Economic overview and forecast for 2023 Q1

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I. General Economic Overview, Industry Overview and Company Outlook

Historical Economic Data 2018 – 2022 and Forecasts 2023 – 2032[1]

						Consensus Forecasts**					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028-2032
Real GDP*	2.9	2.3	-2.8	5.9	2.1	1.0	0.9	2.1	1.9	2.0	1.9
Industrial production*	3.2	-0.7	-7.0	4.9	3.8	-1.3	0.0	2.2	2.0	1.7	1.7
Consumer spending*	2.9	2.0	-3.0	8.3	2.7	1.3	0.8	2.2	2.2	2.1	1.9
Real disposable personal income*	3.3	3.5	6.2	1.9	-6.1	2.8	2.1	2.5	2.3	2.2	2.2
Business investment*	6.5	3.6	-4.9	6.4	3.8	1.5	0.6	3.2	3.1	3.0	2.7
Nominal pretax corp. profits*	8.6	3.9	-5.9	22.6	6.6	-1.5	1.7	5.3	4.9	4.5	4.0
Total government spending*	1.7	3.3	2.6	0.6	-0.6	1.7	0.8	NA	NA	NA	NA
Consumer price inflation*	2.4	1.8	1.3	4.7	8.0	4.2	2.6	2.3	2.3	2.3	2.2
Core PCE	2.0	1.7	1.3	3.5	5.0	4.1	2.7	NA	NA	NA	NA
3-month Treasury bill rate	2.4	1.5	0.1	0.1	4.3	4.9	3.6	2.6	2.5	2.5	2.4
10-year Treasury bond yield	2.7	1.9	0.9	1.6	3.9	3.7	3.5	3.3	3.2	3.2	3.1
Unemployment rate	3.9	3.7	8.1	5.4	3.6	4.0	4.6	NA	NA	NA	NA
Housing starts (millions)	1.3	1.3	1.4	1.6	1.6	1.3	1.3	NA	NA	NA	NA

Source of historical data: U.S. Department of Commerce, U.S. Department of Labor, U.S. Census Bureau and The Federal Reserve Board.
Source of forecasts: Consensus Forecasts - USA, March 2023.

Summary of General Economic Overview – United States[2]

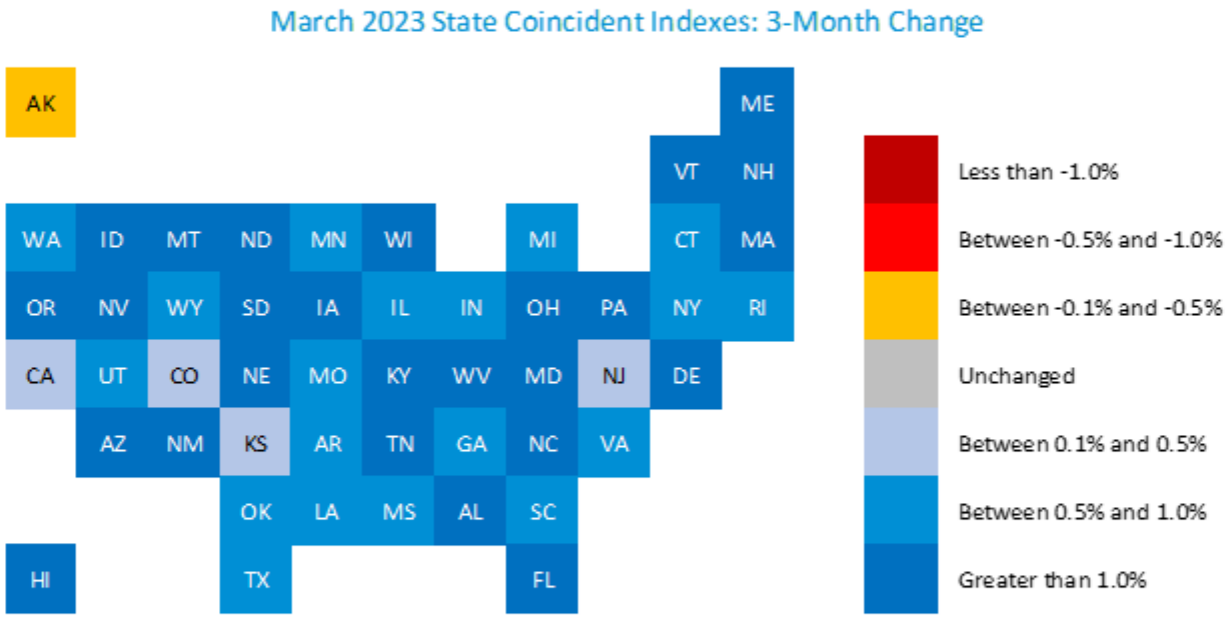
In the first quarter of 2023, the U.S. economy grew more slowly but spending remained strong, as did the job market, with unemployment equal to its pre-pandemic low. Inflation waned a bit further, mainly due to falling energy prices. Crude oil prices dropped to a 15-month low in the wake of multiple bank insolvencies in March; prices largely recovered as banking relief came swiftly. The banking crisis also briefly rocked stock and bond markets, but calmer conditions prevailed with the arrival of reassuring inflation data. The housing market continued to slow from its blazing pace of recent years as demand and price growth were hampered by high interest rates.

With anti-inflationary policy holding interest rates at a nearly 17-year high, the Federal Reserve finally softened its hawkish stance in the wake of March's banking crisis. The Fed indicated that while further tightening may be deemed necessary, it would depend on careful monitoring of economic conditions.

As predictions of slower growth begin to come to fruition, many forecasters expect a recession, although the timing remains uncertain. FOMC members lowered projections of economic growth to 0.4% in 2023.

[1] Economic Outlook Update™ Q1 2023 published by Business Valuation Resources, LLC, © 2023. Exhibit 2A: Forecasts. Part of the contents of the economic outlook section of this valuation report are quoted from the Economic Outlook Update™ Q1 2023 published by Business Valuation Resources, LLC, © 2023, reprinted with permission. The editors and Business Valuation Resources, LLC, while considering the contents to be accurate as of the date of publication of the Update, take no responsibility for the information contained therein. Relation of this information to this valuation engagement is the sole responsibility of the author of this valuation report.
[2] Economic Outlook Update™ Q1 2023 published by TagniFi, LLC, © 2023.

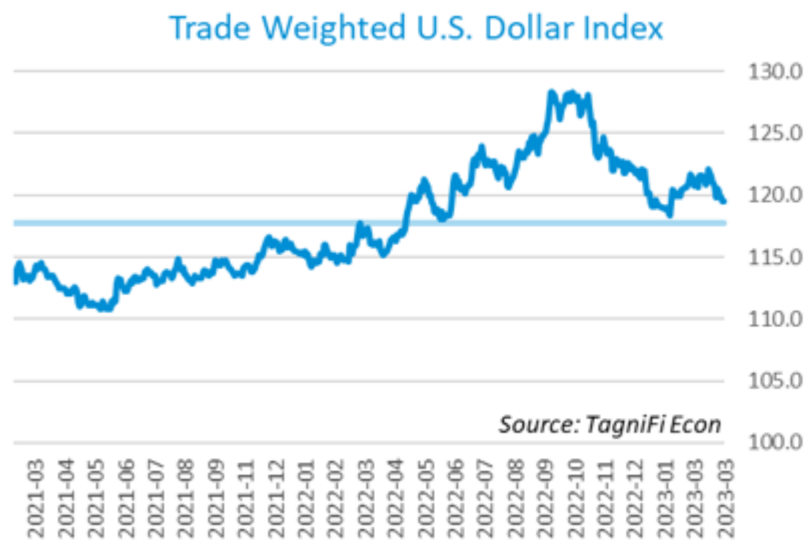
A multifactor indicator of economic strength, the Philadelphia Fed's coincident index[3] of economic activity in the U.S. rose 0.3% in March 2023 and 0.9% during the first quarter. For the quarter, coincident indexes increased in 49 states and declined in 1 state. Coincident indexes reflect unemployment, payroll employment, manufacturing hours, and wages and salaries.



Source: TagniFi Econ

[3] Federal Reserve Bank of Philadelphia, Coincident Economic Activity Index for the United States [USPHCI], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/USPHCI, May 6, 2023.*

The U.S. dollar index for goods and services[4] fell 1.6% during the first quarter of 2023 but was up 3.7% compared to the same period one year prior. The dollar slipped in late March after the Federal Reserve raised target rates but softened its predictions on future rate hikes. In its March meetings, which followed two bank failures, the Fed suggested there might be only one further rate hike this year.



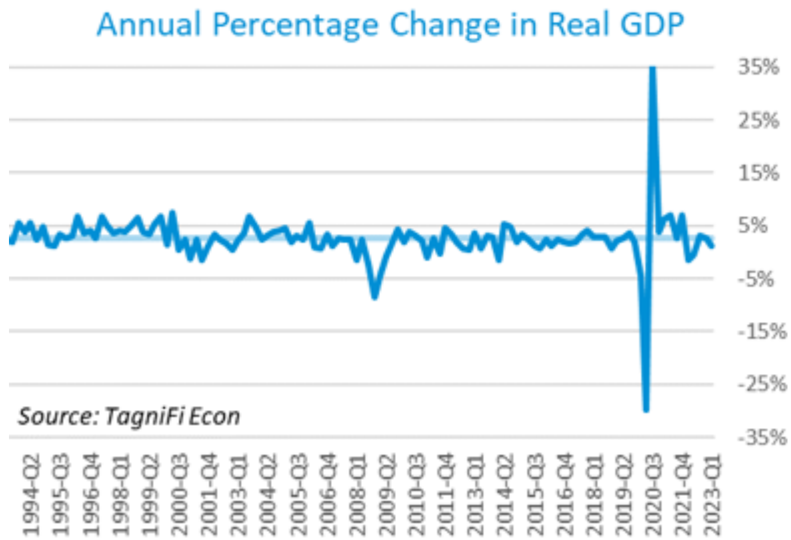
Economic Highlights

- The Philadelphia Fed's coincident index of economic activity in the U.S. rose 0.3% in March 2023 and 0.9% during the 1st quarter.
- The U.S. dollar index fell 1.6% during the first quarter of 2023 but was up 3.7% since the same period one year prior.
- Real GDP grew at an annualized rate of 1.1% during the first quarter of 2023, decelerating from its 2.6% increase in the fourth quarter of 2022.
- The effective federal funds rate rose 0.55 percentage points to 4.65% during the first quarter, continuing the climb from near-zero levels that began last March.
- The one-year and two-year annual treasury yields ended the first quarter at 4.64% and 4.06%, respectively. The benchmark 10-year treasury yielded 3.48% at the end of the quarter, while the 30-year treasury yielded 3.67%.
- The unemployment rate ended the first quarter at 3.5%, unchanged from the prior quarter. Nonfarm payrolls grew by 0.9 million jobs in the first quarter.
- The Consumer Price Index for all items rose 5.0% year-over-year in March 2023, down from its more-than-40-year high of 8.9% in June 2022. Excluding volatile energy prices, the annual increase was 6.0%.
- Crude oil prices ended the first quarter at $75.68 per barrel, down 5.6% from the prior quarter and 24.7% over one year.
- New home starts rose 5.3% during the first quarter to a level of 1.42 million in March. Total new home starts were down 17.2% year over year.
- The NASDAQ composite rose 16.8% during the first quarter. The Dow Jones Transportation Average climbed 7.8%, the S&P 500 was up 7.0%, and the Wilshire 5000 was up 6.8% for the quarter.

[4] Board of Governors of the Federal Reserve System (US), Trade Weighted U.S. Dollar Index: Broad, Goods and Services [DTWEXBGS], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DTWEXBGS, May 6, 2023.*

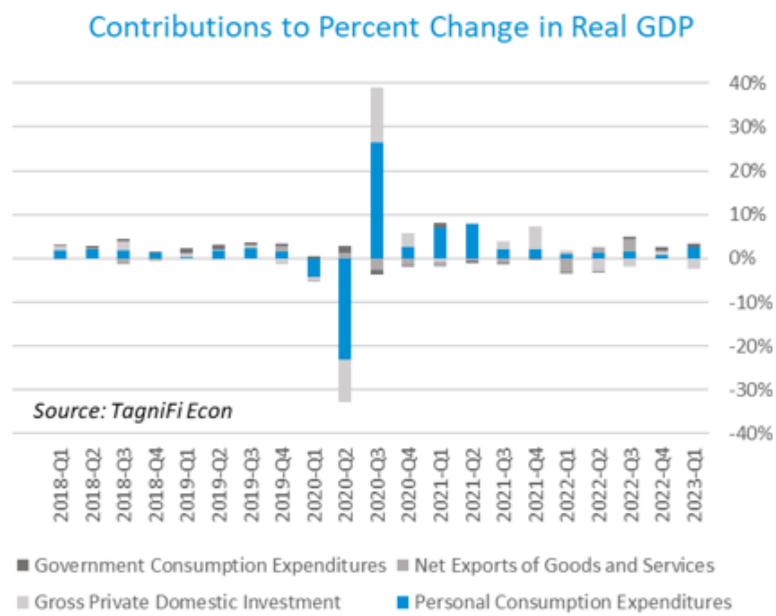
Business Activity

Real gross domestic product (GDP)[5] grew at an annualized rate of 1.1% during the first quarter of 2023, decelerating from its 2.6% increase in the fourth quarter of 2022. Slower growth was attributed to interest rate hikes and inflation, yet consumer demand remained strong. Personal and government spending contributed to the first-quarter increase, as did exports. Many economists expect real GDP gains to continue to soften in 2023.



Personal consumption expenditures[6] (PCE) had a positive 2.5% effect on real GDP in the first quarter. Growth in personal spending was led by increases in both goods and services consumption, especially for motor vehicles and parts and health care.

Government expenditures[7] rose at the federal, state and local levels to contribute 0.8% to the first quarter GDP gain. Federal spending growth was led by nondefense consumption; defense consumption also rose. Higher state and local government spending primarily reflected increases in employee compensation.



Net exports[8] contributed a further 0.1% to real GDP growth in the first quarter, as exports rose more than imports. The rise in exports was concentrated among goods, especially consumer goods (except food and automotive), while exports of services declined, led by transport. Higher imports of goods, particularly durable consumer goods and automotive vehicles, engines and parts, moderated the net export gain.

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[5] U.S. Bureau of Economic Analysis, Real Gross Domestic Product [GDPC1], *retrieved from FRED, Federal Reserve Bank of St. Louis;* https://fred.stlouisfed.org/series/GDPC1*, May 6, 2023.*

[6] U.S. Bureau of Economic Analysis, Contributions to percent change in real gross domestic product: Personal consumption expenditures [DPCERY2Q224SBEA], *retrieved from FRED, Federal Reserve Bank of St. Louis;* https://fred.stlouisfed.org/series/DPCERY2Q224SBEA*, May 6, 2023.*

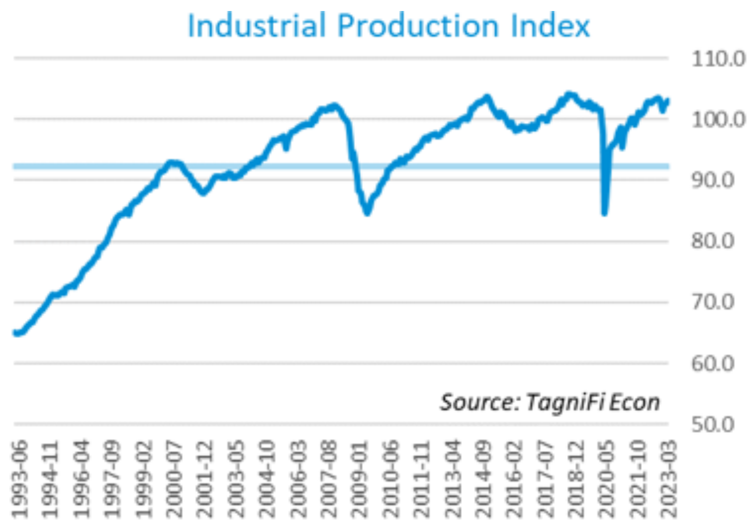
[7] U.S. Bureau of Economic Analysis, Contributions to percent change in real gross domestic product: Government consumption expenditures and gross investment [A822RY2Q224SBEA], *retrieved from FRED, Federal Reserve Bank of St. Louis;* https://fred.stlouisfed.org/series/A822RY2Q224SBEA*, May 6, 2023.*

[8] U.S. Bureau of Economic Analysis, Contributions to percent change in real gross domestic product: Net exports of goods and services [A019RY2Q224SBEA], *retrieved from FRED, Federal Reserve Bank of St. Louis;* https://fred.stlouisfed.org/series/A019RY2Q224SBEA*, May 6, 2023.*

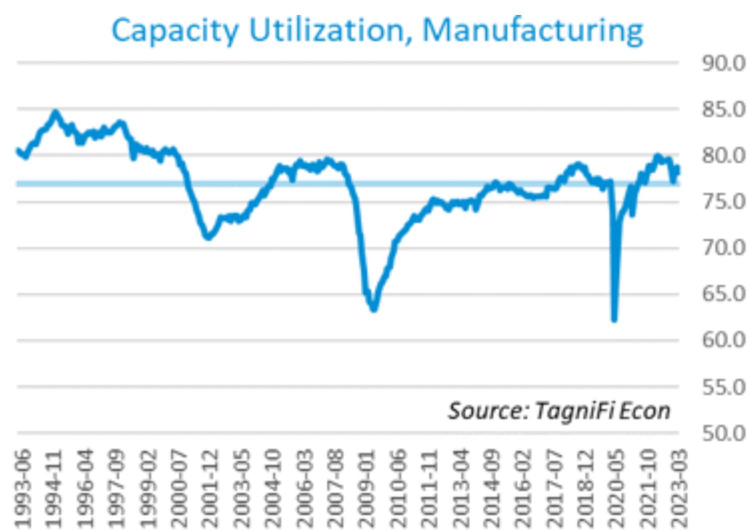
Gross domestic private investment[9] constrained real GDP growth with a negative 2.3% contribution to the first quarter estimate. Private inventory investment fell, led by wholesale trade and manufacturing. The top contributor to the decline in residential fixed investment was new single-family construction.

Economists polled by the Livingston Survey[10] in December projected real GDP to rise at an annual rate of 0.4% in the first half of 2023, then to fall at an annual rate of -1.0% in the second half of 2023.

The Industrial Production Index[11] is an economic indicator that measures real output for all facilities located in the United States manufacturing, mining, and electric, and gas utilities. The index stood at 103.0 at the end of the first quarter, up 1.5% from the end of 2022.



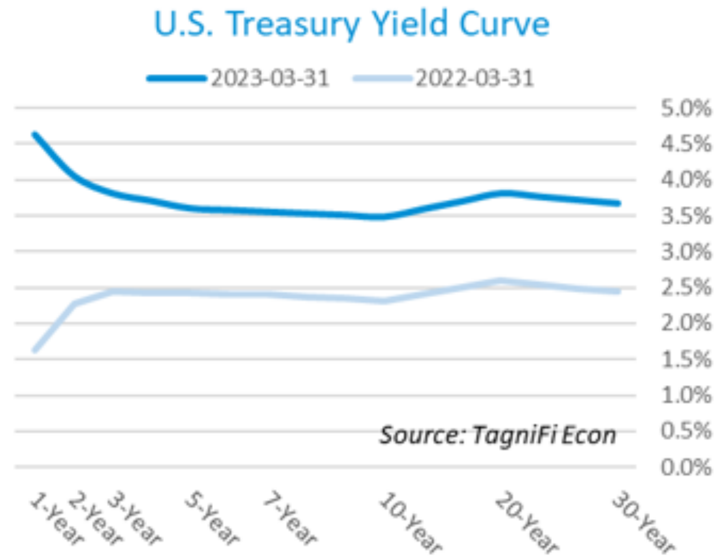
The Capacity Utilization Index[12], which attempts to capture industrial output as a percentage of the economy's maximum production capacity, ended the first quarter of 2023 at 78.2%. March 2023's level was above the 30-year average of 76.9% for this metric, and it was 1.3% higher than the previous quarter.



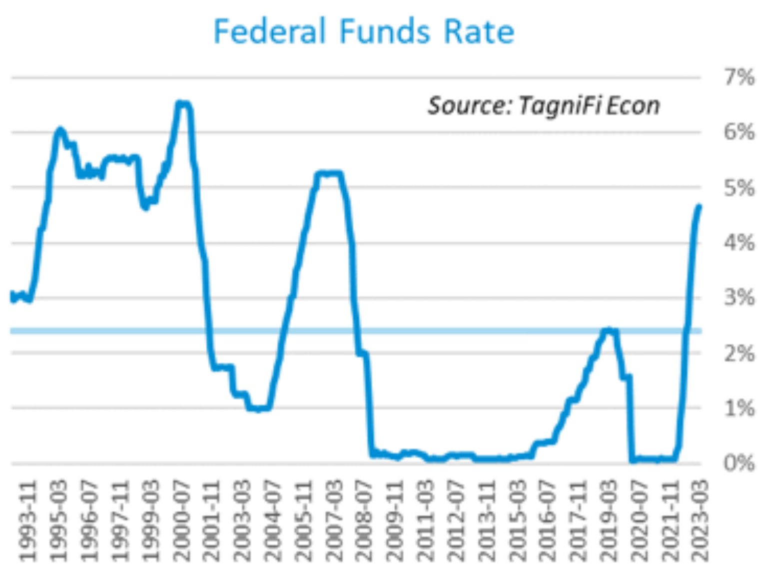
9 U.S. Bureau of Economic Analysis, Contributions to percent change in real gross domestic product: Gross private domestic investment [A006RY2Q224SBEA], *retrieved from FRED, Federal Reserve Bank of St. Louis;* *https://fred.stlouisfed.org/series/A006RY2Q224SBEA, May 6, 2023.*
10 Federal Reserve Bank of Philadelphia, The Livingston Survey December 2022, [economic release], retrieved from https://www.philadelphiafed.org/-/media/frbp/assets/surveys-and-data/livingston-survey/2022/livdec22.pdf, May 6, 2023.
11 Board of Governors of the Federal Reserve System (US), Industrial Production Index [INDPRO], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/INDPRO, May 6, 2023.*
12 Board of Governors of the Federal Reserve System (US), Capacity Utilization, Manufacturing (NAICS), *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/MCUMFN, May 6, 2023.*

Interest Rates

The effective federal funds rate[13] rose 0.55 percentage points to 4.65% during the first quarter, continuing the climb from near-zero levels that began last March. Both short- and long-term treasury bond yields[14] for periods one year and up fell during the first quarter. The yield curve remained inverted as long-term treasury yields continued to lag shorter-term yields. The closely watched two- and 10-year rates inverted early in July 2022 and have remained that way, although the gap narrowed briefly during March as the two-year yield reacted more steeply to the failures of Signature Bank and Silicon Valley Bank. The one-year and two-year annual treasury yields ended the first quarter at 4.64% and 4.06%, respectively. The benchmark 10-year treasury yielded 3.48% at the end of the quarter, while the 30-year treasury yielded 3.67%. See *Appendix – Selected Interest Rates* for detailed interest rate data.

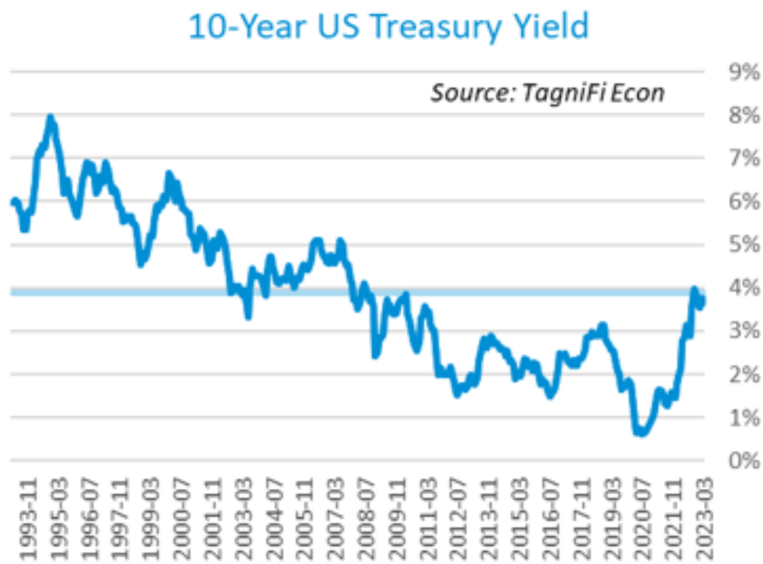


In the first quarter of 2023, the Federal Reserve continued its series of federal funds target rate[15] hikes with two increases totaling 50 basis points, ending the quarter at a nearly 17-year high: a range of 4.75% to 5.00%. The committee dialed back on its hawkish rhetoric in the wake of March's two bank failures, indicating that while some additional tightening would likely be necessary, future rate hikes would depend on economic conditions. Members expect target rates will likely remain elevated throughout 2023 with an expected apex range of 5.00% to 5.25%.



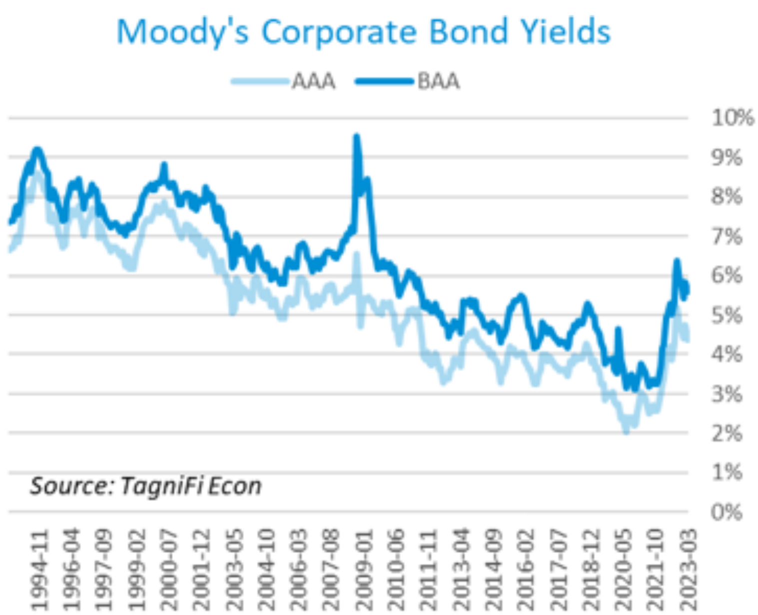
[13] Board of Governors of the Federal Reserve System (US), Federal Funds Effective Rate [FEDFUNDS], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/FEDFUNDS, May 6, 2023.*
[14] Selected Interest Rates Instruments, Yields in percent per annum, *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/release/tables?rid=18&eid=289&od=2023-03-31, May 6, 2023.*
[15] Board of Governors of the Federal Reserve System (US), Federal Funds Target Range - Upper Limit [DFEDTARU], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DFEDTARU, May 6, 2023.*

The yield on the benchmark 10-year U.S. treasury[16] ended the first quarter at 3.48%, down 0.40 percentage points from the previous quarter and below the average yield of 3.88% over the last 30 years.



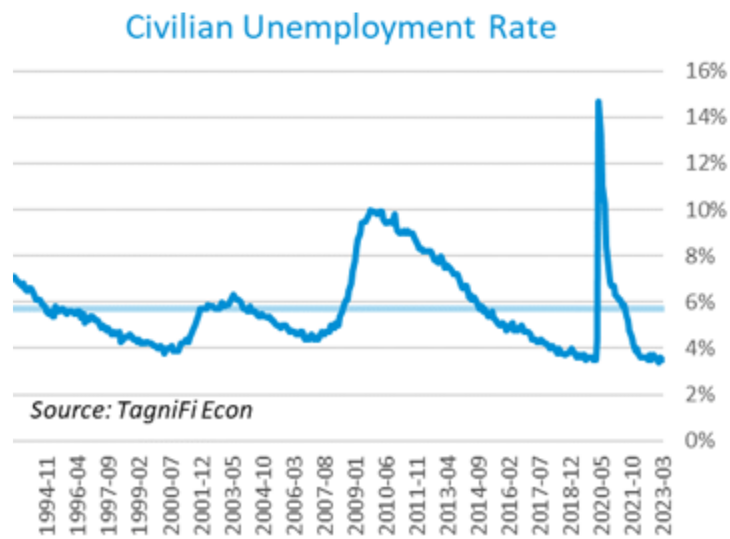
Moody's Baa Corporate Bond Yield Index[17] ended the first quarter of 2023 at 5.59%, down 0.28 percentage points since the previous quarter. Moody's less-risky Aaa[18] Index slid 0.32 percentage points during the quarter to a level of 4.38%.

The banking crisis resulting from dual bank failures in Mid-March caused treasury bond yields, which move opposite to prices, to briefly spike and then plunge before settling into a relatively flat pattern to end the first quarter.



16 Board of Governors of the Federal Reserve System (US), 10-Year Treasury Constant Maturity Rate [DGS10], *retrieved from FRED, Federal Reserve Bank of St. Louis;* https://fred.stlouisfed.org/series/DGS10, *May 6, 2023.*
17 Moody's, Moody's Seasoned Baa Corporate Bond Yield [DBAA], *retrieved from FRED, Federal Reserve Bank of St. Louis;* https://fred.stlouisfed.org/series/DBAA, *May 6, 2023.*
18 Moody's, Moody's Seasoned Aaa Corporate Bond Yield [DAAA], *retrieved from FRED, Federal Reserve Bank of St. Louis;* https://fred.stlouisfed.org/series/DAAA, *May 6, 2023.*

Employment



The official unemployment rate[19] ended the first quarter at 3.5%, unchanged from the prior quarter. The rate equaled its pre-pandemic (February 2020) level and stood well below the 30-year historical average of 5.7%. The labor force[20] expanded by 1.8 million workers during the quarter. The labor force participation rate[21] was 62.6% in March 2023, 0.7 percentage points below its pre-pandemic level. Economists polled by the Livingston Survey in December projected an unemployment rate of 4.2% in June, rising to 4.9% in December.

In March, nonfarm worker quits[22] stood at 3.9 million, down 14.4% from the record high in November 2021 yet still 10.3% higher than the pre-pandemic level. The elevated level of quits (sometimes referred to as The Great Resignation), which has primarily affected the leisure and hospitality industry, appears to be waning. The quit rate in the leisure and hospitality industry fell 1.1 percentage points during the year that ended in March. Job openings[23] totaled 9.6 million in March, 2.4 million below their record high one year earlier and 2.5 times the number of resignations.

[19] U.S. Bureau of Labor Statistics, Civilian Unemployment Rate [UNRATE], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UNRATE, May 6, 2023.*

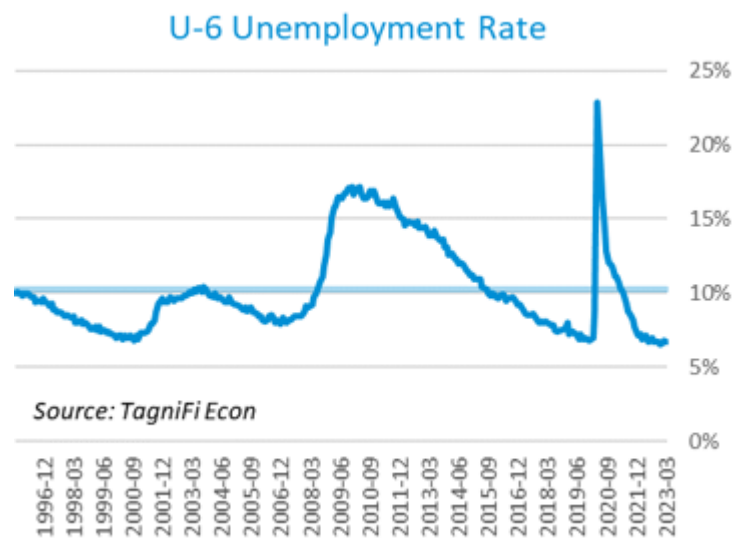
[20] U.S. Bureau of Labor Statistics, Civilian Labor Force Level [CLF16OV], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CLF16OV, May 6, 2023.*

[21] U.S. Bureau of Labor Statistics, Labor Force Participation Rate [CIVPART], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CIVPART, May 6, 2023.*

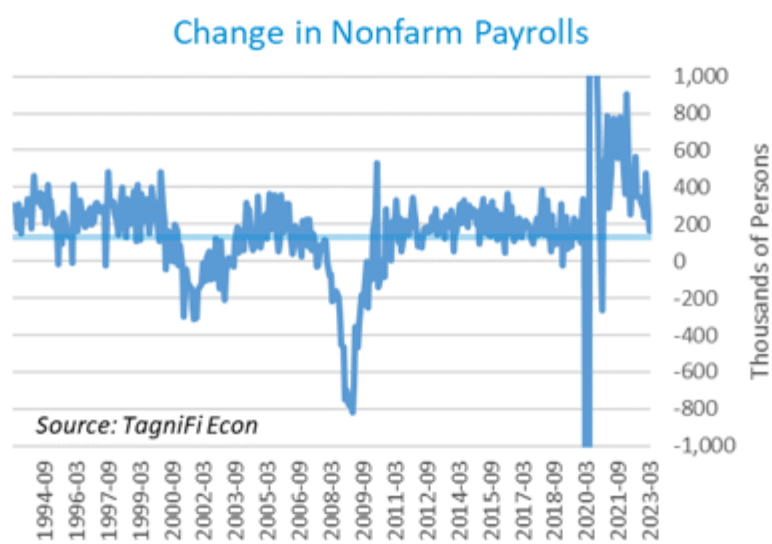
[22] U.S. Bureau of Labor Statistics, Quits: Total Nonfarm [JTSQUL], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/JTSQUL, May 6, 2023.*

[23] U.S. Bureau of Labor Statistics, Job Openings: Total Nonfarm [JTSJOL], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/JTSJOL, May 6, 2023.*

The U-6 unemployment rate[24] is an alternative measure of unemployment with a broader definition, including such groups as discouraged workers who are not actively searching for jobs but want full-time work and part-time workers who want full-time work. The U-6 unemployment rate has generally followed the same pattern as the official rate and stood at 6.7% in March.



Nonfarm payrolls[25] grew by 0.9 million jobs in the first quarter. U.S. nonfarm payrolls in March totaled 155.4 million jobs, up 4.0 million from the prior March and 3.3 million above pre-pandemic (February 2020) levels. Although in line with expectations, March's modest job market growth was the smallest since December 2020; it was led by the leisure and hospitality, government, professional and business services, and health care industries.

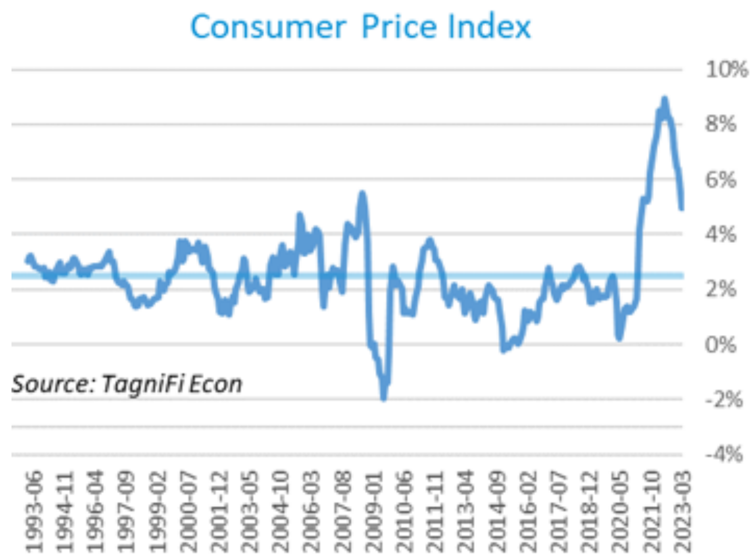


[24] U.S. Bureau of Labor Statistics Total Unemployed, Plus All Persons Marginally Attached to the Labor Force, Plus Total Employed Part Time for Economic Reasons, as a Percent of the Civilian Labor Force Plus All Persons Marginally Attached to the Labor Force (U-6) [U6RATE], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/U6RATE, May 6, 2023.*

[25] U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm Payrolls [PAYEMS], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PAYEMS, May 6, 2023.*

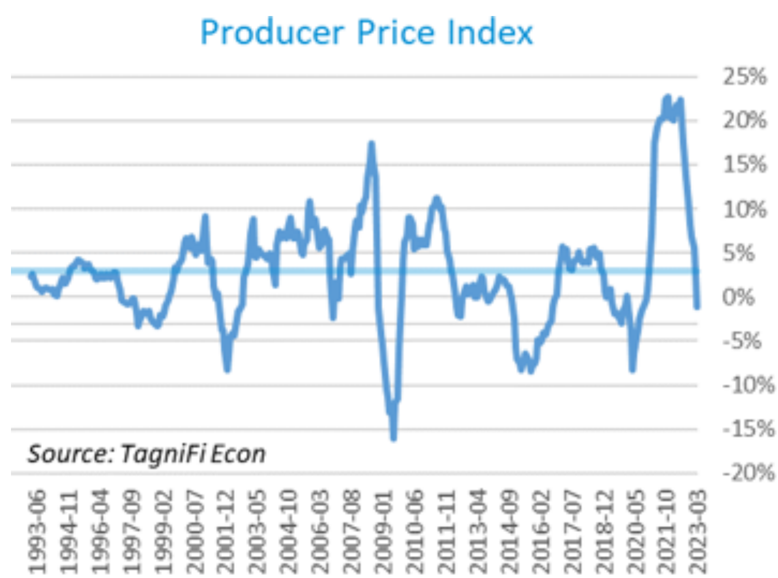
Inflation

Inflation continued to cool in the first quarter of 2023, largely reflecting lower energy costs. Inflation also cooled during the quarter for used cars and trucks, medical care services and some food groups. The Consumer Price Index[26] for all items rose 5.0% year-over-year in March, down from its more-than-40-year high of 8.9% in June 2022. Excluding volatile energy prices[27], the annual increase was 6.0%. The average price of a gallon of gas[28] in the U.S. was $3.55 in March, 17.6% lower than the prior March, having fallen from its record-high $5.06 in June 2022.



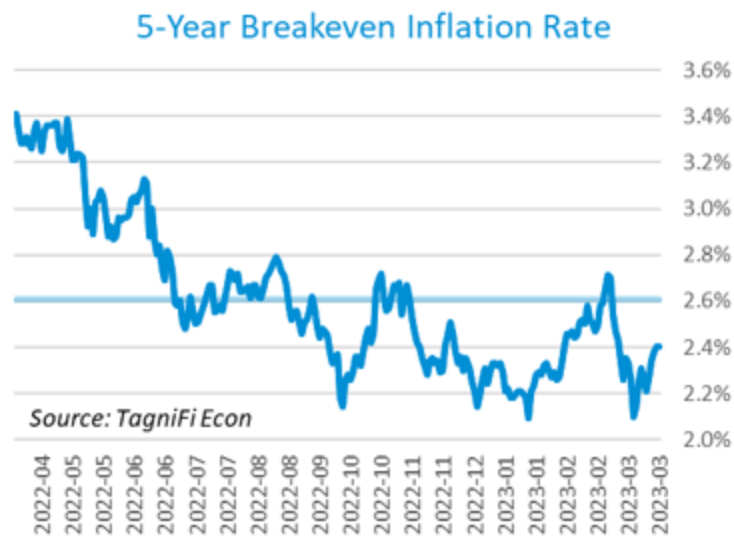
In March 2023, higher prices for shelter led the consumer price index to a modest increase despite across-the-board declines in energy prices. The Federal Reserve has been taking aggressive action to curb inflation with a series of target interest rate hikes totaling 4.75 percentage points since March 2022. The Fed recently softened its stance on future rate hikes, indicating that the increases may be finally nearing an end.

The Producer Price Index[29] fell 0.3% in the quarter and 1.2% since March 2022. The average annual increase over the last 30 years was 2.9%.

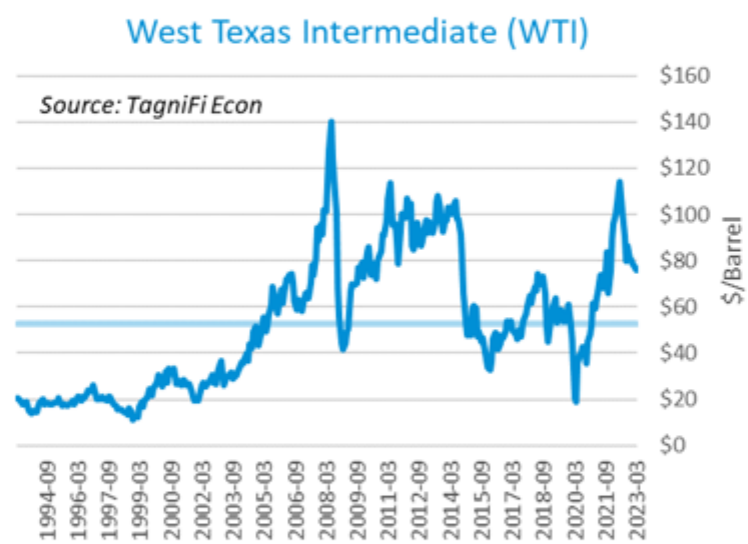


[26] U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items [CPIAUCSL], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPIAUCSL, May 6, 2023.*
[27] U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items Less Energy in U.S. City Average [CPILEGSL], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPILEGSL, May 6, 2023.*
[28] U.S. Bureau of Labor Statistics, Average Price: Gasoline, Unleaded Regular (Cost per Gallon/3.785 Liters) in U.S. City Average [APU000074714], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/APU000074714, May 6, 2023.*
[29] U.S. Bureau of Labor Statistics, Producer Price Index for All Commodities [PPIACO], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PPIACO, May 6, 2023.*

The five-year breakeven inflation rate[30], an indicator for the market's inflation expectations for the period, rose to 2.40% at the end of the first quarter 2023 from 2.33% at the end of the fourth quarter 2022.



U.S. crude oil[31] prices dropped to a 15-month low after the failure of U.S.-based banks Signature Bank and Silicon Valley Bank were followed by a scare for the international Credit-Suisse bank, sparking fears of financial crisis. Prices largely recovered by the end of the month as the FDIC provided relief for failed banks while Iraqi oil exports were curbed by a governmental dispute. Crude prices ended the first quarter at $75.68 per barrel, down 5.6% from the prior quarter and 24.7% over one year.



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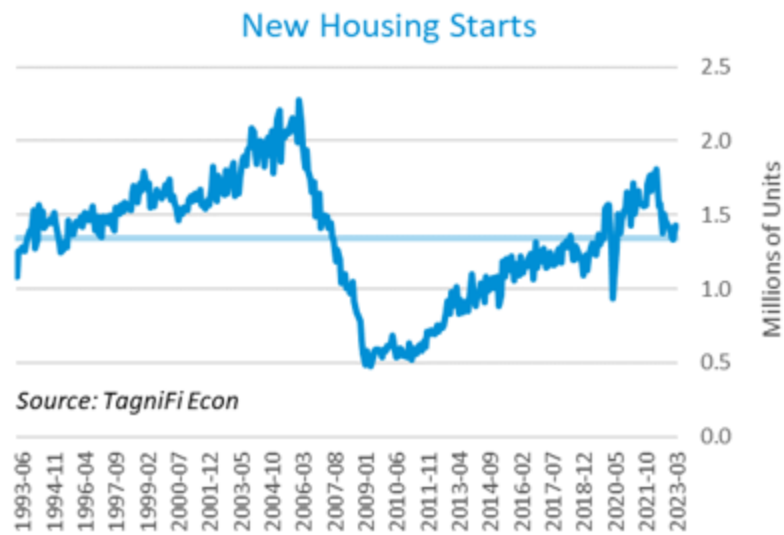
[30] *Federal Reserve Bank of St. Louis, 5-Year Breakeven Inflation Rate [T5YIE], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/T5YIE, May 6, 2023.*

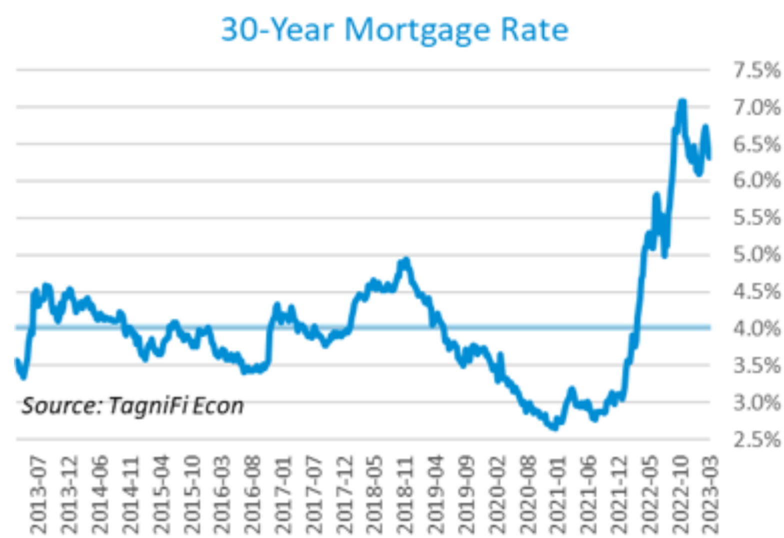
[31] U.S. Energy Information Administration, Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma [DCOILWTICO], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DCOILWTICO, May 6, 2023.*

Housing

High interest rates have slowed the real estate market in recent months, dampening the powerful demand the market had been enjoying. Price growth in major cities has slowed, with a growing number of cities experiencing annual price declines. Supply remained tight, mitigating downward price pressures. Home sales continued to slide as mortgage rates remained near 15-year highs. New home starts[32] rose 5.3% during the first quarter to a level of 1.42 million in March; starts for single-family homes rose while starts for multifamily buildings with five or more units fell over the quarter. Total new home starts were down 17.2% year over year but remained above the 30-year average of 1.34 million.



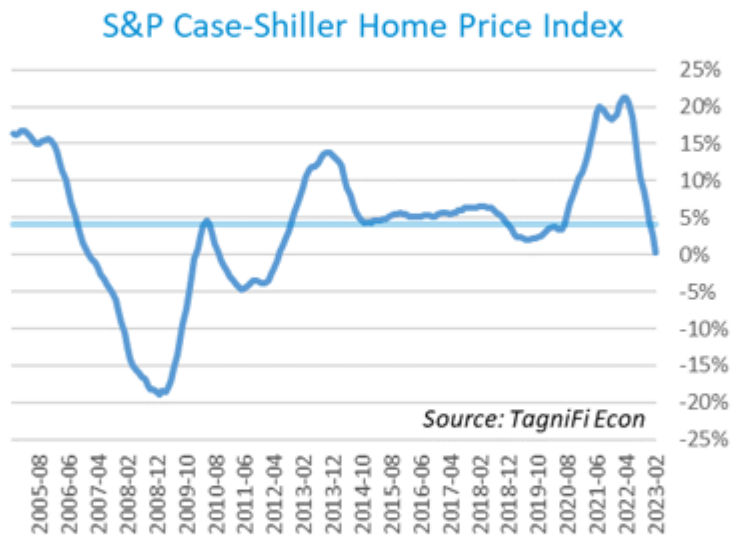
The cost of financing for would-be homebuyers inched down during the first quarter, with the 30-year fixed-rate mortgage[33] ending March at an average of 6.32% after peaking in late October at a 20-year high of 7.08%.



[32] U.S. Bureau of the Census, Housing Starts: Total: New Privately Owned Housing Units Started [HOUST], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/HOUST, May 6, 2023.*

[33] Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States [MORTGAGE30US], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/MORTGAGE30US, May 6, 2023.*

The S&P Case-Shiller Home Price Index (20-city)[34] was 0.1% higher from January to February and 0.4% higher since February 2022. Once again led by Miami, Tampa, and Atlanta, 12 of the 20 cities continued to report one-year price increases. The Southeast continues to outpace other regions, while seven of the eight cities with over-the-year price declines were in the West region.



Consumer Spending

Personal Consumption Expenditures (PCE)[35] rose 2.1% in the first quarter to $18.1 trillion. PCE were up 6.2% since the first quarter last year. Spending decreased in March for motor vehicles and parts but increased for gasoline and other energy goods as well as services including housing and utilities.

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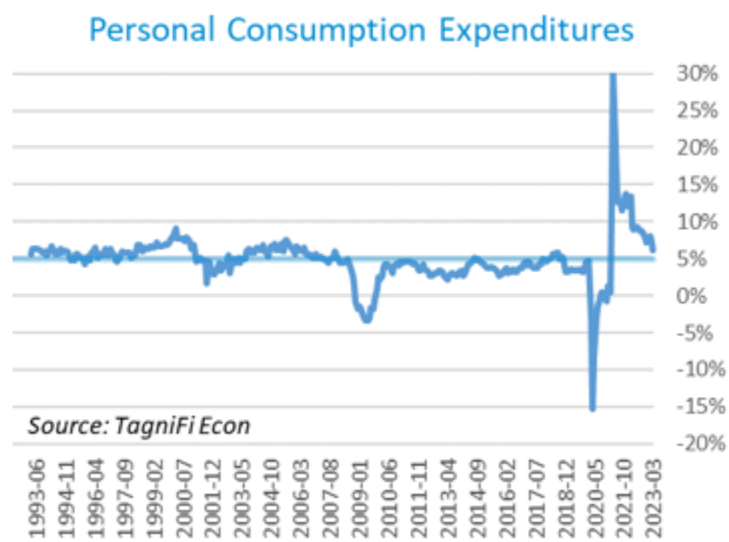
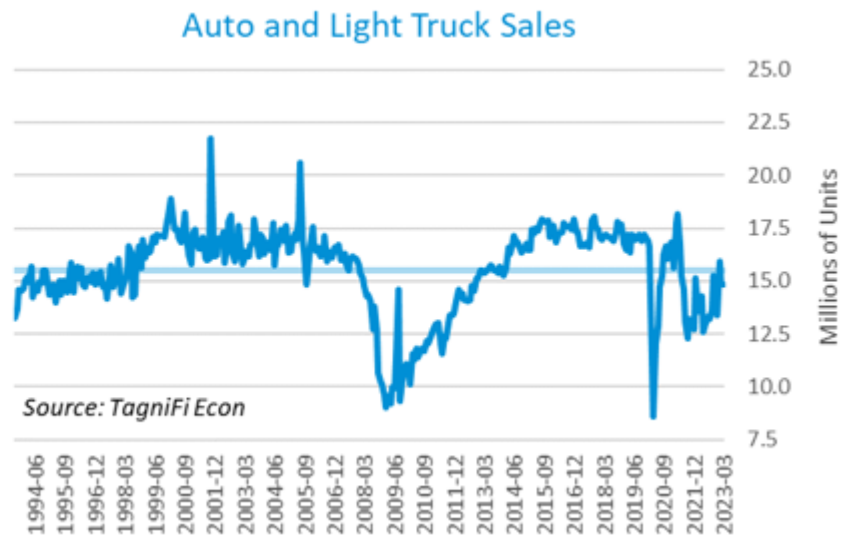
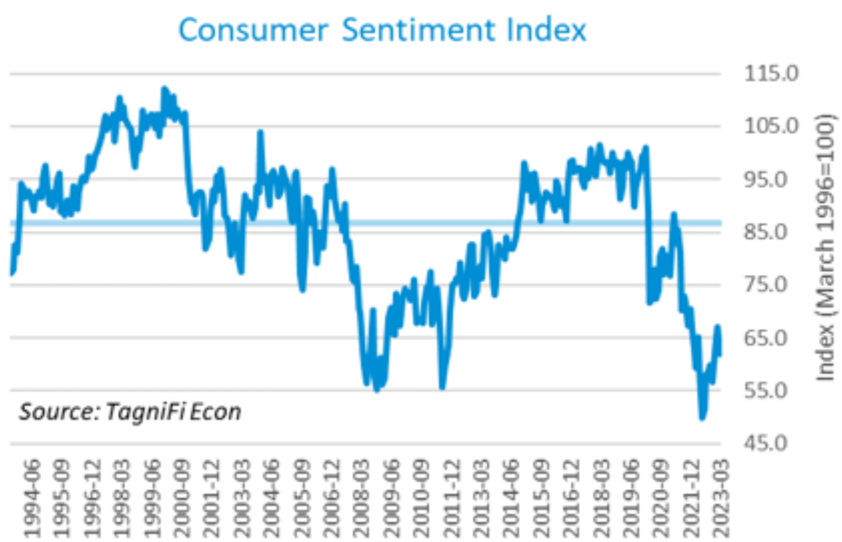


[34] S&P Dow Jones Indices LLC, S&P/Case-Shiller 20-City Composite Home Price Index [SPCS20RSA], *retrieved from FRED, Federal Reserve Bank of St. Louis;* *https://fred.stlouisfed.org/series/SPCS20RSA*, *May 6, 2023.*
[35] U.S. Bureau of Economic Analysis, Personal Consumption Expenditures [PCE], *retrieved from FRED, Federal Reserve Bank of St. Louis;* *https://fred.stlouisfed.org/series/PCE*, *May 6, 2023.*

Auto manufacturers reported that 14.8 million autos and light trucks were sold[36] in March, up 11.0% from December. New vehicle prices[37] built on their record high by a further 1.1% during the first quarter, while used car prices[38] fell 5.5% over the quarter.



The University of Michigan's consumer sentiment index[39] continued its rebound from its all-time low of 50.0 in June, peaking at 67.0 in February before waning to 62.0 in March. The index was up 4.4% in the year that ended in March yet still well below its 30-year average of 86.8. March's decline came despite inflation expectations continuing to subside. The decline was concentrated among lower-income, less-educated, and younger consumers, as well as consumers with large stock holdings.



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[36] U.S. Bureau of Economic Analysis, Light Weight Vehicle Sales: Autos and Light Trucks [ALTSALES], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/ALTSALES, May 6, 2023.*

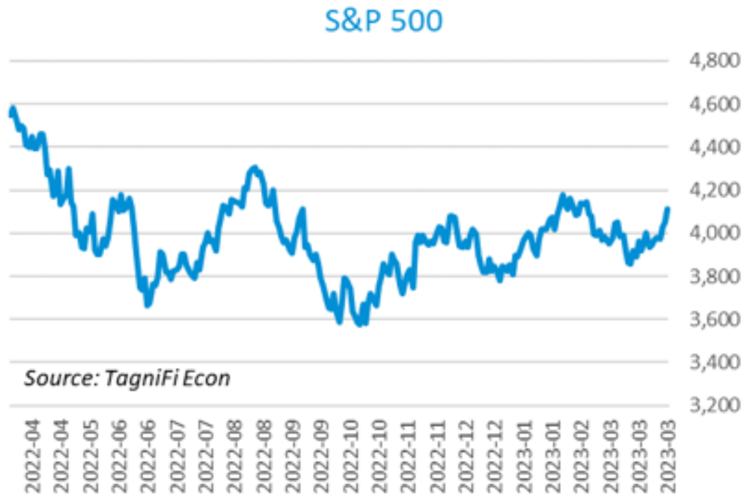
[37] U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: New Vehicles in U.S. City Average [CUUR0000SETA01], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CUUR0000SETA01, May 6, 2023.*

[38] U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Used Cars and Trucks in U.S. City Average [CUSR0000SETA02], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CUSR0000SETA02, May 6, 2023.*

[39] *University of Michigan, University of Michigan: Consumer Sentiment [UMCSENT], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UMCSENT, May 6, 2023.*

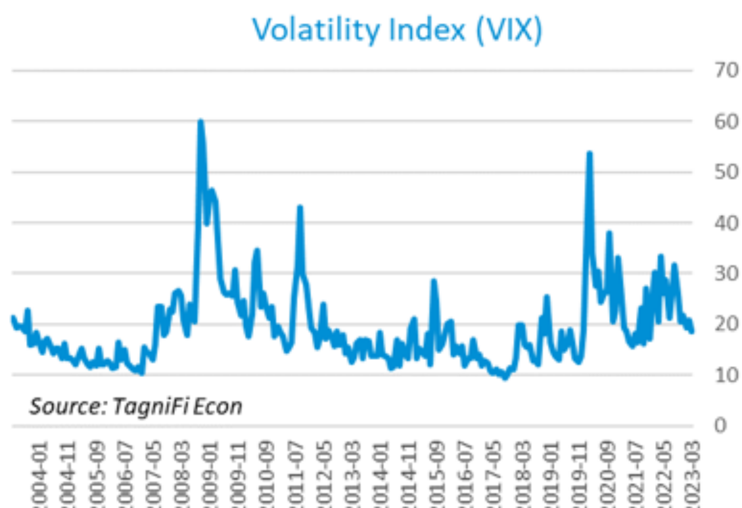
Capital Markets

The table below shows the quarterly, year-to-date and 12-month performance of major U.S. equity indices. Capital markets suffered setbacks in 2022 such as the war on Ukraine and aggressive policy moves to combat raging inflation. Market conditions began to improve in the fourth quarter of 2022 and continued into the first quarter of 2023 as inflation began to subside while the job market stayed strong. Major market indexes took a hit when multiple banks suddenly failed in mid-March but rallied to close out the quarter on a better-than-expected reading of core PCE inflation, the Fed's favored inflation marker. Tech stocks, seen as a safe haven from the banking crisis, performed strongly; the NASDAQ composite rose 16.8% during the first quarter. The Dow Jones Transportation Average climbed 7.8%, the S&P 500 was up 7.0%, and the Wilshire 5000 was up 6.8% for the quarter. The Dow Jones Industrial Average, which dipped less steeply in 2022, was up just 0.4%.



Index	Closing Value	% Change Quarter	YTD	12-Mo.
S&P 500	4,109.31	7.0%	7.0%	-9.3%
Dow Jones Industrial Average	33,274.15	0.4%	0.4%	-4.0%
Dow Jones Composite Average	11,163.81	1.8%	1.8%	-7.0%
Dow Jones Transportation Average	14,438.66	7.8%	7.8%	-11.3%
NASDAQ Composite	12,221.91	16.8%	16.8%	-14.1%
Wilshire 5000	40,708.47	6.9%	6.9%	-10.7%

Stock market volatility, as measured by the VIX[40], ended the first quarter of 2023 at 18.7, down 13.7% since the prior quarter and 9.0% since the first quarter of 2022. The VIX remained relatively steady throughout most of the first quarter, with a spike around the time of the mid-March banking crisis and a subsequent recovery.



[40] *Chicago Board Options Exchange, CBOE Volatility Index: VIX [VIXCLS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/VIXCLS, May 6, 2023.*

Outlook

In March, the FOMC revised its near-term inflation projections slightly upward and its unemployment rate and real GDP projections slightly downward. Little to no adjustments were made to longer-run projections for the three indicators.

The FOMC revised its projection for real GDP[41] to 0.40% growth in 2023, rising to 1.25% in 2024, then to 1.90% by 2025. The committee expected Personal Consumption Expenditures (PCE) inflation[42] to cool to 3.40% in 2023, further moderating to 2.50% by 2024 and 2.10% by 2025. They forecast that the unemployment rate[43] would be 4.35% in 2023, rising to 4.60% in 2024 and 4.55% in 2025. The board made little change to projections of future target rates, revising only the 2024 projection slightly upward, and softened its hawkish stance with signals that near-term monetary policy would be responsive to incoming economic data.

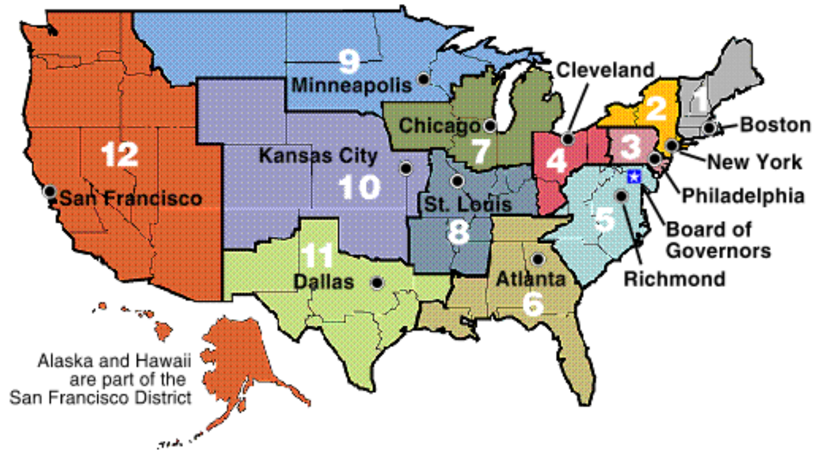
FOMC Summary of Economic Projections

Year	Real GDP	PCE	Unemployment
2023	0.40%	3.40%	4.35%
2024	1.25%	2.50%	4.60%
2025	1.90%	2.10%	4.55%
2026	1.90%	2.10%	4.55%

41 *Federal Reserve Bank of St. Louis, FOMC Summary of Economic Projections for the Growth Rate of Real Gross Domestic Product [GDPC1CTM], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/GDPC1CTM, May 6, 2023.*
42 *Federal Reserve Bank of St. Louis, FOMC Summary of Economic Projections for the Personal Consumption Expenditures Inflation Rate, Central Tendency, Midpoint [PCECTPICTM], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PCECTPICTM, May 6, 2023.*
43 *Federal Reserve Bank of St. Louis, FOMC Summary of Economic Projections for the Civilian Unemployment Rate, Central Tendency, Midpoint [UNRATECTM], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UNRATECTM, May 6, 2023.*

Midwest Economy[44]

Summary of Economic Activity



Economic activity in the Seventh District was little changed overall in late February and March. Contacts generally expected slow growth in the coming months, though many expressed concerns about the potential for a recession in the coming year. Employment increased moderately; consumer spending, business spending, and construction and real estate were flat; nonbusiness contacts saw little change in activity; and manufacturing demand decreased modestly. Prices and wages rose moderately, and financial conditions tightened moderately. Banking contacts reported some movement in deposits but little change in credit availability following the collapse of Silicon Valley Bank. Agricultural incomes were expected to be lower in 2023 than in 2022.

Labor Markets

Employment increased moderately over the reporting period, and contacts expected slower employment growth over the next 12 months. Many contacts continued to have difficulty finding workers, especially those in the skilled trades. At the same time, however, many said hiring was easier than compared to a few months ago. Some manufacturers reported that with a slowdown in orders, they were feeling less urgency to fill open positions and were more willing to wait for the right candidate. One contact in state government saw signs of less labor hoarding, as businesses were making less of an effort to keep underutilized or underperforming workers. Wage and benefit costs rose moderately, with several contacts indicating that regular annual wage and benefit increases had recently taken effect.

Prices

Prices rose moderately in late February and March, and contacts expected a similar rate of increase over the next 12 months. Producer prices rose modestly, with contacts highlighting higher costs for raw materials (particularly steel) and energy. Several contacts noted that growth in shipping costs had slowed noticeably, particularly for containers and ocean freight. Consumer prices generally increased due to the continued elevated level of demand and the passthrough of higher costs.

Consumer Spending

Consumer spending was unchanged on balance over the reporting period. Nonauto retail sales were slightly softer, with contacts noting declines for gasoline and building materials and lower-than-expected sales of furniture and electronics. Light vehicle sales were unchanged overall, and service and parts demand remained strong. Leisure and hospitality spending increased slightly, driven by greater spending in travel categories such as cruise lines and travel agencies.

Business Spending

Business spending was stable overall in late February and March. Capital expenditures increased modestly, with several contacts reporting spending on renovation or expansion of existing structures. Demand for transportation services decreased some, though activity remained at a high level. Demand for residential, commercial and industrial energy decreased slightly, with one contact highlighting declines from manufacturing and small commercial enterprises. Inventories for most retailers were at comfortable levels. Though auto inventories continued to move up, according to a survey of dealers, they were still only around half of pre-pandemic levels. In manufacturing, inventories stayed slightly elevated, and many contacts indicated that they were no longer

[44] Primary Source: Federal Reserve, Beige Book – April 19, 2023, "Summary of Commentary on Current Economic Conditions" Extracted wholly or largely verbatim and/or substantially paraphrased.

experiencing supply-chain disruptions. A construction contact noted that materials availability had improved to the point that certain suppliers were no longer taking orders more than a few weeks in advance.

Construction and Real Estate

Construction and real estate activity was little changed on balance over the reporting period. Residential construction decreased slightly, while residential real estate activity was up modestly across segments. One contact attributed the pickup in sales to lower mortgage rates. Home prices and rents moved up modestly. Nonresidential construction activity was little changed overall, though contacts highlighted renovation of hospitality space as an area of growth. Elevated construction costs continued to hold back new projects. Commercial real estate activity decreased moderately, though some contacts said deal flow was still at a healthy level. Demand for leased multifamily space increased while demand for office space continued to fall. Prices and rents were down slightly. Vacancy rates increased slightly, and the amount of sublease space grew modestly.

Manufacturing

Manufacturing demand decreased modestly in late February and March. Steel orders decreased slightly. Fabricated metals orders were down modestly, with several contacts citing the automotive sector as a reason for declines. Auto production fell slightly. Machinery sales were up slightly, and one contact highlighted stronger demand from the aerospace sector. Heavy truck orders moved up slightly and backlogs remained very high.

Banking and Finance

Financial conditions tightened moderately over the reporting period. Bond and stock markets saw little change in asset values on net, though volatility spiked and asset values temporarily fell following the collapse of Silicon Valley Bank. Banking contacts reported fielding some inquiries about deposit safety after SVB's failure and also saw some deposit transfers. A contact at a large bank that received new deposits was uncertain whether the deposits would stick once there was more clarity about the health of smaller banks. Business loan volumes decreased slightly, with one contact noting that clients producing durable goods were most likely to be struggling. Business loan quality was stable, and contacts did not report changes in lending standards. The consumer loan market saw a slight decrease in the volume of loans, led by further declines in refinancing activity. Consumer lending standards tightened slightly, while loan quality was stable.

Agriculture

With input costs remaining elevated and many product prices down, contacts expected lower agricultural income for the district in 2023 compared with a strong 2022. Wheat prices were generally lower over the reporting period, during which the agreement for exporting grain from Ukraine was extended into May. Corn and soybean prices were also lower despite smaller estimates for the South American harvest. Planting delays were likely in some places in the district due to excess precipitation, though contacts noted the extra moisture could also recharge ground water levels for use later in the growing season. Although fertilizer costs fell, the cost of most other inputs remained high for crop farms. Cattle prices increased as the U.S. herd was squeezed by drought and a harsh winter. Egg prices moved up, while dairy and hog prices were down. High feed costs continued to compress most livestock margins. Prices for agricultural land continued to rise, reportedly at a slower pace.

Community Conditions

Community development organizations and public administrators reported little change in overall economic activity through March. Demand for social services remaining elevated despite reports of overall economic strength. State government officials again saw healthy growth in tax revenues and low levels of unemployment insurance claims. Despite slow growth and funding challenges, small businesses and nonprofits continued to be focused on employee recruitment and retention and were not reporting plans for layoffs. High interest rates and elevated supply costs continued to challenge plans to expand availability of affordable housing units and child care facilities, nonprofit developers reported. Family-facing organizations said there were signs of slower growth in consumer prices; however, the end of COVID-era benefits was putting new stress on household budgets.