region.

NAR reports that, according to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage increased, to 3.08%, in March from the 2.81% rate in the prior month. The average 30-year rate in 2020 was 3.11%.

In March, the NAR's Realtors Confidence Index Survey reported that its Buyer Traffic Index increased 2.0 points, to 79.0 points, and is up 41.0 points from one year ago. The Seller Traffic Index fell 1.0 point, to 35.0 points, and is up 4.0 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, up from 80% one year ago. The report noted that 61% of realtors reported they had potential buyers looking for work-from-home features such as an extra room, a finished basement, or a bigger home. Every home sold still had nearly four offers. On average, forecasts for sales in the next three months are expected to be 3% higher than last year's sales level. The RCI is a key indicator of housing market strength based on a monthly survey of over 50,000 real estate practitioners.

COMMERCIAL REAL ESTATE

NAR's most recent "Commercial Markets Insight" analyzed the trends in the commercial market in March, reporting that acquisitions of properties or portfolio acquisitions of $2.5 million or more collapsed again in March 2021 by 59% year over year, only after sales showed a recovery was underway in the fourth quarter. The dollar volume of transactions fell to $20.1 billion and is down 59% from one year ago. The total dollar value over the past year was $371.6 billion and is down 40% from one year ago. The steepest drop in deals was for development sites, at 79%, followed by the office sector, at 71%; the industrial sector, at 69%; the retail sector, at 66%; senior housing, at 50%; hotel, at 49%; and the apartment sector, at 33%.

Risk spreads are declining but are still higher than the spread one year ago. Investors of properties of $2.5 million or over placed the lowest level of risk on apartment properties, with the risk spread at 3.8%, followed by industrial, at 4.6%. Hotel acquisitions had the highest risk spread, at 7.7%. Retail and office property acquisitions cap rates were 5.3% and 5.4% above the 10-year T-bond.

REITS invested in commercial real estate continue to show mixed performance. REITS invested in self-storage, data centers, industrial, infrastructure, and residential had positive total returns. However, REITS invested in office, specialty, retail, lodging/resorts, timber, and specialty real estate had negative total returns.

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

The key drivers for this quarter's survey included a score of 69.0 points for the ideal backlog total, which is down 1.0 point from last quarter. The ability of contractors to provide new business increased 2.0 points, to 59.0, which suggests that contractors have a moderate to high level of confidence they will provide sufficient new business opportunities in the next 12 months. At 57.0 points, the component that measures contractors' expectations to see revenue increase or at least remain the same improved 5.0 points from last quarter. Among the survey respondents, an increase from 25% to 36% expect revenues to increase compared to 13% who expect to see a decline, an improvement from the 14% reported in the last quarter.

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

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

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

When asked about revenues and profit margins, more contractors expect their revenue to increase. Thirty-six percent of contractors expect a revenue increase, up from 25% in the fourth quarter. On the other hand, 13% expect a revenue decrease over the next year. Fifty-one percent of contractors expect their revenues to remain the same in the next 12 months, and 68% expect that their profit margin will see little or no change. Conversely, 14% of contractors expect a decrease in profit margins over the coming year, up from 12% last quarter.

FORECAST

Consensus Economics Inc., publisher of *Consensus Forecasts—USA,* reports that the consensus of U.S. forecasters believe that real GDP will rise at a seasonally adjusted annual rate of 7.6% in the second quarter of 2021 and increase by 7.0% in the third quarter of 2021. Every month, Consensus Economics surveys a panel of 30 prominent U.S. economic and financial forecasters for their predictions on a range of variables, including future growth, inflation, current account and budget balances, and interest rates. The forecasters expect GDP to increase 5.7% in 2021 and 4.0% in 2022.

They forecast that consumer spending will increase at a rate of 8.5% in the second quarter of 2021 and rise 7.9% in the third quarter of 2021. They expect consumer spending to increase 6.3% in 2021 and 4.3% in 2022.

The forecasters believe unemployment will average 5.8% in the second quarter of 2021 and 5.3% in the third quarter of 2021. They predict that unemployment will average 5.6% in 2021 and 4.4% in 2022.

The forecasters believe that the three-month Treasury bill rate will be 0.1% at the end of the second quarter of 2021 and 0.1% at the end of the third quarter of 2021. They predict the 10-year Treasury bond yield will be 1.5% at the end of the second quarter of 2021 and 1.6% at the end of the third quarter of 2021.

They also believe consumer prices will rise at a rate of 2.3% in the second quarter of 2021 and 2.1% in the third quarter of 2021. They expect consumer prices to increase 2.4% in 2021 and 2.2% in 2022. They expect producer prices to increase 2.7% in the second quarter of 2021 and 2.1% in the third quarter of 2021. The forecasters anticipate producer prices will rise 3.0% in 2021 and 2.0% in 2022.

The forecasters believe real disposable personal income will fall 2.6% in the second quarter of 2021 and fall 8.6% in the third quarter of 2021. They believe real disposable personal income will increase 2.1% in 2021 but fall 1.1% in 2022.

The forecasters expect industrial production to increase 5.9% in the second quarter of 2021 and 6.3% in the third quarter of 2021. They forecast that industrial production will increase 6.7% in 2021 and rise 4.1% in 2022.

Nominal pretax corporate profits are expected to increase 12.4% in 2021 and 4.8% in 2022. The forecasters also project housing starts will be 1,530,000 in 2021 and 1,530,000 in 2022.

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

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

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

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

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

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

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

The Energy Information Administration (EIA) predicts that the West Texas Intermediate crude oil spot price will average approximately $58.89 per barrel in 2021 and $56.74 per barrel in 2021, compared with $39.17 per barrel in 2020. The EIA expects retail prices for regular-grade gas to average $2.66 per gallon in 2021 and $2.59 per gallon in 2022, compared with $2.18 per gallon in 2020.

The EIA believes the Henry Hub natural gas spot price will average $3.04 per million Btu (MMBtu) in 2021 and $3.11 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 $1.92 per MMBtu in 2021 and $1.92 per MMBtu in 2022. Residential electricity prices, which averaged 13.20 cents per kilowatt-hour (kWh) in 2020, are expected to average 13.43 cents per kWh in 2021 then rise to 13.65 cents per kWh in 2022. The airline ticket price index, which averaged 217.55 in 2020, is expected to be 184.05 in 2021 before rising to 207.07 in 2022.

The National Association of Realtors' Realtors Confidence Index survey reported that its Buyer Traffic Index rose 2.0 points, to 79.0, and is up from 38.0 points from one year ago. The Seller Traffic Index rose 1.0 point, to 35.0, in March. The RCI is a key indicator of housing market strength based on a monthly survey of over 50,000 real estate practitioners. Practitioners are asked about their expectations for home sales, prices, and market conditions.

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

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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.

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