Economic overview and forecast for

2023 Q2

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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	2029-2033
Real GDP*	2.9	2.3	-2.8	5.9	2.1	1.3	0.5	2.2	2.2	2.0	1.9	1.8
Industrial production*	3.2	-0.7	-7.2	4.4	3.4	-0.7	-0.8	2.6	2.5	2.2	1.9	1.7
Consumer spending*	2.9	2.0	-3.0	8.3	2.7	1.7	0.6	1.9	2.2	2.0	1.9	1.7
Real disposable personal income*	3.3	3.5	6.2	1.9	-6.1	3.2	1.6	2.7	2.3	2.3	2.1	2.0
Business investment*	6.5	3.6	-4.9	6.4	3.9	1.9	-0.1	2.8	3.2	3.0	2.8	2.7
Nominal pretax corp. profits*	8.6	3.9	-5.9	22.6	6.5	-5.2	1.7	4.8	4.2	4.2	4.1	3.6
Total government spending*	1.7	3.3	2.6	0.6	-0.6	2.6	0.5	N/A	N/A	N/A	N/A	N/A
Consumer Price Index*	2.4	1.8	1.3	4.7	8.0	4.1	2.6	2.2	2.2	2.3	2.3	2.3
Core PCE	2.0	1.7	1.3	3.5	5.0	4.3	2.7	N/A	N/A	N/A	N/A	N/A
3-month Treasury bill rate	2.4	1.5	0.1	0.1	4.3	5.1	3.5	2.9	2.6	2.5	2.5	2.5
10-year Treasury bond yield	2.7	1.9	0.9	1.6	3.9	3.5	3.4	3.4	3.4	3.4	3.4	3.4
Unemployment rate	3.9	3.7	8.1	5.4	3.6	3.8	4.6	N/A	N/A	N/A	N/A	N/A
Housing starts (millions)	1.3	1.3	1.4	1.6	1.6	1.3	1.3	N/A	N/A	N/A	N/A	N/A

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, June 2023.

Summary of General Economic Overview – United States[2]

In the second quarter of 2023, the U.S. economy showed broad strength despite widely held fears that high interest rates would tip the nation into recession. The yield curve remains inverted — a sign that bond markets are primed for recession — yet production and spending exceeded expectations and the job market remained solid. Consumer sentiment is also rising. Inflation waned a bit further, due in part to falling prices within the energy sector. The promising economic data spurred the capital markets to build on their existing rally with another bullish quarter.

Elevated interest rates continued to pose a concern for the U.S. economy in the second quarter of 2023, with target rates reaching a 17-year high. The resulting high mortgage rates, along with a dearth of inventory, have cooled the once-hot housing market, affecting both sales and prices.

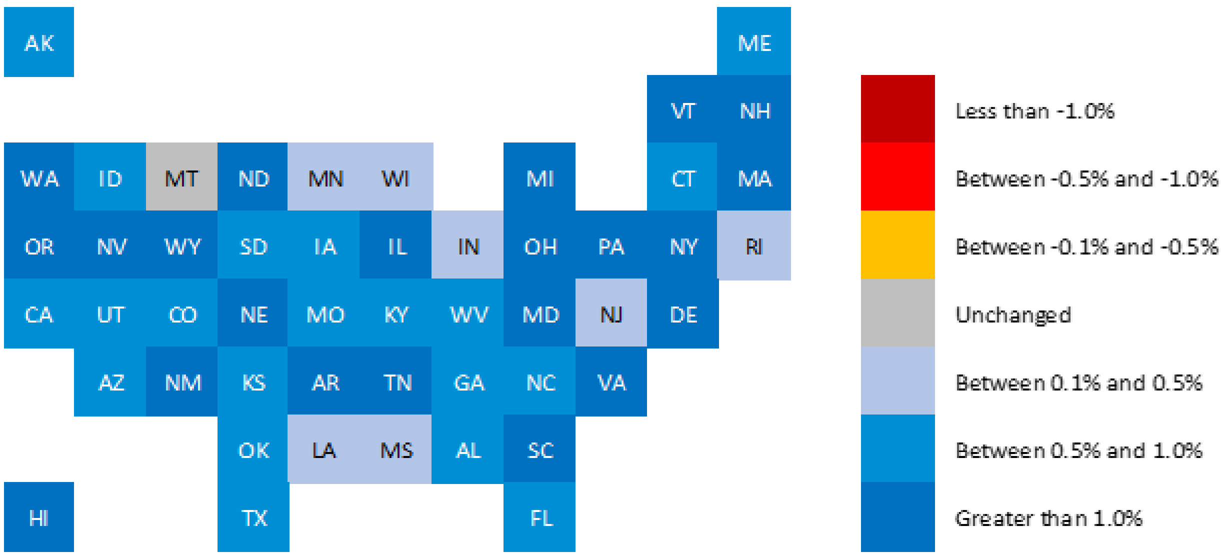
After 10 consecutive rate hikes, the Federal Reserve took the first pause in its anti-inflationary campaign in June. While the Fed indicated that careful monitoring of economic conditions was needed before raising target rates further, committee members revised their expectations of future target rates upward.

Despite expecting further rate hikes, FOMC members revised projections of economic growth upward to 0.95% in 2023. Growth projections for future years were reined in slightly at 1.80% for 2025. Unemployment projections were lowered for both the near and longer terms, at 4.15% for 2023 and rising to 4.45% for the next two years.

[1] 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, Jul 28, 2023.*
[2] Economic Outlook Update™ Q2 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 June and 0.7% during the second quarter. For the quarter, coincident indexes increased in 49 states and was unchanged in one. Coincident indexes reflect unemployment, payroll employment, manufacturing hours, and wages and salaries.

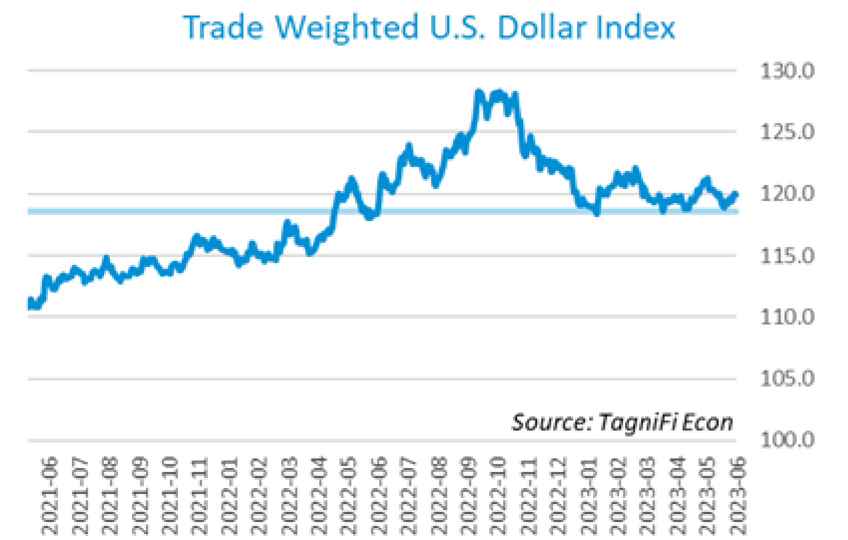
June 2023 State Coincident Indexes: 3-Month Change



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, Jul 28, 2023.*

The U.S. dollar index for goods and services[4] rose 0.4% during the second quarter but was down 0.8% compared to the same period one year prior. The dollar strengthened in late June as better-than-expected labor and production data increased the likelihood of another Federal Reserve target rate increase. European markets are also battling persistent inflation, especially core inflation (exclusive of volatile energy and food prices), which remains notably elevated in Germany and Spain as well as the U.S.



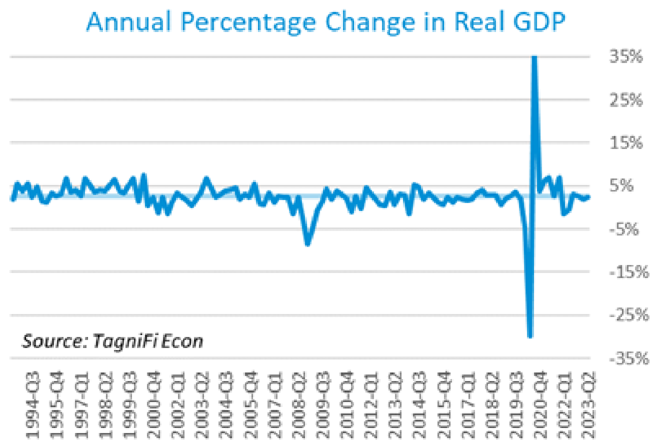
Economic Highlights

- The Philadelphia Fed's coincident index of economic activity in the U.S. rose 0.3% in June and 0.7% during the second quarter.
- The U.S. dollar index rose 0.3% during the second quarter of 2023 but was down 0.8% since the same period one year prior.
- Real GDP grew at an annualized rate of 2.4% during the second quarter of 2023, up from its 2.0% increase in the first quarter.
- The effective federal funds rate rose 0.43 percentage points to 5.08% during the second quarter, continuing the climb from near-zero levels that began in March 2022.
- The one-year and two-year annual treasury yields ended the second quarter at 5.40% and 4.87%, respectively. The benchmark 10-year treasury yielded 3.81% at the end of the quarter, while the 30-year treasury yielded 3.85%.
- The unemployment rate ended the second quarter at 3.6%, up slightly from the prior quarter. Nonfarm payrolls grew by 0.7 million jobs in the second quarter.
- The Consumer Price Index for all items rose 3.1% year over year in June 2023, down from its more-than-40-year high of 8.9% in June 2022. Excluding volatile energy prices, the annual increase was 5.0%.
- Crude oil prices ended the second quarter at $70.66 per barrel, down 6.6% from the prior quarter and 34.4% over one year.
- New home starts rose 3.9% during the first quarter to a level of 1.43 million in June. Total new home starts were down 8.1% year over year.
- The NASDAQ composite rose 12.8% during the second quarter of 2023. The S&P 500 was up 8.3%, the Wilshire 5000 was up 8.0%, and the Dow Jones Transportation Average was up 7.6% 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, Jul 28, 2023.*

Business Activity

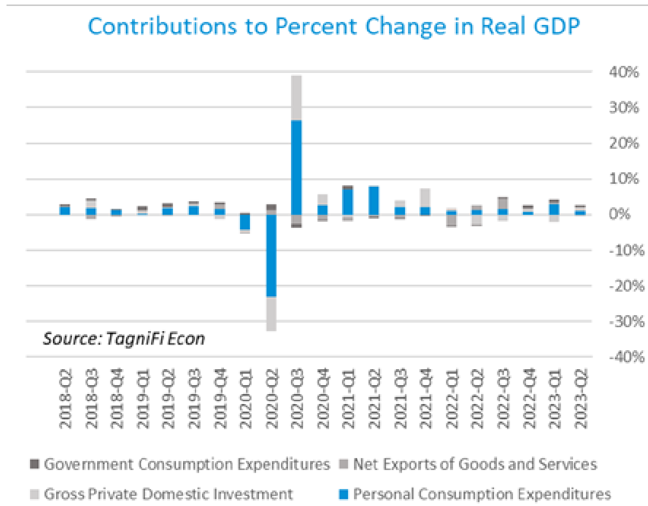
Real gross domestic product (GDP)[5] grew at an annualized rate of 2.4% during the second quarter, up from its 2.0% increase in the first quarter. The accelerated growth exceeded expectations and showed that consumer demand continued to withstand rising interest rates and persistent inflation. Personal consumption and private investment contributed to the second quarter increase, as did government spending. The report indicated broad-based resiliency and tempered economists' expectations that historically high interest rates would herald a recession.



Personal consumption expenditures[6] (PCE) had a positive 1.1% effect on real GDP in the second quarter. Growth in personal spending largely reflected rising services consumption, especially for housing and utilities, health care, financial services and insurance, and transportation services. Increased goods consumption also contributed to real GDP gains, led by recreational goods and vehicles as well as gasoline and other energy goods.

Gross domestic private investment[7] also rose, contributing 1.0% to the second quarter real GDP estimate. Nonresidential fixed investment drove the increase, led by equipment, structures and intellectual property products. Private inventory investment also rose, while residential fixed investment fell in the quarter.

Government expenditures[8] rose at both the state and local level and the federal level to contribute 0.5% to the second quarter GDP gain. Higher state and local government spending primarily reflected increases in employee compensation and gross investment in structures. Federal spending growth reflected both national defense and nondefense investment.



Net exports[9] fell in the second quarter, which had a negative 0.1% effect on real GDP. Decreasing exports of goods were responsible for the downturn in net exports. Moderating the decline in net exports were rising exports of services and falling imports of both goods and services (imports have a negative effect on GDP).

Economists polled by the Livingston Survey[10] in June projected real GDP to fall to an annual rate of -0.7% in the second half of 2023 before rebounding to an annual rate of 1.0% in the first half of 2024.

[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, Jul 28, 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, Jul 28, 2023.*

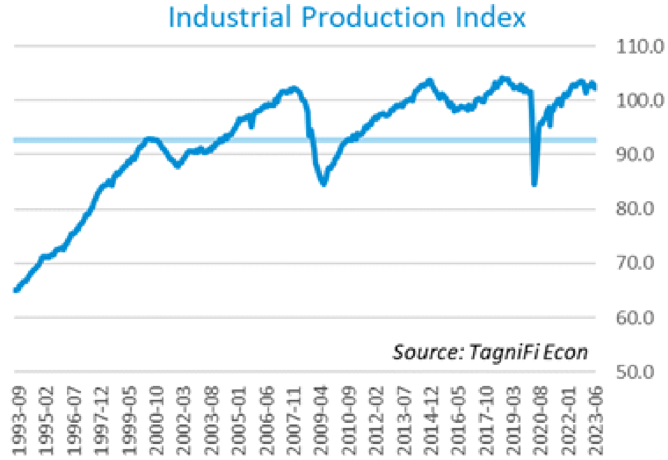
[7] U.S. Bureau of Economic Analysis, Contributions to percent change in real gross domestic product: Gross private domestic investment [A006RY2Q224SBEA], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/A006RY2Q224SBEA, Jul 28, 2023.*

[8] 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, Jul 28, 2023.*

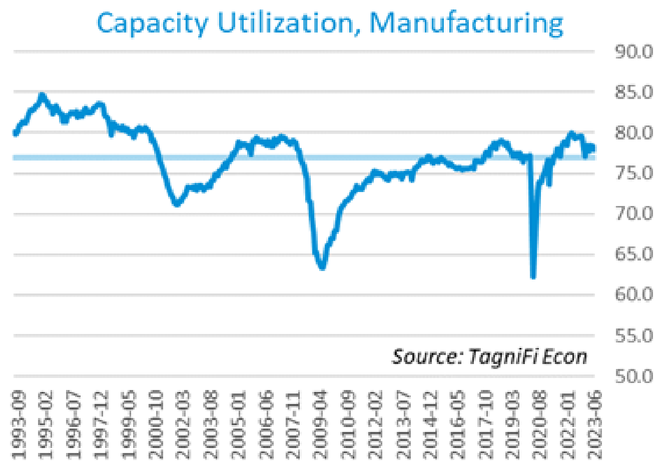
[9] U.S. Bureau of Economic Analysis, Contributions to percent change in real gross domestic product: Net exports of goods and services [A019RY2Q224SBEA], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/A019RY2Q224SBEA, Jul 28, 2023.*

[10] Federal Reserve Bank of Philadelphia, The Livingston Survey June 2023, [economic release], retrieved from https://www.philadelphiafed.org/surveys-and-data/real-time-data-research/livingston-survey, Jul 28, 2023.

The Industrial Production Index[11] is an economic indicator that measures real output for all facilities located in the U.S. manufacturing, mining, electric and gas utilities. The index stood at 102.3 at the end of the second quarter, down 0.4% from the first quarter.



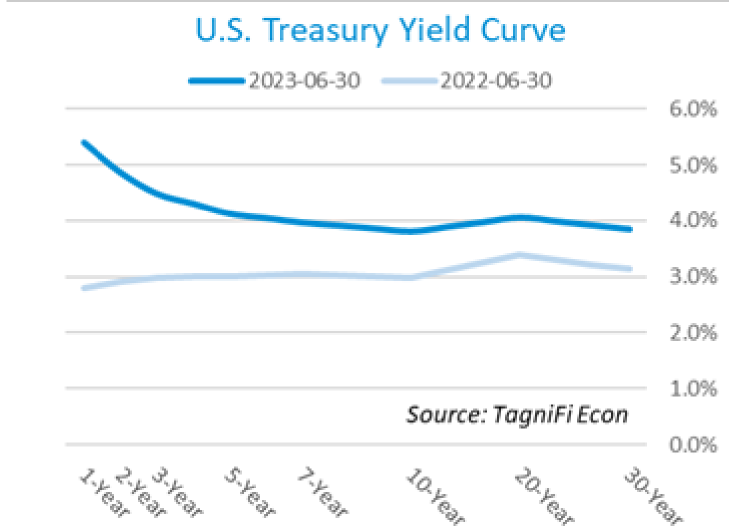
The Capacity Utilization Index[12], which attempts to capture industrial output as a percentage of the economy's maximum production capacity, ended the second quarter at 78.0%. June 2023's level was above the 30-year average of 76.9% for this metric, and it was 0.2 percentage points higher than the previous quarter.



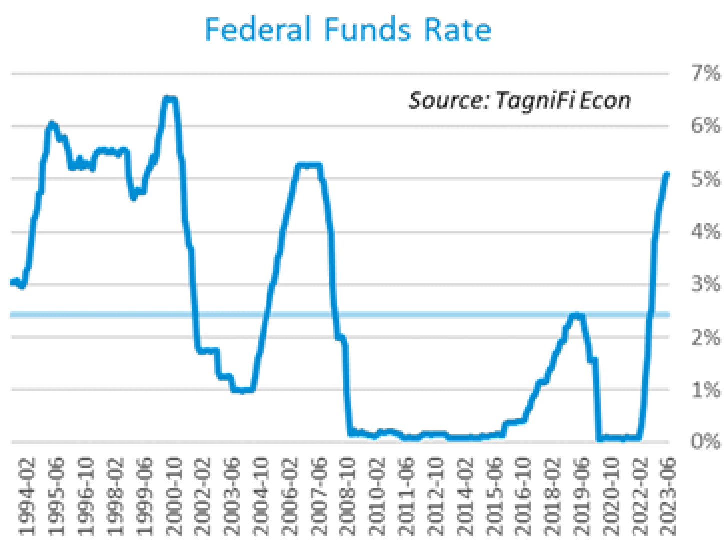
[11] Board of Governors of the Federal Reserve System (US), Industrial Production Index [INDPRO], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/INDPRO, Jul 28, 2023.*
[12] Board of Governors of the Federal Reserve System (US), Capacity Utilization, Manufacturing (NAICS), *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/MCUMFN, Jul 28, 2023.*

Interest Rates

The effective federal funds rate[13] rose by 0.43 percentage points to 5.08% during the second quarter, continuing the climb from near-zero levels that began in March 2022. Treasury bond yields[14] for periods one year and up rose during the second quarter. The yield curve remained inverted as long-term treasury yields fell further behind shorter-term yields. The closely watched two- and 10-year rates have been inverted since early in July 2022. The one-year and two-year annual treasury yields ended the second quarter at 5.40% and 4.87%, respectively. The benchmark 10-year treasury yielded 3.81% at the end of the quarter, while the 30-year treasury yielded 3.85%.

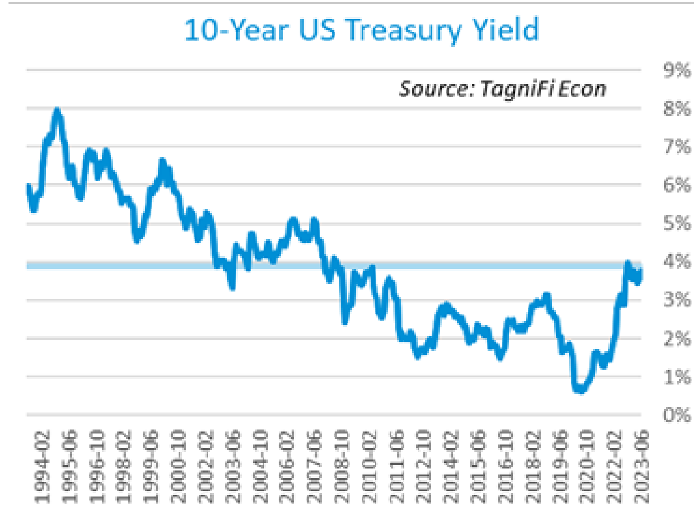


In the second quarter of 2023, the Federal Reserve slowed its series of federal funds target rate[15] hikes, enacting one increase of 25 basis points. The target rate ended the quarter at a 17-year-high range of 5.00% to 5.25%. After 10 consecutive rate hikes beginning in March 2022, the committee paused in June to reassess the economic landscape. Still, committee members revised their "dot plot" projections upward, pushing the median interest rate expectation for the end of 2023 to 5.6% and predicting two additional rate hikes in 2023.

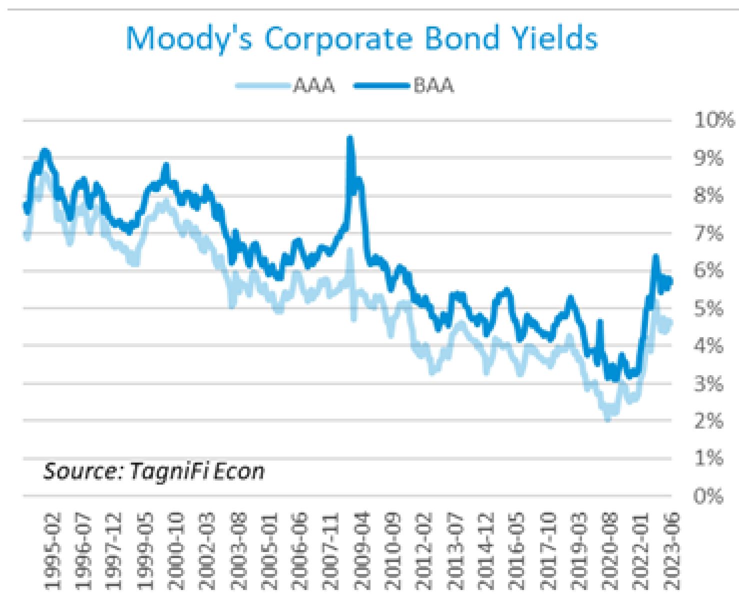


[13] Board of Governors of the Federal Reserve System (US), Federal Funds Effective Rate [FEDFUNDS], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/FEDFUNDS, Jul 28, 2023.*
[14] Selected Interest Rates Instruments, Yields in percent per annum, *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/release/tables?rid=18&eid=289&od=2023-06-30#, Jul 28, 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, Jul 28, 2023.*

The yield on the benchmark 10-year U.S. treasury[16] ended the second quarter at 3.81%, which was up 0.33 percentage points from the previous quarter, yet below the average yield of 3.87% over the last 30 years.



Moody's Baa Corporate Bond Yield Index[17] ended the second quarter at 5.69%, up 0.10 percentage points since the previous quarter. Moody's less-risky Aaa[18] Index rose 0.22 percentage points during the quarter to a level of 4.60%.



[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, Jul 28, 2023.*

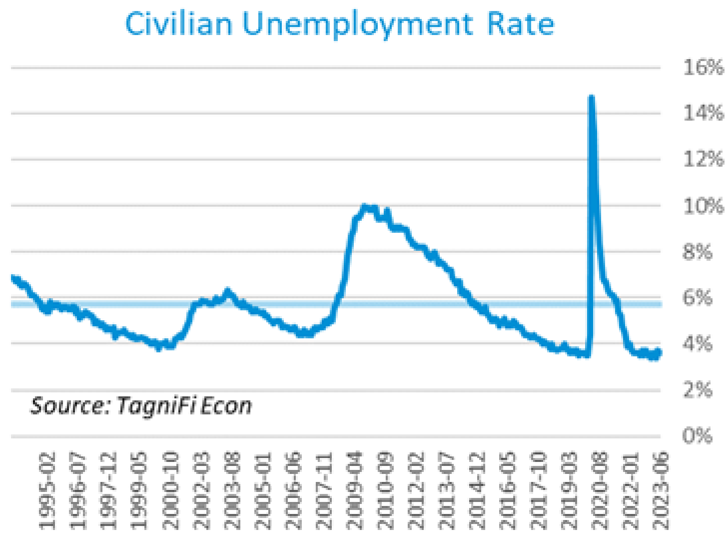
[17] Moody's, Moody's Seasoned Baa Corporate Bond Yield [DBAA], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DBAA, Jul 28, 2023.*

[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, Jul 28, 2023.*

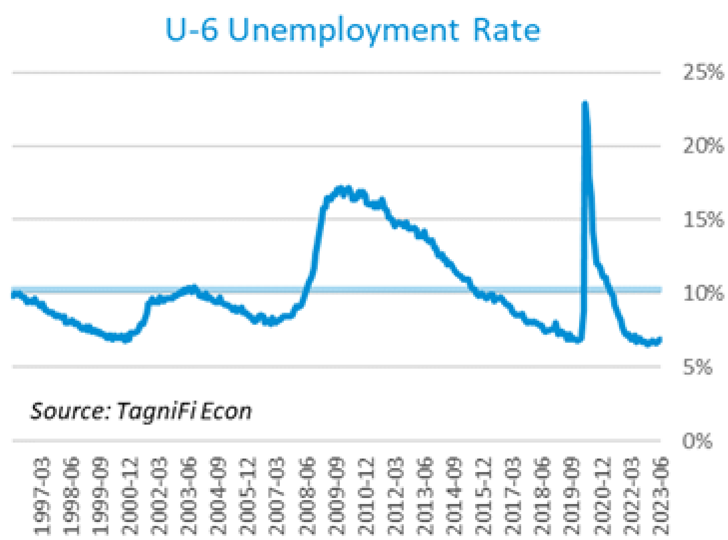
Employment

The official unemployment rate[19] ended the second quarter at 3.6%, up slightly from the prior quarter. The rate, still near its pre-pandemic (February 2020) level, stood well below the 30-year historical average of 5.7%. The labor force[20] expanded by 0.2 million workers during the quarter. The labor force participation rate[21] held steady throughout the quarter at 62.6%, 0.7 percentage points below its pre-pandemic level. Economists polled by the Livingston Survey in June 2023 projected an unemployment rate of 4.1% in December 2023, rising to 4.6% in June of 2024.

In May 2023, nonfarm worker quits[22] stood at 4.0 million, down 10.8% from the record high in November 2021 yet still 15.0% higher than the pre-pandemic level. Despite an uptick in May, 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 9.6 percentage points during the year ended May 2023. Job openings[23] totaled 9.8 million in May 2023, 2.2 million below their record high in March 2022 and 2.4 times the number of resignations.

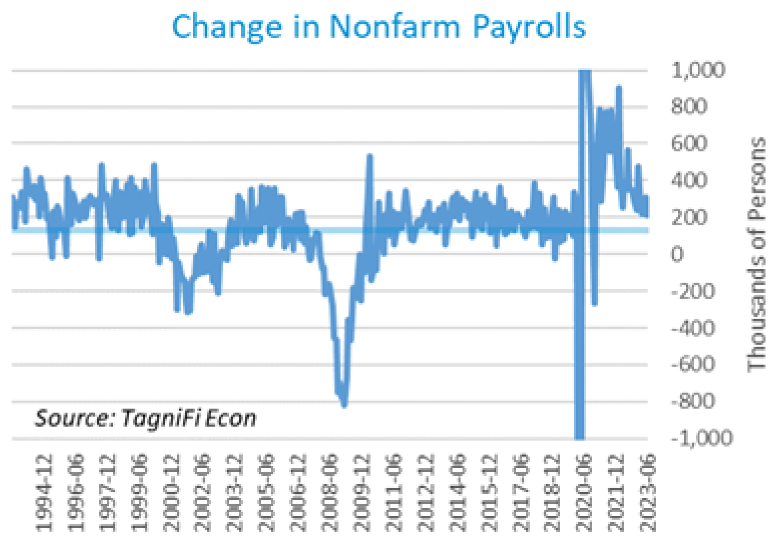


The U-6 unemployment rate[24] is an alternative measure of unemployment with a broader definition, including such groups as discouraged workers who are not actively searching for jobs but want full-time work and part-time workers who want full-time work. The U-6 unemployment rate has generally followed the same pattern as the official rate and stood at 6.9% in June 2023.



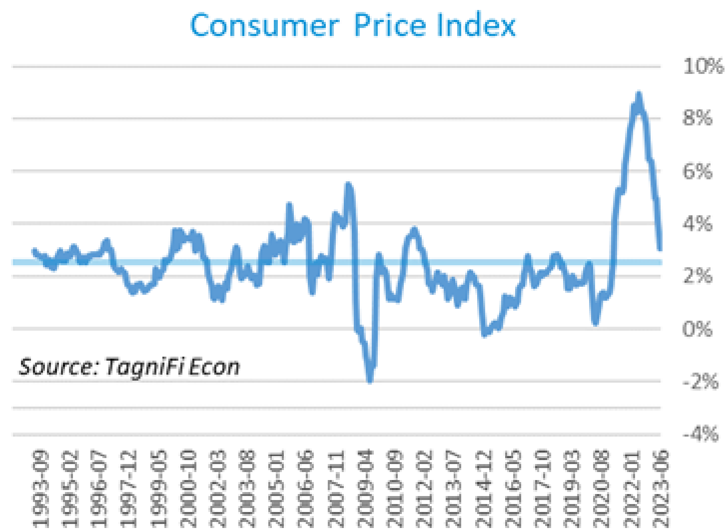
[19] U.S. Bureau of Labor Statistics, Civilian Unemployment Rate [UNRATE], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UNRATE, Jul 28, 2023.*
[20] U.S. Bureau of Labor Statistics, Civilian Labor Force Level [CLF16OV], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CLF16OV, Jul 28, 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, Jul 28, 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, Jul 28, 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, Jul 28, 2023.*
[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, Jul 28, 2023.*

Nonfarm payrolls[25] grew by 0.7 million jobs in the second quarter. U.S. nonfarm payrolls in June totaled 156.2 million jobs, an increase of 3.8 million from the prior June. The jobs count also stood 3.8 million above its pre-pandemic (February 2020) level. June's job market growth, while adequate from a historical standpoint, underperformed investor expectations and was the smallest since December 2020. The government, health care, social assistance, and construction industries led June's job gains.



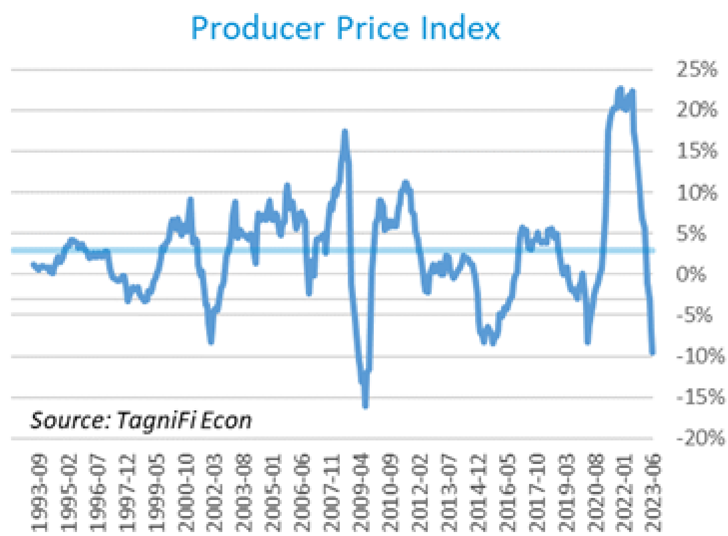
[25] U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm Payrolls [PAYEMS], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PAYEMS, Jul 28, 2023.*

Inflation



In the second quarter of 2023, inflation continued to rise at a more moderate pace than much of 2021 and 2022; the cooling largely reflects lower costs for energy, airline fares and vehicles. The Consumer Price Index[26] for all items rose 3.1% year over year in June 2023, down from its more-than-40-year high of 8.9% in June 2022. Excluding volatile energy prices[27], the annual increase was 5.0%. The average price of a gallon of gas[28] in the U.S. was $3.71 in June 2023, up 10.6% from its December 2002 trough but still 26.6% lower than its record high of $5.06 in June 2022.

In the month of June 2023, higher prices for shelter and motor vehicle insurance led the consumer price index to a relatively temperate increase. Price outcomes for major energy components were mixed in June, with gasoline and electricity costs up over the month but natural gas, fuel oil and other fuels down. The Federal Reserve has taken aggressive action to curb inflation with a series of target interest rate hikes totaling 5.00 percentage points since March 2022. The Fed paused its rate hikes in June but indicated that further increases were expected in 2023.



Wholesale inflation has been quicker to regulate than consumer inflation. The Producer Price Index[29] fell 1.3% in the second quarter and 9.5% since June 2022. The average annual increase over the last 30 years was 2.9%.

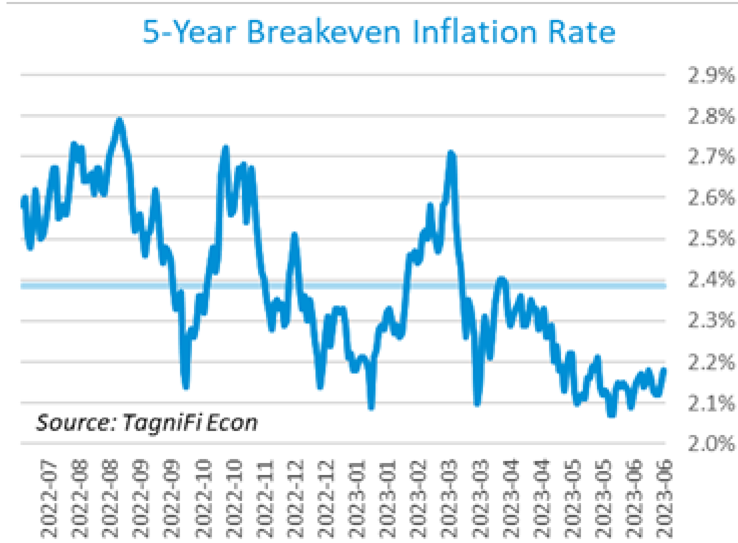
[26] U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items [CPIAUCSL], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPIAUCSL, Jul 28, 2023.*

[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, Jul 28, 2023.*

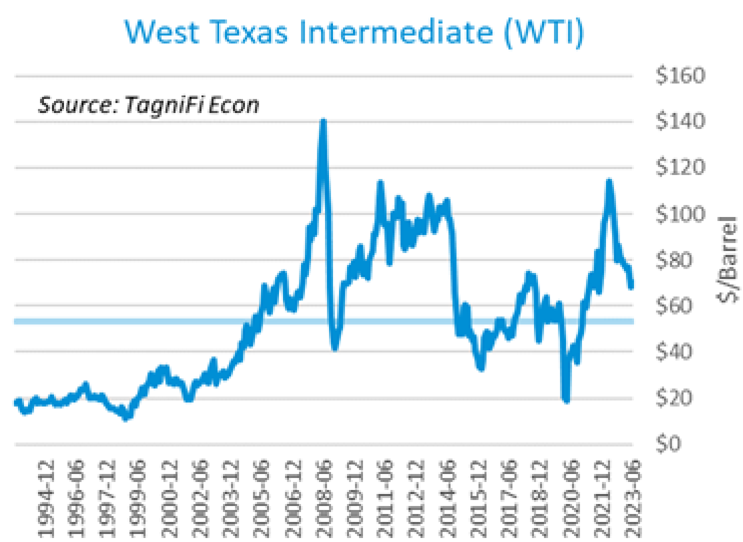
[28] U.S. Bureau of Labor Statistics, Average Price: Gasoline, Unleaded Regular (Cost per Gallon/3.785 Liters) in U.S. City Average [APU000074714], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/APU000074714, Jul 28, 2023.*

[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, Jul 28, 2023.*

The five-year breakeven inflation rate[30], an indicator for the market's inflation expectations for the period, fell to 2.18% at the end of the second quarter from 2.40% at the end of the first quarter.



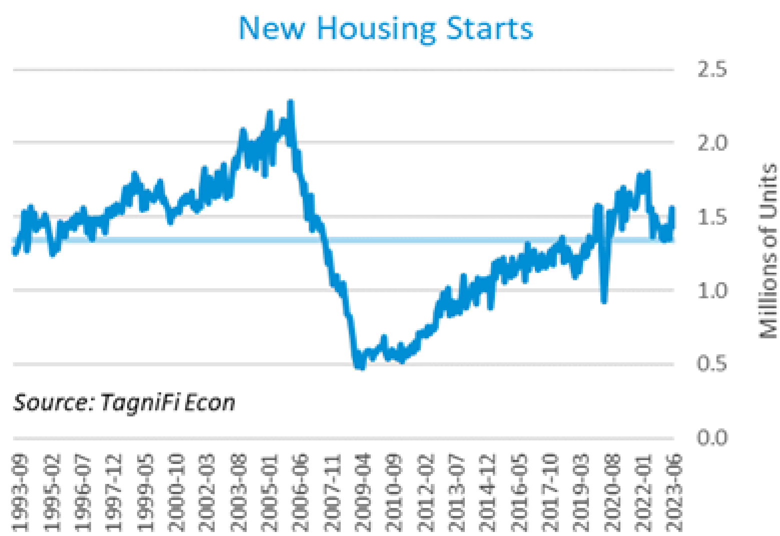
U.S. crude oil[31] prices have fallen in three of the last four quarters, constrained most recently by rising interest rates among major economic players and sluggish growth in the global economy, particularly China. Crude prices ended the second quarter at $70.66 per barrel, down 6.6% from the prior quarter and 34.4% over one year.



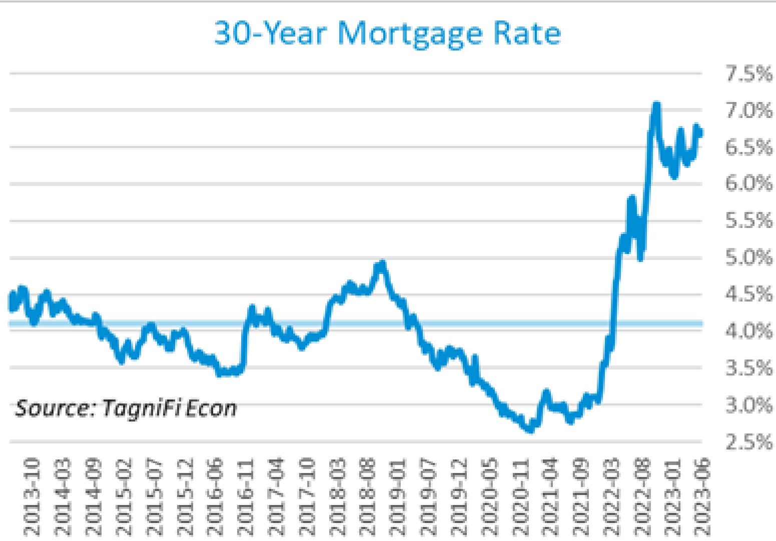
[30] *Federal Reserve Bank of St. Louis, 5-Year Breakeven Inflation Rate [T5YIE], retrieved from FRED, Federal Reserve Bank of St. Louis;* https://fred.stlouisfed.org/series/T5YIE, *Jul 28, 2023.*
[31] U.S. Energy Information Administration, Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma [DCOILWTICO], *retrieved from FRED, Federal Reserve Bank of St. Louis;* https://fred.stlouisfed.org/series/DCOILWTICO, *Jul 28, 2023.*

Housing

High interest rates and a lack of available inventory have plagued the housing market in the first half of 2023. Price growth in major cities has slowed, with a growing number of cities experiencing annual price declines. Home sales continued to slide as mortgage rates remained near the 20-year high reached in late 2022. New home starts[32] rose 3.9% during the first quarter to a level of 1.43 million in June; the increase was concentrated in single-family homes while starts for multifamily buildings with five or more units fell over the quarter. Total new home starts were down 8.1% year over year but remained above their 30-year average of 1.34 million.



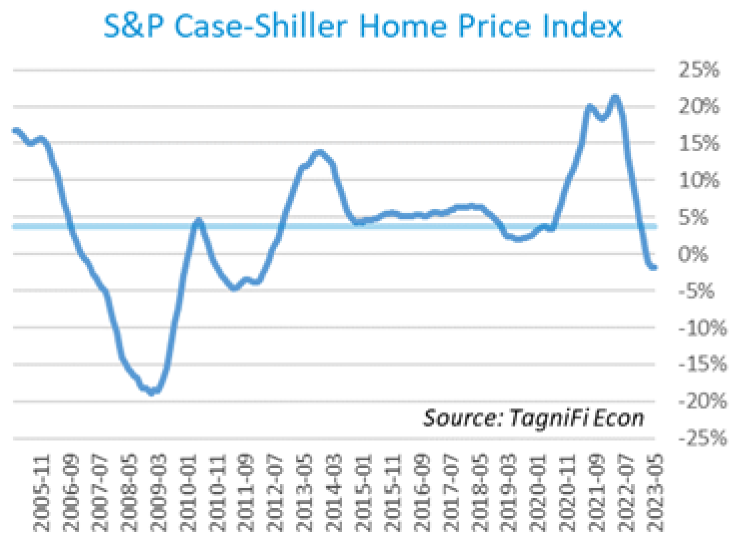
The cost of financing for would-be homebuyers rose during the second quarter, with the 30-year fixed-rate mortgage[33] ending June at an average of 6.71%, 0.37 percentage points below its 20-year high in the fall of 2022.



[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, Jul 28, 2023.*

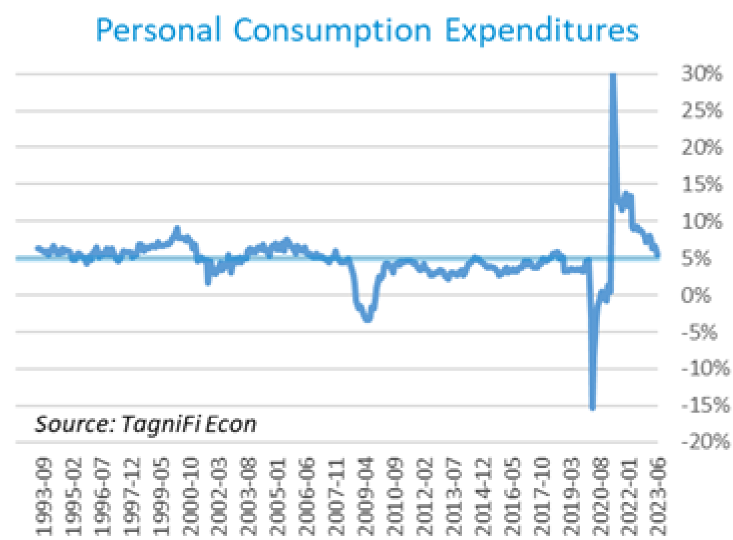
[33] Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States [MORTGAGE30US], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/MORTGAGE30US, Jul 28, 2023.*

The S&P Case-Shiller Home Price Index (20-city)[34] was 1.0% higher from April to May but was down 1.8% since May 2022. Led by two Midwestern cities, Chicago and Cleveland, 10 of the 20 cities continued to report one-year price increases. Meanwhile, Seattle and San Francisco posted double-digit declines; in all, seven of the 10 cities with over-the-year price declines were in the West region.



Consumer Spending

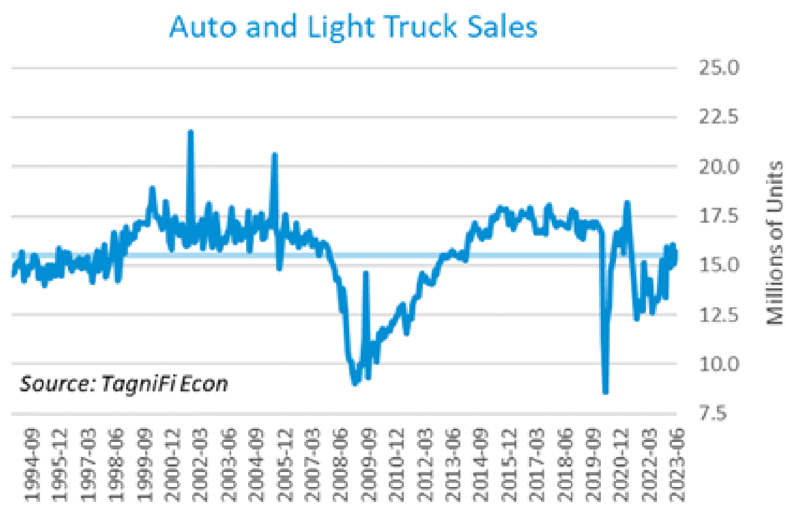
Personal Consumption Expenditures (PCE)[35] rose 1.3% in the second quarter to $18.4 trillion. PCE were up 5.4% since the second quarter of last year. Spending increased in June for services such as financial services and insurance, housing and utilities, and recreational services. Goods spending also increased, led by motor vehicles and parts as well as gasoline and other energy goods.



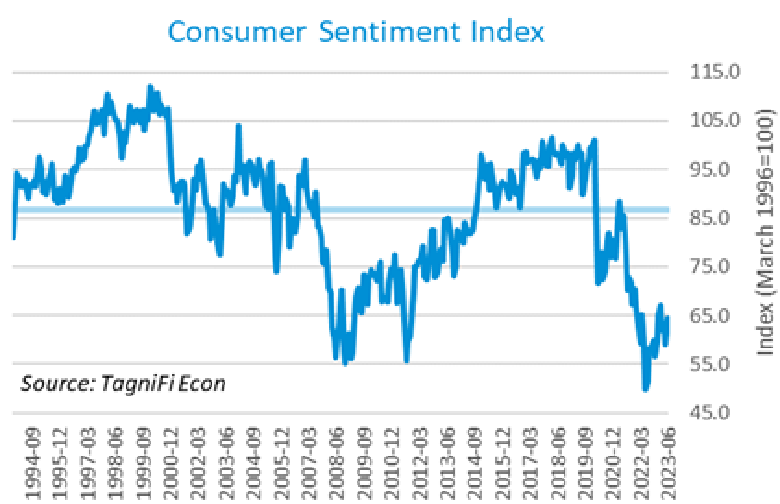
[34] S&P Dow Jones Indices LLC, S&P/Case-Shiller 20-City Composite Home Price Index [SPCS20RSA], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/SPCS20RSA, Jul 28, 2023.*

[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, Jul 28, 2023.*

Auto manufacturers reported autos and light trucks sold[36] at an annual rate of 15.7 million in June, up 5.0% from March. New vehicle prices[37] built on their record high by a further 0.7% during the second quarter. Used car prices[38] rebounded after two quarters of decline, up 8.6% over the quarter.

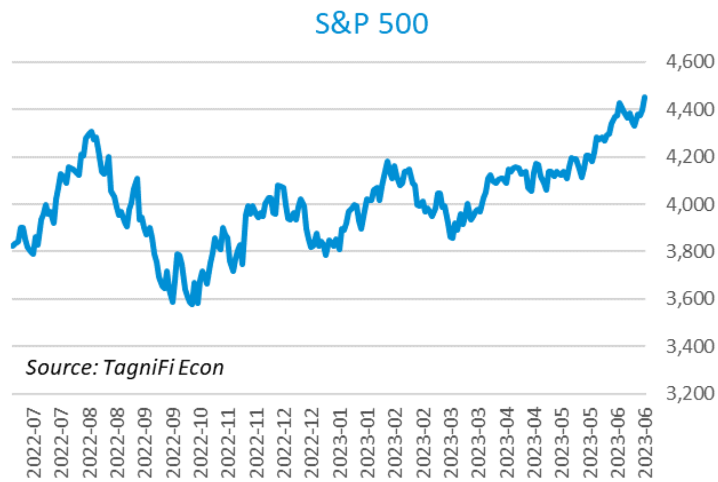


The University of Michigan's consumer sentiment index[39] rose to 64.4 in June 2023, continuing the rebound from its all-time low of 50.0 in the previous June. The index was up 28.8% in the year ended June 2023 yet still well below its 30-year average of 86.6. June's boost in sentiment can be credited largely to easing inflation and the evasion of a debt ceiling crisis. The upturn was widespread across demographic groups except for the youngest consumers.



[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, *Jul 28, 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, *Jul 28, 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, *Jul 28, 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, *Jul 28, 2023.*

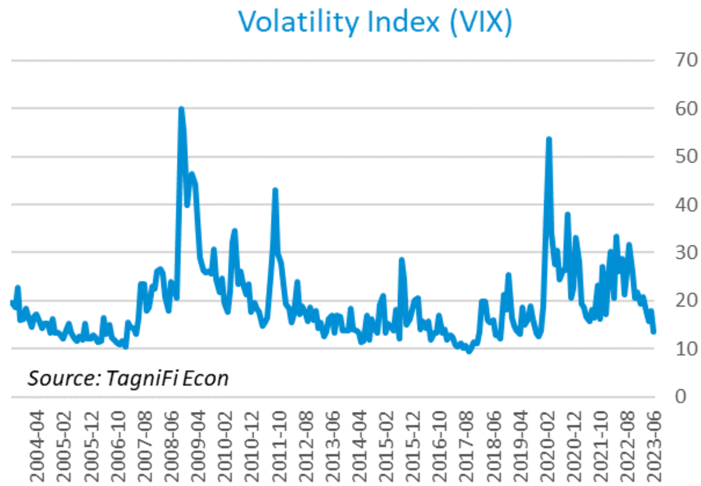
Capital Markets



The table below shows the quarterly, year-to-date and 12-month performance of major U.S. equity indices. Capital markets rebounded in the first half of 2023 after a difficult 2022 characterized by threats such as the war on Ukraine and hawkish monetary policy. The infusion of energy came to capital markets with reports of abating inflation, continued strength in the jobs market, and mass-market artificial intelligence ringing in a new frontier in tech. Tech stocks were the major winners; the NASDAQ composite rose 12.8% during the second quarter of 2023. The S&P 500 was up 8.3%, the Wilshire 5000 was up 3.9%, and the Dow Jones Transportation Average was up 7.6% for the quarter. The Dow Jones Composite and Industrial Averages were up 3.6% and 3.4%, respectively, over the quarter.

	Closing	% Change		
Index	Value	Quarter	YTD	12-Mo.
S&P 500	4,450.38	8.3%	15.9%	17.6%
Dow Jones Industrial Average	34,407.60	3.4%	3.8%	11.8%
Dow Jones Composite Average	11,563.04	3.6%	5.5%	10.7%
Dow Jones Transportation Average	15,529.77	7.6%	16.0%	18.0%
NASDAQ Composite	13,787.92	12.8%	31.7%	25.0%
Wilshire 5000	42,300.79	3.9%	11.1%	12.6%

Stock market volatility, as measured by the VIX[40], ended the second quarter of 2023 at 13.6, down 27.3% since the prior quarter and 47.3% since the second quarter of 2022. The VIX trended downward with relative consistency in the second quarter of 2023.



Outlook

In March 2023, the FOMC revised its near-term real GDP projections upward and unemployment rate projections downward; little change was made to near-term PCE inflation projections. Little to no adjustments were made to longer-run projections for the three indicators.

The FOMC revised its projection for real GDP[41] to 0.95% growth in 2023, rising to 1.20% in 2024, then to 1.80% by 2025. The committee expected Personal Consumption Expenditures (PCE) inflation[42] to cool to 3.25% in 2023, further moderating to 2.55% by 2024 and 2.20% by 2025. They forecast that the unemployment rate[43] would be 4.15% in 2023, rising to 4.45% in both 2024 and 2025. The board raised projections of future target rates, revising the median projections upward to 5.6% in 2023, 4.6% in 2024, and 3.4% in 2025. While the committee paused target rate increases in June, they foreshadowed future rate hikes this year.

FOMC Summary of Economic Projections

Year	Real GDP	PCE	Unemployment
2023	0.95%	3.25%	4.15%
2024	1.20%	2.55%	4.45%
2025	1.80%	2.20%	4.45%
2026	1.80%	2.20%	4.45%

[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, Jul 28, 2023.*

[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, Jul 28, 2023.*

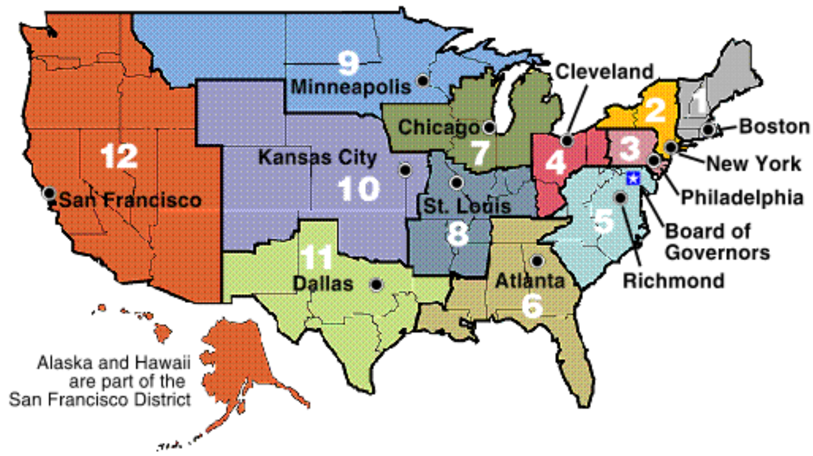
[42] *Federal Reserve Bank of St. Louis, FOMC Summary of Economic Projections for the Personal Consumption Expenditures Inflation Rate, Central Tendency, Midpoint [PCECTPICTM], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PCECTPICTM, Jul 28, 2023.*

[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, Jul 28, 2023.*

Midwest Economy[44]

Summary of Economic Activity

Economic activity in the Seventh District was little changed overall in late May and June. Contacts generally expected a small decline in demand over the next year, and many expressed concerns about the potential for a recession. Employment increased moderately; nonbusiness contacts saw little change in activity; consumer spending was flat; business spending and construction and real estate activity declined slightly; and manufacturing decreased modestly. Prices and wages rose moderately, while financial conditions tightened slightly further. Expectations for farm incomes in 2023 decreased some.



Labor Markets

Employment rose moderately in late May and June, and contacts expected a similar rate of increase over the next 12 months. Many contacts continued to have difficulty finding workers, particularly higher-skilled labor, though many also said hiring had become easier, and several noted they were fully staffed. One program administrator observed that some manufacturers were managing changing labor needs by briefly laying off workers and then rehiring them, sometimes repeatedly. Wage and benefit costs rose moderately. A few contacts noted wage increases in the range of 3% to 5% in recent labor union contract agreements. Some indicated health care costs had risen significantly.

Prices

Prices rose moderately over the reporting period, and contacts expected a similar rate of increase over the next 12 months. Nonlabor costs were up modestly, with rising raw materials and energy costs contributing to the increase. Contacts continued to note that growth in shipping costs had slowed noticeably. One contact in finance reported improved margins for his manufacturing clients, who saw input costs come down but were able to maintain higher selling prices. Consumer prices generally increased moderately due to the continued elevated level of demand and the passthrough of higher costs.

Consumer Spending

Consumer spending was little changed in late May and June. Nonauto retail spending was flat overall, with contacts highlighting increased sales of furniture and lawn and garden products but declining sales at convenience stores and in the electronics and building materials segments. Spending further shifted toward essential items and away from discretionary ones, and for many products, consumers continued to trade down in quality or convenience. Light vehicle sales were unchanged but at a higher level than had been expected earlier in the year. Leisure and hospitality spending was also flat but at a strong level, with contacts reporting a small increase in spending at amusement parks and tourist attractions but less air travel. Contacts indicated that consumers were less likely to trade down in their leisure and hospitality purchases compared with other spending categories.

Business Spending

Business spending declined slightly in late May and June. Capital expenditures were unchanged on balance, with several contacts reporting purchases of new equipment or software. Freight volumes declined further. Demand for industrial, commercial and residential energy increased slightly. Inventories for most retailers were a little higher

[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.

than desired, with one contact noting elevated stocks of apparel, beauty items and sporting and outdoor goods. Auto inventories rose slightly but remained below pre-pandemic levels, with contacts noting that railcar shortages were slowing deliveries of vehicles to dealers. In manufacturing, inventories increased modestly, and contacts said that supply-chain issues, while still arising at times, had returned to pre-pandemic norms.

Construction and Real Estate

Construction and real estate activity decreased slightly over the reporting period. Residential construction ticked down, reflecting a slowdown in single-family development. New home sales decreased slightly, while new home prices increased slightly. Residential real estate activity was little changed. An Iowa contact said cash transactions continued to be a larger proportion of sales than they have been historically as high interest rates pushed borrowers out of the market. Existing home prices were down some, while rents were flat. Nonresidential construction activity slowed overall as high interest rates, elevated cost pressures and shortages of key inputs such as electrical components weighed on activity. Nonresidential construction prices remained at elevated levels. Commercial real estate activity decreased modestly. Prices decreased slightly, rents fell modestly, and vacancy rates were up slightly.

Manufacturing

Manufacturing demand decreased modestly in late May and June, and backlogs were down moderately. Steel orders were up slightly, supported by solid demand from the auto and construction industries. Fabricated metals orders decreased slightly, in part due to weaker demand in the aerospace sector. Machinery sales also decreased slightly, with contacts highlighting less demand from the auto industry. In contrast, auto industry contacts said production was steady on balance. Heavy truck orders increased slightly amid very low inventories.

Banking and Finance

Financial conditions tightened slightly further on balance during the reporting period. Bond and equity market values edged up, while volatility edged down. Business loan demand decreased modestly, as borrowing rates rose and standards tightened some. One contact said weak demand was concentrated among clients in the consumer discretionary, durable goods, and retail sectors, which were seeing slowing sales. Business loan quality deteriorated a bit. Consumer loan demand decreased slightly overall, but several contacts noted greater credit card usage. Consumer loan quality decreased slightly, while borrowing rates rose modestly and lending standards were somewhat tighter.

Agriculture

Expectations for Seventh District farm incomes for 2023 deteriorated some as drought expanded throughout the district. One contact said, "It is time to be concerned, but too soon to panic." Crops were behind normal growing progress. Expectations for this year's corn crop worsened more than for soybeans because corn is more sensitive to drought at this growth stage. Crop prices were volatile during the reporting period; while corn prices ended down, soybean prices were up, and wheat prices were about the same. Some input costs were lower. Prices for milk were down once again, extending losses for dairy farms. Although hog prices moved up some, producers continued to struggle to turn a profit. Egg prices edged up. Cattle prices made further gains, as drought limited water and forage availability, forcing farmers to trim their herd sizes.

Community Conditions

Community, nonprofit and small business support contacts reported little change in activity, which was at a robust level. That said, there were signs the economy was cooling. State government officials saw slowing growth in tax revenues and a small increase in demand for unemployment insurance. High interest rates were challenging Community Development Finance Institutions' efforts to lend at affordable rates to low- and moderate-income borrowers, including small businesses and prospective homeowners. Contacts offering small business services, in particular to small manufacturers, reported that a lack of workers remained an important issue and was holding back production. At the same time, contacts engaged with low-wage workers stressed that wages were too low to meet daily needs in the face of rising costs, particularly for housing.