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ECONOMIC OUTLOOK UPDATE

MONTHLY

DECEMBER 2020

ECONOMIC UPDATE AT A GLANCE (DECEMBER 2020 SUMMARY)

In December, the U.S. LEI improved 0.3%, to 109.5 points, which follows an increase of 0.7% in November. The report stated that the U.S. LEI's slowing pace of increase in December suggests that U.S. economic growth continues to moderate in the first quarter of 2021. Improvements to the index were very broad-based among the leading indicators, except for rising initial claims for unemployment insurance and a mixed consumer outlook on business and economic conditions. The report further states that, while the resurgence of COVID-19 and weak labor markets remain barriers to growth, the Conference Board expects the economy to expand by at least 2.0% (annual rate) in Q1 and then gain momentum throughout the year.

The Chicago Fed's National Activity Index pointed to an uptick in economic growth in December following a rise in the index from 0.31 to 0.52 in December. Three of the four broad categories of indicators used to construct the index made positive contributions in December, but all three of the categories decreased from November.

The Consumer Confidence Index fell 4.3 points in December, to 88.6 points. The report faulted the decline in the December score to the continued resurgence in the number of coronavirus cases. In addition, consumers now expect weakened results for fourth-quarter economic figures and do not foresee the economy gaining significant momentum in early 2021. Economists polled by MarketWatch had forecast confidence would rise to 96.7 in December. The current conditions component, which measures consumers' assessment of current business and labor market conditions, decreased sharply, by 15.6 points, from 105.9 points to 90.3 points. The expectations component, which measures consumers' short-term outlook for income, business, and labor market conditions, did manage to increase from 84.3 points to 87.5 points. The Consumer Sentiment Index improved 3.8 points, to 80.7 points, in December, rebounding from the decline in November despite the continued surge in the number of coronavirus cases across the United States. This month's rise is the fourth increase over the past five months, with only the aforementioned November score declining. The survey results did highlight the partisan divide and now show Democrats becoming more positive and Republicans becoming

Economic Summary December 2020

Change from previous month unless otherwise noted

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

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

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much more negative following the recent election results. The NFIB Small Business Optimism Index decreased 5.5 points in December, to 95.9, as small-business owners cited concerns about potential new economic policy in the new administration and about the spread of the coronavirus across the United States. Following the decline, the index fell below its 47-year average of 98 points. 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 the score remains well 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.

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 December 2020. 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 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, fell by 1.8 points in December, to 121.2 from a revised 123.0 in November. Despite the decline, the score in December remains at strong levels as middle-market executives believe that business conditions and the economy will improve noticeably by the middle of the year. In fact, the survey indicated in its 2021 forecast, which will benefit from the continued rollout of a COVID-19 vaccine, which will be widely distributed, that the economy will boom and grow nearly 4.5% this year, with a growth rate exceeding 5% in the second half of the year.

Total retail sales fell 0.7% in December and have now fallen for the third consecutive month. Revisions to the November figure also showed a larger decline than initially reported, at 1.4% compared to 1.1%. The decline in December, and the subsequent three-month decline, is the result of the continued spread of the coronavirus across the country, which has caused additional layoffs and store closures. In December, the aggregate total of $540.9 million is 2.9% higher than the figure from one year ago. In December, six of the 13 retail sales categories saw increases. Core retail sales decreased 2.1% in December but are up 2.6% over the past 12 months.

E-commerce retail sales fell by 1.0% in the third quarter of 2020, to $209.5 billion, when compared to the second quarter of 2020. The decline in the third quarter came as more businesses began to reopen from the coronavirus lockdowns when compared to the lockdowns that were initially imposed during the second quarter. Over the past 12 months, e-commerce sales are up 36.7%.

Nonfarm payrolls fell by approximately 140,000 jobs in December, ending the streak of gains at seven months after an initial two-month plunge due to the onset of the coronavirus pandemic. The losses in December, in which restaurants, bars, and hospitality-related business were impacted the most, highlight the negative effects of the latest surge in the number of coronavirus cases across the U.S. The report did, however, include a bright spot, showing upward revisions to the prior two months' job figures, for an additional gain of 135,000 jobs.

In a separate report, the Labor Department said initial claims for state unemployment benefits were at 0.787 million for the week ending December 26. This figure beats estimates for 828,000 claims, but the four-week moving average increased, to 836,750.

In December, the unemployment rate held steady, at 6.7%, although, due to the loss of jobs in December, the rate failed to improve for the first time in eight months. The December rate did manage to come in ahead of forecasts for a rate of 6.8%, according to a survey by CNBC. The U6 unemployment rate improved 0.3 percentage point, to 11.7%.

Wages increased 0.23 cents in December, to $29.81. Real average hourly earnings, seasonally adjusted from December 2019 to December 2020, increased 1.44 cents, or nearly 5.1%.

The manufacturing sector increased 3.2 percentage points in December, as the Institute for Supply Management's manufacturing index (PMI) came in at 60.7%. The score in December rebounded from its decline in the month prior and rose to its highest level since August 2018. 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 52.5%.

In December, the Institute for Supply Management's Services PMI index, formerly referred to as NMI, increased 1.3 percentage points, to 57.2%. This reading is the seventh straight month of growth for the services sector, which has expanded for all but two of the last 131 months. 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 54.3%.

All the major U.S. stock indexes posted positive gains on the month and ended the year at record levels. Investors cheered at the news of a vaccine rollout in addition to the passing of additional fiscal stimulus, which boosted the Dow Jones Industrial Average by 3.4%, the S&P 500 Index by 3.8%, and the Nasdaq Composite by 5.7%. Smaller stocks performed just as well, if not better than their large-cap counterparts, with the Russell MidCap climbing 4.7% and the Russell 2000 moving up 8.7%. In December, volatility continued to trend downwards, ranging from a low of 20.0 to a high of 31.5, for an average of 22.4.

Consumer prices, as measured by the Consumer Price Index, rose 0.4% in December after a rise of 0.2% in November. Over the past year, CPI has risen 1.4%. Chained CPI increased 0.1% in December and is 1.2% higher over the past 12 months. Core CPI, which excludes energy and food prices, rose 0.1% in December, after rising 0.2% in November. Core CPI is up 1.6% over the past 12 months.

Producer prices increased in December, moving up 0.3%, after a rise of 0.1% in November. Economists polled in a survey by Reuters had forecasted a gain of 0.4% Nevertheless, despite falling short of forecasts, the data suggest an anticipated pick-up in inflation in the coming months but at a rate that will probably not be worrisome. Over the past 12 months, the index has increased 0.8%. The 0.3% rise in December is attributed to a 1.1% increase in the cost of goods. Prices for services dipped 0.1%. Core PPI, which excludes highly volatile food and energy prices, rose 0.5% in December and is up 1.1% over the past 12 months.

Residential construction closed the year at its highest level since 2006 as U.S. homebuilding continued to surge. In December, housing starts rose by 5.8%, adding 1.669 million units, compared to the 1.578 million units in November. On a year-over-year basis, the figure is 5.2% higher than the 1.587 million units from one year ago. Homebuilders continue to be aided by record-low interest rates and a migration of homebuyers looking for housing in the suburbs, although expectations on future growth may be tempered as homebuilder sentiment has softened and interest rates have crept higher. Gains were seen in three of the four regions, with a sizable gain of 32.1% in the Midwest. The number of building permits authorized, which measures how much construction is in the pipeline, rose 4.5% in December and is 17.3% above the level of a year ago. The adjusted annual rate was 1.709 million. The number of building permits authorized rose 7.8% for single-family homes but fell by 2.0% for multifamily homes when compared to one month ago.

The number of existing-home sales rebounded after declining in November. The rise of 0.7% in December brought home sales to their highest level since 2006. On a year-over-year basis, existing home sales are up 22.2%. The report expects strong home sales will continue in 2021 and, although mortgage rates are projected to increase, they will continue to hover near record lows, at around 3%. More so, economic conditions are expected to continue to improve with additional stimulus forthcoming and vaccine distribution already underway. The number of distressed home sales was less than 1.0% of sales in December, which is unchanged from November but down from 2.0% from one year ago. In December, the NAHB/Wells Fargo Housing Marking Index fell 4.0 points, to 86.0, which, despite the decline, is the second highest reading in the history of the index. All three HMI components decreased in December, with the component measuring current sales conditions falling 4.0 points, to 92.0; the component gauging sales conditions over the next six months falling 4.0 points, to 85.0; and the component that measures buyer traffic falling 4.0 points, to 73.0.

The National Association of Realtors' most recent "Commercial Real Estate Trends and Outlook," which analyzed the small commercial real estate market in the fourth quarter of 2020, found that sales volume fell by 1.0% in the fourth quarter when compared to one year ago. Realtors and commercial affiliate members reported a dip of 1.0% in leasing volume.

INDEX OF LEADING INDICATORS

The Conference Board's Leading Economic Index (LEI) increased 0.3% in December, to 109.5 points, which follows gains of 0.7% and 0.9% in the prior two months. However, the slowdown in recent months indicates that U.S. economic growth will moderate in the first quarter of 2021, but momentum is forecasted to pick up through the rest of 2021. The increase in December is the eighth consecutive month of increases, after substantial declines in March and April that came about from the erosion of the U.S. economy due to the coronavirus pandemic. Positive contributions from the ISM New Orders Index, stock prices, and building permits offset large negative contributions from average weekly claims for unemployment insurance. Over the second half of 2020, the leading economic index

EXHIBIT 1: Historical Economic Data 2007-2019 and Forecasts 2020-2030

														CONSENSUS FORECASTS**						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026-2030
Real GDP*	1.8	-0.1	-2.5	2.6	1.6	2.2	1.8	2.5	3.1	1.7	2.3	3.0	2.2	-3.6	4.0	3.0	2.5	2.1	2.0	2.0
Industrial production*	2.5	-3.6	-11.5	5.5	2.9	2.8	2.0	3.1	-1.0	-2.0	2.3	3.9	0.9	-7.2	4.4	3.5	2.5	2.0	1.8	1.9
Consumer spending*	2.2	-0.2	-1.3	1.7	1.9	1.5	1.5	3.0	3.8	2.8	2.6	2.7	2.4	-3.8	4.6	3.2	2.6	2.2	2.1	2.1
Real disposable personal income*	2.1	1.5	-0.4	1.0	2.5	3.1	-1.4	4.0	4.1	1.8	3.1	3.6	2.2	6.0	-1.4	2.0	2.4	2.1	2.1	2.1
Business investment*	5.9	0.6	-14.5	4.5	8.7	9.5	4.1	6.9	1.8	0.5	3.7	6.9	2.9	-4.7	3.5	5.0	4.7	3.5	3.2	3.1
Nominal pretax corp. profits*	-7.1	-16.0	8.4	25.0	4.0	10.0	1.7	5.4	-2.8	-1.8	4.5	6.1	0.3	-7.2	6.3	5.5	5.2	4.4	4.2	4.5
Total government spending*	1.6	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	-0.5	NA	NA	NA	NA	NA
Consumer price inflation*	2.8	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	2.0	2.1	2.2	2.2	2.2	2.1
Core PCE*	NA	NA	NA	NA	NA	NA	NA	1.6	1.2	1.6	1.7	2.0	1.7	1.4	1.8	NA	NA	NA	NA	NA
3-month Treasury bill rate	4.48	1.40	0.15	0.14	0.05	0.09	0.06	0.03	0.20	0.50	1.40	2.40	1.50	0.1	0.2	0.3	0.4	0.9	1.3	1.7
10-year Treasury bond yield	4.63	3.66	3.26	3.22	2.78	1.80	2.35	2.54	2.20	2.45	2.80	2.70	1.90	0.9	1.2	1.5	1.8	2.1	2.4	2.7
Unemployment rate	4.6	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.9	4.4	3.9	3.7	8.2	6.2	NA	NA	NA	NA	NA
Housing starts (millions)	1.355	0.906	0.554	0.587	0.609	0.781	0.925	1.003	1.112	1.174	1.203	1.250	1.290	1.370	1.430	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*, December 2020.

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 2020 through 2025 forecasts for the 3-month Treasury rate and 10-year Treasury yield are for the end of each period. Forecasts for 2026-2030 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.

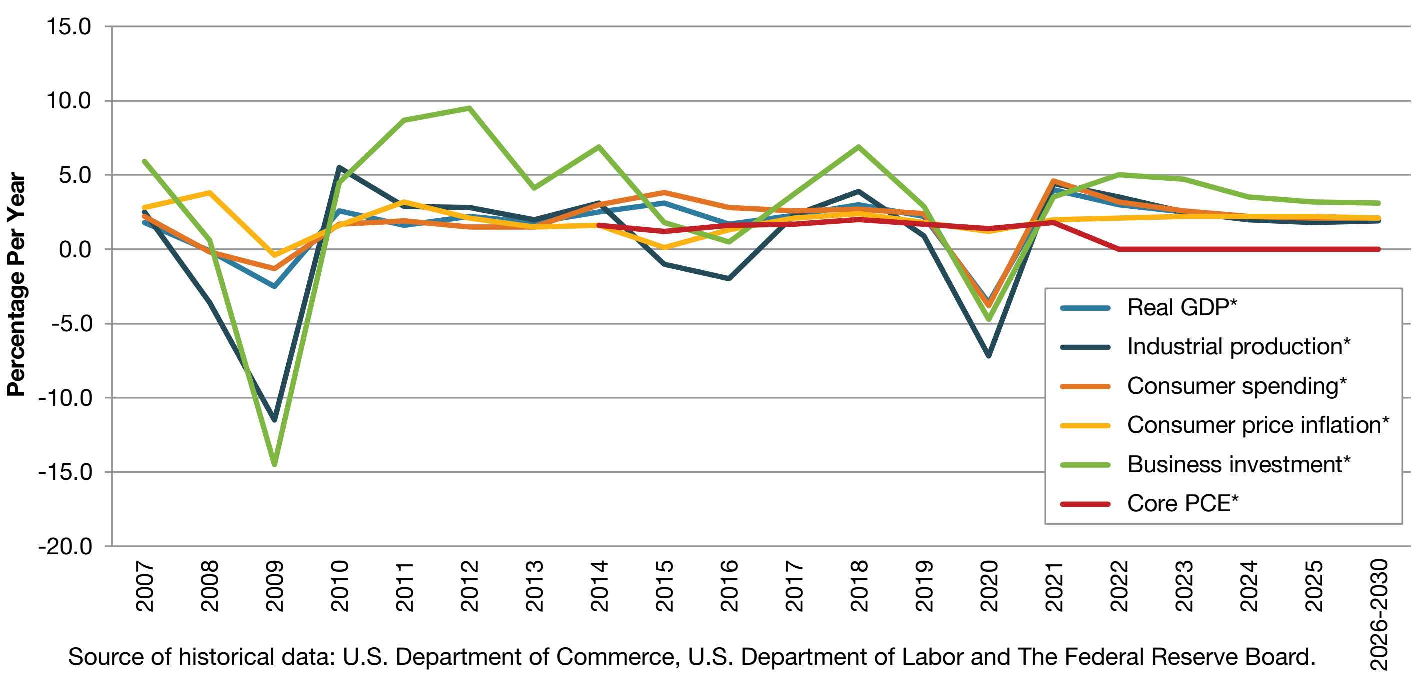
increased 6.5% of about a 13.5% annual rate, faster than the negative growth rate of 7.7% from the first half of the year. In addition, the strengths among the leading indicators have remained widespread.

The board's coincident index, designed to reflect current economic conditions, increased 0.3% in December, to 103.3, and the lagging index increased 0.1%, to 107.6.

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:

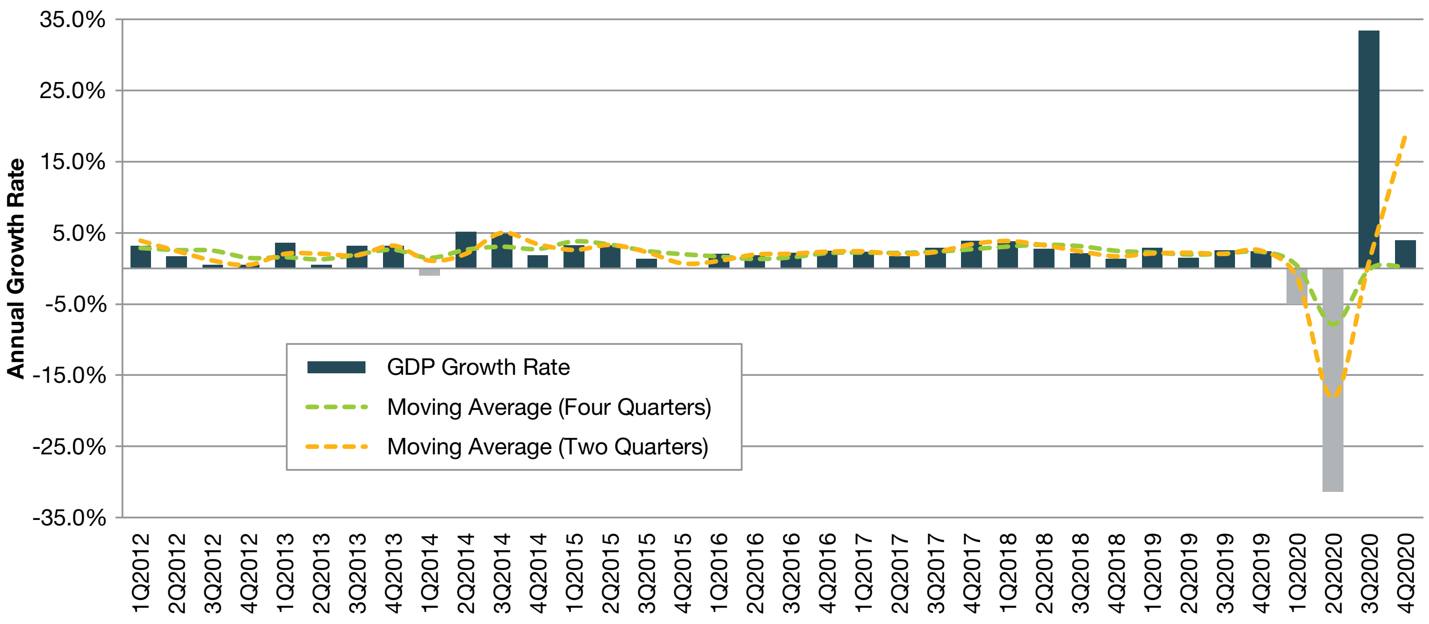
- Average weekly hours, manufacturing;
- Average weekly initial claims for unemployment insurance;
- Manufacturers' new orders, consumer goods and materials;
- Institute for Supply Management's Index of New Orders;
- Manufacturers' new orders, nondefense capital goods excluding aircraft orders;
- Building 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 2007-2019 and Forecast 2020-2030



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

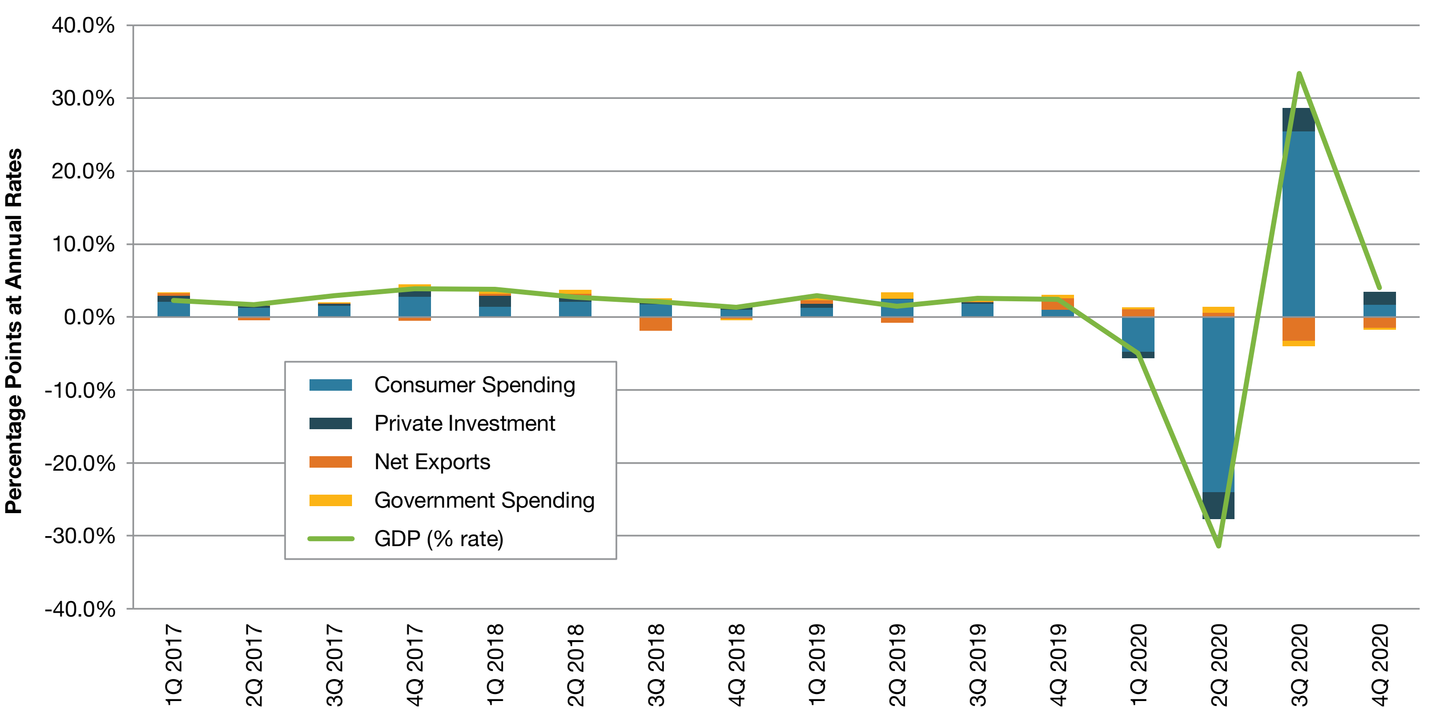
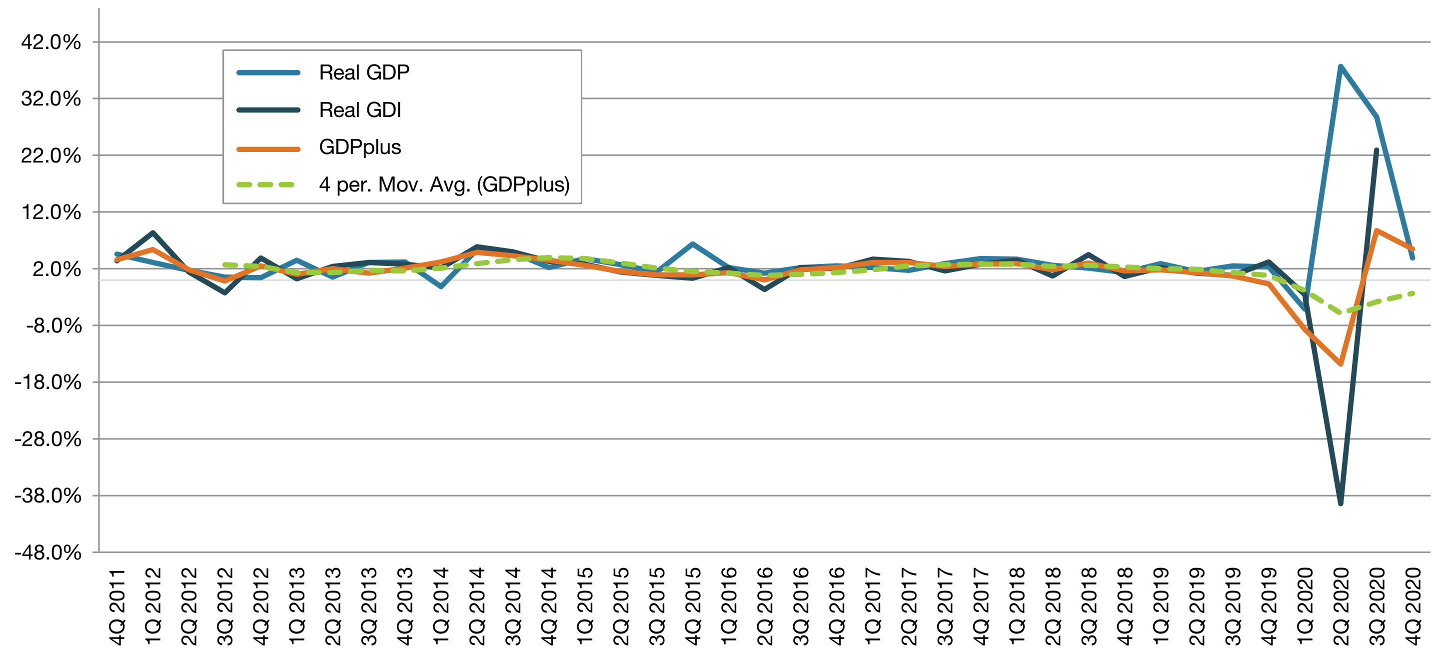


EXHIBIT 3C: GDPplus



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 economic growth continued in December, as the score rose from 0.31 to 0.52. The score received positive contributions from three of the four broad categories of indicators used to construct the index, but all three categories decreased from their levels in November.

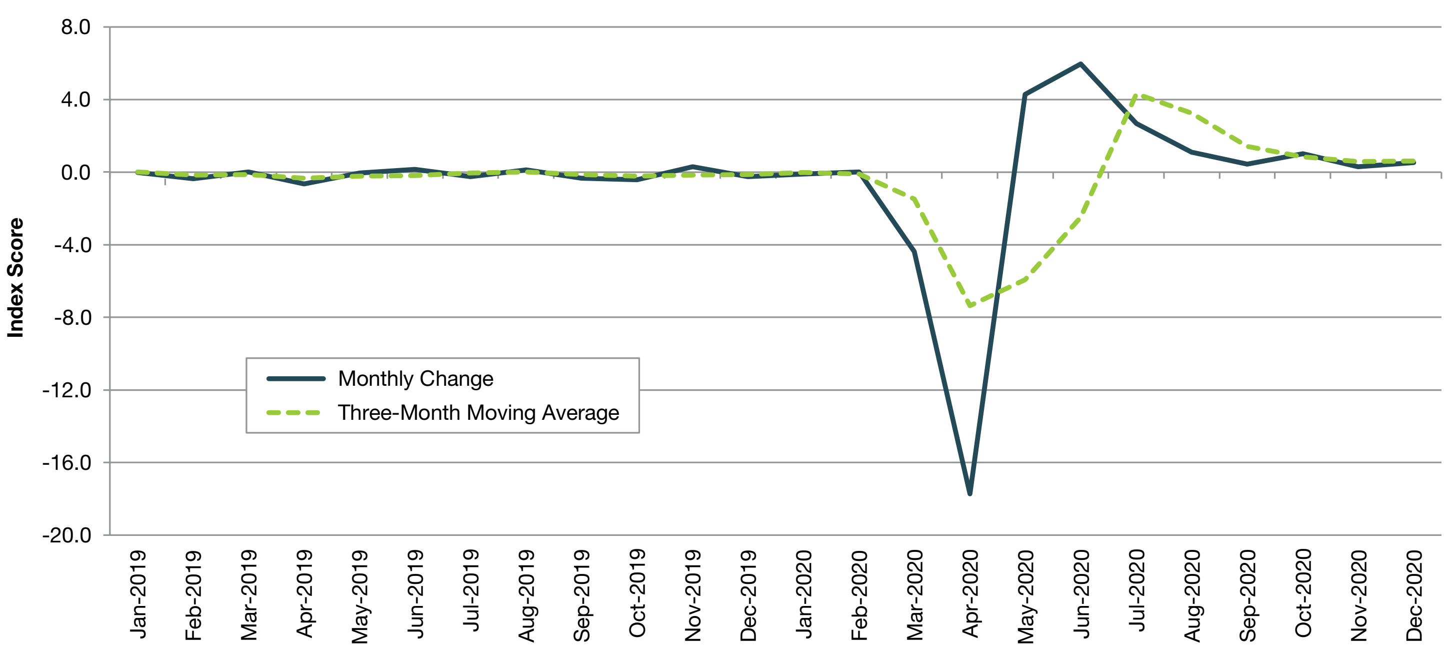
The CFNAI Diffusion Index, which is also a three-month moving average, moved down to +0.54 in December from +0.55 in November. Fifty-three of the 85 individual indicators made positive contributions to the CFNAI in December, while 32 made negative contributions. Forty-five indicators improved from November to December, while 40 indicators deteriorated. Of the indicators that improved, seven made negative contributions.

Production-related indicators contributed 0.44 to the CFNAI in December, moving up from 0.16 in November. Industrial production rose 1.6% in December after increasing 0.5% in November. The contribution of the sales, orders, and inventories category to the CFNAI moved down to +0.05 in December from +0.09 in November.

Employment-related indicators contributed +0.13 to the CFNAI in December, down slightly from +0.15 in November. Nonfarm private payrolls declined by 95,000 in December, after rising by 417,000 in the previous month. Notably, while payrolls in private service-providing industries fell by 188,000 in December, payrolls in goods-producing industries increased by 93,000. The contribution of the personal consumption and housing category to the CFNAI decreased to -0.09 in December from -0.06 in November. On balance, consumption indicators weakened, pushing down the category's overall contribution in December.

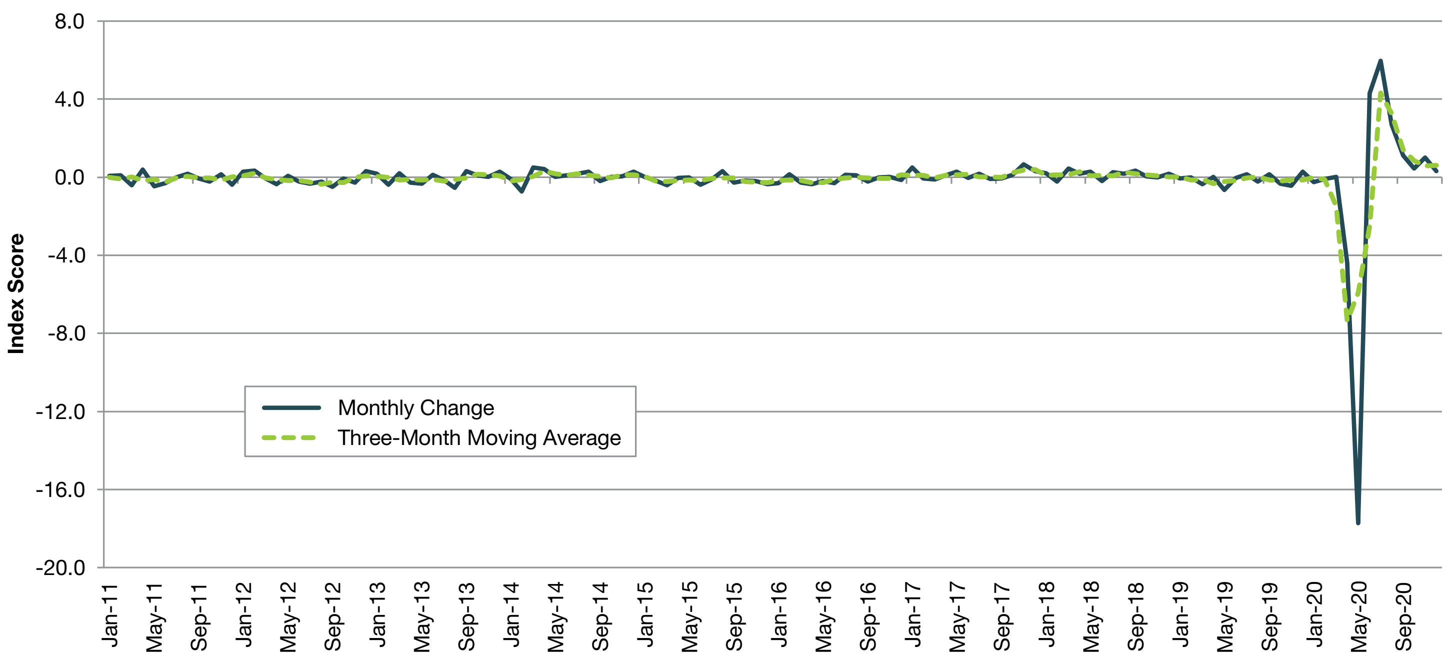
The CFNAI was constructed using data available as of Jan. 21, 2021. At that time, December data for 50 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

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, -17.73, was recorded in April 2020 and the highest score, 5.96, 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 decreased 4.3 points in December, to 88.6 points, from a downwardly revised figure of 92.9 in November. The report cited the resurgence of the coronavirus pandemic across the United States as the primary reason for the decline in confidence. As a result, economic figures for the fourth quarter have appeared to weaken and consumers do not foresee the economy gaining significant momentum in the early part of 2021. The December score fell to its lowest level since the August 2020 reading and is now near the low scores from the onset of the pandemic.

The Conference Board's Present Situation Index plummeted 15.6 points, to 90.3 points. The index measures consumers' confidence in the present and near-term future economy. The percentage saying business conditions are "good" decreased, from 18.8% to 16.0%, and the percentage of those saying business conditions are "bad" increased, from 34.9% to 39.5%. Consumers' assessment of the labor market was also less favorable in December, as the percentage of consumers stating jobs are "plentiful" fell from 26.3% to 21.8% and the percentage of those claiming jobs are "hard to get" rose from 19.4% to 22.0%.

Consumers were, however, more optimistic about the short-term outlook in December, as the Expectations Index increased 3.2 points, to 87.5. The survey results showed the percentage of consumers expecting business conditions to improve over the next six months increased, from 26.5% to 29.0%, while those expecting business conditions to worsen decreased, from 22.5% to 21.9%. Consumers' outlook for the labor market improved, as the percentage of those expecting more jobs in the months ahead increased, from 25.0% to 27.5%, although those expecting fewer jobs in the months ahead increased, from 21.6% to 22.2%. The percentage of consumers expecting an improvement in their incomes improved from 16.0% to 16.8%, while the percentage expecting a decrease fell, from 14.5% to 14.3%.

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 December, increasing 3.8 points, to 80.7 points. The rise is the fourth increase over the past five months, with the only recent decline reported in the November reading. Still, however, the score remains 6.4% below arithmetic mean and 5.3% below the geometric mean since the survey began in 1978. Survey results highlighted consumers' attitudes toward the resurgence of the coronavirus pandemic, which had a greater impact on the assessment of the overall economy than did their own personal finances. In addition, the survey highlighted the partisan divide just after the election, which shows Democrats as more optimistic over the direction of the economy over the next five years, at 54%, than their Republicans counterparts, at 32%

The Index of Consumer Expectations improved 5.8 points in December, to 74.6, but is down 16.1 percentage points 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 3.4 points in December, to 90.0 points, but is down 22.1 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 posted a historically very large decline of 5.5 points in December, lowering the score to 95.9 points. As a result of the decline, the index has fallen below the 47-year average of 98 points. The report did state that most of the decline was a result of substantial weakness in the outlook for sales and business conditions in 2021, which brings new COVID-19 threats and the uncertainty about economic policy with a new administration in Washington, D.C. The NFIB uncertainty index declined eight points, to 82.

In December, one of the 10 components that make up the Small Business Optimism Index increased and nine declined, with the report referencing that tens of thousands of small-business owners struggle to stay open and save the millions of jobs they created.

The component that measures small-business owners' expectations of earnings decreased 7.0 percentage points in December, to a net -14.0%. Initially, the sharp recovery from April's low provided an optimistic outlook but now that seems to be losing ground as new COVID-19 restrictions were put in place and consumers found it more difficult to maintain spending. Reports of higher worker compensation fell 3.0 percentage points, to a net 21%, remaining significantly below the 36% rate prior to the pandemic. Plans to raise compensation increased 1.0 percentage point, to a net 21%.

Job growth remained positive among small businesses as survey respondents reported increasing employment by 0.3 workers per firm, up from 0.16 from November. Eight percent reported increasing employment an average of 4.1 workers per firm, and 13% reported reducing employment an average of 2.8 workers per firm. Thirty-two percent of all owners reported job openings they could not fill in the current period, down 2.0 percentage points from November. A seasonally adjusted net 17% plan to create new jobs, which is down 4.0 percentage points from November, but still a historically strong figure. Overall, 54% reported hiring or trying to hire in December, which is up 1 percentage point from November, although finding qualified employees remains a problem. Forty-eight percent of owners reported few or no "qualified" applicants for the positions they were trying to fill in December. Twenty-six percent of owners reported few qualified applicants for their open positions, and 22% reported none.

The component that measures owners' expectations to see higher real sales decreased 14.0 percentage points in December, to a net -4%. The component that measures the net percentage of owners reporting inventory fell 2.0 percentage points, to -6.0%. Plans to invest in more inventory fell 1.0 percentage point, to a net 4% of all firms, as expected business conditions weakened. The net percentage of owners viewing current inventory stocks as "too low" rose 2.0 percentage points, to 7.0%.

Fifty-two percent of small-business owners reported making capital outlays, which is lower by 1.0 percentage point from November. Of those making expenditures, 38% reported spending on new equipment, 20% acquired vehicles, and 11% improved or expanded facilities. Twenty-two percent plan capital outlays in the next few months, which is down 4.0 percentage points from November.

The percentage of small-business owners who reported that they raised their average selling prices fell 2.0 percentage points, to a net 16.0%. Price hikes have returned to normal levels, and there is no surge in the inflation rate anticipated by current price levels. As a comparison, the net percentage of firms raising prices was negative in each of the first three quarters of 2016 and averaged -2.0%. In the fourth quarter of 2016, the net percentage of industries planning price hikes was 2.0%. Unadjusted, 10% reported lower average selling prices and 22% reported higher average prices. Seasonally adjusted, a net 22% plan price hikes, which is up 1.0 percentage point from last month. Price hikes were most frequent in retail, at 30%, compared to 6% that reported lowering prices. In wholesale, 26% increased prices, compared to 13% that reported lowering prices.

The component measuring the credit markets reported a net 3.0% of owners indicated not all their borrowing needs were satisfied, which is up 1.0 percentage point from November. Twenty-six percent reported all credit needs met, which is up 1.0 percentage point from November, and 60% said they were not interested in a loan. Three percent of owners reported that loans were harder to get, which was up 1.0 percentage point from last month. The net percentage of owners reporting paying a higher rate on their most recent loan was -5%, which is down 1.0 percentage point from November. Federal Reserve policies have driven interest rates to historically low levels. The average rate paid on short maturity loans was up 0.1 point, to 4.8%.

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 in January, although, at the time the survey was conducted in early December, 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 December 2019 and hit a low of -28.0 in July 2010.

MetLife and the U.S. Chamber of Commerce published their fourth-quarter Small Business Index, which improved 2.6 percentage points. The fourth-quarter index stands at 52.9%, which continues the trend of higher scores after the second-quarter score fell to 39.5%, when the coronavirus caused the index to spiral downward from a record first-quarter score and reached a new high for the third consecutive quarter. Overall, the survey found that small-business owners anticipate the worst of the pandemic is still ahead and most say they need further government assistance to weather the storm, although they also see a somewhat improving national economy, albeit one still far from prepandemic levels.

The fourth-quarter score's rise is attributed to a somewhat less negative outlook on the national economy, as 29% of small businesses said the U.S. economy was good. This percentage, however, significantly trails the rate of 57% from one year ago. Although 50% of those surveyed still feel the country's overall economic health is poor, things are starting to shift, with the figure improving by six points from the third-quarter report and by 16 points from the late-second-quarter rate. Furthermore, more small-business owners say the country's economy is in somewhat good health, at 22%, than in the third quarter, at 15%. Also, 32% of small businesses rate their local economy as in good health, similar to last quarter's 28%.

However, most small businesses say the worst of the pandemic's economic impact lies ahead. Sixty-two percent of small-business owners believe the worst of the COVID-19 pandemic is ahead of us compared to just 44% saying the worst is behind us. No matter which is the case, there is also widespread concern about the impact the pandemic will have on the economy, their business's finances and future, and their own mental health. Fifty-six percent of small-business owners continue to believe it will take six months to a year for the small-business climate to return to normal, a number that has remained statistically unchanged since late May.

As it relates to hiring, a shift in plans from retaining to decreasing staff over the next year can be seen since the pandemic began. More this month plan to reduce staff, 14%, than last quarter, 9%, a return to levels not seen since the beginning of the pandemic in late April, when it was 13%. Still, however, a majority of small businesses, 52%, anticipate retaining the same size staff. Before the pandemic began, 64% reported plans to retain, 30% to increase, and 5% to reduce staff.

Most small businesses are concerned about their future. Seventy-five percent of small businesses are concerned for their business's finances, and 72% are worried about their business's future. Adding to this, 48% report lower revenue this year when compared to the same time last year. Furthermore, 50% of small businesses see their operations continuing for a year or less before having to permanently shut down. Nonetheless, 40% of small-business owners believe their business can continue to operate indefinitely without having to shut down permanently, an improvement from the score at the onset of the pandemic, which was 28%. Two-thirds have said they have a business plan to adapt to a changing economy and a clear idea of how to change their business if they start to struggle. Some anticipate better times ahead, with 52% anticipating revenue increases one year from now.

With many anticipating worse times, it is not surprising many small businesses see the need for temporary, targeted government assistance. Nearly three-quarters say additional federal relief funds would be important to their business's ability to succeed in 2021. When asked what the next president and Congress should prioritize in 2021, the economy and combatting COVID-19, both at 44%, rise to the top of the list and are viewed as equally important.

The quarterly spotlight highlighted in the fourth-quarter survey focused on the road to recovery while in the midst of a new surge in cases across the nation. Sixty-two percent of small businesses fear that the worst is still to come with COVID-19's economic impact compared to 31% who disagree. Regardless, most small businesses also foresee a months-long recovery, at the least. Just a quarter of small businesses think the U.S. small-business climate will return to normal in under six months, with 56% predicting between six months and a year for a return to normalcy. This is in line with sentiments expressed last quarter and in the second-quarter survey.

Northeastern businesses, firms in the service sector, and smaller companies are more pessimistic about a fast return to normalcy. By region, Northeastern small businesses are most pessimistic about a speedy return: 65% believe it will take six months to a year to return to normal. Across sectors, service firms are most likely to predict a longer return to normal, with 66% believing it will take six months to a year. This quarter, manufacturers are more optimistic than those in other sectors that the small-business climate will return to normal in under six months, as 39% see a return to normal in under six months compared to 44% who say it will be six months to a year. The smallest businesses (those with less than five employees) are far more negative concerning a return to normal, with just 18% predicting that it will take under six months, while 58% say six months to a year. In comparison, the largest small businesses are nearly split on whether a return to normal will take under six months, at 43%, compared to 48% who think that it will take six months to a year.

The survey also found that half of small businesses are concerned about closing permanently, but a majority have figured out a way to adapt to the crisis. As a result, small businesses are somewhat less negative about their own future now, compared to the start of the pandemic. Forty percent now believe they can operate indefinitely in light of the current circumstances compared to 28% in late March when the pandemic began to have a major impact. However, 50% of small businesses see their operations continuing for a year or less before having to permanently shut down. Sixty-seven percent of small businesses have a business plan to adapt to a changing economy and have a clear idea how to change to be more successful if their business starts to struggle.

The RSM U.S. Middle Market Business Index (MMBI) eased 1.8 points in December, to 121.2 points from a revised 123.0 points in November. The report noted that, despite the decline, middle-market firms expect that, with the COVID-19 vaccine being distributed, the economy will boom and grow in 2021. The survey results indicated that middle-market executives believe the economy will grow nearly 4.5% this year, with a growth rate exceeding 5% in the second half of the year.

Survey responses to the questions that make up the index improved in December. Responses indicated that middle-market respondents expect a strong rebound in gross revenues and net earnings, with 57% expecting an increase in the former and 61% expecting improvement in the latter. This stands in contrast with 46% who indicated a current improvement in gross revenues and 45% who cited a current increase in net earnings.

One of the key developments inside the middle-market economy during the pandemic has been the pulling forward of advanced technology into the current production of goods and provision of services. This is reflected by 52% of survey respondents expecting to increase outlays on productivity-enhancing capital expenditure, notably for software, equipment, and intellectual property over the next six months.

Despite a positive outlook on the future of the economy, the labor market outlook remains challenged, with only 39% of respondents noting a current increase in hiring and 33% reporting an increase in compensation during the month, a drop from 41% in November. Given the drag on the economy caused by the pandemic, this is to be expected. Again, like the general outlook on the economy, middle-market firms expressed confidence that, in six months, the jobs outlook will improve, with 54% noting that they will increase hiring and 55% will increase compensation.

Also, despite the positive outlook on gross revenues and net earnings, firms continue to indicate that they do not expect an ability to pass along rising prices to consumers even as prices paid for goods have increased and are expected to rise this year. Approximately 60% of survey participants noted an increase in prices paid in December, and 65% expect that condition to be sustained through mid-2021. While only 42% of respondents indicated an increase in prices received, 51% said they expected that to happen going forward.

Finally, and not surprisingly, middle-market firms continued to carefully manage inventory levels, with 46% indicating an increase in their stock and 52% stating they expected to increase inventory over the next six months. One important development to note is that inventory building in the overall economy advanced significantly in the final quarter of 2020. That is one of the main reasons we expected gross domestic product to advance close to 5% in the final three months of last year, which will then act as a drag on growth in the first quarter, where we expect a 1.1% rate of growth.

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

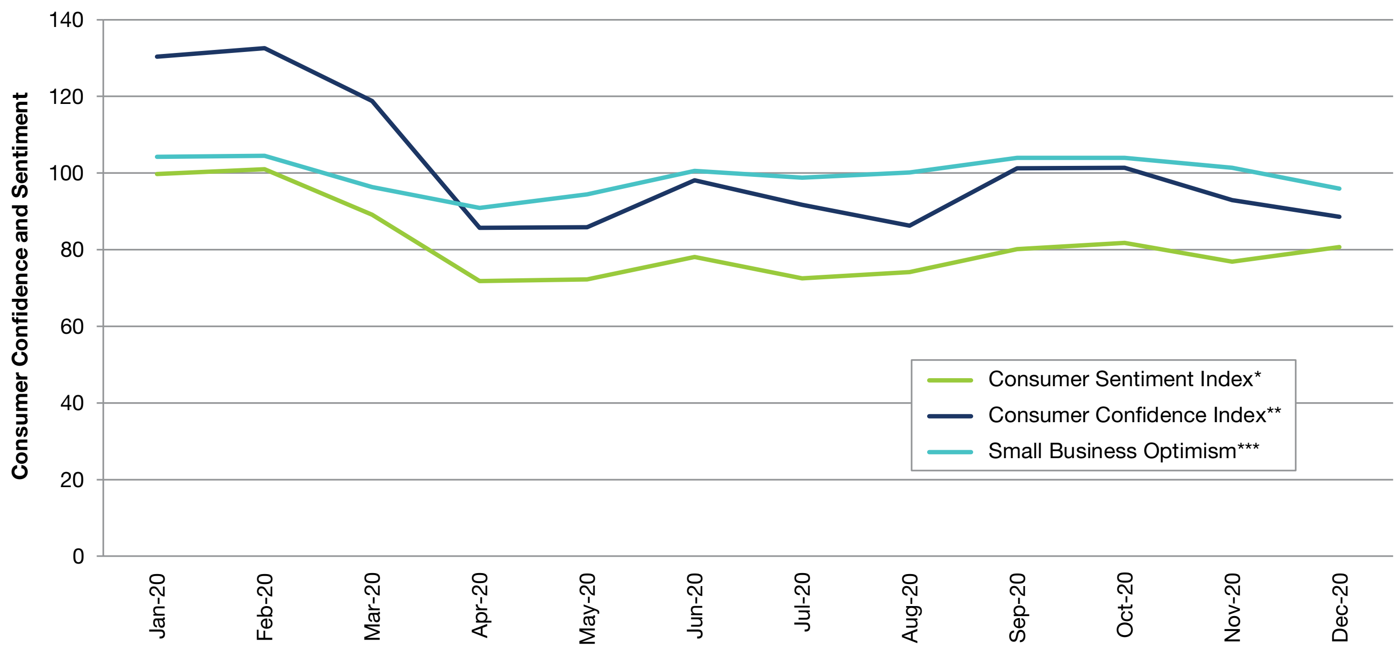
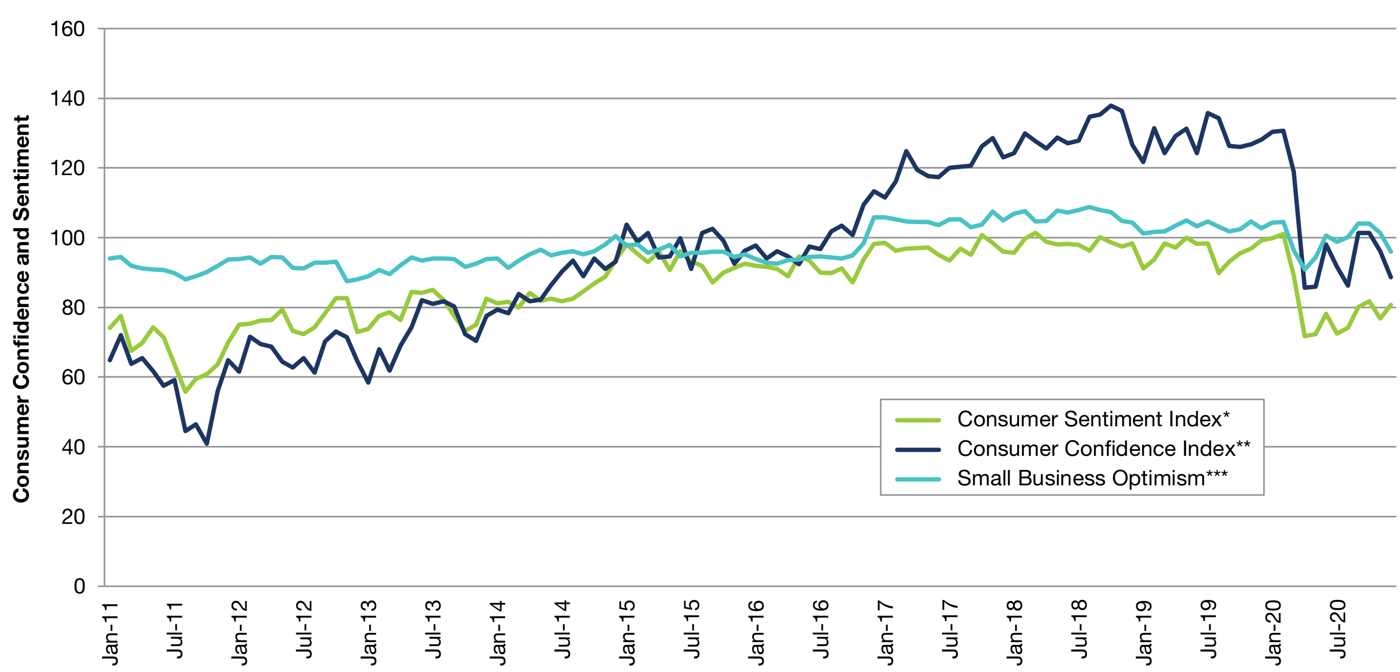


EXHIBIT 5B: Consumer Confidence and Small Business Optimism—10 Years



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

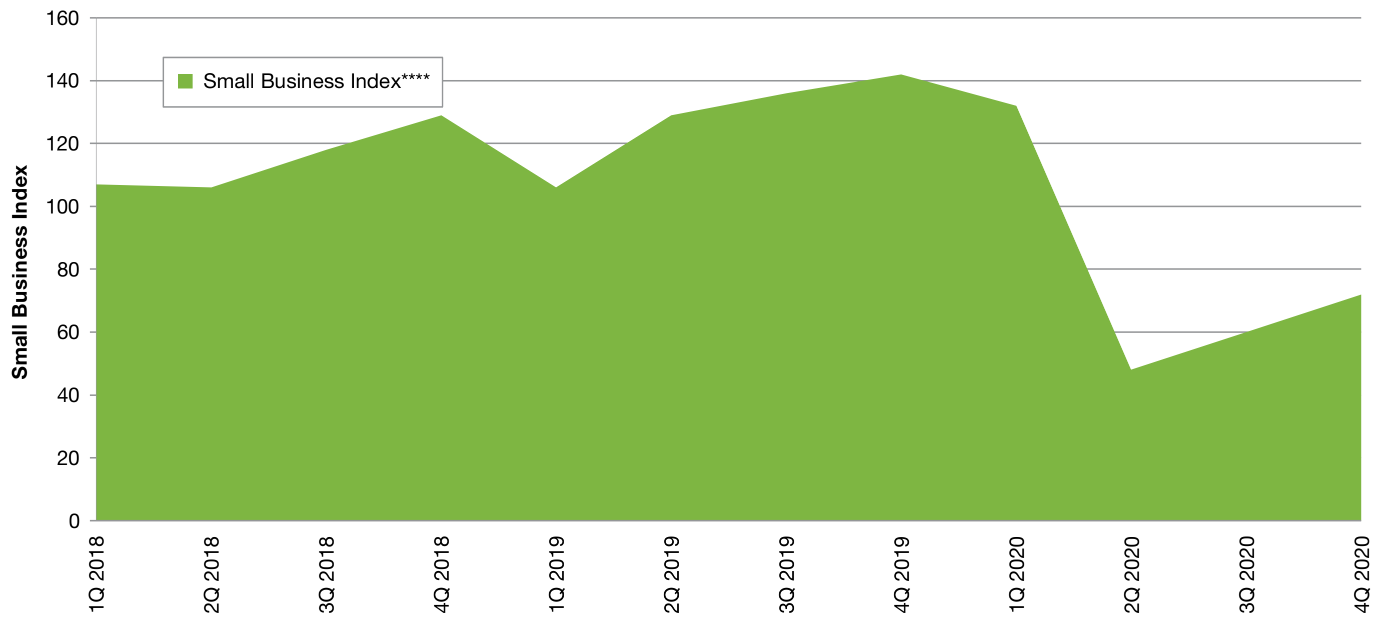
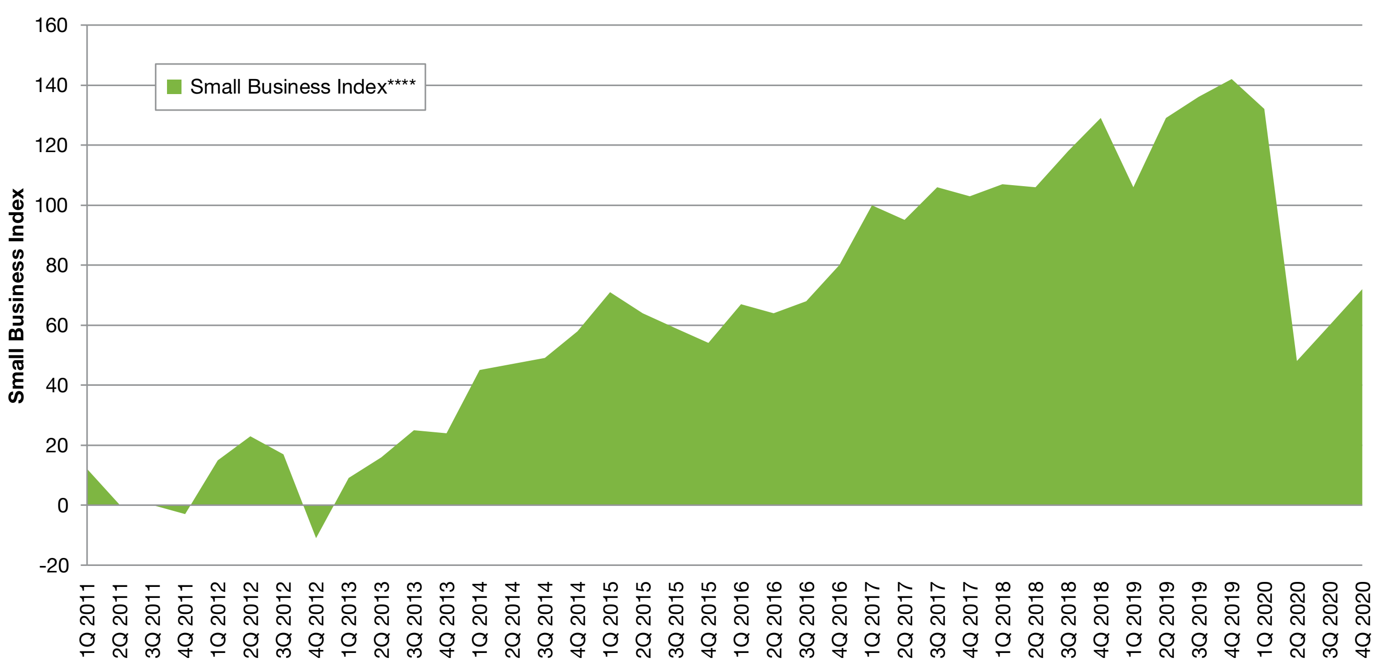


EXHIBIT 5D: Small Business Index—10 Years



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 fell for the third consecutive month, with the aggregate total of $540.9 million coming in 0.7% lower than the figure in November. In addition, the retail sales figure for November was revised lower, showing a decline of 1.4% compared to the decline of 1.1% originally reported. The report cited the continued spread of the coronavirus as the culprit, which caused additional layoffs and store closures that curbed holiday spending. Still, however, with the passing of a new round of stimulus, economists are optimistic that depressed sales will not push the economy into a recession. 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 six of the 13 major categories with higher sales. Gasoline stations rose 6.6%; clothing and clothing accessories stores rose by 2.4%; and motor vehicles and parts dealers saw a rise of 0.2%.

Retail sales figures over the past 12 months increased 2.9%, which is the seventh consecutive month of annual gains. Nine of the 13 retail sales categories saw an increase in sales. Sales at nonstore retailers grew 19.2%; building materials and garden equipment and supplies dealers increased 17.0%; sporting goods, hobby, musical instruments, and bookstores increased 15.2%; and food and beverage retailers increased 8.9%.

Core retail sales decreased 2.1% in December. 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 2.6%.

E-commerce retail sales fell modestly in the third quarter of 2020 when compared to the second quarter of 2020. Online sales were at $209.5 billion in the third quarter, or roughly 1.0% lower than the $211.6 billion reported in the second quarter of 2020. Over the past 12 months, e-commerce sales are up 36.7%.

As a percentage of overall retail sales, e-commerce retail sales in the third quarter totaled 14.3%, down from 16.1% in the second quarter but higher than the rate of 11.2% from one year ago.

EXHIBIT 6A: Total Retail Sales—Past 24 Months

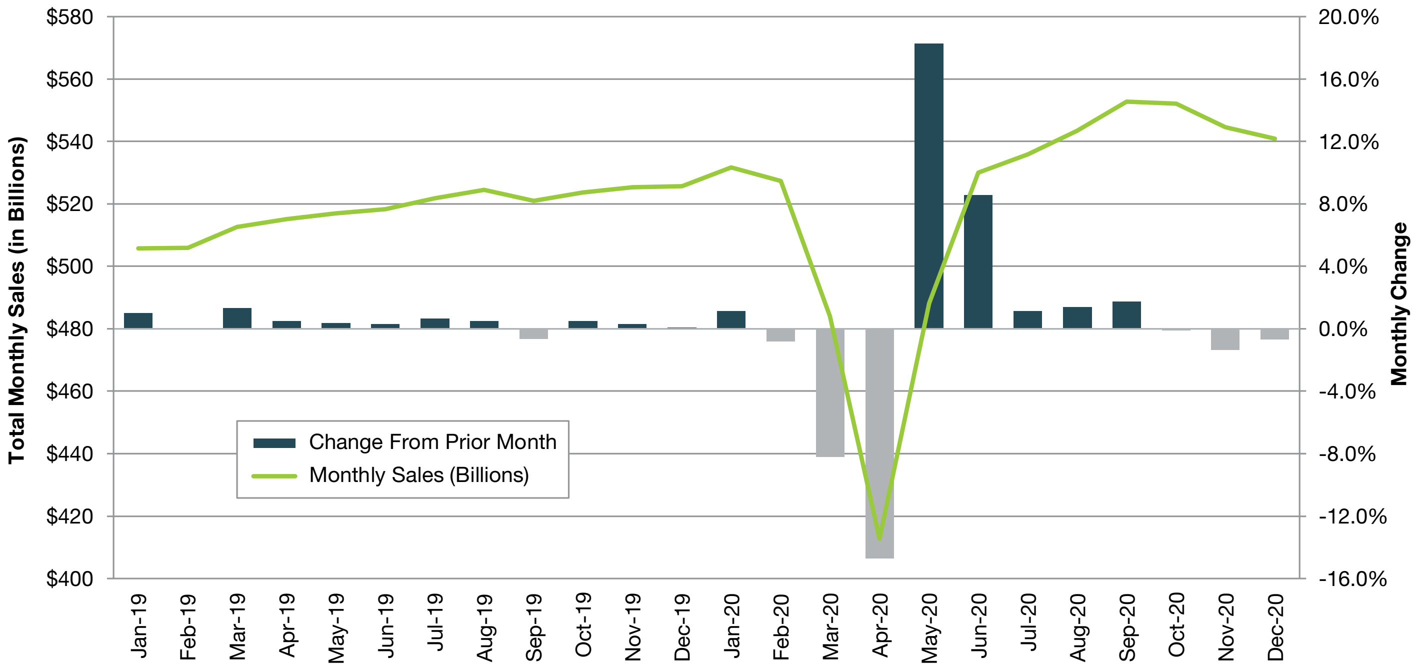
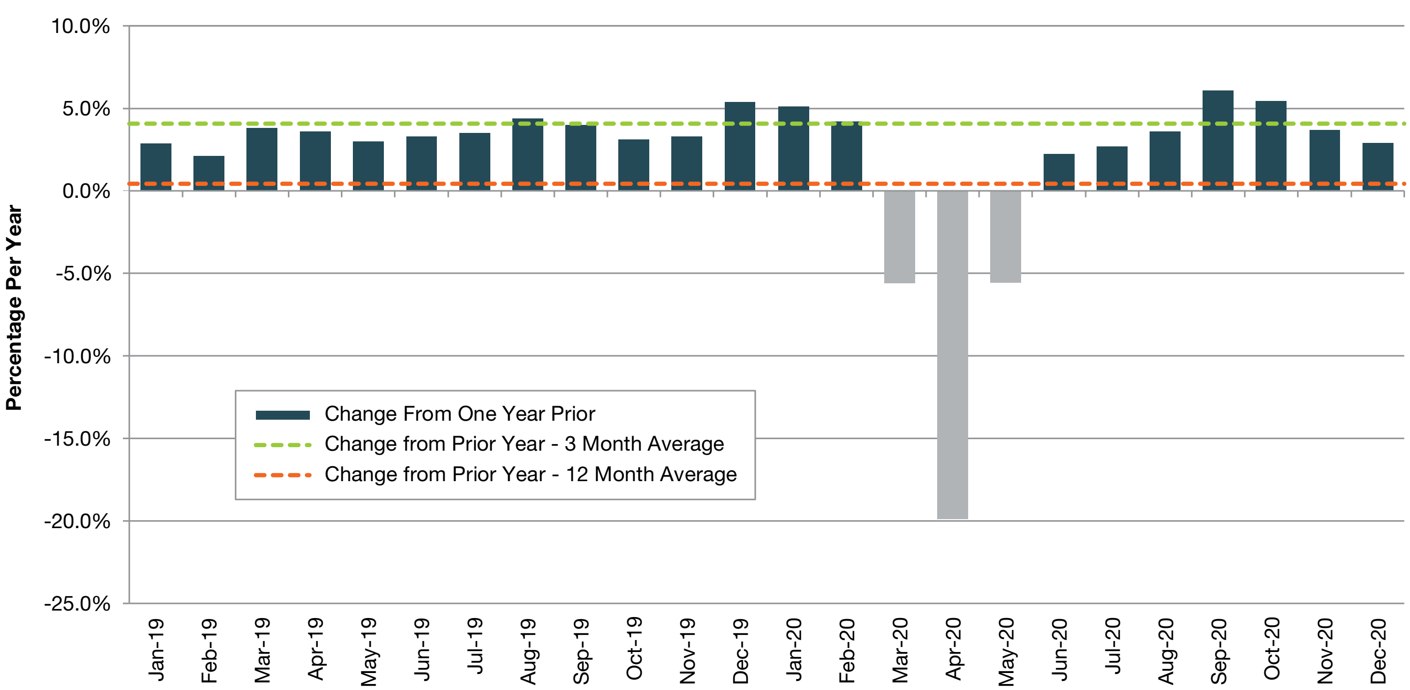


EXHIBIT 6B: Total Retail Sales Change From One Year Prior—Past 24 Months With Averages



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

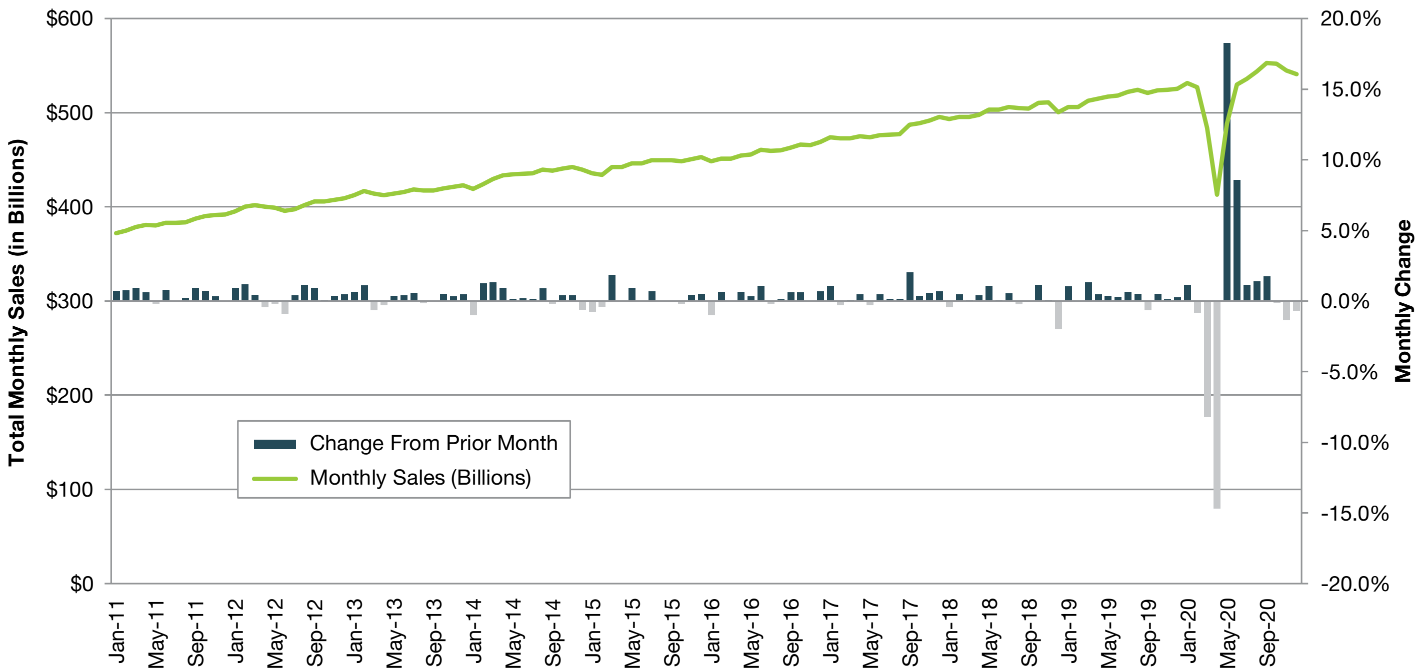
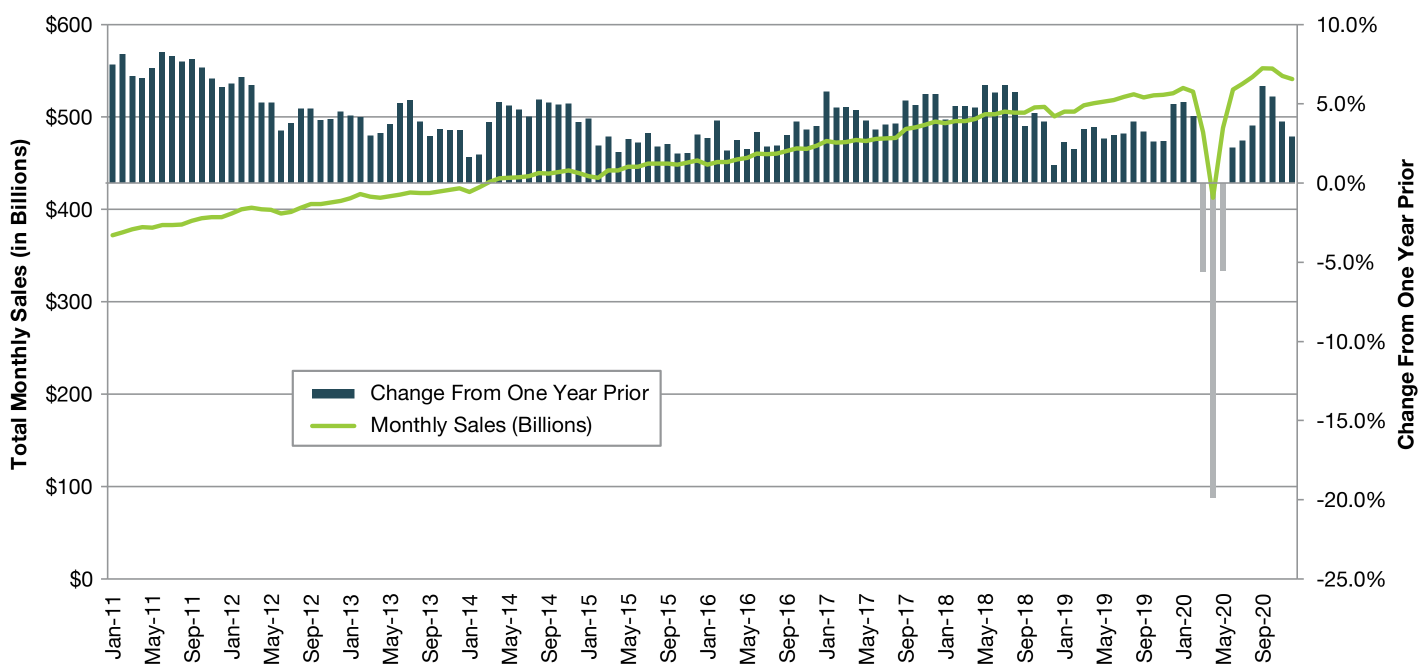


EXHIBIT 6D: Total Retail Sales—Percentage Change From One Year Prior Since 2011



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

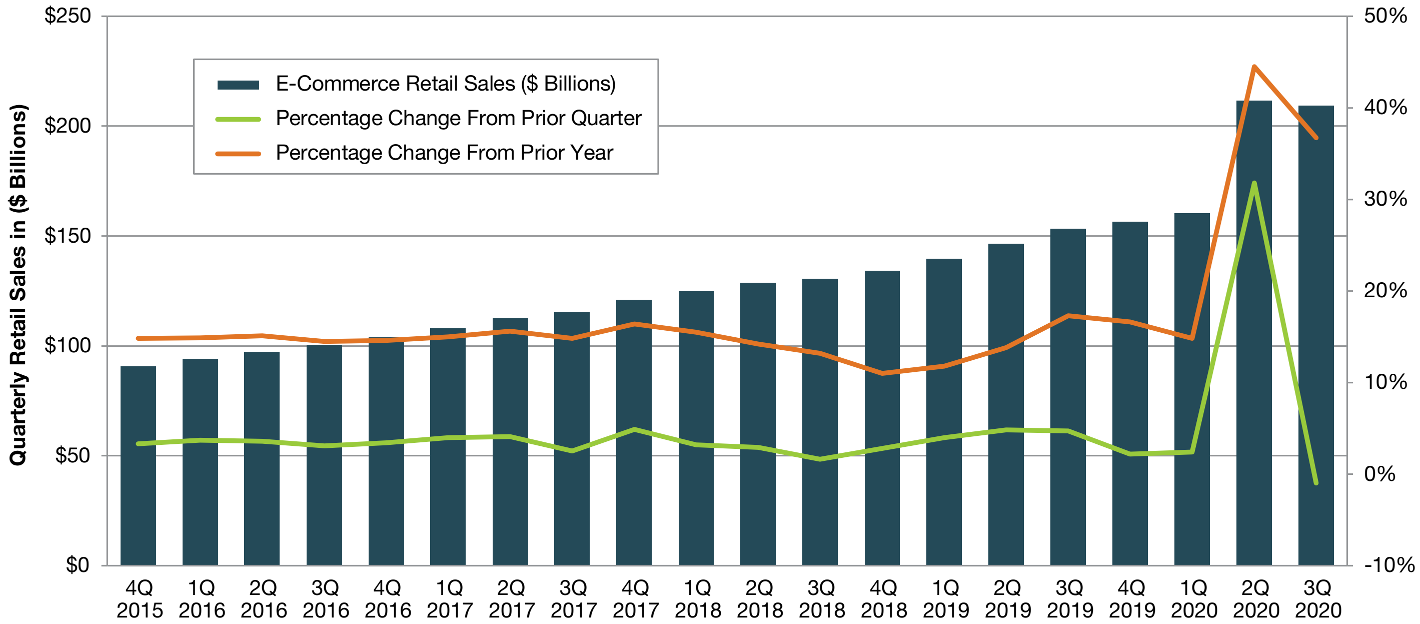
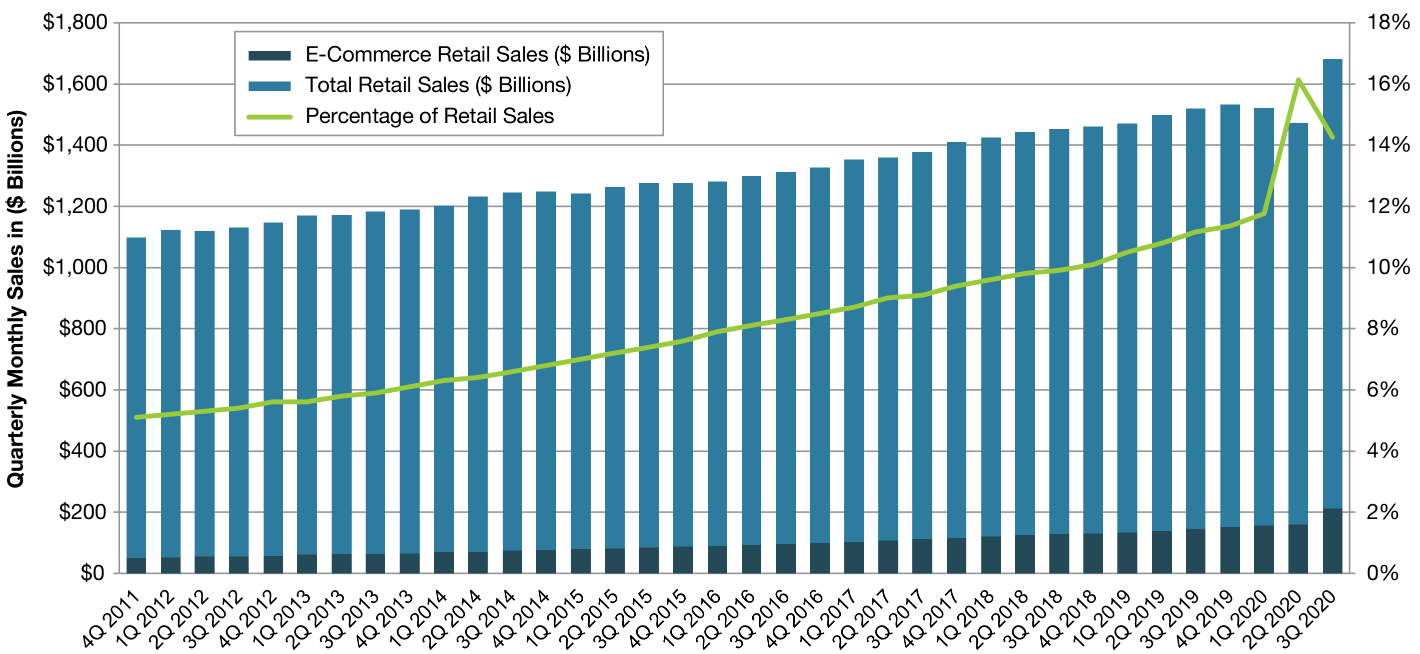


EXHIBIT 6F: E-Commerce Retail Sales Compared to Retail Sales 10 Years



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

UNEMPLOYMENT

Total nonfarm payroll employment worsened in December, after subtracting 140,000 jobs from the economy. The decline in December was unexpected, as a gain of 50,000 jobs was forecasted by CNBC. The December jobs report did, however, include revisions to the prior two months that showed an increase of 135,000 jobs, as the October figures increased by 44,000 jobs and the November figures improved an additional 91,000 jobs.

In December, 23.7% of employed persons teleworked because of the coronavirus pandemic, up from 21.8% in November. 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 December, 15.8 million persons 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. This measure is 1 million higher from November. Among those who reported in December that they were unable to work because of pandemic-related closures or lost business, 12.8% received at least some pay from their employer for the hours not worked, which is little changed from November.

About 4.6 million persons not in the labor force in December were prevented from looking for work due to the pandemic. This measure is up from 3.9 million in November.

In December, the U3 unemployment rate remained unchanged, at 6.7%. Since May, the unemployment rate had steadily improved over the past six months after hitting 14.7% in April.

Employment in professional and business services rose in December, adding 161,000 jobs and 858,000 jobs since February. Retail trade jobs increased by 121,000 jobs. Employment in this sector, however, remains 411,000 lower since February. Notable job gains also occurred in construction (+51,000), transportation and warehousing (+47,000), and healthcare employment (+39,000).

The report found that labor-force participation remained unchanged in December, at 61.5%, but is 1.9 percentage points lower than its rate before the coronavirus pandemic began in February. The employment-population ratio, which is the share of the working-age population with a job, increased 0.1 percentage point in December, to 57.4%, but is 3.8 percentage points lower than its rate in February. The number of long-term unemployed (those jobless for 27 weeks or more) increased by 100,000 in December, coming in at 4 million.

The broadest measure of labor underutilization, the U6 unemployment rate, improved 0.3 percentage point in December, to a seasonally adjusted 11.7%. 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 decreased by 123,000 jobs. The report showed losses in large-sized businesses, by 147,000 jobs, and in small businesses, by 13,000 jobs, which offset the gains by midsized businesses, of 37,000 jobs. The number of service-sector jobs fell by 18,000, and the number of goods-producing jobs decreased by 105,000. The number of jobs in small-sized businesses increased by 6,000 in the service sector but declined in the goods-producing sector by 19,000 jobs.

The White House Council of Economic Advisors (CEA) under the new Biden administration published a report noting the damages caused by the coronavirus pandemic, specifically the mass number of jobs lost, or jobs negatively impacted by the economic shutdowns.

The report specifically noted the COVID-19 package that passed in December 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 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 increased 0.23 cents in December, to $29.81, and have risen by 1.44 cents, or 5.1%, over the past 12 months. Average hourly earnings for private-sector production and nonsupervisory employees increased 0.20 cent in December, to $25.09. Over the last 12 months, average hourly earnings for private-sector production and nonsupervisory employees have increased 1.25 cents, or 5.2%.

The average workweek for all private workers decreased 0.1 hour in December, to 34.7 hours, but is up 0.4 hour from one year ago. The manufacturing workweek remained unchanged in December, at 40.2 hours, but the number of manufacturing overtime hours increased 0.1 hour, to 3.3 hours. The average workweek for production and nonsupervisory employees remained unchanged in December, at 34.2 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 September 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

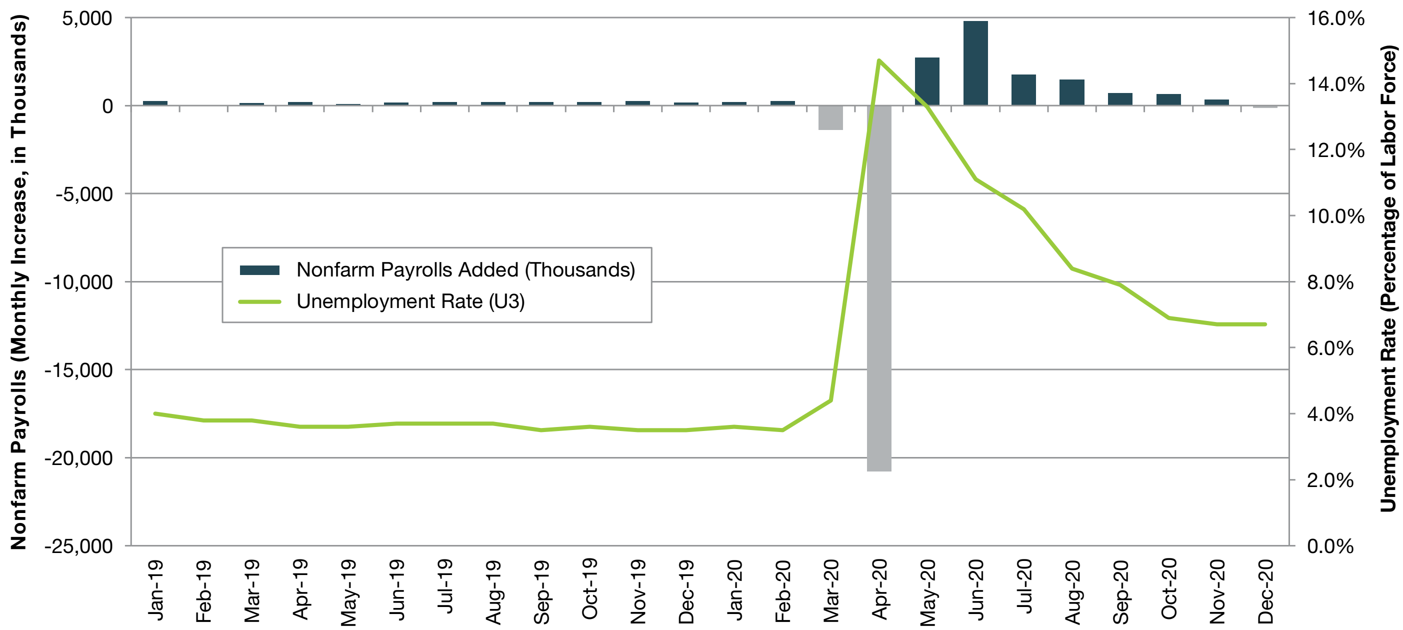
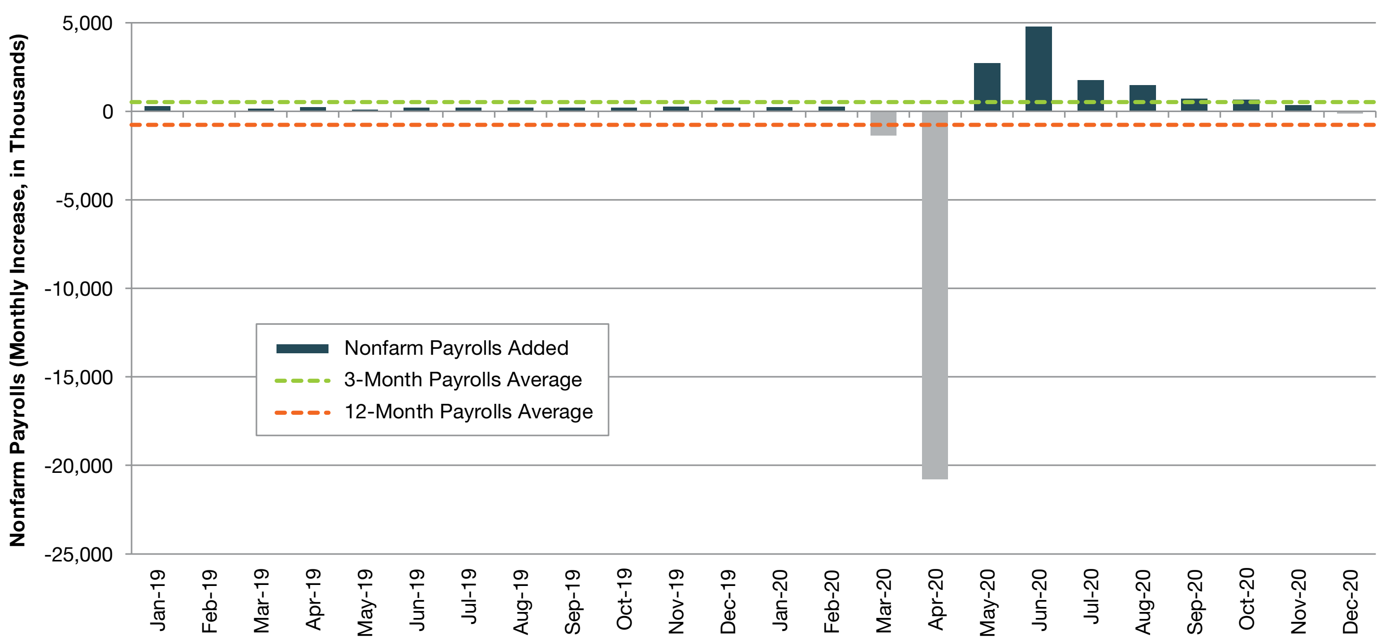


EXHIBIT 7B: U.S. Employment—Past 24 Months With Averages



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

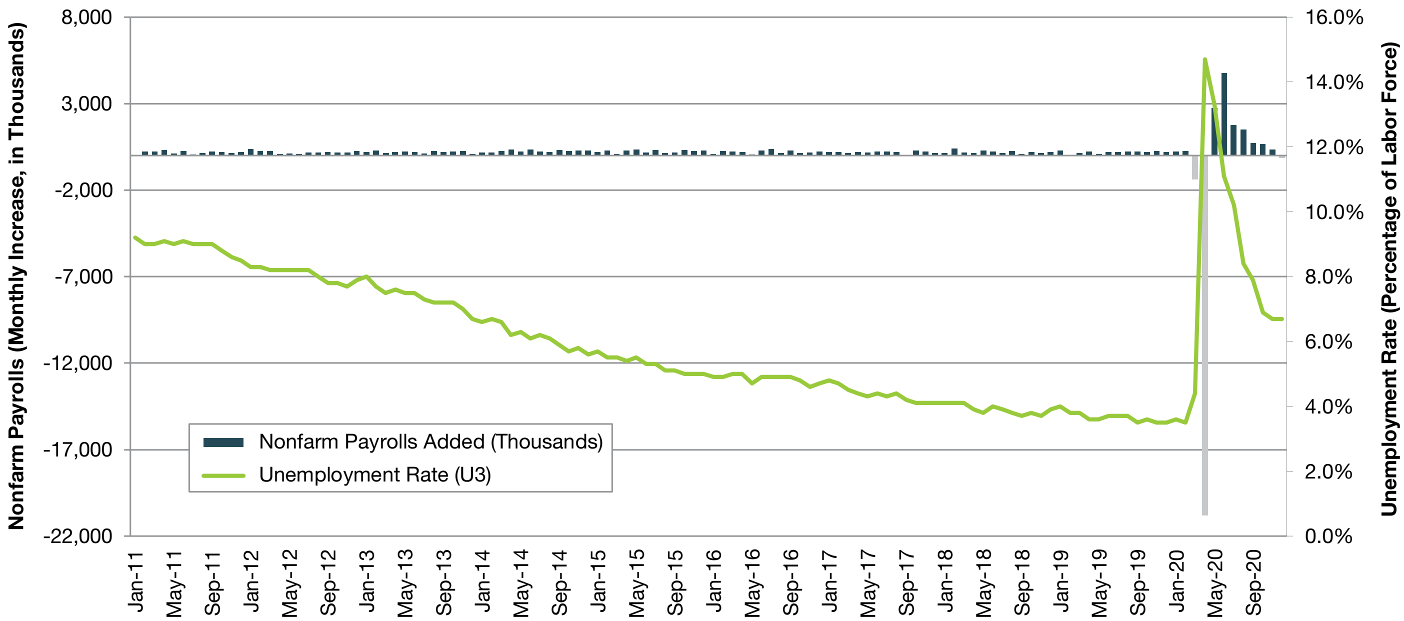
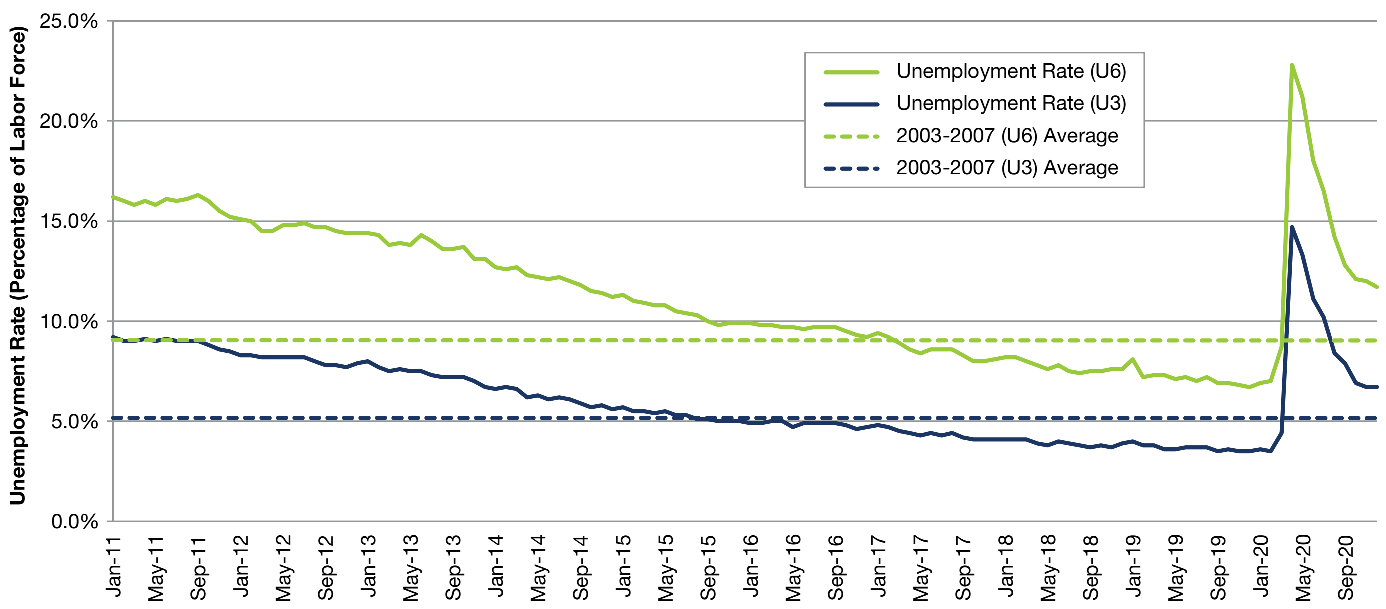


EXHIBIT 7D: U3 Unemployment Compared With U6 Unemployment—10 Years



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.

PMI INDEXES AND INDUSTRIAL PRODUCTION

MANUFACTURING PMI

The manufacturing sector improved in December following a rise of 3.2 percentage points to the manufacturing index (PMI) as reported by the Institute for Supply Management (ISM). The score in December, 60.7%, rose to its highest level since August 2018, as survey respondents reported that fourth-quarter production had improved more than anticipated. Panel sentiment displayed this optimism with 3.0 positive comments for every cautious comment, which is an improvement compared to the November response of 2.5 positive comments per cautious comment. The overall score indicates expansion in the overall economy for the eighth consecutive month and expansion in the manufacturing economy for the seventh consecutive month.

The breakdown of the components in December are as follows: The New Orders Index grew at strong levels and was supported by strong growth to the New Export Orders Index. The Customers' Inventories Index reported at levels indicating they were too low, which is considered positive for future production. The Backlog of Orders Index reported at a two-and-a-half-year high. Consumption, which is measured by the production and employment indexes, contributed negatively, with a combined increase of 7.1 percentage points, to the Manufacturing PMI calculation, with five of the top six industries reporting moderate to strong levels of expansion. The Employment Index returned to levels indicating expansion after a one-month setback in November, when it fell to a level indicating contraction. Inputs, expressed as supplier deliveries, inventories, and imports, continued to indicate input-driven constraints to production expansion, and at higher rates compared to November as indicated by minimal gains in inventory levels and a softening of imports. Supply chains, however, continue to struggle compared to November, contributing modestly to the PMI calculation. Prices jumped drastically in December, rising to a level last reached in the summer of 2018, at the peak of the manufacturing expansion cycle.

A reading above 50.0% indicates that the manufacturing economy is generally expanding. Therefore, the December Manufacturing PMI, at 60.7%, indicates the seventh month of levels indicating expansion in the manufacturing economy. A Manufacturing PMI in excess of 42.9%, over a period, generally indicates an expansion of the overall economy. At 60.7%, the Manufacturing PMI score indicates continued expansion in the overall economy for the eighth consecutive month. The December score was above the 12-month average of 52.5%.

Sixteen of the 18 manufacturing sectors surveyed in December reported growth. The report stated that, based on the past relationship between Manufacturing PMI and the overall economy, if Manufacturing PMI for December (60.7%) were annualized, it would correspond to a 5.2% increase in GDP annually.

The 16 manufacturing industries that reported growth in December were: apparel, leather, and allied products; furniture and related products; wood products; fabricated metal products; machinery; computer and electronic products; transportation equipment; plastics and rubber products; paper products; chemical products; petroleum and coal products; primary metals; textile mills; electrical equipment, appliances and components; food, beverage and tobacco products; and miscellaneous manufacturing. Two manufacturing industries reported contracting in December.

The component for new orders increased 2.8 percentage points in December, to 67.9%. The overall score marks the seventh consecutive month of expansion. 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). All six of the largest manufacturing sectors expanded, 13 of 18 industries reported growth in new orders in December, and three industries reported a decrease in new orders.

The component for production increased 4.0 percentage points in December, to 64.8%, and has now risen for the seventh consecutive month. Five of the Big 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. Thirteen of the 18 industries reported growth in production during the month of December, and two of the industries reported a decrease in production.

Employment in the manufacturing sector moved up 3.1 percentage points in December, to 51.5%, and has returned to levels indicating expansion after one month at a level of contraction. Three of the six big industry sectors expanded on the month. An Employment Index above 50.8%, over time, is generally consistent with an increase in the Bureau of Labor Statistics' data on manufacturing employment. Eight of the 18 industries reported employment growth in December, while five industries reported a decrease in employment.

Deliveries were slower in December, even as the component that measures the delivery performance of suppliers rose 5.9 percentage points, to 67.6%. The report noted that suppliers continue to struggle to deliver, with deliveries slowing at a faster rate compared to November. Transportation challenges and challenges in supplier-labor markets are still constraining production growth and to a greater extent compared to the previous month. Sixteen of the 18 industries reported slower deliveries in December.

The inventory index increased 0.4 percentage point in December, to 51.6%, and has now grown for the third consecutive month. Inventory growth, in light of ongoing supplier constraints, indicate that supply chains are meeting near-term production demand, in spite of transportation and COVID-19 headwinds. An Inventories Index greater than 44.3%, over time, is generally consistent with expansion in the Bureau of Economic Analysis' figures on overall manufacturing inventories. Eight of the 18 industries reported a decrease in inventory in December.

The index that tracks customers' inventories increased 1.6 percentage points in December, to 37.9, indicating that customers' inventory levels were too low. The score marked the 51st consecutive month of low inventory levels. For five months in a row, the index has been at its lowest levels in more than a decade. One industry reported customers' inventories were too high in December, and 14 reported levels were too low.

The component that measures prices increased 12.2 percentage points in December, to 77.6%, with the score indicating expansion for the seventh consecutive month and rising to its highest level since May 2018. Aluminum, copper, steel, petroleum-based products including plastics, transportation costs, electronic components, corrugate, temporary labor, wood and lumber products all continued to record price increases. 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 December, and zero industries reported decreased prices.

In December, order backlogs increased 2.2 percentage points, to 59.1%, and have now expanded for the sixth consecutive month. Backlogs expanded at faster rates in December, indicating that new-order intakes more than fully offset production outputs. Four of the six big industry sectors' backlogs expanded, and 12 of the 18 reported growth in order backlogs in December.

The new export orders index decreased 0.3 percentage point in December, to 57.5%. The New Export Orders Index grew for the sixth consecutive month. Five of the Big Six industries expanded, and nine of the 18 industries reported growth in new order exports in December.

The imports index decreased 0.5 percentage point in December, to 54.6%, but, despite the decline, the score remained at levels indicating expansion for the sixth consecutive month. Twelve of the 18 industries grew in December, and three reported a decrease.

The index that tracks the average commitment lead time for capital expenditures decreased by eight days in December, to 132 days. The average lead time for maintenance, repair, and operating supplies decreased three days, to 37 days, and the average lead time for production materials increased two days, to 69 days.

The Institute for Supply Management published its most recent "Semiannual Economic Forecast" in May, and the report highlighted that expectations for economic growth for the remainder of 2020 have been clouded due to the negative impact of the coronavirus pandemic. Specifically, 15 of the 18 manufacturing-sector industries and five of the Big Six industry sectors are predicting revenue declines in 2020. In addition, panelists forecast that recovery will likely not occur until near the end of the year.

The survey results showed that 58% of respondents from the panel of manufacturing supply management executives predict their revenues, on average, will decrease in 2020 from 2019 levels. To be exact, purchasing and supply management executives predict an overall net decrease of 10.3% in 2020, which is 15.1 percentage points lower than the forecasted growth of 4.8% from the December survey. Fifteen of the 18 manufacturing industries expect revenues to worsen in 2020 over 2019.

Purchasing managers reported that their companies are currently operating, on average, at 75.9% of normal capacity, or 7.8 percentage points less than the rate reported in December. Overall, production capacity in manufacturing is expected to decrease 3.6% in 2020. This compares to an increase of 3.1% reported for 2019 and a prediction in December 2019 for an increase of 3.3% for 2020. Seventeen percent of respondents expect an average capacity increase of 14.7%, 28% expect decreases averaging 21.5%, and 55% expect no change. Eight of the 18 industries reported an average capacity of 75.9% or above.

Survey respondents expect a 19.1% decrease in capital expenditures in 2020, which is less than the 2.1% decrease the panel predicted in the December 2019 forecast for 2020. Currently, 10% of respondents predict increased capital expenditures in 2020, with an average increase of 26.5%, and 56% said their capital spending would decrease an average of 38.7%. Thirty-four percent say they will spend the same in 2020 as they did in 2019. Two industries are expecting increases in capital expenditures in 2020 compared to 2019.

In the December 2019 forecast, respondents predicted an increase of 0.4% in prices paid during the first four months of 2020; they now report prices decreased by 2.8%. The 16% who say their prices are higher now than at the end of 2019 report an average increase of 6.6%, while the 36% who report lower prices indicate an average decrease of 10.6%. The remaining 48% report no change for the period. Four manufacturing industries reported an increase in prices paid for the first part of 2020.

Survey respondents expect a decrease in net average prices of 1.6% for all of 2020, compared to the end of 2019. Twenty-seven percent of those surveyed project prices to increase by an average of 7.2% for the full year, 38% anticipate decreases averaging 9.2%, and 35% expect no change in prices. Seven of the 18 industries predicted price increases for all of 2020. ISM's Manufacturing Business Survey respondents forecast that manufacturing employment will decrease by 5.3% by the end of 2020 compared to the end of 2019. Twelve percent of respondents expect employment to be 7.6% higher, on average, while 39% of respondents predict employment to be lower by 15.9%. The remaining 49% of respondents expect their employment levels to be unchanged for the remainder of 2020. The only manufacturing industry expecting growth in employment in 2020 is paper products.

The highlights of the semiannual survey are:

- Operating rate is currently at 75.9% of normal capacity;
- Production capacity is expected to decrease 3.6% in 2020;
- Capital expenditures are expected to decrease 19.1% in 2020;
- Prices paid decreased 2.8% through May 2020;
- Prices of raw materials are expected to decrease a total of 1.6% for all of 2020, indicating an expected increase of 1.2% in prices for the remainder of the year;
- Manufacturing employment is expected to decrease by 5.3% by the end of 2020; and
- Manufacturing revenue is expected to decrease 10.3% in 2020.

SERVICES PMI

The Services PMI, formerly the nonmanufacturing index (NMI), rose 1.3 percentage points in December, remaining at levels indicating expansion in the nonmanufacturing economy as well as the overall economy. The December score, 57.2%, represents growth in the services sector and the overall economy for the seventh consecutive month. The survey did caution, however, that the survey respondents were starting to see demand weakness as states reenter a phase of mandatory shutdowns but are looking ahead to see business resume in the late first quarter as the vaccine rollout continues. 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 December, 57.3%, indicates growth in the overall economy and the services economy for the seventh consecutive month.

Fourteen of the 18 nonmanufacturing sectors surveyed in December 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 December (57.3%) were annualized, it would correspond to a 2.9% increase in GDP. Over the past 12 months, the Services PMI score averaged 54.3%.

The component that measures business activity increased 1.4 percentage points in December, to 59.4%, after a decline in November. The index remains at levels indicating expansion for the seventh month. Eleven of the industries in the index reported growth in business activity for the month.

The new orders component of the index increased 1.3 percentage points, to 58.5%, rebounding from the decline in the month prior. The score has now grown for the seventh consecutive month. Ten of the industries in this index reported an increase in new orders for the month.

Employment in the nonmanufacturing sector contracted in December, coming in at levels of expansion for three consecutive months. In December, the component decreased 3.3 percentage points, to 48.2%. Ten of the 18 industries reported an expansion in employment.

The supplier deliveries component increased 5.8 percentage points in December, to 62.8%. A reading above 50% indicates slower deliveries, while a reading below 50% indicates faster deliveries. The report noted that respondents were impacted by supply chain disruptions for core components and increased ordering of certain tools and equipment. In addition, general freight delays given volume constraint issues with parcel delivery and end-of-year push in conjunction with holidays are causing an increased strain on the shipping industry. Seventeen of the 18 industries reported slower deliveries on the month.

The component that measures the Inventories Index increased 8.9 percentage points in December, to 58.2%, returning to levels indicating expansion after a setback in November had the index fall to a level indicating contraction. Of the total respondents, 46.0% indicated they do not have inventories or do not measure them. Eleven industries reported an increase in inventories in December.

Prices nonmanufacturing organizations paid for purchased materials and services increased, despite the index reporting a decrease of 1.3 percentage points, to 64.8%, in December. Twelve of the 18 industries reported an increase in prices paid in December, and two reported a decrease in prices paid.

Orders and requests for services and other nonmanufacturing activities to be provided outside of the U.S. by domestically based companies grew in December, after the index reported a rise of 6.9 percentage points, to 57.3%. Of the total respondents in December, 74.0% indicated they either do not perform, or do not separately measure, orders for work outside of the U.S. Seven of the 18 industries reported an increase in new export orders in the month of December.

The component that measures inventory sentiment decreased 2.2 percentage points in December, to 47.7%, falling to a level that indicates that respondents believe their inventories are too low for only the third time since the start of the index in 1997. Six industries reported that their inventory level was still too high in December.

The Institute for Supply Management published its most recent “Semiannual Economic Forecast” in May, with the report noting that the coronavirus pandemic has clouded economic growth for the remainder of 2020. All 18 industries are forecasting decreased revenues, a dramatic reversal from the December 2019 forecast, when 17 of 18 industries projected increased revenues for the year. Fifty-seven percent of nonmanufacturing supply management executives expect their 2020 revenues will decrease, on average, 20.1%, and 34% of the executives expect that no change in revenue will occur.

Nonmanufacturing purchasing and supply executives report that their organizations are currently operating at 73.3% of normal capacity. This is 12.7 percentage points less than what was reported in December 2019. Nine out of the 18 industries operated at capacity levels above the average rate of 73.3% of normal capacity.

Respondents reported the capacity to produce products or provide services in the nonmanufacturing sector is expected to decrease 2.8% during 2020, a reversal from the forecasted rate of growth of 3.6% predicted in the December 2019 survey. In 2019, the nonmanufacturing sector increased 2.5%. Six percent of nonmanufacturing respondents expect their capacity for 2020 to increase by an average of 16.3%, and 23% of respondents foresee their capacity decreasing by an average of 17%. Seventy-one percent expect no change in their capacity. Two of the 18 industries are expecting to add to their production capacity in 2020.

Nonmanufacturing respondents expect to decrease their level of capital expenditures by 13.4% in 2020 compared to 2019, while the 8% of members who are expecting to spend more predict an average increase of 48.4%. Thirty-nine percent of respondents anticipate an average decrease of 44.1%. Fifty-three percent of the respondents expect to spend the same on capital expenditures in 2020 as in 2019. Only one of the 18 industries, the public administration industry, is expecting an increase in capital expenditures in 2020 from 2019.

Through the first four months of 2020, nonmanufacturing executives said that their purchases in the first four months of this year cost an average of 4% more than at the end of 2019. This is 2.4 percentage points higher than the 1.6% increase predicted in December 2019 for the first four months of 2020. Thirty-four percent of nonmanufacturing respondents report that prices increased an average of 16.7% in the first part of 2020. Fifteen percent report price decreases averaging 10.3%. The remaining 51% indicate no change in prices paid in the first four months of 2020. Eight of the 18 industries reported an increase in prices paid in the first part of 2020.

Nonmanufacturing supply managers expect prices to increase an average of 3.9% when compared to the prices at the end of 2019. Given that respondents have reported that prices have increased 4% through May 2020, prices are projected to decrease 0.1 percentage point over the rest of the year. Thirty-two percent of respondents anticipate price increases averaging 19.1%. Twenty percent of respondents expect price decreases of 11.3%, and 48% do not expect prices to change. Eleven of the 18 industries are predicting price increases for all of 2020.

Purchasing and supply executives forecast that employment will decrease 3% through the end of 2020. For the remaining months of 2020, 10% expect employment to increase, on average, 22.1%; 42% anticipate employment to decrease by 12.7%; and 48% expect their employment levels to be unchanged. The only nonmanufacturing industry expecting growth in employment in 2020 is utilities, with the remaining 17 industries anticipating decreases in employment.

Nonmanufacturing purchasing and supply management executives predict an overall net decrease of 10.4% in sector business revenue for 2020 over 2019. This is 13.8 percentage points lower than the 3.4% increase published in December 2019 for all of 2020 and 14.8 percentage points lower than the 4.4% increase reported for 2019 over 2018. Nine percent of respondents say that revenues for 2020 will increase 13.1%, on average, over 2019. Meanwhile, 57% say their revenues will decrease, on average, 20.1%, and the remaining 34% indicate no change. All 18 nonmanufacturing industries expect revenue to contract in 2020.

HOSPITAL PMI

Economic activity in the hospital subsector remains unchanged in December, at 62.6%. Survey panelists' comments in December reinforced and echoed the sentiment from November, COVID-19. Concerns among respondents remained, notably the availability of personal protective equipment (PPE), but staffing has now become a bigger issue.

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 60.0%.

The Case Mix Index decreased 0.5 percentage point, to 62.0%. The Case Mix Index change is consistent with slower growth in surgical cases. The Days Payable Outstanding Index increased 1.5 percentage points, to 52.5%. The Technology Spend Index decreased 6.0 percentage points, to 52.0%.

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 1.6% in December, after rising 0.4% in November. Following the rise in December, the index has risen to within 3.3% below its prepandemic levels. At 105.7% of its 2012 average, total industrial production in December was 3.6 percentage points lower than it was one year ago. Capacity utilization for the industrial sector increased 1.1 percentage points in December, to 74.5%, a rate that is 5.3 percentage points below its long-run (1972-to-2019) average.

Manufacturing production increased 0.9% in December for its eighth consecutive monthly gain. For the fourth quarter, manufacturing production rose 11.2%. The production of durable goods rose 1.5%, and the production of nondurable goods rose 0.9%.

The output of mining increased 1.6% in December as continued gains in oil and gas outweighed declines in other categories. For the fourth quarter, the index for mining rose at an annual rate of 3.7% but is 12.3% lower than its rate from one year ago.

Capacity utilization for manufacturing increased 0.7 percentage point in December, to 73.4%, 13.3 percentage points higher than its trough in April but still 4.8 percentage points below its long-run average. The operating rate for mining moved up to 80.5% in December, while the capacity utilization rate for utilities increased to 74.5%.

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

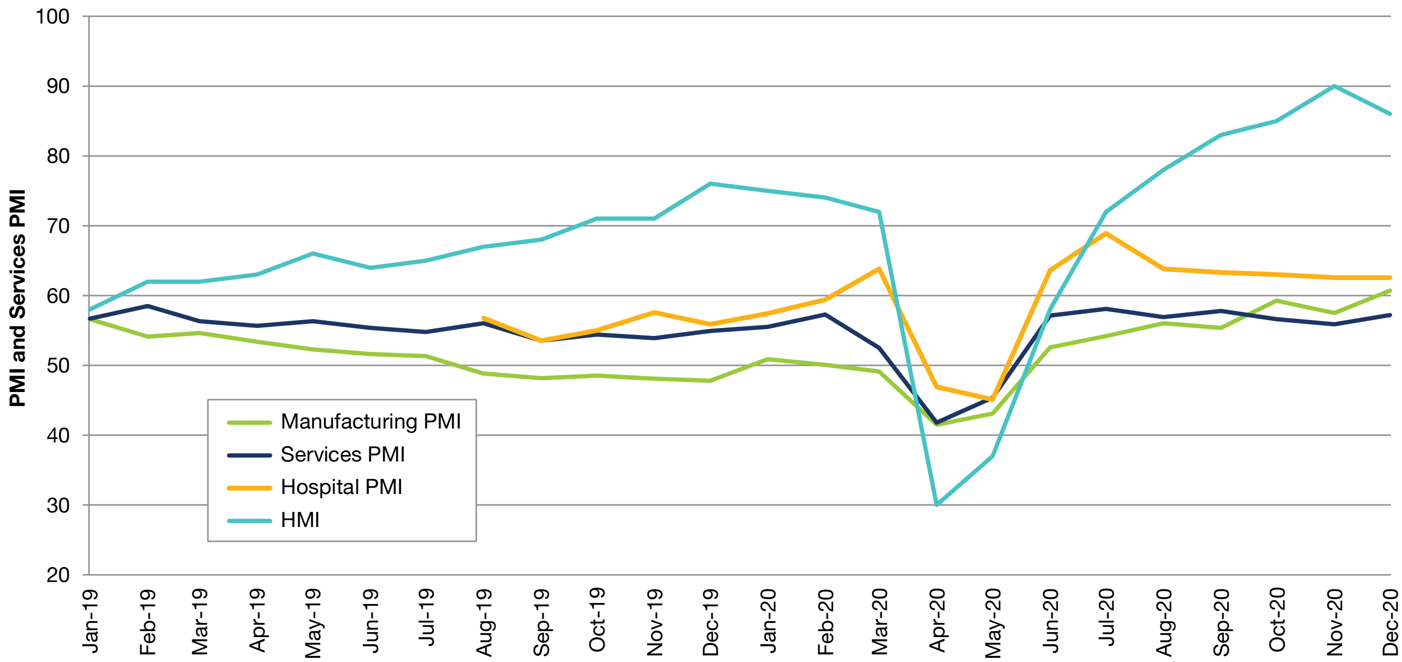
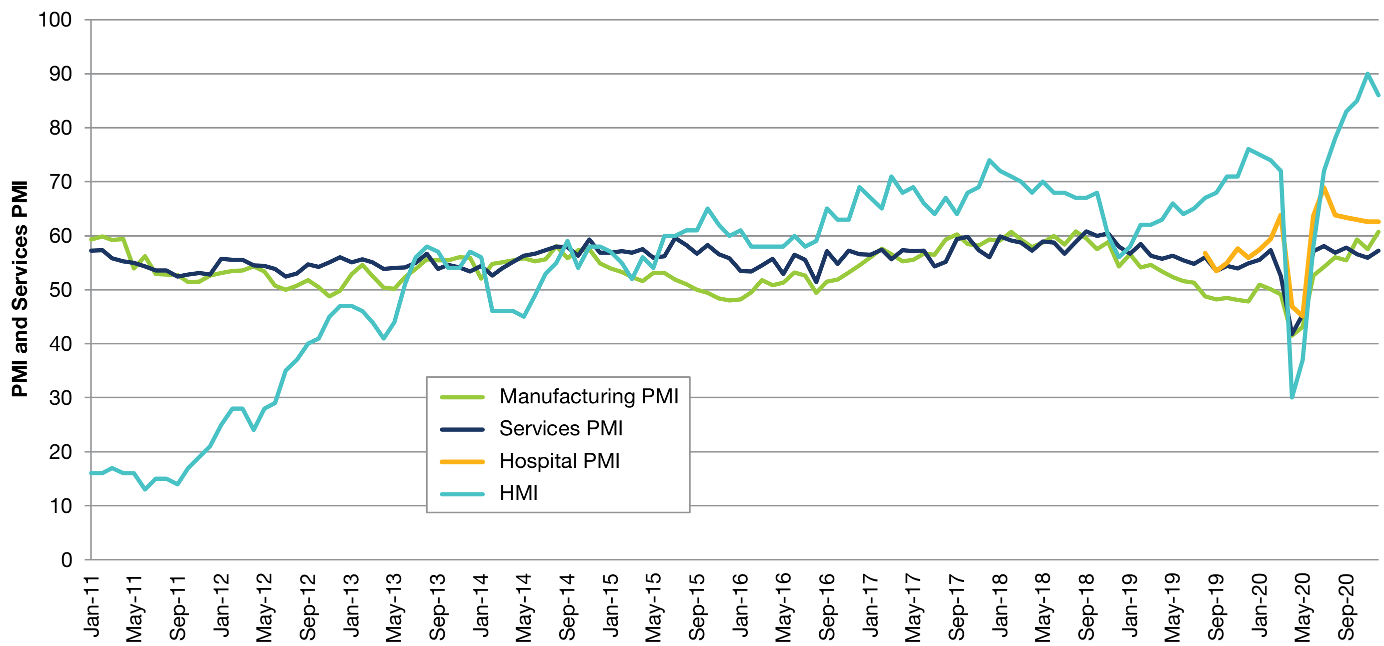


EXHIBIT 8B: Manufacturing, Services, Hospital Supply Chains, and Housing Indicators—10 Years



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

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

STOCK MARKET AND VOLATILITY

All the major U.S. indices posted gains on the month, leading to the major indexes ending the year at record highs. In December, the stock market was buoyed by positive news of the passing of an additional stimulus package as well as the initial rollout of the coronavirus vaccine. As a result, the Dow Jones Industrial Average rose 3.4%, the S&P 500 moved up 3.8%, and the Nasdaq Composite improved 5.7%. Smaller-cap stocks matched and bettered their large-cap counterparts, with the Russell MidCap moving up 4.7% and the Russell 2000 Index rising 8.7%.

In December, the Chicago Board Options Exchange Volatility Index continued to trend lower, falling to its lowest monthly average since the start of the coronavirus pandemic. On the month, the VIX produced a range between 20.0 and 31.5, for a monthly average of 22.4. 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	Dec-20	Year-to-Date
Dow Jones Industrial Average	3.4%	9.7%
S&P 500	3.8%	18.4%
Nasdaq Composite	5.7%	43.6%
Russell Midcap	4.7%	17.1%
Russell 2000	8.7%	20.0%

Source of data: T. Rowe Price

*Returns are for the periods ended December 31, 2020. The returns include dividends based on data compiled by T. Rowe Price, except for the Nasdaq Composite, whose return is principal only.

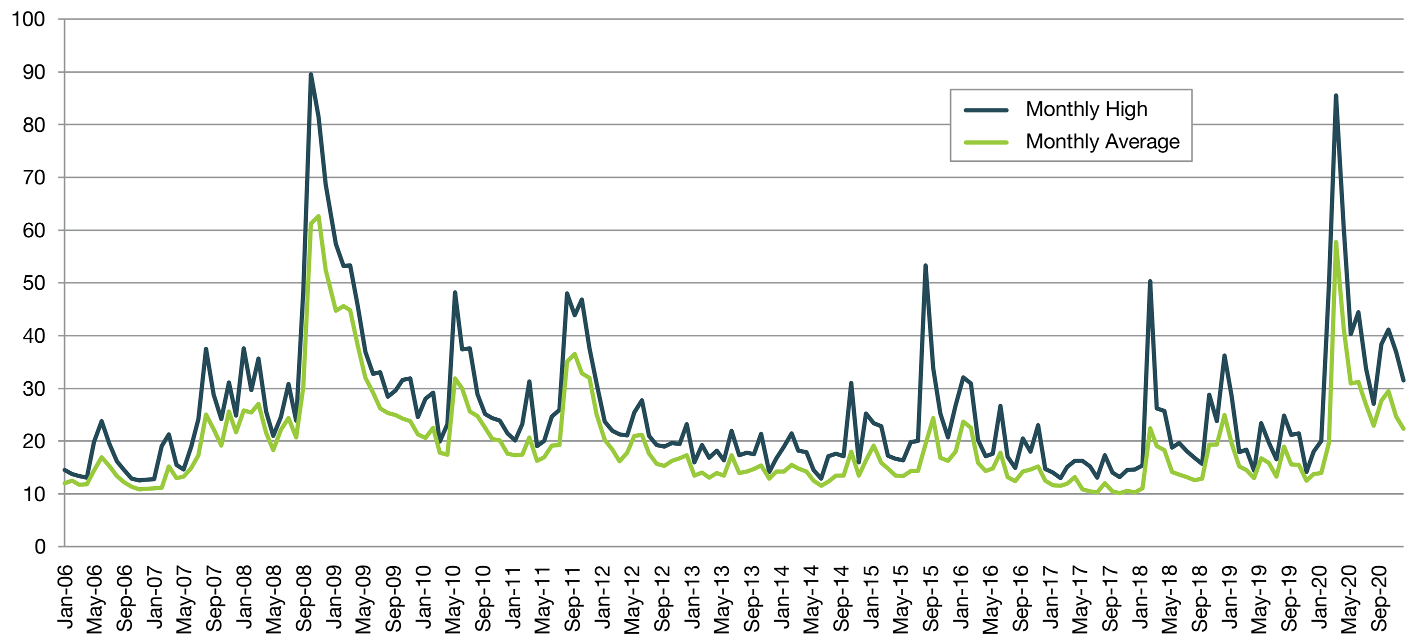
VOLATILITY

VIX*	Dec-20	Year-to-Date
High	31.5	85.5
Low	20.0	11.8
Average	22.4	29.3

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 0.4% in December, after rising 0.2% in November. The rise in the index was largely the result of a sharp increase in the index for energy, which rose 4.0%, and was spurred by a sharp rise in the index for oil of 10.0%. The food index rose by 0.4% after falling 0.1% in November. Over the past 12 months, the CPI is up 1.4%, which suggests inflation remains muted although economists expect inflation to increase in the coming months after the weak coronavirus-related readings drop off as more people get vaccinated.

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 0.1% in December, after a decline of 0.1% in November. Over the past 12 months, the index is up 1.2%. 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 0.1% in December, after rising 0.2% in November. Core CPI has risen 1.6% over the past 12 months.

PRODUCER PRICE

The Producer Price Index (PPI) increased 0.3% in December after a rise of 0.1% in November and has now risen for the eighth consecutive month. The rise in December fell short of forecasts by economists for an increase of 0.4%, according to a poll by Reuters. In December, the rise in PPI is attributed to a 1.1% increase in prices for final demand goods, whereas the index for final demand services edged down 0.1%. Over the past 12 months, PPI has grown at an annual rate of 0.8%. 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 0.4% in December, after rising 0.1% in November. Over the past 12 months, prices for final demand less foods, energy, and trade services increased 1.1%.

In December, prices for final demand services decreased 0.1%. Prices for final demand goods less foods and energy, or Core PPI, rose 0.5% in December. Core PPI is up 1.1% over the past 12 months. The figure for the annual Core PPI signals low inflationary risks.

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

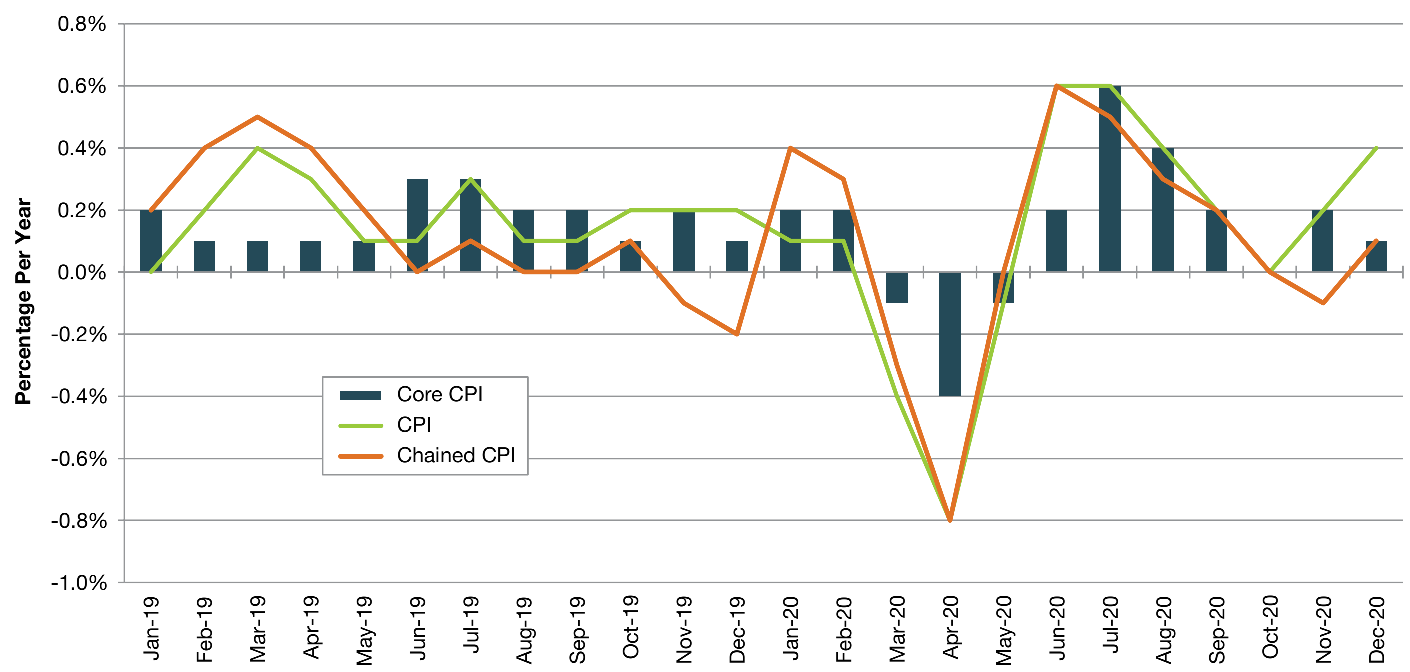
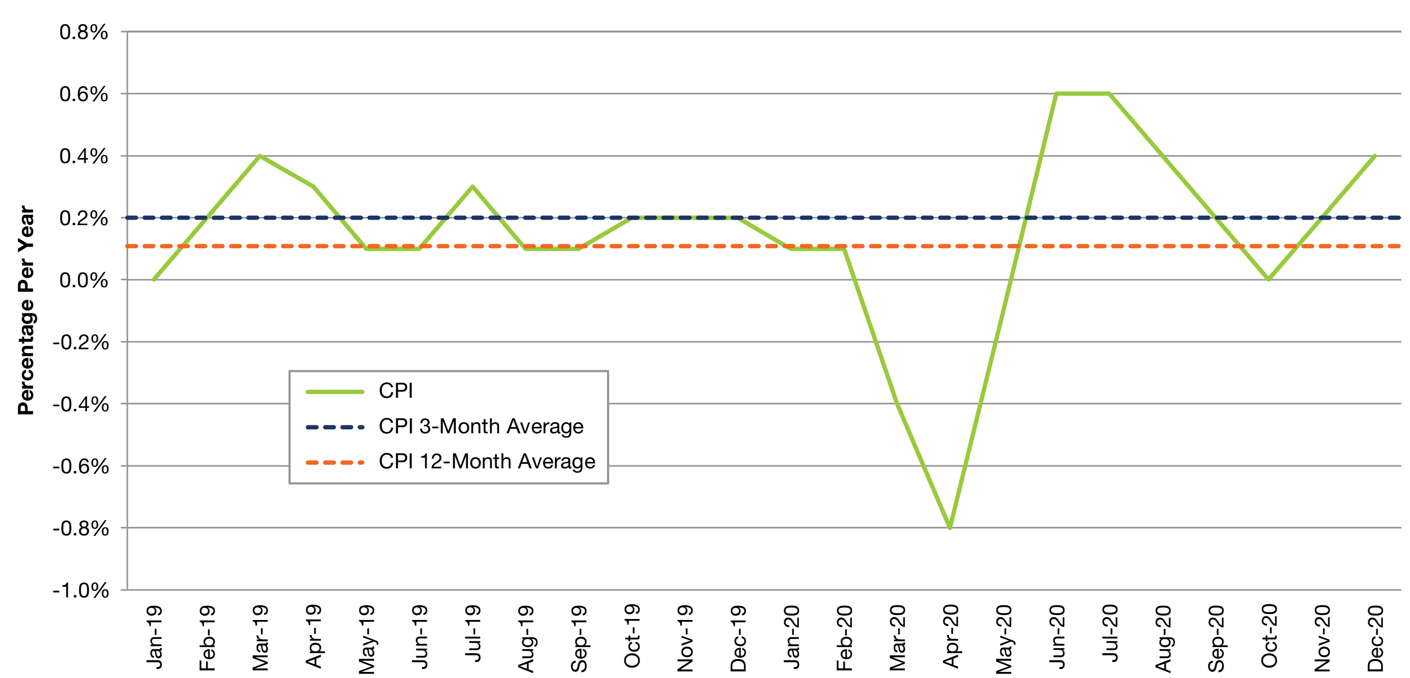


EXHIBIT 10B: U.S. Consumer Price Index—Past 24 Months With Averages



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

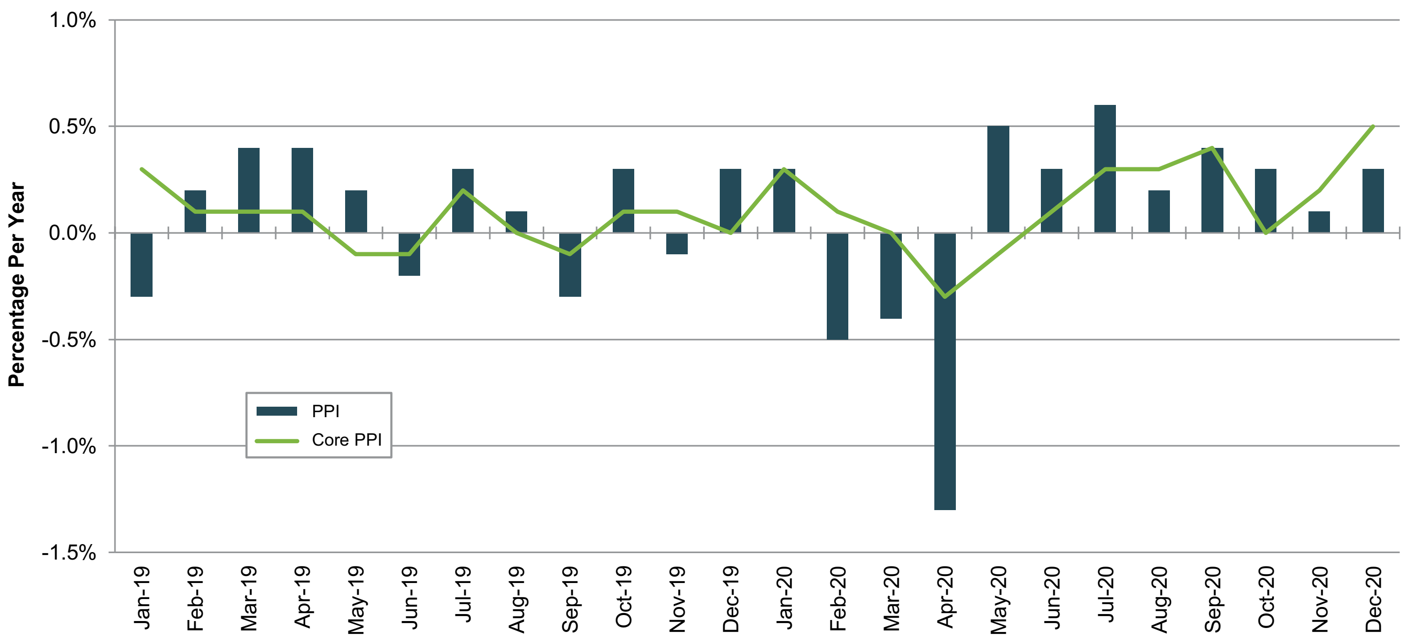
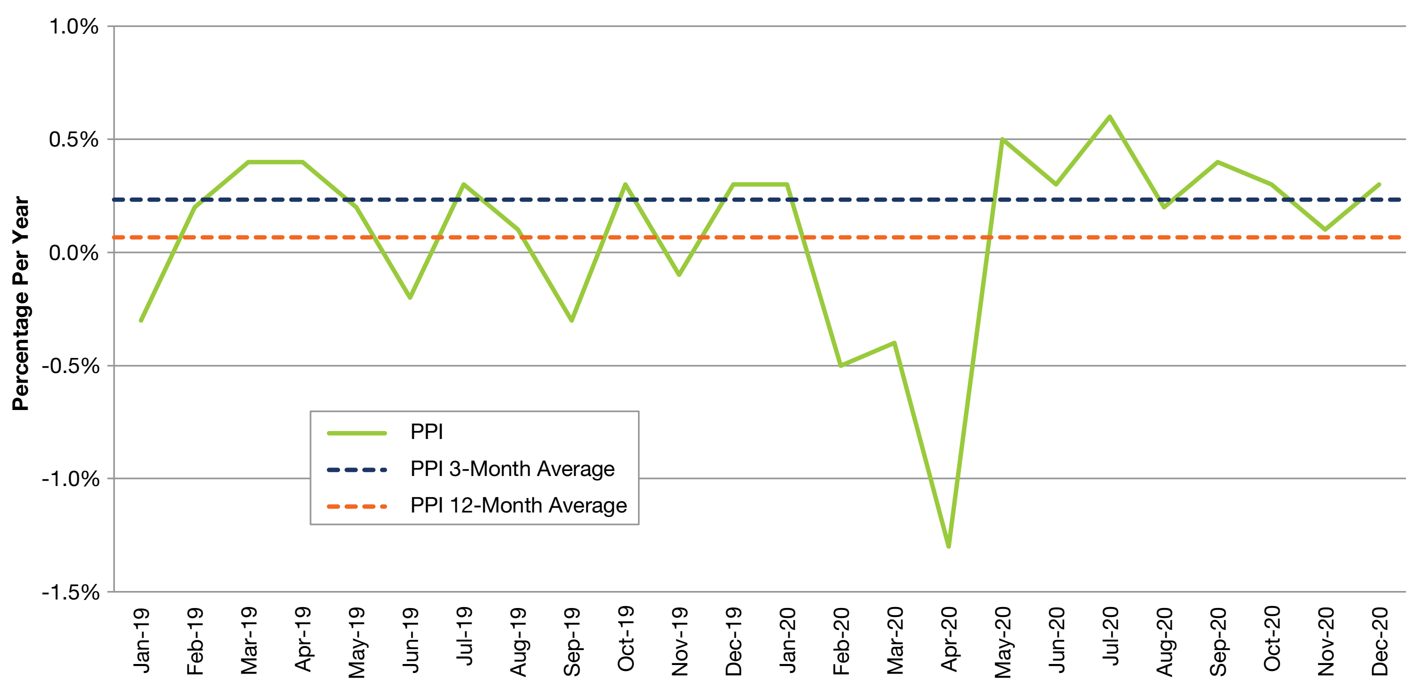


EXHIBIT 10D: U.S. Producer Price Index—Past 24 Months With Averages



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.

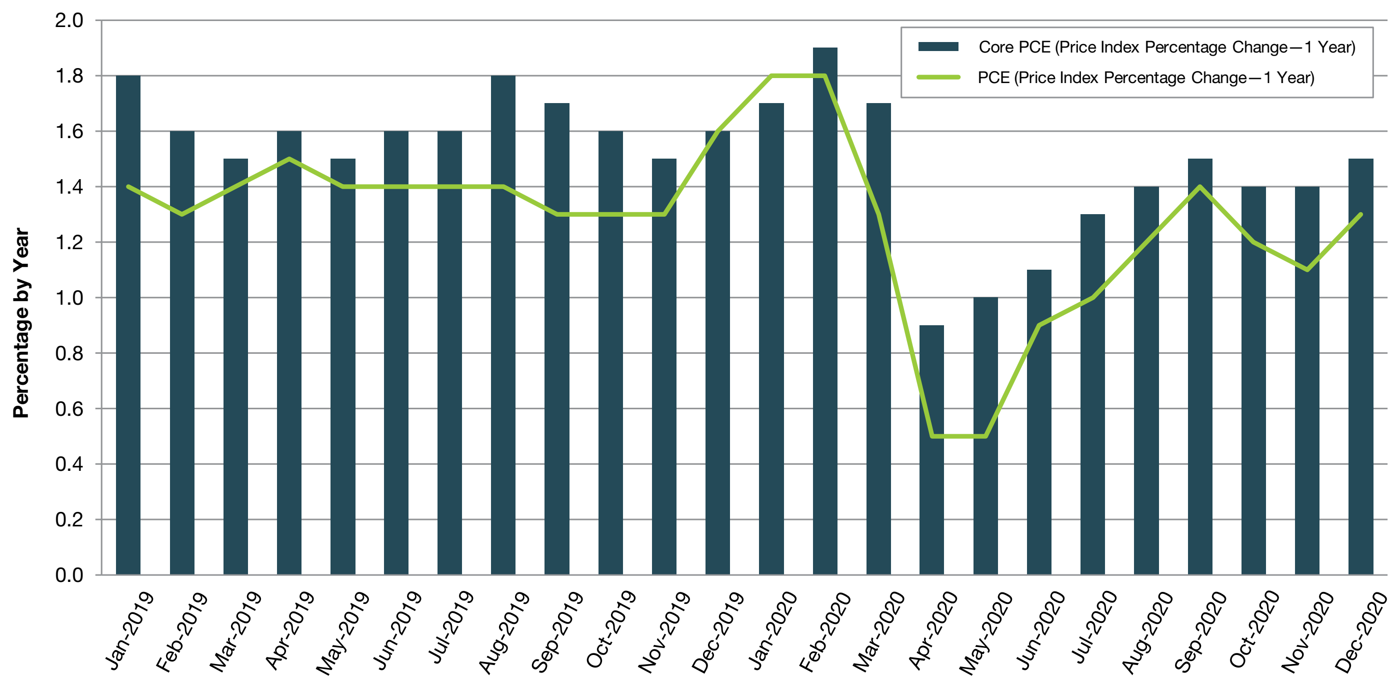
PERSONAL CONSUMPTION EXPENDITURE

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 December report, declined 0.2% after a decline of 0.7% in November.

The PCE price index increased 0.4% in December, after remaining unchanged in November. Core PCE, which excludes the volatile food and energy components, rose 0.3% in December, after reporting no change in November. From December 2019 to December 2020, the PCE price index is up 1.3% and core PCE has risen 1.5%. 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.

The response to the spread of COVID-19 impacted the report for the December 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 had its best year since 2006, rising 5.2% on a year-over-year basis in 2020. The December reading, up 5.8%, is the fourth consecutive month of increases as well as the sixth in the past seventh months. In December, the monthly rate, 1.669 million, topped forecasts from economists surveyed in a poll by Bloomberg for starts of 1.56 million. Single-family housing starts increased 12.0% on the month and are up 27.8% from one year ago, but the multifamily sector fell 15.2% in December and is down 40.0% 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 4.5% in December, reporting at a seasonally adjusted rate of 1,709,000, a figure that is the best rate since 2006. Over the past 12 months, the figure is 17.3% higher. Building permits for single-family housing units rose 7.8% compared to November and are up 30.4% from one year ago. Building permits for multifamily housing units fell 2.0% in December and are down 7.8% from one year ago.

Housing completions were at a seasonally adjusted rate of 1,417,000 in December. This is 15.9% above the rate in November and 8.0% below the rate from one year ago. Single-family housing completions in December were at a rate of 984,000, which is 10.2% above the revised November rate of 893,000. The rate for multifamily housing completions was 422,000 in December.

Builder confidence moderated in December, as the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) fell 4.0 points, to 86.0. The decline in December ended the streak of gains at seven months, but, despite the fall, the reading is at the second highest level in the history of the index and remains at levels higher than prepandemic levels. An HMI reading above 50.0 indicates that more builders view sales conditions as good, rather than poor.

The report stated that housing demand is strong entering 2021; however, the coming year will see housing affordability challenges as inventory remains low and construction costs are rising. Notably, as the economy improves with the deployment of a COVID-19 vaccine, interest rates will increase in 2021, further challenging housing affordability in the face of strong demand for single-family homes. The hope is that policymakers will avoid increasing regulatory costs associated with land development and residential construction to continue the housing boom.

All three HMI components declined in December after gains in November had lifted each component to a new high. The component measuring current sales conditions fell 4.0 points, to 92.0; the component gauging sales conditions over the next six months fell 4.0 points, to 85.0; and the component that measures buyer traffic fell 4.0 points, to 73.0.

Looking at the three-month moving averages for the regional HMI indexes, the Northeast fell 1.0 point, to 82.0; the Midwest rose 1.0 point, to 81.0; the West rose 2.0 points, to 96.0; and the South rose 1.0 point, to 87.0.

HOME SALES, PRICES, AND INVENTORY

Existing-home sales rebounded in December, rising 0.7%, after the decline in November had ended the streak of gains at five months. The report cited that, despite record-high prices, the record-low inventory offset price concerns of buyers, who were also motivated to take advantage of record-low interest rates, which fueled the best year for home sales since 2006. The number of sales was up 22.2% when compared to one year ago.

The number of existing-home sales in December was at an annual pace of 6.76 million. The report noted that, despite the pandemic, momentum appears to be driving home sales into a strong start in 2021, with more buyers expected to enter the market as a result of the latest stimulus package and the continued distribution of the coronavirus vaccine.

All-cash sales were 19% of transactions in December, which is down 1.0 percentage point from November and from one year ago. Individual investors, who account for many cash sales, purchased 14% of homes in December, which is unchanged from November but down from 17% from one year ago. First-time buyers accounted for 31% of sales in December, which is down 1.0 percentage point from November but unchanged from one year ago.

According to a report from Redfin, 24.3% of homes sold so far this year were bought with cash, down from 25.3% in 2019 and the smallest share since 2007. All-cash home purchases peaked in 2013, when 34% of homes sold were bought with cash, and the share has generally declined since then.

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 2.0% from one year ago.

The report showed gains in two of the four major regions in December. Home sales in the Northeast increased 4.5% in December and are up 27.4% from a year ago. Sales in the Midwest went unchanged in December but are up 26.2% from one year ago. Sales in the South rose 1.1% and are up 20.7% from one year ago. Sales in the West fell 1.4% but are up 17.9% from one year ago.

The national median existing-home price for all housing types was $310,800 in December, which is up 14.6% from a year ago. December's price increase marked the 105th consecutive month of year-over-year price gains. In December, home prices in the Northeast moved up 19.0% from one year ago. The prices in the Midwest increased 13.7%. Home prices in the South rose 11.3%, and prices in the West increased 14.2% over the last 12 months. The median time on the market for all homes sold in December was 21 days, remaining at the all-time low set in November and is down by 20 days from one year ago. Seventy percent of homes sold in December were on the market for less than a month.

A report published by Redfin showed data indicating that 63% of people who bought a home last year made an offer on a property that they had not seen in person, the highest share since at least 2015. The data suggest that the virtual home tour trend will continue into 2021 and will help fuel homes sales into 2021. The report noted that much of this virtual homebuying activity is being fueled by a surge in migration as remote work becomes much more common. In 2020, 27.8% of Redfin users were looking to relocate, an all-time high and up 2.3 percentage points from 25.5% in 2019.

Total housing inventory decreased 16.4% from November, to 1.07 million existing homes for sale in December, and was down 23.0%, or from 1.39 million, from one year ago. Unsold inventory was at a 1.9-month supply at the current sales pace in December, which is a record low and is down from 2.3 months in November and 3.0 months from one year ago. Six months of inventory is considered a balanced market that equally benefits buyers and sellers.

The report from Redfin also highlighted iBuyer home purchases, which showed the nation's top iBuyers purchased about 1,800 homes in the third quarter, or 0.2% of homes that sold across the 418 U.S. metros tracked by Redfin. That's down nearly 80% from a year earlier, as iBuyers slowly ramped up business following a temporary shutdown at the start of the coronavirus pandemic. Purchases did increase from the second quarter, when iBuyers only bought about 800 homes. The hotter the market, the less attractive it is for home sellers to let an iBuying company take a cut of the sale. With home prices and demand surging, many sellers figure they can sell their home quickly without having to give away any of their profits.

The term "iBuyer" (short for instant buyer) 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. iBuyers typically charge sellers a higher fee than a traditional real estate agent would given the certainty of a cash offer with a flexible move-out day and the convenience of avoiding home prep, showings, and open houses. These companies then make any necessary improvements and resell the homes.

The Federal Housing Finance Agency (FHFA) published its House Price Index for November, which showed U.S. housing prices increasing 1.0% from October, to 310.1 points. From November 2019 to November 2020, U.S. housing prices increased 11.0%. The index measures housing prices across nine census regions, with the change in pricing ranging from 0.3% in the West South-Central region to 1.6% in the Pacific region. For the period measuring the third quarter of 2020, U.S. home prices increased by their largest rate in the history of the index, rising 3.1% for the quarter and extending the streak of consecutive quarters of increases to 37, or since the third quarter of 2011. From the third quarter of 2019 to the third quarter of 2020, U.S. house prices increased 7.8%.

NAR reports that, according to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased, to 2.68%, in December from the 2.77% rate in the prior month. The average 30-year rate in 2020 was 3.11%.

In December, the NAR's Realtors Confidence Index Survey reported that its Buyer Traffic Index remained unchanged, at 71.0 points, but is up 11.0 points from one year ago. The Seller Traffic Index fell 2.0 points, to 39.0 points, and is down 4.0 points from one year ago. The report noted that realtors conducted the same number of home tours as last month, with an average of four in-person home tours. Every home sold still had nearly four offers. On average, forecasts for sales in the next three months are expected to be slightly 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.

The Housing Market Recovery Index provided by realtor.com reported a score of 1,127 for the last week in December, which is unchanged from November. Since the middle of July, the index has shown that the housing market recovery has now passed the levels prior to the pandemic. The components of the index that make up the housing demand component fell 14.0 points, to 108.9 points; the home price component rose 0.2 point, to 109.7 points; the housing supply component rose 6.5 points, to 115.1 points; and the pace of sales component fell 2.5 points, to 115.5. Each component remains well ahead of the baseline score of 100 from the beginning of February.

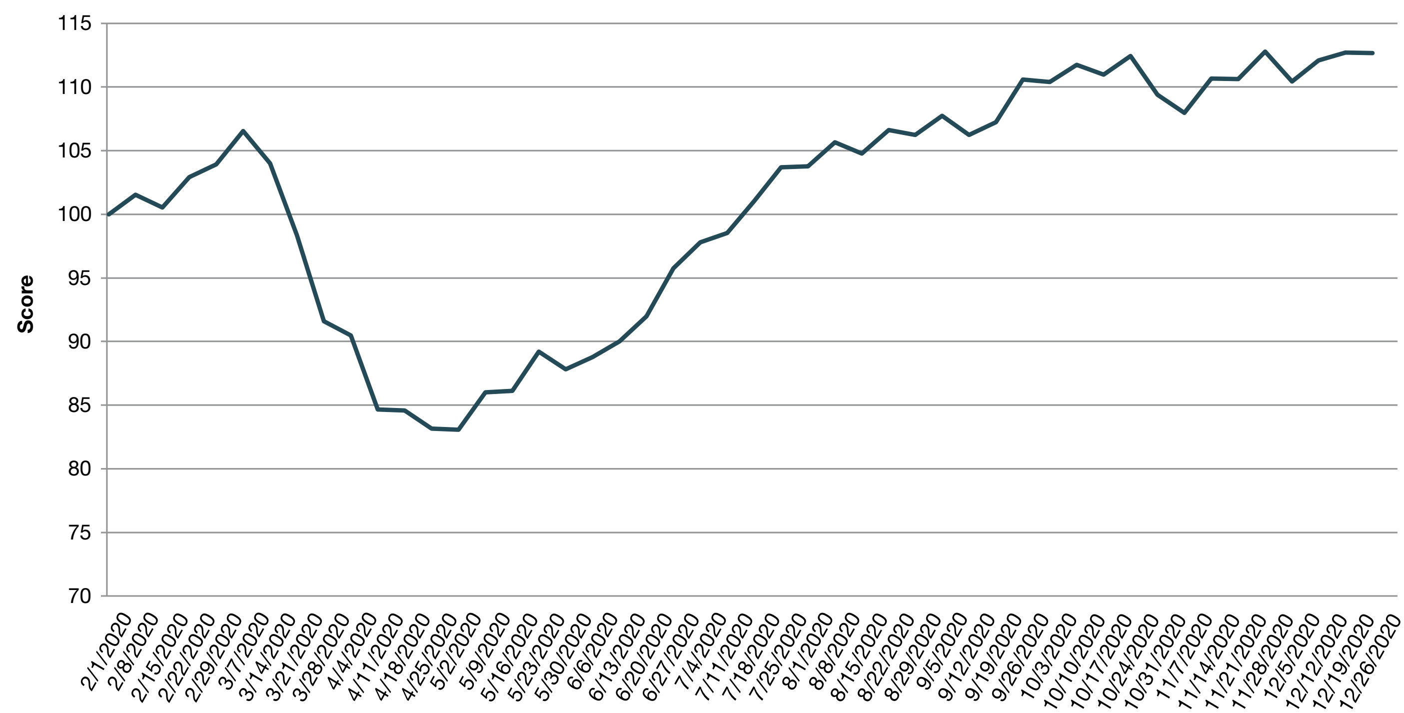
The overall score for the Housing Market Recovery Index is based on comparing the score to the last week of December, which is given a score of 100. The score was based on average year-over-year trends that month and is updated every week relative to that baseline. A value of 100 means the market has recovered to the January 2020 pace. The higher the index value, the higher the level of recovery. The lower the index value, the lower the level of recovery. The overall score is calculated by using proprietary measures of housing demand, supply, prices, and the pace of sales. The weekly index yields a timely and localized view on the state of the recovery relative to the start of the year.

COMMERCIAL REAL ESTATE

NAR's most recent "Commercial Real Estate Trends and Outlook" analyzed the trends in the small commercial market in the fourth quarter of 2020 and reported that the commercial real estate market continues to recover, but sales, leasing, and construction activity remain below year-ago levels. The recovery also remains uneven, with stronger investor interest for land, multifamily, and industrial properties than for hotels, retail, and office properties. Specifically, it reported that their sales transactions volume in the fourth quarter contracted on average by 2% year-over-year. However, this rate of decline is smaller than the 5% decline in the second quarter when the economy practically shut down.

The report further noted that construction activity was down by 3% compared to a 6% decrease in the second quarter, at the start of the pandemic. The risk spread or the cap rates less 10-year T-bond remains elevated, at 6%, compared to 4% prior to the pandemic. For the first quarter of 2021, the forecast is for an increase in sales of land of 5% year over year, industrial at 3%, and multifamily at 2%. Regarding the land market, the properties with the strongest expected increase in sales are residential land, at 7% year over year, industrial land, at 5%, and ranch lands, at 5%. Forecasts for vacancy rates show them at about 5% among multifamily and industrial properties, at 10% for retail properties, at 12% for office properties, and 50% for hotel/hospitality properties.

EXHIBIT 12: Housing Market Recovery Index



The report forecasts commercial prices to increase in the first quarter of 2021 for multifamily properties by 1%, industrial by 2%, and land assets by 3%, although declines are expected in the office market space by 3%, retail by 6% and hotel/hospitality by 6%.

The dollar sales volume for properties or portfolios of at least $2.5 million (middle to large commercial market) contracted 56% year-over-year in the fourth quarter. By property type, the largest declines in sales were seen in the hotel/hospitality market, at 5%, retail malls, by 5%, and retail strip centers, at 4%. The largest increase in sales acquisitions was for land, with sales volume up by 3% year-over-year.

The risk premium has slightly trended down, to 6% in the fourth quarter, but the risk premium is still elevated compared to the 4.5% risk premium prior to the pandemic. The report noted that Apartment Class A acquisitions had the lowest going-in cap rate among commercial assets, at 5.4%. Conversely, hotel/hospitality, retail, and office Class B had going-in cap rates of over 7%.

The report noted that leasing volume declined on average by 1% in the fourth quarter from one year ago. However, this is a smaller decline compared to the 4% decline in the second quarter. With one in five workers still working from home, according to Bureau of Labor Statistics data, the report referenced a decline in leasing transactions for apartments and office buildings, at 1%. On the other hand, leasing transactions for industrial properties increased 1%. The demand for industrial space is associated with the acceleration on e-commerce sales, spurring the demand for warehousing and distribution space.

In the survey, respondents were asked two questions. The first question asked about the impact of the pandemic and whether the office footprint will decrease or increase. Sixty-nine percent reported seeing an increase in short-term leases of less than two years. Another major question about the impact of the pandemic is on the length of the lease. Economic uncertainty will tend to lower the lease term, while greater certainty on the economic outlook will tend to increase the average lease term because long-term leases are cheaper. Lease terms among all occupiers will also tend to increase if the mix of occupiers shifts toward those who anticipate being in the business for a number of years. With the cases of COVID-19 infections still rising and nearly 25% of the workforce still working from home, 63% of survey respondents reported that they are observing an increase in short-term office leases of two years or less compared to the prepandemic period. On average, the office lease term among occupiers was 38 months for Class B/C properties and 47 months for Class A properties. The average lease term of occupiers of office Class A buildings seemed to have increased, to 47 months. As discussed previously, there has been a huge loss in office space occupancy, so the remaining tenants are likely those with long-term leases of about 47 months on average.

USG Corp. and the U.S. Chamber of Commerce published their quarterly Commercial Construction Index for the fourth quarter of 2020, which improved 3.0 points, to 60.0. The fourth-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 70.0 points for the ideal backlog total, which is up 2.0 points from last quarter. The ability of contractors to provide new business increased 1.0 point, to 57.0, which suggests that contractors have a moderate level of confidence to provide sufficient new business opportunities in the next 12 months. At 52.0 points, the component that measures contractors' expectations to see revenue increase or at least remain the same improved 4.0 points from last quarter. Among the survey respondents, an increase from 22% to 25% expect revenues to increase compared to 14% who expect to see a decline, an improvement from the 19% reported in the last quarter.

One of the key trends highlighted in the fourth-quarter survey was that 83% of all contractors are experiencing some kind of delay to their projects due to COVID-19-related issues. Looking ahead three months, delays are expected to remain steady, with contractors expecting an average share of 27% of projects delayed. Looking ahead six months, however, the average share of delayed projects drops to 18%.

The quarterly survey also focused on labor shortage issues, specifically as they relate to the COVID-19 pandemic. Eighty-three percent of contractors continue to report moderate to high levels of difficulty in finding skilled workers. However, the percentage of those reporting a high level of difficulty has continued to decline. This quarter, 42% of contractors reported a high level of difficulty, down one percentage point since last quarter, and dropping 17 percentage points year over year. Moreover, 87% of contractors express a moderate to high degree of concern about workers having adequate skill levels, of which 90% say it will stay the same or get worse in the next six months.

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. Thirty-seven percent of contractors indicate they plan to employ more people, up five percentage points from the third-quarter rate of 32%. Meanwhile, 12% expect to reduce their staffing, also up five percentage points from the 7% reported in the third quarter. Forty-six percent expect to keep the same number of workers on staff. Those looking to hire are being cautious, as 95% say it will be a small to moderate increase.

When asked about revenues and profit margins, more contractors expect their revenue to increase. Twenty-five percent of contractors expect a revenue increase, up from 22% in the third quarter. On the other hand, 14% expect a revenue decrease over the next year, an improvement of five percentage points from the third quarter. Sixty-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, expectations for a decrease in profit margins fell as 12% of contractors expect a decrease over the coming year, down from 14% 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 4.2% in the fourth quarter of 2020 and increase by 2.0% in the first 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 contract 3.6% in 2020 but increase 4.0% in 2021.

They forecast that consumer spending will increase at a rate of 4.7% in the fourth quarter of 2020 and rise 1.7% in the first quarter of 2021. They expect consumer spending to contract 3.8% in 2020 but increase by 4.6% in 2021.

The forecasters believe unemployment will average 6.9% in the fourth quarter of 2020 and 6.6% in the first quarter of 2021. They predict that unemployment will average 8.2% in 2020 and 6.2% in 2021.

The forecasters believe that the three-month Treasury bill rate will be 0.1% at the end of the fourth quarter of 2020 and 0.1% at the end of the first quarter of 2021. They predict the 10-year Treasury bond yield will be 0.9% at the end of the fourth quarter of 2020 and 1.0% at the end of the first quarter of 2021.

They also believe consumer prices will rise at a rate of 1.7% in the fourth quarter of 2020 and 1.7% in the first quarter of 2021. They expect consumer prices to increase 1.2% in 2020 and 2.0% in 2021. They expect producer prices to increase 2.4% in the fourth quarter of 2020 and 2.0% in the first quarter of 2021. The forecasters anticipate producer prices will contract 1.4% in 2020 but rise 2.1% in 2021.

The forecasters believe real disposable personal income will fall 8.4% in the fourth quarter of 2020 and 1.4% in the first quarter of 2021. They believe real disposable personal income will increase 6.0% in 2020 but fall 1.4% in 2021.

The forecasters expect industrial production to increase 6.8% in the fourth quarter of 2020 and 3.5% in the first quarter of 2021. They forecast that industrial production will contract 7.2% in 2020 but rise 4.4% in 2021.

Nominal pretax corporate profits are expected to fall 7.2% in 2020 but rise 6.3% in 2021. The forecasters also project housing starts will be 1,370,000 in 2020 and 1,430,000 in 2021.

The most recent release of The Livingston Survey (the Survey) predicts higher growth for the second half of 2020 than previously reported but expects the first half of 2021 to be less than what had been predicted in its 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 participants project real GDP to expand at an annual rate of 18.0% in the second half of 2020 and grow by 2.9% in the first half of 2021. 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 December 2020 to 5.5% in December 2021.

The Federal Reserve published its summary of economic projections, which is released with the FOMC meeting minutes. For 2020, the Federal Reserve forecasts GDP to contract by 2.4%, which is better than its prior forecast for a decline of 3.7%. GDP is forecasted to grow by 4.2% in 2021, 3.2% in 2022, and 2.4% in 2023. The unemployment rate is now projected at 6.7% for 2020, less than the previously forecasted rate, 7.6%, from the September forecast. Unemployment is expected to be at 5.0% in 2021, 4.2% in 2022, and 3.7% in 2023. The Federal Reserve forecasts PCE to be at 1.2% in 2020 and to rise to 1.8% in 2021, 1.9% in 2022, and 2.0% in 2023. Core PCE is forecasted to be 1.4% in 2020 before rising by 1.8% in 2021, 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 $39.17 per barrel in 2020 and $49.70 per barrel in 2021, compared with $56.99 per barrel in 2019. The EIA expects retail prices for regular-grade gas to average $2.18 per gallon in 2020 and $2.40 per gallon in 2021, compared with $2.60 per gallon in 2019.

The EIA believes the Henry Hub natural gas spot price will average $2.03 per million Btu (MMBtu) in 2020 and $3.01 per MMBtu in 2021, compared with $2.57 per MMBtu in 2019. The cost of coal delivered to electricity-generating plants, which averaged $2.02 per MMBtu in 2019, is expected to average $1.94 per MMBtu in 2020 and $2.06 per MMBtu in 2021. Residential electricity prices, which averaged 13.04 cents per kilowatt-hour (kWh) in 2019, are expected to average 13.17 cents per kWh in 2020 then rise to 13.27 cents per kWh in 2021. The airline ticket price index, which averaged 265.56 in 2019, is expected to be 217.32 in 2020 before falling to 188.80 in 2021.

The National Association of Realtors' Realtors Confidence Index survey reported that its Buyer Traffic Index remained unchanged, at 71.0, but remains at a level indicating very strong conditions. The Seller Traffic Index fell 2.0 points, to 39.0, in December. 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 2020 to be 5.523 million (+3.4%) and that they will rise to 6.050 million (+9.5%) in 2021. It believes that new single-family home sales will be 820,000 (+20.1%) in 2020, before increasing to 1,010,000 (+23.2%) in 2021. NAR believes the median existing-home price will be $293,000 (+7.8%) in 2020, before increasing to $306,300 (+4.5%) in 2021. NAR believes the median new-home price will be $327,200 (+1.8%) in 2020, before rising to $345,800 (+5.7%) in 2021. It expects housing starts to increase to 1,334,000 (+3.4%) in 2020, then to 1,500,000 (+12.4%) in 2021. NAR believes the 30-year fixed mortgage rate will average 3.1% in 2020 and remain at 3.1% in 2021, and the 5-1 hybrid adjustable-rate mortgage will average 3.1% in 2020 and 2.9% in 2021.

The most recent three-year outlook from the Urban Land Institute (ULI) and Ernst & Young (EY) found that real estate economists and analysts believe the economy, which was severely impacted in 2020, will see a strong recovery in 2021 and 2022, and, though employment growth will be at a -9 million in 2020, they expect a recovery of 6.5 million jobs by 2022 as the economy reaches full employment. The *ULI/EY Real Estate Consensus Forecast,* a semiannual publication, is based on a survey of 43 of the industry's top economists and analysts representing 37 of the country's leading real estate investment, advisory, and research firms and organizations. The forecast for each indicator is the median forecast from the 43 survey respondents. The key findings from the *Real Estate Consensus Forecast* include:

- Annual commercial property transaction volume reached a post-recession high of $593 billion in 2019, a post-Great Financial Crisis peak. Commercial property transaction volume is expected to be 50% lower in 2020, with a forecast of $300 billion. Levels are forecasted to rise to $400 billion in 2021 and $500 billion in 2022.

- Commercial property prices are expected to drop by 2% in 2020, plateau in 2021, and resume growth of 4% in 2022.

- Institutional real estate assets are expected to provide total returns of -1.7% in 2020 but turn positive in 2021 and 2022, at 3.0% and 5.6%, respectively. By property type, 2020 returns are forecast to range from industrial's 4.5% to retail's -9.9%. In 2022, returns are forecast to range from industrial's 10.0% to retail's 2.0%.

- Change in vacancy and availability rates differ widely by property type. In 2020, industrial availability is forecast to move up 50 basis points, while apartments are forecast to move up 100 basis points and office and retail are forecast to move up 200 basis points, respectively. In 2021, industrial availability is expected to move down slightly, apartment vacancy is forecasted to move up slightly, and both office and retail vacancy rates are expected to continue to increase, albeit just moderately. In 2022, all sectors show slight improvement.

- Single-family housing starts are projected to be down slightly from 887,700 in 2019 to 871,000 starts in 2020. Starts are expected to sharply reverse direction and increase to 940,000 in 2021 and to 975,000 in 2022.

- NCREIF total returns, which were positive for 10 consecutive years, are expected to be -1.7% in 2020. The industrial sector, which is the only sector expected to return a positive figure in 2020, is forecasted to return 4.5%. Still, this is a significant decline from industrial returns in 2019 of 13.4% and is well below its long-term average of 10.4%. Apartment returns are expected to be flat, while office and retail returns for 2020 are all forecast to be negative, at -2% and -9.9%, respectively.

- In 2020, two indicators, the vacancy/availability rates for industrial and apartment properties and home price growth, are expected to be better than their 20-year average but 10 are expected to be worse. Inflation in 2020 is expected to be well below its long-term average, while the 10-year Treasury rate has averaged 2.3% per year over the last nine years. It is expected to be unusually low in 2020, at 0.8%, rising only to 1.0% in 2021 and 1.5% in 2022.

- Commercial property rent growth differs widely by property type, as well. In 2020, industrial rent growth is forecast to be 1.0%, while apartments, office, and retail are forecast at -2.5%, -2.4%, and -4.0%, respectively. In 2021, both the industrial and multifamily sectors experience positive growth, at 2.1% and 0.1%, respectively, while office rental rate growth is -1.0% and retail is -2.8%. By 2022, positive rental growth is forecast for all sectors, ranging from 3.3% in the industrial sector to 1.9% in the office sector.

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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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