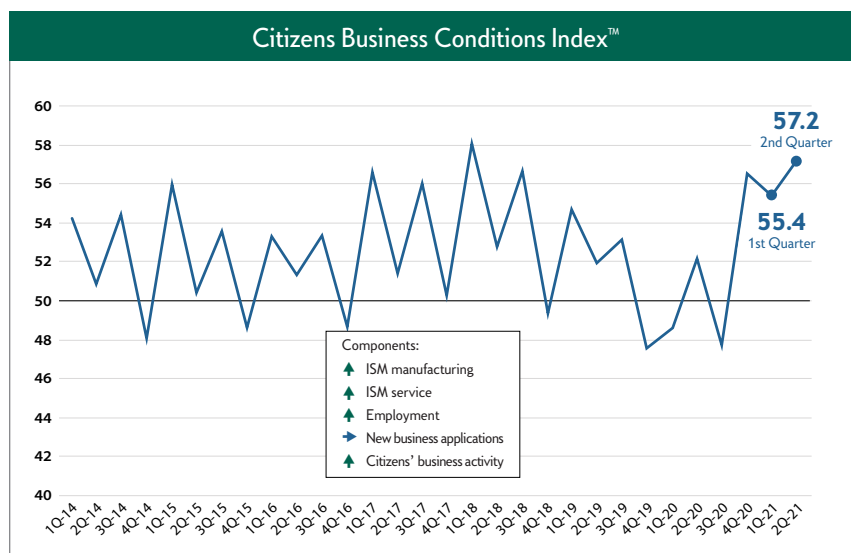


2Q21 CITIZENS Business Conditions Index™

Expansion Gathers Steam as Vaccinations Continue

The national Citizens Business Conditions Index™ (CBCI) rose in the second quarter to 57.2, up from 55.4 at the end of March. The 2Q value marks the third consecutive quarter that the CBCI has been in expansionary territory (greater than 50), reflecting the strength of the recovery following the economic and market shock of COVID-19.

The uptick in momentum was broad-based. With more than half of Americans vaccinated against the pandemic at the end of June¹, many regions are seeing steady progress back toward normal activity levels. Meanwhile, accommodative interest-rate policy and multiple fiscal packages continued to support the economy. These trends drove nearly all underlying components of the CBCI higher in the second quarter, though the strength did prompt some concerns about recent inflation readings and indications of labor shortages.



Source: Citizens

“What we see at this stage of the recovery is strong momentum - the payoff of vaccinations, of the ongoing power of fiscal and monetary support, and of the growing readiness to return to normal activities.”

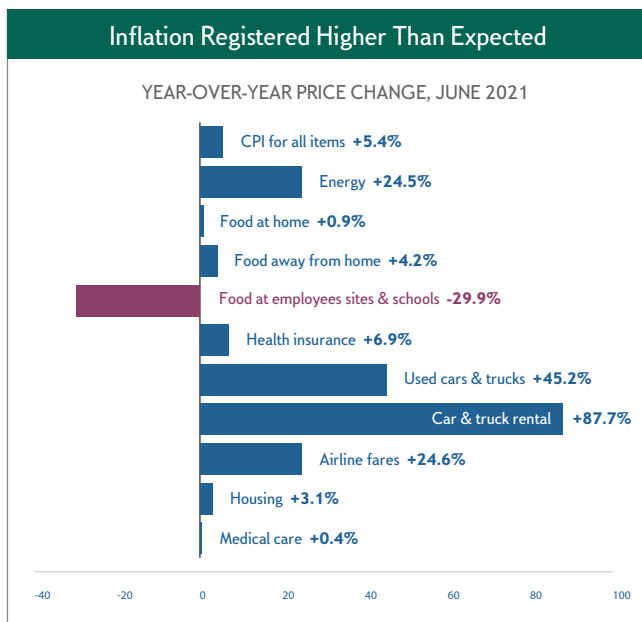
- Tony Bedikian
Head of Global Markets

¹ Bloomberg, July 2021

HEARTY GROWTH DRIVES UPWARD REVISIONS

Growth was the key theme of the quarter. Both manufacturing and non-manufacturing sectors posted historically high readings on the Institute of Supply Management (ISM) indexes, well into expansionary territory. Consumer spending continued at a high pace, fueled by multiple rounds of stimulus checks as well as by surplus savings that many households accrued over a year of lockdowns and restrictions.

As GDP growth estimates were revised higher over the period, earnings forecasts trended up as well. Energy companies saw the highest boost as oil and other commodity prices were stronger, but most sectors enjoyed brightening outlooks.



Items represent a limited sample of all Consumer Price Index (CPI) components.
Source: Bureau of Labor Statistics

Against this backdrop, employment measures were good, though not quite as strong as expected. Job openings hovered at record levels through the spring and early summer months, and many businesses reported labor shortages. For a variety of reasons – lack of childcare, continued pandemic fears or access to extended employment benefits – the labor pool remained significantly below its pre-pandemic level. Still, employment trends were positive overall, contributing to the rise in the CBCI for the quarter.

PRICES POP AMID REOPENING JOLTS

Inflation readings were another key topic of discussion. The headline CPI (Consumer Price Index), which includes food and energy prices, came in high through the quarter, finishing with a year-over-year measure of 5.4% in June.

Base effects were one driver of current inflation numbers, as the year-over-year comparison to June 2020 caught a window when prices suffered the greatest decline amid pandemic lockdowns and job losses.

Fed policymakers have maintained that reopening inflation is most likely a transitory effect, with supply shortages, shipping bottlenecks and demand surges pushing short-term price increases. Indeed, vehicle rentals and airfares were among the top price increases, clearly driven by the consumer return to non-pandemic behaviors. Meanwhile, many pricing components, including food at home and housing, rose at a much slower pace.

Interest rate markets, known for being a sensitive barometer for the inflation outlook, do not indicate high inflation expectations in future periods, suggesting that investors broadly agree with the Fed’s viewpoint that the current inflation trends will be transitory.

MIDWEST OUTPERFORMS

Within our proprietary business-activity data, the Midwest again showed the strongest momentum for the quarter. The Mid-Atlantic and Northeast posted lower regional readings, but only by a small margin. All three regions showed positive growth for the period.

Likewise, sector strength was broad-based. Among our proprietary business-activity data, utilities and telecommunications sectors showed the highest level of growth, but nearly all sectors trended up from already-positive first-quarter levels. Government-sector activity was the one exception, cooling slightly from 1Q levels. However, even government-sector data remained at an expansionary level.

RECOVERY ON A STRONG TRAJECTORY

The rebound in the U.S. is clearly widespread and durable at this point in the pandemic, with the U.S. economy leading the recovery globally. Key threats to the domestic growth trajectory include the continued risk of resurging infection levels – especially in regions where inoculation rates have been much lower – and the possibility of persistent inflation. In the second quarter, both threats remained in check enough to enable widespread growth in business activity.

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