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Q2 2021 ECONOMIC REPORTS

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GDP GROWTH

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GDP GROWTH: TRENDING IN Q2 2021

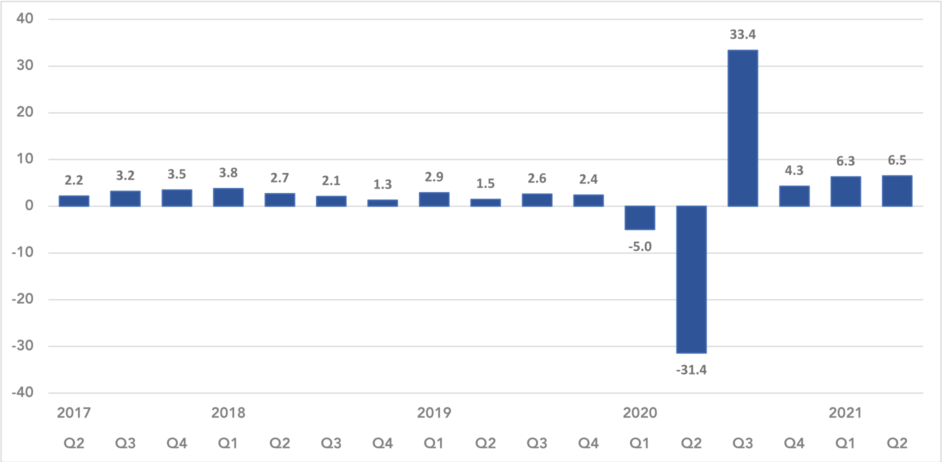
The U.S. economy rose at an annual rate of 6.5% in the second quarter, slightly more than in Q1 but disappointing to economists expecting even healthier growth. Nevertheless, it was a clear signal that U.S. growth has broken free of the pandemic's suffocating economic effects as the expansion pushed GDP beyond pre-pandemic levels. A year ago, second quarter GDP plunged 31.4% before rebounding 33.4% in the third quarter with subsequent quarterly gains.

The Bureau of Economic Analysis said that gross private domestic investment fell 3.5% as declines in private inventory and residential investment held back gains. Rising imports and a 5% decline in the rate of federal government spending, despite the ballooning budget deficit, also were factors. The overall increase was attributed to increasing personal expenditures, which rose 11.8% as consumers accounted for 69% of all activity. Nonresidential fixed investment, exports and state and local government spending also helped boost output.

Analysts said growth might have been stronger but for supply-chain disruptions and labor challenges. Those issues, combined with a surge in consumer demand, contributed to more inflation in the second quarter. Consumer prices rose 1.6 percent from the first quarter of the year to the second. Without adjusting for inflation, economic output rose 3.1 percent.

Real GDP: Percent Change from Prior Quarter

U.S. Bureau of Economic Analysis - Seasonally adjusted at annual rates



'We are not disappointed by the headline GDP growth miss' – Ian Shepherdson, chief economist at Pantheon Economics.

"The downside surprise in the GDP number is mostly in the inventory component. We are not disappointed by the headline GDP growth miss," Ian Shepherdson, chief economist at Pantheon Economics, told Bloomberg.

The category of food and hospitality services was the chief beneficiary of second-quarter consumer spending, followed by nondurable goods, a category led by pharmaceutical products. Healthy spending also continued on nonresidential fixed investment and intellectual property. The government's report also showed that the saving rate dropped to 10.9% in the second quarter from 20.8%, demonstrating that Americans are opening their wallets and spending cash saved during the lockdown. The highly contagious Delta variant of Covid-19, which has swept the country since early July, poses an increasing risk to growth in the second half. Few economists expect a return to widespread shutdown. But heightened consumer caution and fear certainly could weaken growth.

Looking ahead, Americans will be facing the pandemic with less federal government support. About half the states have cut off enhanced unemployment benefits in recent weeks. The Paycheck Protection Program, which helped thousands of small businesses weather the crisis, is winding down. Although the federal eviction moratorium may be extended, it's unlikely that Congress would send households a fourth round of direct checks.

Nela Richardson, chief economist for payroll processing firm ADP, said the second quarter may stand as a high-water mark for the recovery when vaccines first enabled people go out and spend their federal aid.

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Job growth improved steadily in the second quarter as businesses sought to keep up with the strong recovery. In June, wages rose for the third month in a row.

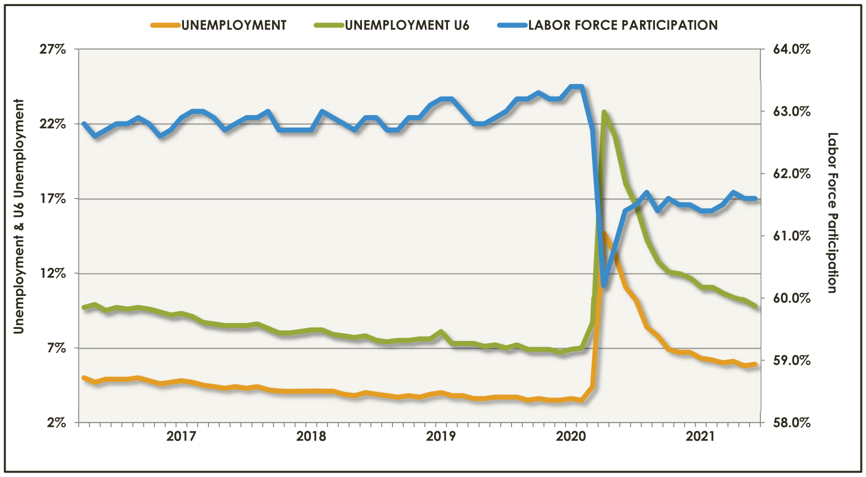
Nonfarm payrolls increased 850,000 in June, the largest gain in 10 months, more than the 706,000 estimate and greater than the 583,000 jobs added in May. Despite the gain, the unemployment rate at the end of the first half rose slightly to 5.9%.

The data from the Bureau of Labor Statistics through Q2 brings the total job recovery from pandemic losses to 15.6 million. More than 22.3 million workers were furloughed in March and April of last year after government imposed restrictions. The total employment level is 7.13 million less than the job total of February 2020.

The restaurant and hospitality sector has gained the most, notching a gain of 343,000 jobs amid easing restrictions across the country. That total included 194,000 in bars and restaurants, but 2.2 million hires shy of where the sector was in February 2020. Despite the big increase in jobs, restaurant and hospitality unemployment jumped to 10.9%.

"From a market perspective, this was an all-out positive jobs report," Seema Shah, chief strategist at Principal Global Investors, told the Wall Street Journal. "The improvement today likely reflects a slight easing of the labor supply constraints that have been holding back the jobs market in recent months, as well as continued momentum from the economic reopening."

United States Unemployment



"From a market perspective, this was an all-out positive jobs report" – Seema Shah, chief strategist at Principal Global Investors.

Economists expect companies will add 7.1 million jobs in 2021, a gain of 5%. But aside from the threat to the economy from rising infections among the unvaccinated, hiring might trail GDP for several reasons as millions who have been furloughed could be slow to return to the workforce. People who recently lost jobs might not live near firms that are hiring or have the needed skills for the job. Also, not all employers are convinced the increase in demand will be steady. For example, some question whether business travel will ever return to previous levels.

The total of continuing payments through unemployment benefit programs nationwide fell by 1.3 million to 12.6 million in the week ended July 3, the least since March of last year. By the end of the second quarter about half of states were acting to end enhanced and extended unemployment benefits.

The largest increase in jobless claims came in Michigan, a state where auto production has been disrupted due to chip shortages. Kentucky, another state with auto plants, also reported a large rise in new claims.

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MONETARY POLICY: TRENDING IN Q2 2021

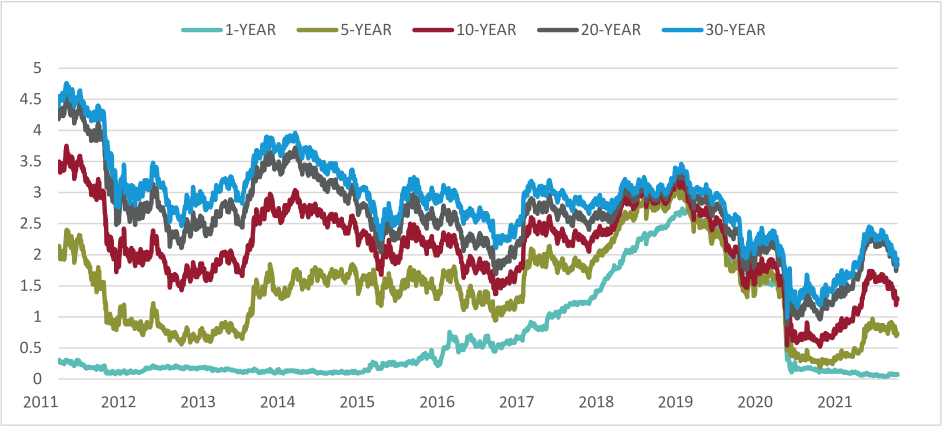
The Fed has signaled mild concern over higher-than-anticipated inflationary pressures, indicating it may increase interest rates sooner than expected.

Fed Chairman Jerome Powell acknowledged that the Federal Open Market Committee had discussed the issue at its June meeting at which officials left the benchmark short-term borrowing rate near zero. The statement from the committee, which was unanimous on leaving borrowing rates unchanged, said its headline inflation expectation increased from a full percentage point to 3.4% from March to June.

Separately, officials hinted that rate hikes could come as soon as next year. At the same time no indication was given when the central bank would begin to curtail its bond buying, which was launched last year to insure liquidity in financial markets. Previously, Powell said the monthly bond purchases, which have been at $160 billion a month, would be reduced before the Fed considers increases in its benchmark borrowing rates.

Additionally, while the statement said the Fed's earlier position that inflation pressures were transitory was unchanged, Powell told reporters after the meeting that some of the dynamics of re-

Daily Treasury Yield Curve Rates (Decade Trend)



> *"This change in stance jars a little with the Fed's claims that the recent spike in inflation is temporary" – James McCann, deputy chief economist at Aberdeen Standard Investments*

opening the economy, such as workers being slow to return to jobs, are "raising the possibility that inflation could turn out to be higher and more persistent than we anticipate."

The Fed's shifting position took some analysts by surprise. "This is not what the market expected," James McCann, deputy chief economist at Aberdeen Standard Investments, told CNBC. "The Fed is now signaling that rates will need to rise sooner and faster, with their forecast suggesting two hikes in 2023. This change in stance jars a little with the Fed's claims that the recent spike in inflation is temporary."

Kathy Jones, head of fixed income at Charles Schwab, said, "If you're going to get two rate hikes in 2023, you have to start tapering fairly soon to reach that goal. It takes maybe 10 months to a year to taper at a moderate pace. Then you're looking at we need to start tapering maybe later this year, and if the economy continues to run a little bit hot, rate hikes sooner than later," CNBC reported.

Top Fed officials remain largely united in their support of the Fed's measures, including its purchases of investment-grade bonds with some concerns.

James Bullard, president of the Federal Reserve Bank of St. Louis, also told the Wall Street Journal he's worried the Fed's support is fueling the hot housing market and he's ready to pull back on asset buying when his colleagues are. He said he expects to see about 7% growth this year.

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Through the first half of this year global growth remained on track to expand at the fastest pace in 80 years. But the recovery is uneven with emerging and developing economies continuing to struggle with low vaccination rates and high rates of infections slowing their improvement.

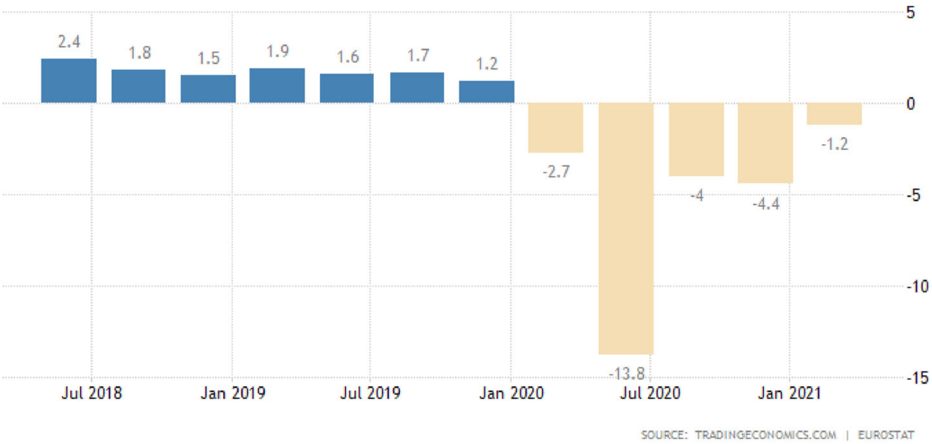
"While there are welcome signs of global recovery, the pandemic continues to inflict poverty and inequality on people in developing countries around the world," said World Bank Group President David Malpass in the group's June 2021 Global Economic Prospects.

"Globally coordinated efforts are essential to accelerate vaccine distribution and debt relief, particularly for low-income countries. As the health crisis eases, policymakers will need to address the pandemic's lasting effects and take steps to spur green, resilient and inclusive growth while safeguarding macroeconomic stability," Milpass said.

Among leading economies, the World Bank said U.S. growth is projected to reach 6.8% this year, reflecting continued strong fiscal support and easing restrictions.

China's rebound is anticipated to hit 8.5% this year, the World Bank forecast said. Emerging market and developing countries are forecast to grow 6% this year, supported by higher demand

European Union GDP Annual Growth Rate



"...the pandemic continues to inflict poverty and inequality on people in developing countries around the world" – David Malpass, president of the World Bank Group.

and commodity prices. But exclude China from this group and the forecast falls to 4.4%, a rate that is insufficient to recover the losses of the 2020 recession. Income in many developing economies is expected to remain below pre-pandemic levels. Losses are expected to worsen the deprivations of health, education and general living standards.

"Higher global inflation may complicate the policy choices of emerging market and developing economies in the coming months as these economies still rely on expansionary support measures to ensure a durable recovery," said Ayhan Kose, director of the World Bank Prospects Group.

"Unless risks from record-high debt are addressed, these economies remain vulnerable to financial market stress should investor risk sentiment deteriorate as a result of inflation pressures in advanced economies."

World Bank Regional Outlooks:

Growth in East Asia and the Pacific is projected to accelerate by 7.7% in 2021 and 5.3% in 2022. The regional economy of Europe and Central Asia is forecast to grow 3.9% this year and 3.9% next year. Latin America and Caribbean economic activity is expected to grow 5.2% in 2021 and 2.9% in 2022. The Middle East and North Africa is forecast to advance by 2.4% this year and 3.5% next year. Southeast Asia is projected to expand by 6.8% in 2021 and 6.8% in 2022. In Sub-Saharan Africa, economic growth is on track to rise by 2.8% in 2021 and 3.3% in 2022.

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