SIFMA Research:
2021 Mid-Year US Economic Survey

Forecasts from the SIFMA Economic Advisory Roundtable

June 2021

SIFMA Economic Advisory Roundtable

The SIFMA Economic Advisory Roundtable brings together Chief U.S. Economists of 27 global and regional financial institutions. This semiannual survey compiles the median economic forecast of Roundtable members, published prior to the upcoming Federal Open Market Committee (FOMC) meeting. We analyze Roundtable economists' expectations for: GDP, unemployment, inflation, interest rates, etc. We also review expectations for policy moves at the upcoming FOMC meeting and discuss key macroeconomic topics and how these factors impact monetary policy.

Note: The survey was populated between May 17 and June 3.

Key Takeaways

- 2021 GDP growth est. 7.5%, vs. -2.4% in 2020 (median forecast, 4Q/4Q)
- 2021 unemployment rate est. 5.2%, vs. 8.1% in 2020 (4Q average)
- 2021 inflation estimate 2.9%, vs. 1.6% in 2020 (Core CPI, 4Q/4Q)

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Setting the Scene

Survey Disclaimers: Since the survey launched, there could have been changes in monetary or fiscal policy actions which are not accounted for in this report. Charts may not add to 100% due to rounding.

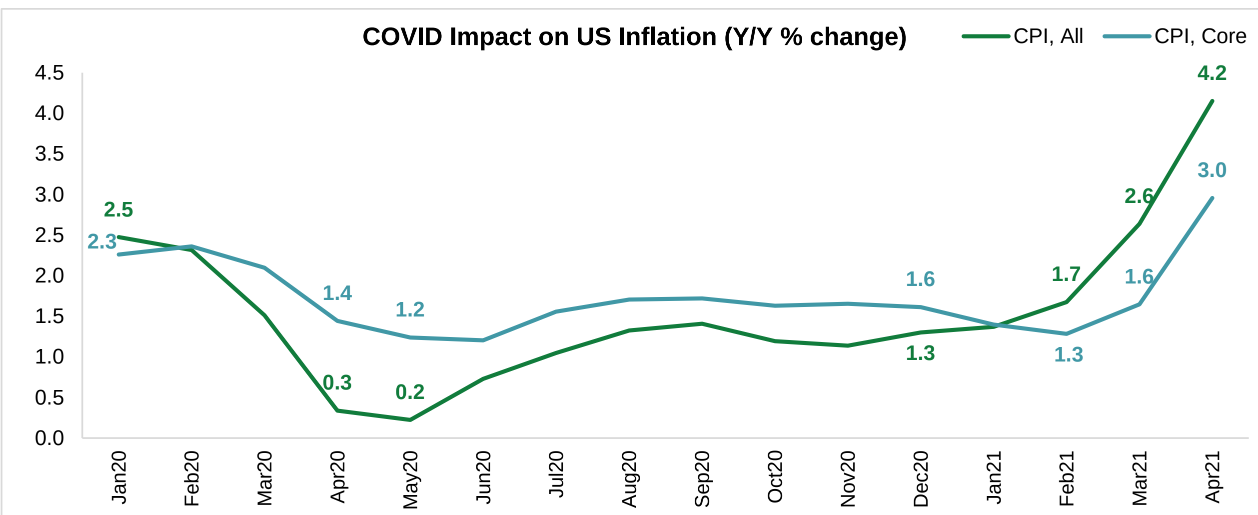
Setting the Scene

Status of the Economic Environment

When we last did this survey, in December 2020, economists were focused on the economic recovery in terms of GDP returning to normal levels and the unemployment rate improving. Now that we are past the anniversary of the peak of the global pandemic – not to diminish the struggles many people are still undergoing – all eyes have turned to inflation.[1]

The April Surge

The current uptrend is clear starting from February 2021, as the economy began preparing for a major reopening as vaccines were rolled out. In April[2], the inflation rate ticked even higher, on both headline and core measures. The April surge saw headline CPI jump to 4.2% and Core CPI (CPI minus food and energy) to 3.0%, from 1.4% in January of this year for both.



Source: FRED Economic Data, SIFMA estimates
Note: CPI, All = all urban consumers, all items, U.S. city average, percent change from year ago, monthly; seasonally adjusted. Core CPI = all urban consumers, all items less food and energy, U.S. city average, percent change from year ago, seasonally adjusted

[1] Please see SIFMA Insights Spotlight: Inflation 101 for a deeper look into inflation terminology, measurement, and historical trends

[2] May inflation data to be released June 10

The Driving Factors

What are the driving factors behind this increase in the inflation rate? We break the factors down into a three-legged stool view:

- **Base Effect** – As the economy begins its reopening, we compare current price levels to last year's significant drops in prices seen at the height of the pandemic. Since last year's reference months displayed sharp drops, we see the opposite effect this year. Now, as the lower lows or the lower data points from late spring/early summer last year fall out of this year's inflation equation, topline prices will – and are – moving higher, at least in the short term.

- **Supply Side** – We are experiencing labor and material shortages as supply chains are challenged by the stronger than anticipated demand. Many businesses are having trouble finding employees, given stimulus checks and enhanced unemployment benefits, as well as lingering health concerns and childcare issues. It will take time to work through COVID-driven bottlenecks and temporary restrictions in supply chains and adapt to the reopening of the economy. An interesting example many of us can relate to is the opening of new or formerly closed restaurants. Owners are finding it challenging to do so given labor shortages and, therefore, demand for table reservations is outstripping dining availability.

- **Demand Side** – Consumers are fueled by fiscal transfers of money (stimulus checks and other fiscal benefits) ramping up demand for everything from travel to dining out. We are also experiencing the impacts of returning to work for both currently employed people heading back to physical offices and the rehiring of the unemployed. This brings with it an ancillary increase in demand – more income/wealth drives more spending.

As the economy recalibrates its new post-pandemic equilibrium, we can expect to see at least temporary higher prices across multiple segments in inflation indexes. But the question for economists and market participants is whether inflation is transitory or underlying. The former would imply temporary price increases driven by COVID-related supply chain issues and a reopening-related increase in demand. The later would indicate a sustained upward movement in the overall level of prices.

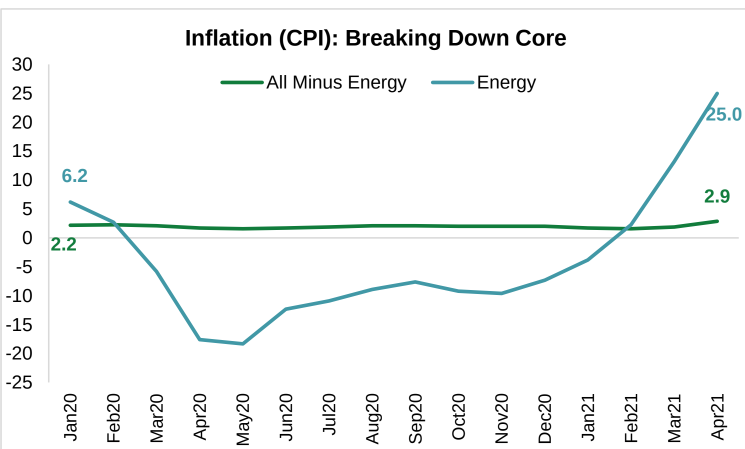
Fed Chairman Powell has called the April surge in inflation "transitory." And 88% of our Roundtable economists agree with the Fed Chairman's assessment that inflation is transitory or temporary. Market metrics, however, will tell you not everyone is confidently in the transitory camp, as market prices (in terms of the S&P 500 index) continue to ebb and flow around inflation data releases.

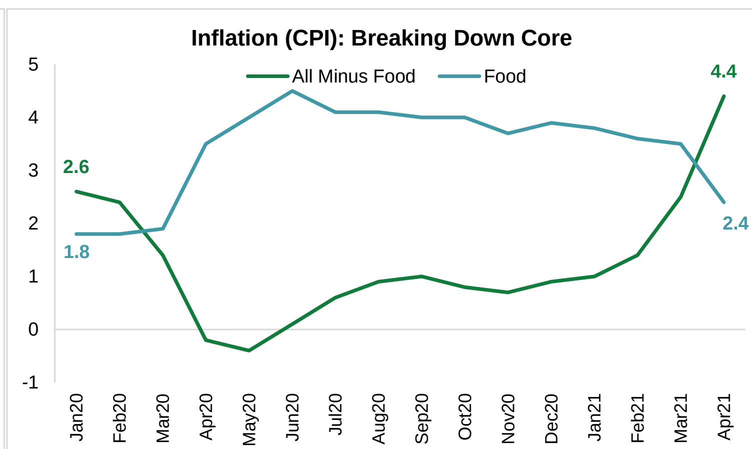
Only time will tell if price increases driven by the factors described above will be sustained longer term, moving inflation from transitory to underlying. This unknown will keep economists and market participants focused on inflation data for the foreseeable future.

Breaking Down Core Inflation

As Core CPI removes energy and food prices – excluding the temporary price changes in these goods categories which are known to have volatile or seasonal price fluctuations – we thought it would be interesting to show the trends in the excluded categories:

- The headline CPI minus energy inflation trend is essentially flat, +0.7 pps from January 2020 to April 2021
  - Energy prices experienced deflation at the height of the pandemic but have jumped significantly of late, +18.8 pps from January 2020 to April 2021
- The headline CPI minus food inflation trend went on a wild ride; moving from +2.6% in January, troughing at -0.4% in June 2020 (deflation), and moving up to +4.4% in April 2021
  - Food prices moved from +1.8% in January 2020, peaked at +4.5% in June 2020, and settled at +2.4% in April 2021
- Energy is the bigger driver of headline inflation, with prices moving in line with the economic shutdowns and then reopening patterns
  - Energy = reopening play (Get Out and Travel, GOAT)
  - Food = stay-at-home play (we all remember the empty grocery shelves as people stockpiled food last year!)





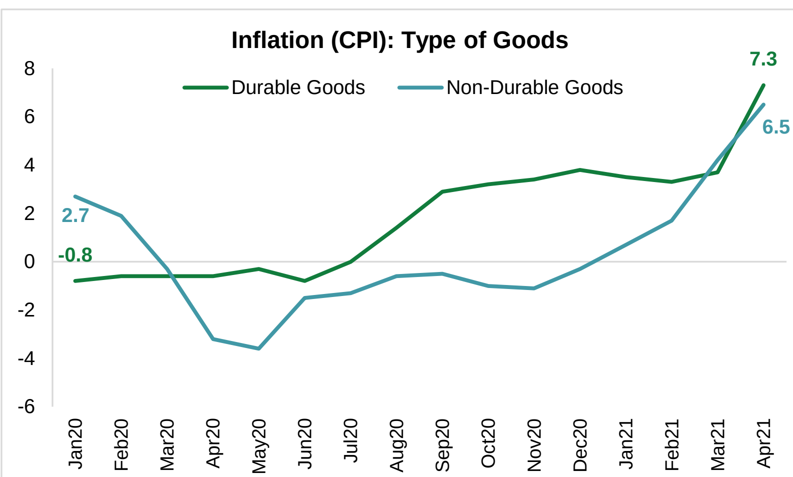
Source: BLS, SIFMA estimates
Note: All urban consumers, U.S. city average, percent change from year ago, monthly, seasonally adjusted

Interesting Trends

It is interesting to analyze the trends in durable versus non-durable goods. Durables, or hard goods are consumer products that yield utility over long periods of time, with lifespans of three or more years, instead of being consumed in one use. Durable goods typically have long periods between successive purchases, i.e. they do not wear out quickly (cars, appliances, furniture, etc.). Conversely, non-durable, or soft goods are consumed immediately in one use or have a lifespan of less than three years (food, cleaning products, paper products, etc.). Durable goods can be rented or purchased, while non-durable goods are generally not rented.

Purchase patterns of durable goods can be used as an economic indicator. During periods of economic growth, consumers have more spending power. Since durable goods are typically more expensive and entail a larger outlay of capital, people ramp up purchases of durables during times of expansion. People, however, usually purchase the same amount of nondurable goods during economic growth periods. Conversely, during an economic recession, consumers usually hold off on purchasing durable goods but purchase the same amount of non-durable goods.

Once again, the global pandemic was different than other periods of economic downturns. You see prices for durable goods increase, while the economy continued to struggle. This was driven by pandemic-related changes in behaviors. For example, consumers – by force or by choice – were staying at home while others moved to the suburbs away from cities. As such, people looked to improve their homes and purchase cars to avoid public transportation. The increase in non-durable goods prices came later, in line with the start of the economic reopening.

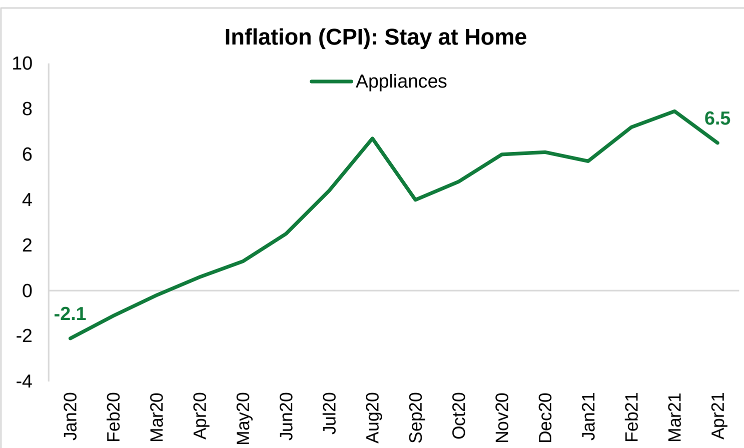


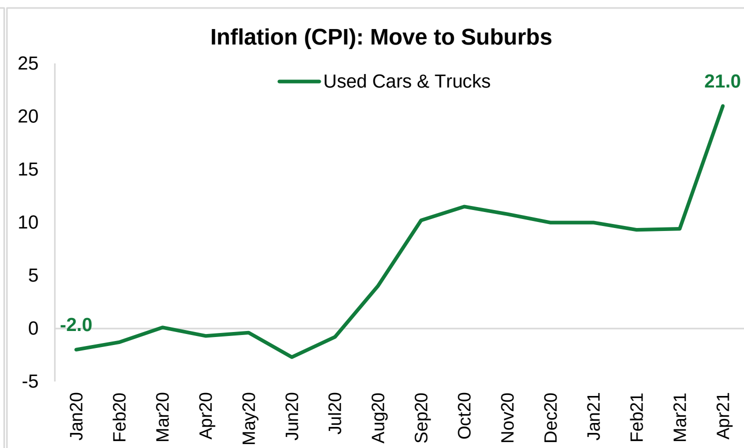
Source: BLS, SIFMA estimates
Note: All urban consumers, U.S. city average, percent change from year ago, monthly, seasonally adjusted

We also find it interesting to view the COVID themes in charts. We highlight stay at home and move to the suburbs trends, although we acknowledge that prices for many goods could cross into both categories:

- **Stay at Home** – With lockdowns, first as mandated by state and local governments and then by choice from fear of contracting COVID, people were spending much more time in their homes than ever before. This led many to evaluate the interiors and upgrade appliances, among other things. Appliance prices took on a strong upward trendline starting at the peak of the pandemic. By the fall of last year, prices were still increasing but not as sharply. In April, prices ticked down, albeit still elevated at +6.5%.

- **Move to the Suburbs** – This encompasses people moving to the suburbs, where public transportation options are limited, as well as those actively choosing to avoid public transportation, i.e. driving to work instead of commuting. (Although for many commuting to work has been and will be permanently altered or eliminated.) Prices of used cars and trucks soared last summer, then plateaued last fall through winter 2021 (perhaps associated with the colder winter months in many parts of the country keeping people indoors). We saw a spike again in April, +21.0%.

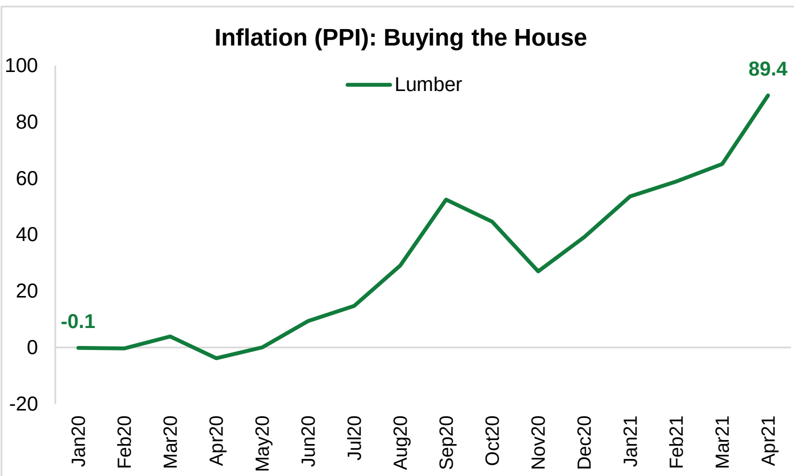




Source: BLS, SIFMA estimates
Note: All urban consumers, U.S. city average, percent change from year ago, monthly, seasonally adjusted

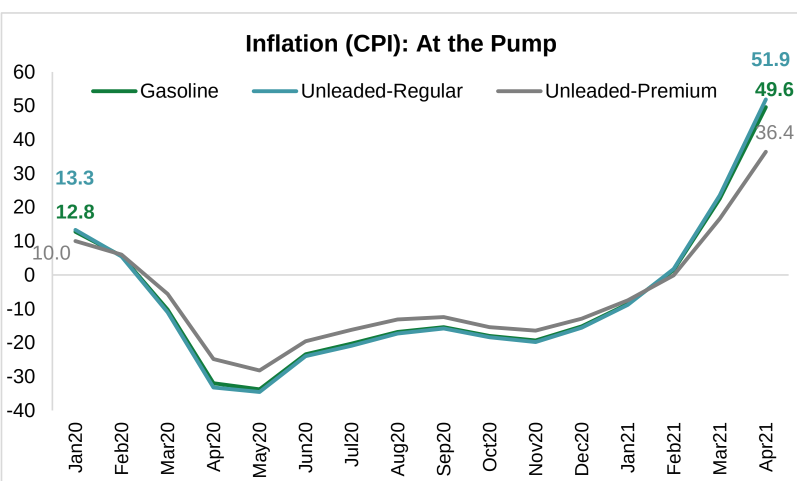
Consumers Getting Hit from All Angles

Still looking to move from the suburbs away from your crampy city apartment? Housing supply limitations may delay your dream of buying a home, as builders struggle with supply shortages and surging lumber costs. While supply limitations began pre pandemic, this was exacerbated during COVID. After taking off last fall, lumber prices continue to surge, hitting +89.4% in April. (We note that futures prices indicate lumber prices started to come down in May yet remain elevated.)



Source: FRED Economic Data, SIFMA estimates
Note: Percent change from year ago, monthly, seasonally adjusted

Just bought that car after you moved to the suburbs? Say ouch when you get to the gas pump. Gasoline (all grades) prices were up +49.6% in April. And trying to save money by using regular instead of premium is not going to help, with unleaded regular grade gas prices up 51.9% in April. This is both a reflection of increased demand as the economy reopens – summer travel will increasingly be driving versus air or train travel and domestic versus international – and other factors, such as cyberattacks, weather, etc.



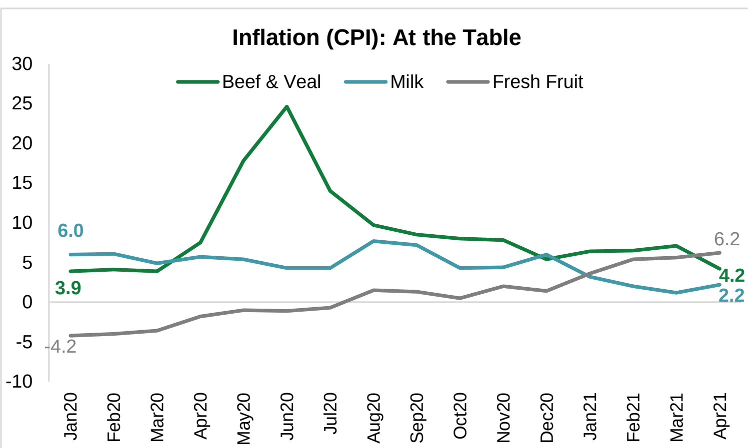
Source: BLS, SIFMA estimates
Note: All urban consumers, U.S. city average, percent change from year ago, monthly, seasonally adjusted

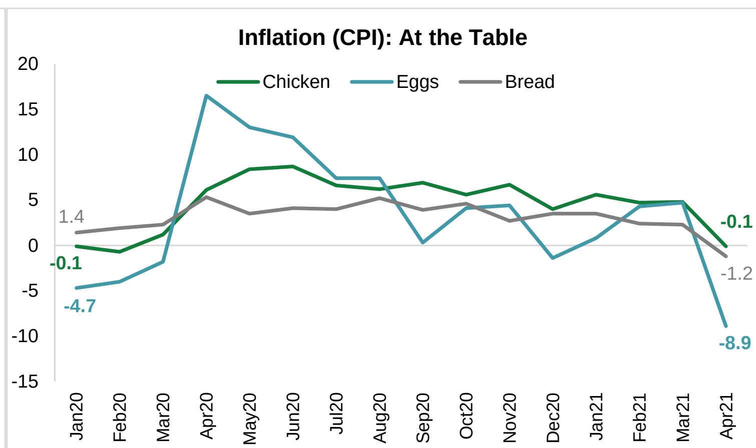
Finally, we see consumers getting hit at the dining room table with inflation. First, prices rose when people were forced to eat at home during the lockdowns. However, even now that restaurants have reopened, consumers looking to save money by eating at home still cannot catch a break.

- **Meat** – Both beef and chicken prices spiked last spring (beef & veal +24.6%, chicken +8.7% in June 2020). While both have come back down, chicken is in the (slightly) deflationary range as it compares prices to last year's spikes.

- **Dairy** – Eggs peaked in April 2020 at +16.5% and are also now in deflationary territory on tough comps (-8.9%). Meanwhile, the trendline for milk was more stable throughout the pandemic, as it began 2020 at elevated price levels.

- **Other** – Similarly to milk, the bread trendline is relatively stable, with prices now in deflationary ranges (-1.2% in April 2021). Fresh fruit, however, continues on an upward sloping trendline, starting January 2020 at -4.2% and moving to +6.2% in April 2021.





Source: BLS, SIFMA estimates
Note: All urban consumers, U.S. city average, percent change from year ago, monthly, seasonally adjusted

Recapping Prior Survey Forecasts

Before digging into this year's survey results, we recap highlights from our December 2020 survey (populated between November 18 and December 3):
https://www.sifma.org/wp-content/uploads/2020/12/SIFMA-US-Economic-Survey-2H20.pdf

- Economic Forecasts
  - 2020 GDP growth expected at -2.5% (median forecast, 4Q/4Q); 2021 expected at 3.5%
  - On a quarterly basis, 1Q21 GDP growth expected at 2.6% and 2Q21 at 4.2% (Q/Q, SAAR)
  - Unemployment rate forecasted to end 2020 at 6.8%, falling in 2021 to 5.4% (4Q average)
- Economic Recovery
  - When building their forecasts, 59% assumed a vaccine would begin to be disseminated to the broad population by 1Q21
  - In terms of the shape of GDP growth recovery, 53% of survey participants responded Swoosh-shaped recovery, followed by 20% W-shaped (a double-dip into recession); when looking at the business outlook this changes to 57% Swoosh-shaped and 29% K-shaped
  - Economists expect GDP to return to its pre-COVID level (in relation to 4Q19) by 2H21
  - 81% of economists expect the long-term potential growth rate is between 1.5% and 2%, with 47% stating this is somewhat lower compared with pre-COVID estimates
- Life after COVID
  - 57% of respondents expect the labor force participation rate not to return to the ~63% pre-COVID average until beyond the end of 2022, followed by 29% expecting it in 2H22
  - Once a vaccine is distributed en masse, 38% of Roundtable economists expect consumers to approach high-density activities at increased but nowhere near pre-COVID levels, and another 38% expect it to return to pre-COVID norms
  - 56% of respondents expect employees never to return to the office at pre-COVID levels, followed by split but equal responses for either in 2H21 or 2H22, 19% of respondents each answer
- Fed Actions
  - Respondents indicated that should the Fed need to provide more policy accommodation, the top tool will be asset purchases/balance sheet (75%)
  - Only one respondent replied the Fed would embark on Yield Curve Caps/Control (YCC), and they expect it in 1H21
  - 100% of Roundtable economists said the U.S. will not take its target rate into negative territory
- Trade Policy
  - 53% said the focus will return to tariffs and trade negotiations by 2H21; 27% said beyond 2021
  - 57% of respondents expect a light trade deal (eliminating tariffs) between the U.S. and China, followed by 36% expecting no progress after Phase 1 and 7% expecting a full deal (IP protection)
  - Will negative sentiments around China's handling of COVID impact future trade negotiations? 57% of economists responded somewhat, followed by 36% not at all. None believe that it ends all chances of negotiation

1H21 Survey Results Highlights

With the first half of 2021 almost in the books – and the anniversary of the peak of the global pandemic behind us – economists continue to search for what will be the new "normal" post COVID. Some of the same questions remain, such as: have customer preferences permanently shifted; what portion of the jobs lost will become permanent? This year brought new questions as well, in particular around inflation and whether or not it will be transitory or underlying.

Therefore, we asked our Roundtable of economists to provide their best assessment of a new normal and when we can get there. We highlight the following from the survey: (Note: Survey was populated between May 17 & June 3)

- **Economic Forecasts**
  - Unemployment rate forecasted to end 2021 at 5.2%, moving to 4.0% in 2022 (4Q average)
  - 2021 GDP growth expected at 7.5% (median forecast, 4Q/4Q); 2022 expected at 3.1%
  - 94% of economists expect the long-term potential GDP growth rate of over 2%, with 82% stating this is unchanged compared with pre COVID estimates
  - When building their forecasts, 65% assumed a vaccine would begin to be disseminated to the broad population by 1H21
  - The main factors impacting economic growth include: economic reopening post COVID, U.S. fiscal policy/budget, and US monetary policy
  - Key risks to forecasts include:
    - Upside – Additional fiscal stimulus, faster reopening of the U.S. economy, and larger consumer spending
    - Downside – Lingering COVID pandemic, labor supply constraints, and higher inflation

- **Inflation Forecasts**
  - 2021 CPI – expectation 3.8% (2020 actual 1.2%)
  - 2021 Core CPI – expectation 2.9% (2020 actual 1.6%)
  - 88% of respondents believe current inflation pressures are transient/transitory
  - 38% of respondents expect a 15% to 25% probability the U.S. will experience structurally higher inflation over the long run, followed by 25% responding 25% to 50% and 0% to 15% each
  - Top factors to push inflation higher include: sustained breakdown of supply chains, sustained higher deficits and reversal of globalization
  - In light of the significant amount of government spending – looking at both approved and proposed spending packages – 87% of Roundtable economists view stagflation as the bigger risk to the economy

Setting the Scene

- **Life after COVID**
  - 65% of respondents expect the labor force participation rate not to return to the ~63% pre-COVID average until beyond the end of 2022
  - In terms of stimulus checks and enhanced unemployment benefits impacting the ability for companies to hire staff, 94% of respondents indicate that it is one of several factors
  - 69% of respondents expect employees never to return to the office at pre-COVID levels
  - The key factors listed by respondents limiting a large-scale return to office include: lack of childcare/schools closed, employees choosing to continue working at home, and lingering health concerns of contracting COVID
  - Once a vaccine is distributed en masse, 44% of Roundtable economists expect consumers to approach high-density activities at increased but nowhere near pre-COVID levels while another 44% expect the activities to return to pre-COVID levels
  - When gauging long lasting or permanent negative impacts from changed behaviors on the heavily COVID-impacted activities, public transportation and airline travel came in at the top (71% of respondents for each)
  - 75% of respondents believe proof of vaccination should be required for airline travel and 63% for return to offices
  - Looking at COVID safety measures as a hurdle to returning to normal, 44% of respondents replied they view all requirements in aggregate as the biggest hurdle
  - 63% of respondents expect us to be required to continue wearing masks through 2H21, 38% responded 1H22

- **Fed Actions**
  - Respondents indicated that should the Fed need to provide more policy accommodation, the top tool will be communication (100% of respondents), followed by asset purchases/balance sheet (75%)
  - As to the efficiency of the Fed's communication with markets around its timeline for shifting monetary policy, 47% of respondents indicated it's murky but decipherable, while 35% said excellent/very clear
  - 68% of Roundtable economists expect the Fed will begin to lift its target range for the federal funds rate in 2023, followed by 21% beyond 2023
  - The factors listed as most important to the Fed's rate decision were: inflation pressure/expectations, COVID impact on labor conditions, and financial conditions

- **Fiscal Stimulus and Tax Policy**
    - 35% of Roundtable economists estimate the total amount of additional stimulus in 2021 will be below $1 trillion and 35% indicated $1-2 trillion
        - 87% of respondents expect the American Jobs Plan to pass at a much lower price tag
        - 73% of respondents expect the American Families Plan to pass at a much lower price tag
        - 53% of respondents view the bigger risk to the economy is the government doing too much, therefore the economy overheats
        - When considering additional stimulus, 38% respondents indicated government should not be considering the debt level (debt/GDP currently over 100%), noting it needs to focus on stimulating the economy now
    - Expectations for tax rates to increase to
        - Corporations 25%
        - Individual (top bracket) 39.6%
        - Capital gains 23.8-43.4%
    - Looking at the potential negative impacts of raising taxes, respondents ranked reduced investment by corporations as the top concern with reduced long-term productivity growth and reduced corporate hiring tying for the second highest concern.

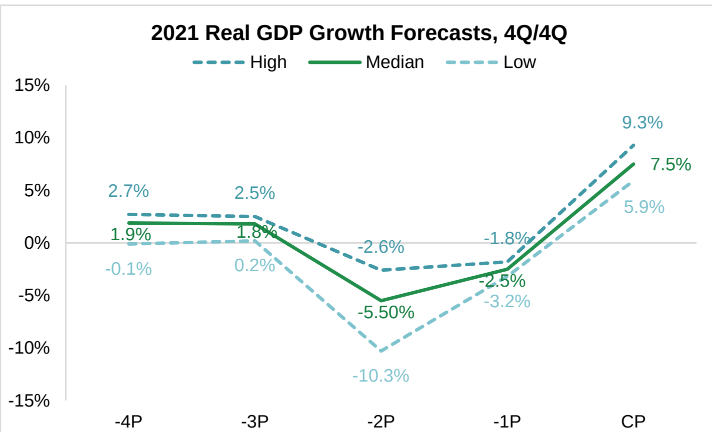
- **Trade Policy**
    - 29% of Roundtable economists expect the U.S. to renew suspensions on tariffs with the EU and expand the list of goods and 29% indicated it's too early to tell
    - 57% of Roundtable economists expect the U.S. to address perceived unfair trade practices by China by only monitoring the situation, with 29% expecting the tariffs to be removed on some goods
    - When asked if the negative sentiments around China's handling of COVID will have a lasting impact on trade relations with China, 57% responded yes
    - In light of this, 36% of respondents expect a meaningful shift to domestic production, thereby reducing U.S. reliance on overseas production

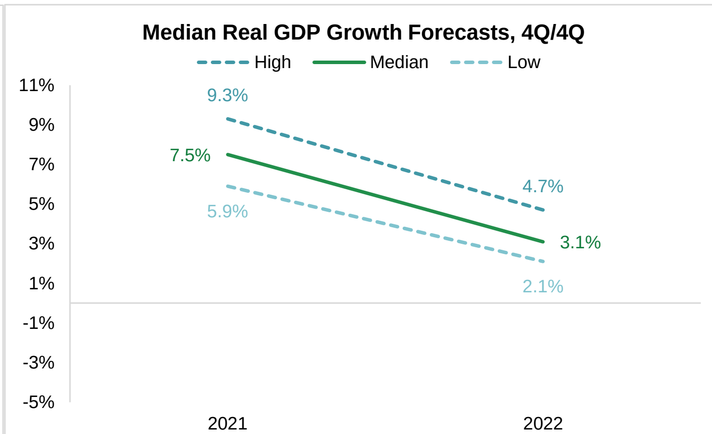
The Economy

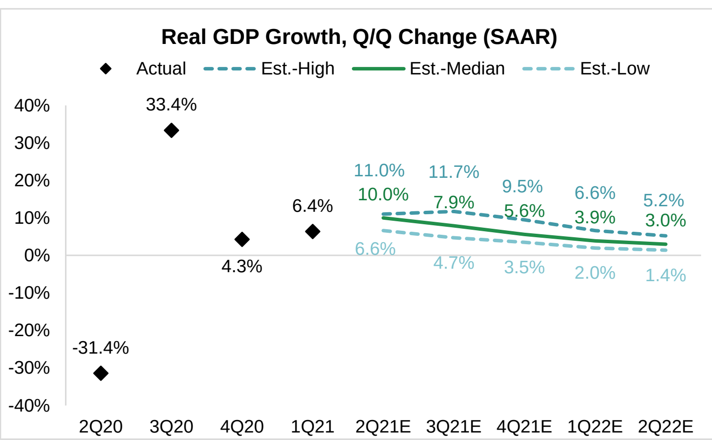
GDP Growth Expectations

Our Roundtable economists expect GDP growth to finish 2021 at 7.5% (median forecast, 4Q/4Q). For 2022, the median forecast sees GDP increasing by 3.1% (4Q/4Q). On a quarterly basis, respondents forecast 10.0% GDP growth in 2Q21, lowering to 7.9% in 3Q21 and 5.6% in 4Q21.

(Last survey: 2021 GDP growth +3.5%; median forecast, 4Q/4Q)

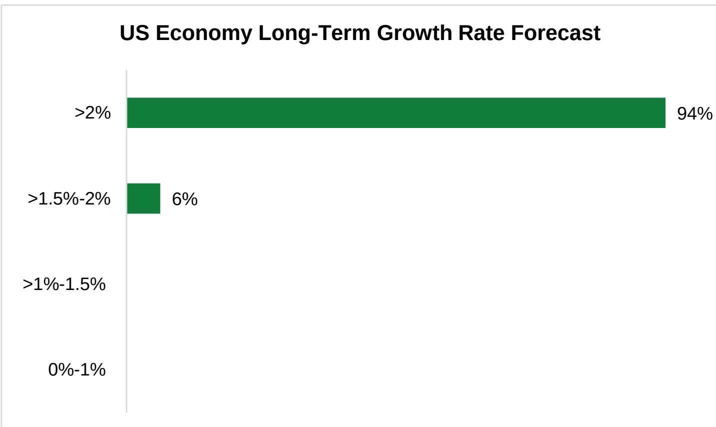


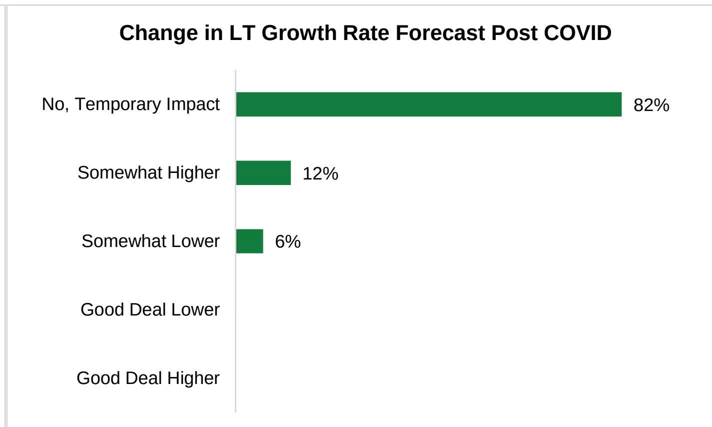




Source: Bureau of Economic Analysis, SIFMA Economic Advisory Roundtable
Note: SAAR = seasonally adjusted annual rate

94% of Roundtable economists expect the long-term potential growth rate of over 2%, with 82% stating this is unchanged from pre-COVID estimates



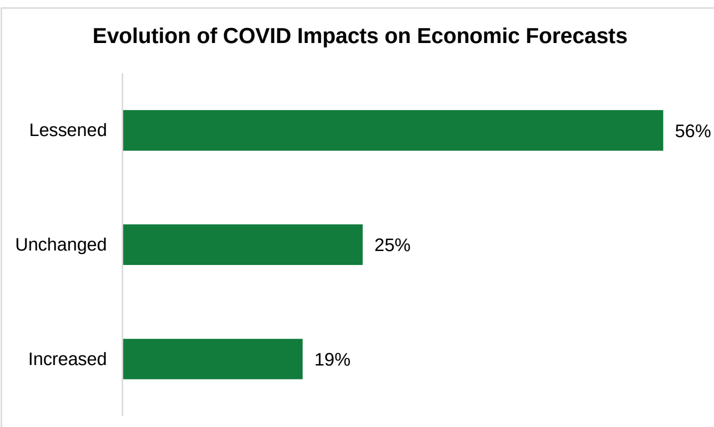


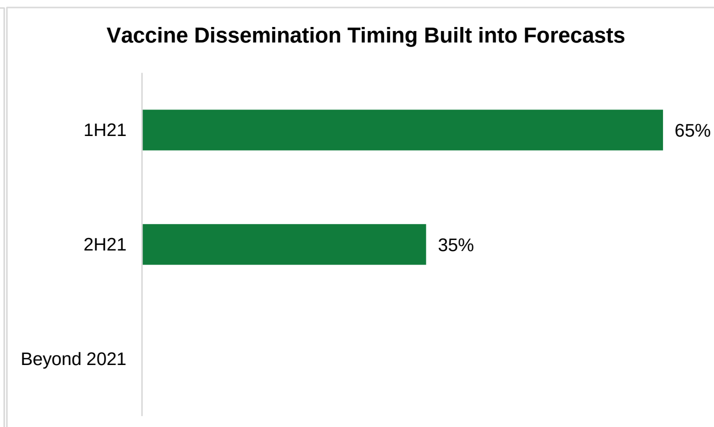
Full Question: What is your estimate of the long-term potential growth rate of the U.S. economy?
Full Question: Has your estimate of the long-term potential growth rate of the US economy changed post-COVID?

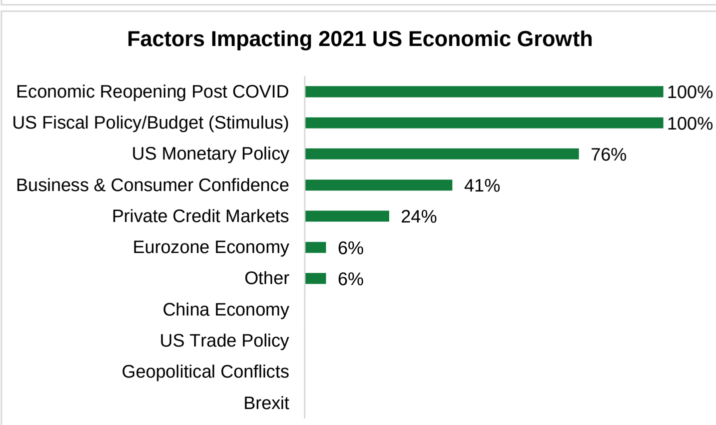
COVID Impact on Economic Forecasts

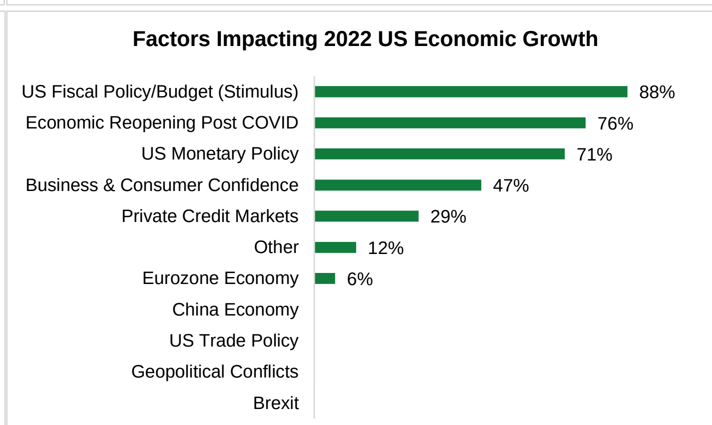
As the economy continues to reopen post-COVID, we polled our Roundtable economists for just how all-encompassing COVID is for estimates, despite having so many unknown moving parts.

- When asked how COVID's impact has evolved in economic forecasts, 56% responded it has lessened, i.e. it is a near-term phenomenon not a structural shift
- When building forecasts, 65% of respondents assumed a vaccine would be disseminated to the broad population by 1H21
- Key factors impacting U.S. economic growth, as ranked by our economists, include:
    - 2021 – Economic reopening post COVID, U.S. fiscal policy/budget, and U.S. monetary policy
    - 2022 – U.S. fiscal policy/budget, economic reopening post COVID, and U.S. monetary policy









Full Question: How has COVID's impact evolved in your economic outlook?
Full Question: What assumptions around dissemination of a COVID vaccine is built into your forecasts?
Full Question: What factors will have the greatest impact on U.S. economic growth in full year 2021/2022? (Ranked by percentage of economists that listed a factor). Other = (2021) labor market frictions; (2022) global vaccination, labor market constraints

Risks to Economic Forecasts

We asked our Roundtable economists to list their top risks to their economic forecasts, highlighting the following:

- **Upside** – Additional fiscal stimulus, faster opening of U.S. economy, and larger consumer spending

Additional Fiscal Stimulus / Federal Spending:
--Additional fiscal stimulus
--Greater response to fiscal stimulus
--Larger infrastructure spending

Faster US Reopening / Vaccine Rollout:
--Faster reopening
--Faster vaccine rollout

Larger Consumer Spending:
--More savings spent
--Pent-up demand

Faster Global Growth / Vaccine Rollout

Higher Productivity Growth

Accelerated Job Growth

Larger Services and Business Spending

Supply Chain Recovery

- **Downside** – Lingering COVID restrictions and lockdowns, labor supply constraints, and higher inflation

Lingering COVID / New Variants:
--Vaccine resistant variant develops / vaccine hesitancy
--Renewed lockdown measures
--Slower reopening

Labor Supply Constraints:
--Slow job growth
--Labor supply shortage

Higher Inflation:
--Sustained inflation
--Overheating economy

Fiscal Drag:
--Sharp fiscal drag
--Biden proposals stall/fail to pass

Monetary Policy Error

Overvalued Asset Markets

Deteriorating Credit Conditions

Weak Growth Abroad / Trade Disruptions

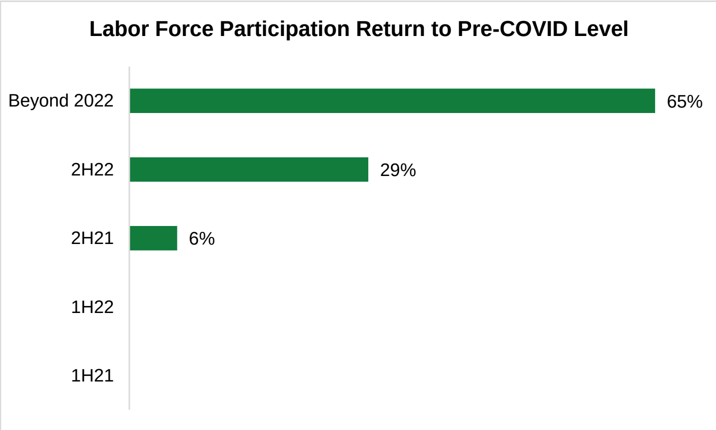
Note: Ranked by percentage of economists that listed a factor

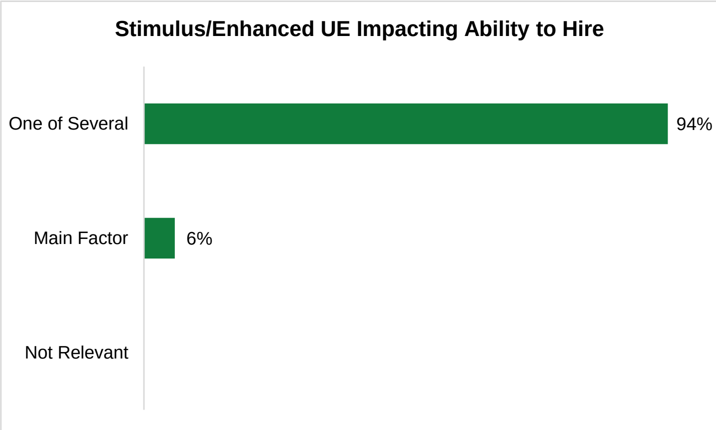
Life after COVID

Important factors in economic forecasts are when businesses and consumers can return to pre-COVID life and what the new normal might look like. As such, we polled Roundtable economists on a few areas in search of normalcy.

Employment Situation

- 65% of respondents expect the labor force participation rate to return to the ~63% pre-COVID average beyond 2022, followed by 29% expecting it in 2H22
- In terms of stimulus checks and enhanced unemployment benefits impacting the ability for companies to hire staff, 94% of respondents indicate that it is one of several factors

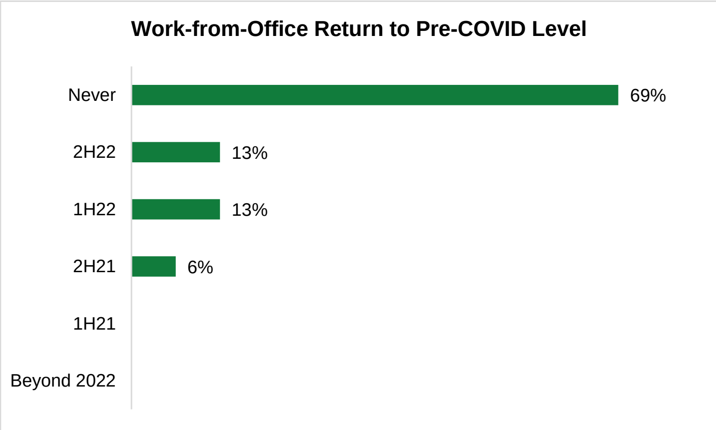


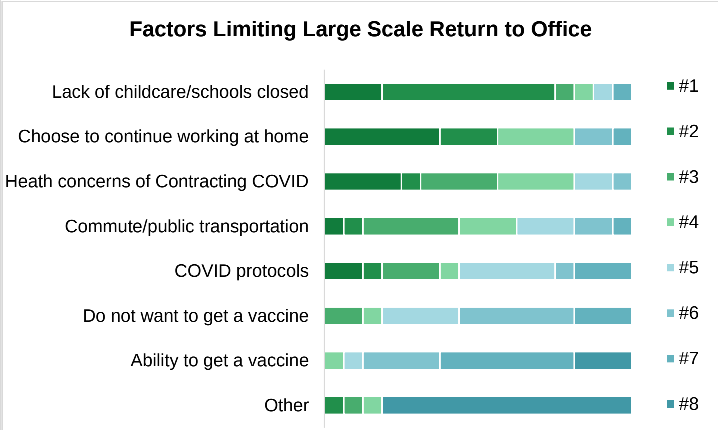


Full Question: When do you expect the labor force participation rate to return to the ~63% pre-COVID average?
Full Question: How much of a factor do you believe stimulus checks and enhanced unemployment benefits are on companies' ability to hire?

Return to the Office

- 69% of respondents expect employees never to return to the office at pre-COVID levels, followed by 13% each that expect it in 2H22 and 13% in 1H22
- The key factors listed by respondents limiting a large-scale return to office include: lack of childcare and closed schools, employees choosing to work at home, and lingering health concerns of contracting COVID

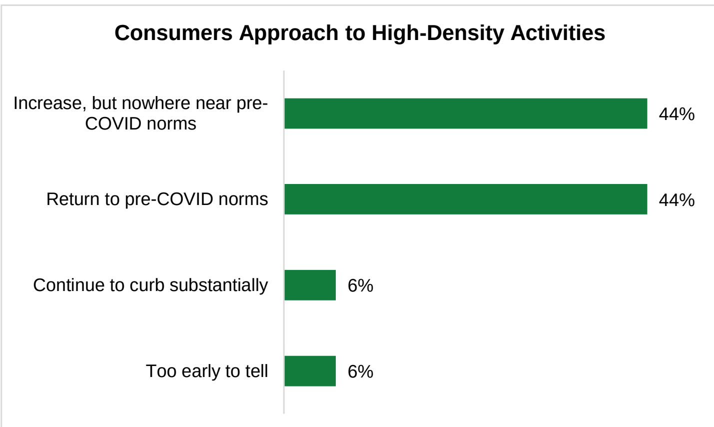


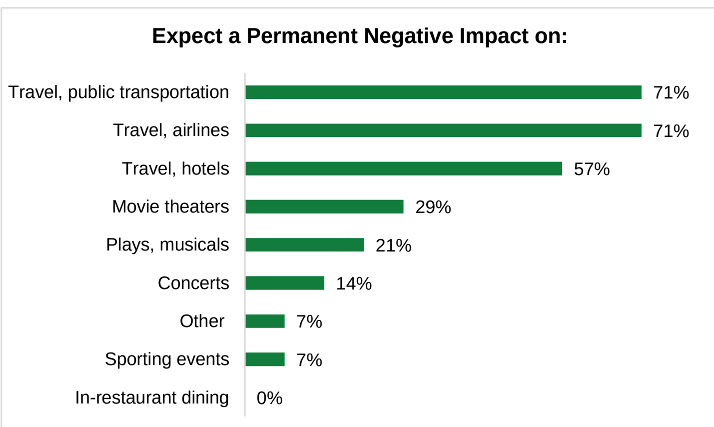


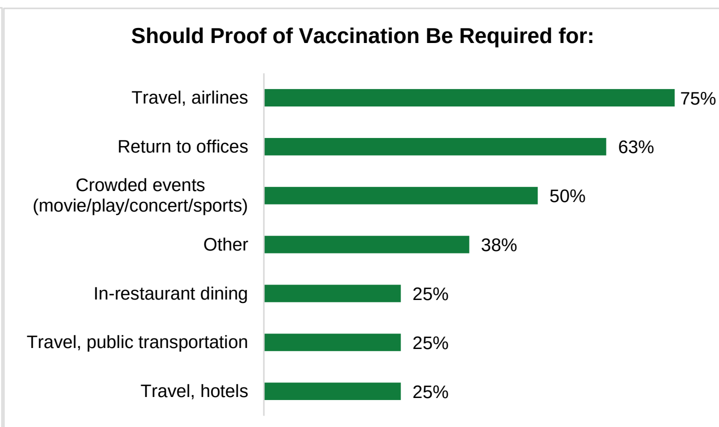
Full Question: When do you expect work-from-office to return to pre-COVID norms?
Full Question: Which factors do you believe are limiting a large-scale return to offices? (Factors listed in order of average rank). Other = permanent reassignments to working remotely, enhanced unemployment benefits, flexibility/new lifestyle preferences broadly unlocked by WFH

High-Density Activities

- Once a vaccine is distributed en masse, 44% of Roundtable economists expect consumers to approach high-density activities at increased but nowhere near pre-COVID levels while another 44% expect it to return to pre-COVID norms
- When gauging long lasting or permanent negative impacts from changed behaviors on the heavily COVID-impacted activities, 71% of respondents selected both public transportation and airlines, followed by 57% indicating hotels
- 75% of respondents believe proof of vaccination should be required for airline travel, with 63% responding return to offices



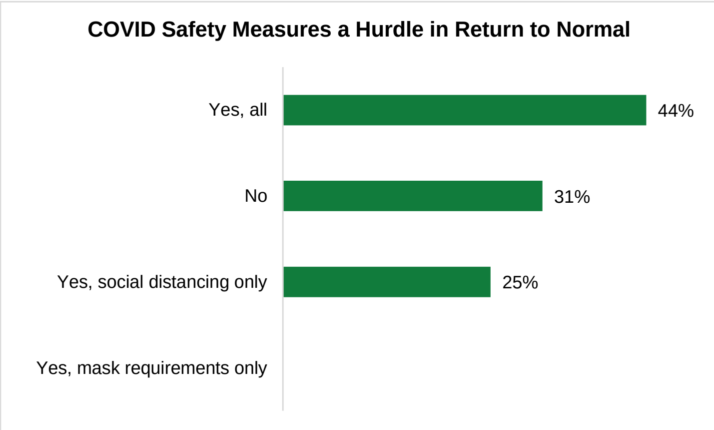


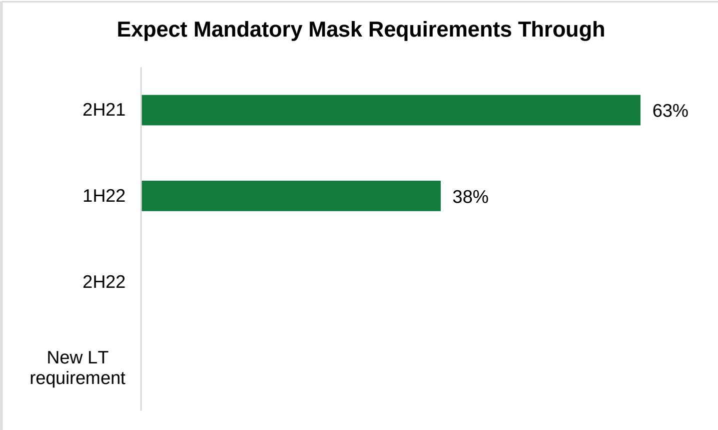


Full Question: Even after a vaccine is distributed en masse, how do you expect consumers to approach high-density activities?
Full Question: Do you expect to see a lasting or even permanent negative impact of changed behaviors on the sectors most impacted by COVID? Other = business travel and conferences will be last to recover
Full Question: Should proof of vaccination be required for (select activities)? Other = any private company can request - government should not, border crossings, nothing

Returning to Normal

- Looking at COVID safety measures as a hurdle to returning to normal, 44% of respondents expecting all requirements to be a hurdle, followed by 31% not expecting the measures to be a hurdle
- 63% of respondents expect us to be required to continue wearing masks through 2H21, with 38% replying 1H22



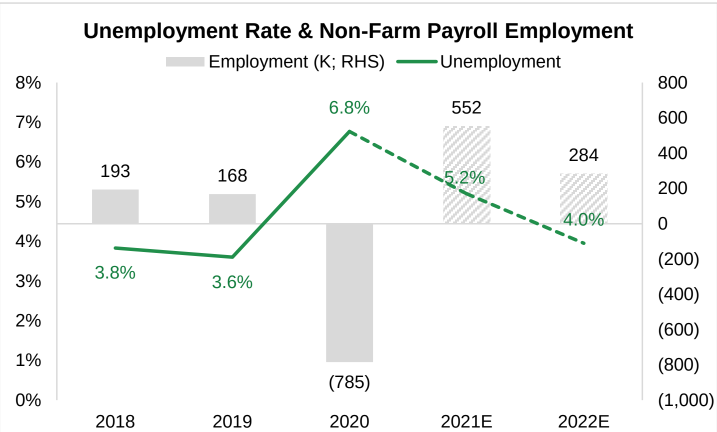


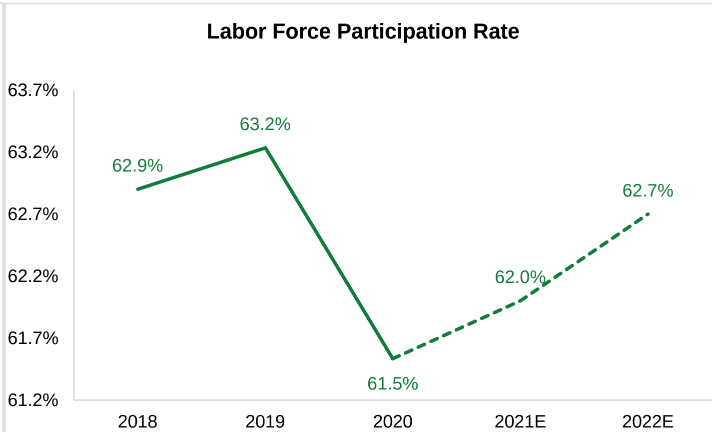
Full Question: Do you view the continuation of full COVID safety measure, such as social distancing and in particular face mask requirements, to remain a drag on the ability to fully return to normal?
Full Question: Following the CDC guidance reducing mask requirements for vaccinated Americans, do you expect the federal and state governments to uphold mandatory mask requirements on a larger scale (planes and public transportation excluded from the CDC announcement; many states continue to have mandatory mask laws) through?

Employment and the Consumer

As of May 2021, the U.S. unemployment rate remained elevated at 5.8%, down from the April 2020 peak of 14.7% but still higher than historical levels averaging around 3.7% (2019 monthly average). Roundtable economists expect the unemployment rate to end 2021 at 5.2%, falling in 2022 to 4.0% (4Q average). Employment growth (average monthly change in non-farm payroll employment) is expected to average 552,300 in 2021 and 283,700 in 2022. Respondents expect the labor force participation rate to increase to 62.0% in 2021 and 62.7% in 2022, versus around 63% historically.

(Last survey: 2021 unemployment rate 5.4%; 393,000 for 2021)

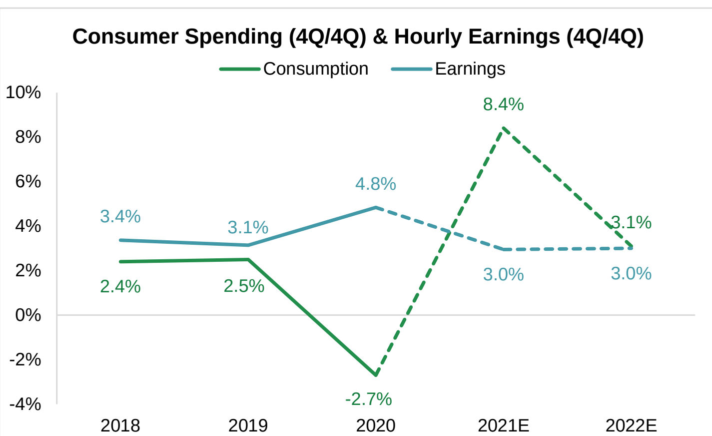




Source: Bureau of Labor Statistics, SIFMA Economic Advisory Roundtable
Note: Average monthly change for non-farm payroll employment, 4Q average for unemployment rate

In light of these unemployment expectations, Roundtable economists expect real personal consumption growth to end 2021 at 8.4% and 3.1% in 2022 (4Q/4Q). There is an expected decrease in average hourly earnings growth to 3.0% in 2021 and 3.0% in 2022 (4Q/4Q).

(Last survey, 2021: 4.2% real personal consumption growth; 2.6% average hourly earnings)



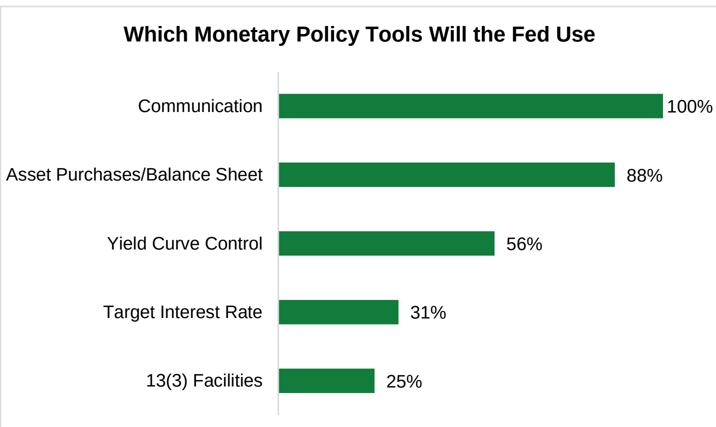
Source: Bureau of Economic Analysis, SIFMA Economic Advisory Roundtable

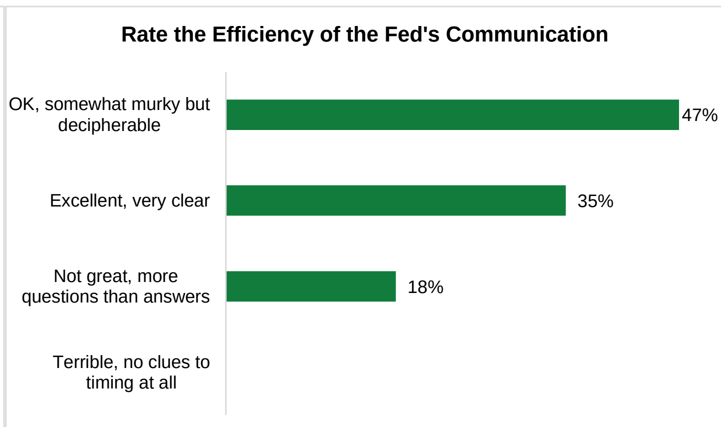
Monetary Policy

Fed Policy Tools and Moves

During its April 27-28 FOMC meeting, the Fed reaffirmed its commitment to "*using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals*." It stated it will continue to monitor the economy and adjust monetary policy "*as appropriate if risks emerge*". As such, we surveyed our Roundtable economists to what tools the Fed may opt to use and the timing of actions, such as raising interest rates.

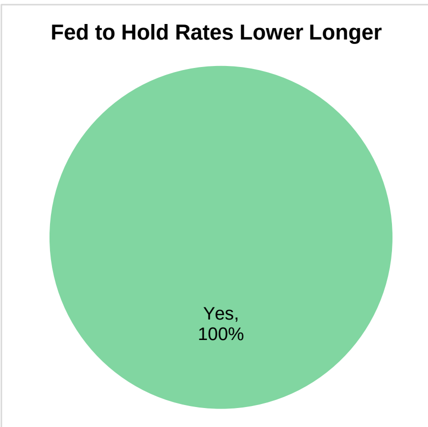
- Respondents indicated that should the Fed need to provide more policy accommodation, the top tool will be communication (100%), followed by 88% responding asset purchases/balance sheet
- As to the efficiency of the Fed's communication with markets around its timeline for shifting monetary policy, 47% of respondents indicated the communication is somewhat murky but decipherable, while 35% said it's very clear

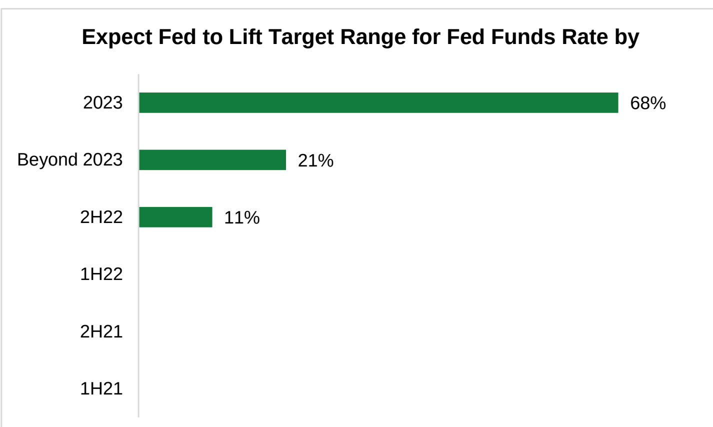


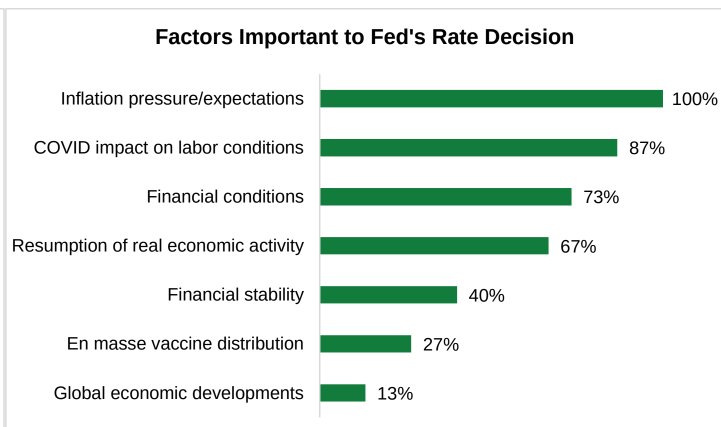


Full Question: In general, should the Fed need to provide more policy accommodation, what tools will it use? (Ranked by percentage of economists that listed a factor)
Full Question: In general, how do you rate the efficiency of the Fed's communication with markets around its timeline for shifting monetary policy (raising rates, taper asset purchases)?

- Under the Fed's new framework, including a "*broad-based and inclusive*" approach to full employment and an *average* 2% inflation target, all of respondents (100%) believe the fed will hold rates lower than they would have historically under the old framework
- 68% of Roundtable economists expect the Fed will begin to lift its target range for the federal funds rate in 2023, followed by 21% expecting beyond 2023
- The factors listed as most important to the Fed's decision making were: inflation pressure and inflation expectations, COVID impact on labor conditions, and financial conditions

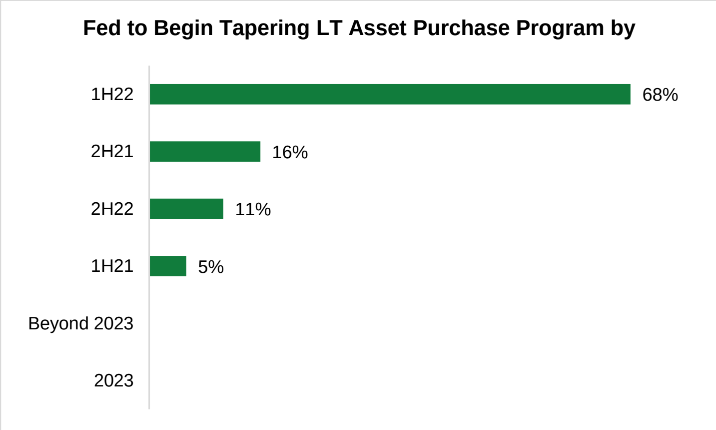


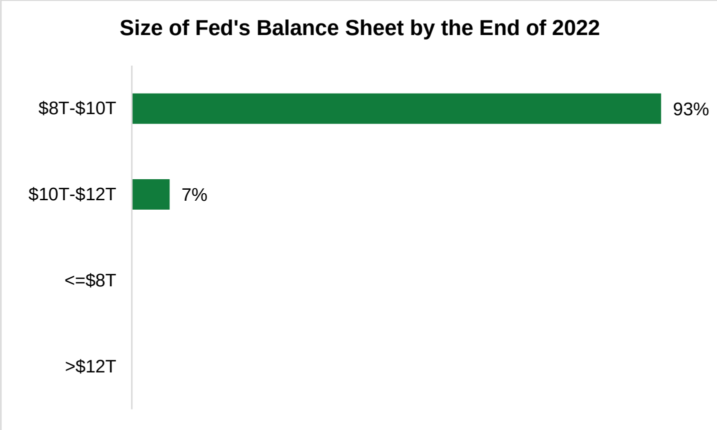




Full Question: When do you think the Fed will begin to lift its target range for the federal funds rate?
Full Question: Does the Fed's new framework, including a "broad-based and inclusive" approach to full employment and an *average* 2% inflation target suggest the committee will hold rates lower than they would historically under the old framework?
Full Question: Which of the following factors do you think are the most important to the Fed's decision making? (Ranked by percentage of economists that listed a factor)

- 68% of respondents expect the Fed to begin to taper its long-term asset purchase program by 1H22, followed by 16% indicating 2H21
- In light of expected asset purchases, 93% of respondents expect the size of total balance sheet to be between $8 trillion and $10 trillion by the end of 2022



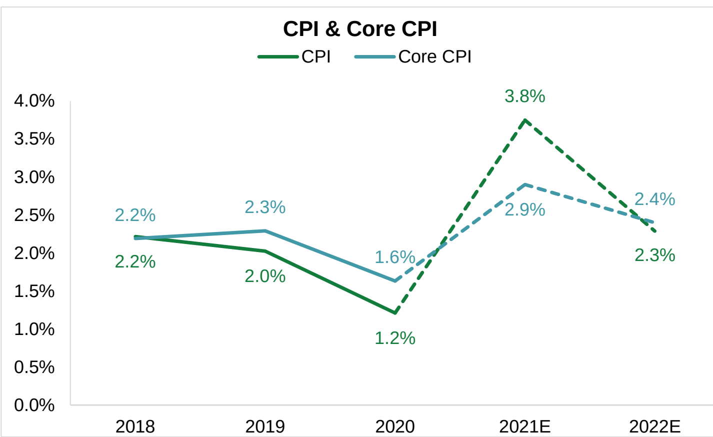


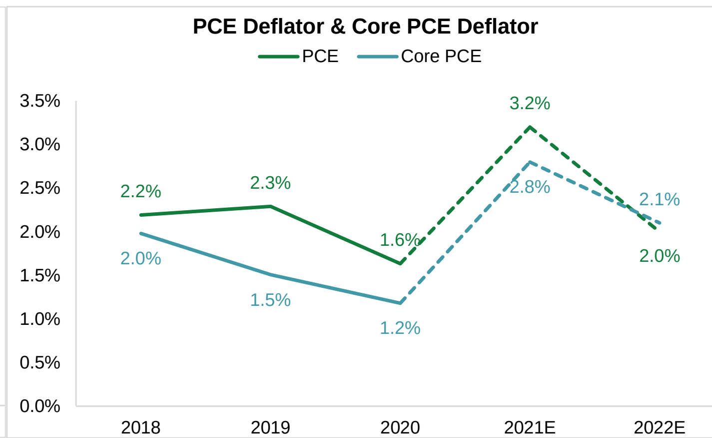
Full Question: When do you think the Fed will begin to taper its longer-term asset purchase program?
Full Question: Given your expected increase in the Fed's asset purchases, alongside the 13(3) facilities, how large do you except the total balance sheet to become by the end of 2022?

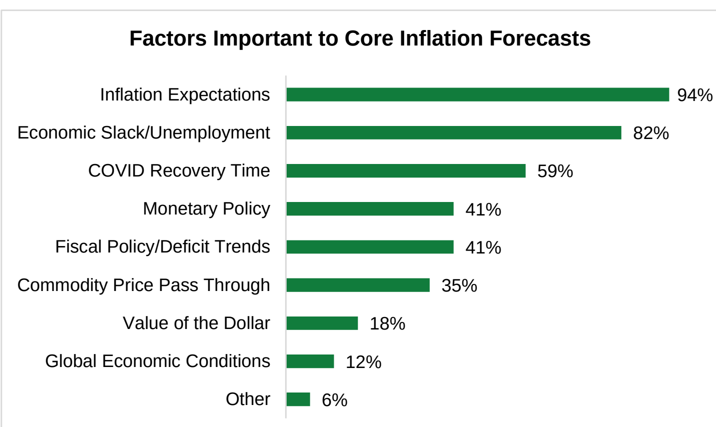
Inflation Expectations

Try getting through a day lately without discussing inflation! Market participants continue to watch inflation reports, as a key indicator to when the Fed may raise interest rates (a negative for stock valuations). In terms of inflation forecasts to end 2021, we highlight:

- CPI – expectation 3.8% (2020 actual 1.2%)
- Core CPI – expectation 2.9% (2020 actual 1.6%)
- PCE – expectation 3.2% (2020 actual 1.2%)
  (Last survey: 1.8% PCE deflator for 2021)
- Core PCE – expectation 2.8% (2020 actual 1.4%)
  (Last survey: 1.7% core PCE deflator for 2021)
- The factors listed as most important to core inflation forecasts: inflation expectations, economic slack/unemployment, and COVID recovery time

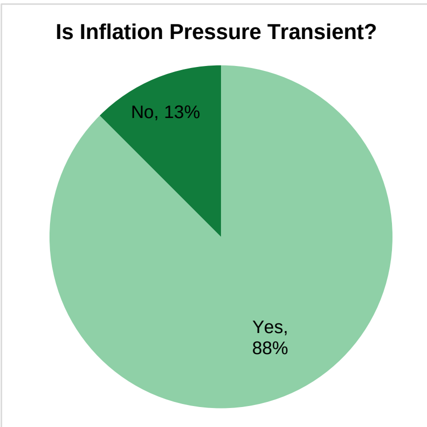


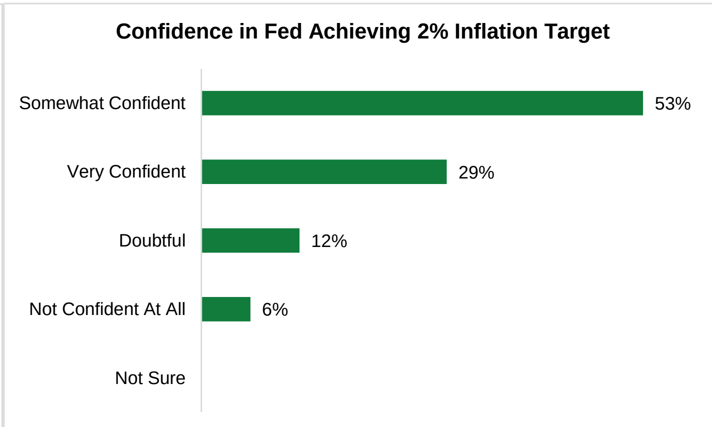


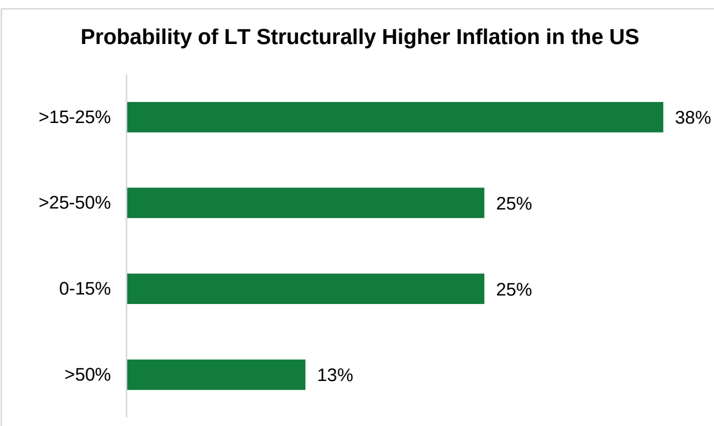


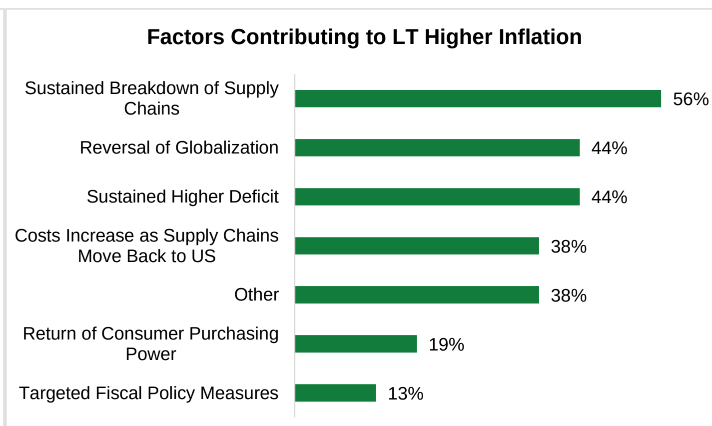
Source: Bureau of Economic Analysis, SIFMA Economic Advisory Roundtable
Full Question: What are the most important factors in your outlook for core inflation? (Ranked by percentage of economists that listed a factor). Other = supply chain disruptions

- 88% of respondents believe current inflation pressures are temporary/transitory
- 53% of Roundtable economists are somewhat confident the Fed can achieve its 2% average inflation target in a sustainable way while 29% are very confident
- 38% of respondents expect a 15% to 25% probability the U.S. will experience structurally higher inflation over the long run, followed by 25% each responding 25% to 50% and 0% to 15% probability
- Top factors to push long-term inflation higher include: sustained breakdown of supply chains, reversal of globalization, and sustained higher deficits



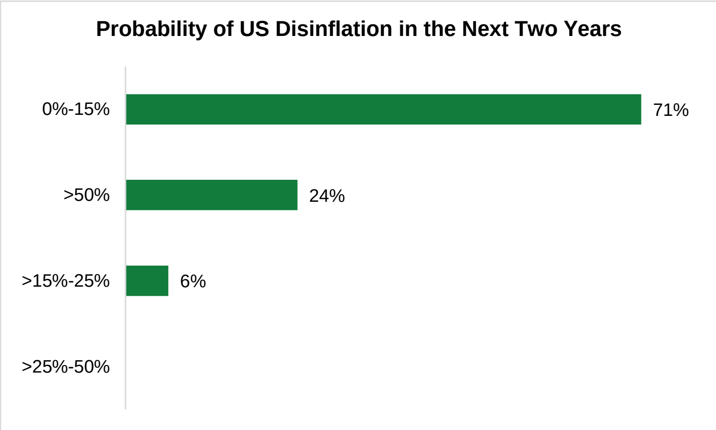


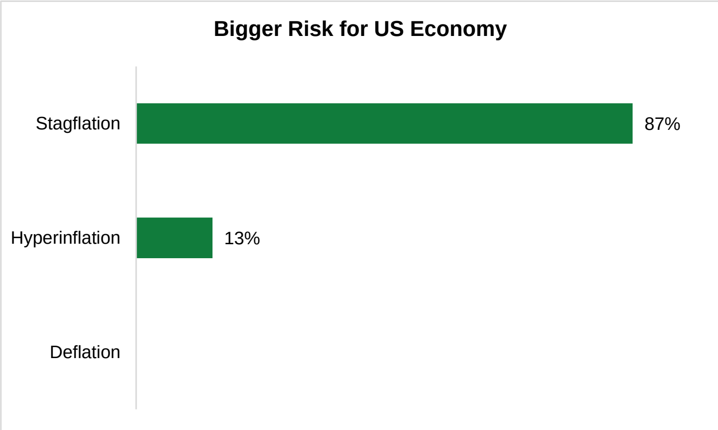




Full Question: Do you believe the current inflation pressure is transient?
Full Question: Under the current policy stance, how confident are you can the Fed can achieve its 2% goal in a sustainable way?
Full Question: Looking further out, what probability would you place on the US experiencing structurally higher inflation over the longer-run?
Full Question: What factors do you believe could push long-term inflation higher? (Ranked by percentage of economists that listed a factor). Other = a shift in inflation expectations and new regulations (x4), Fed's independence compromised, basic fairness in labor market/breaking up monopolies and monopsonies/need greater unionization and official abrogation of all nonpoaching and noncompete agreements

- 71% of respondents expect a 0% to 15% probability the U.S. will experience a period of disinflation in core measures over the next two years with another 24% responding over 50% probability
- In light of the significant amount of government spending – looking at both approved and proposed spending packages – 87% of Roundtable economists view stagflation – as opposed to hyperinflation or deflation – as the bigger risk to the economy



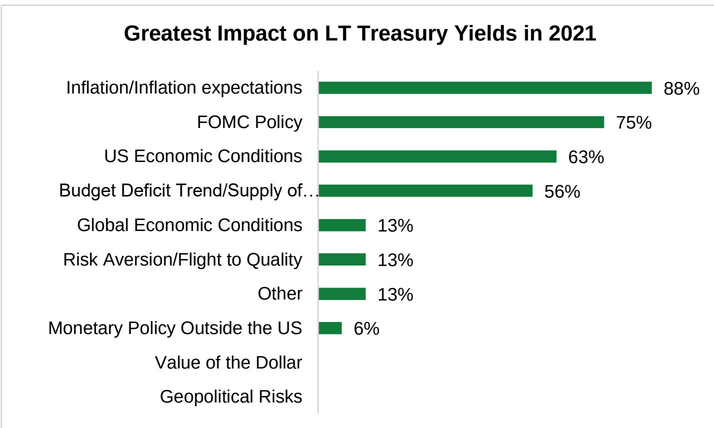


Full Question: What probability would you place on the US experiencing a period of disinflation in core measures over the next two years?
Full Question: Given the significant amount of government spending, what is the bigger risk for the economy?

Interest Rates and Credit Markets

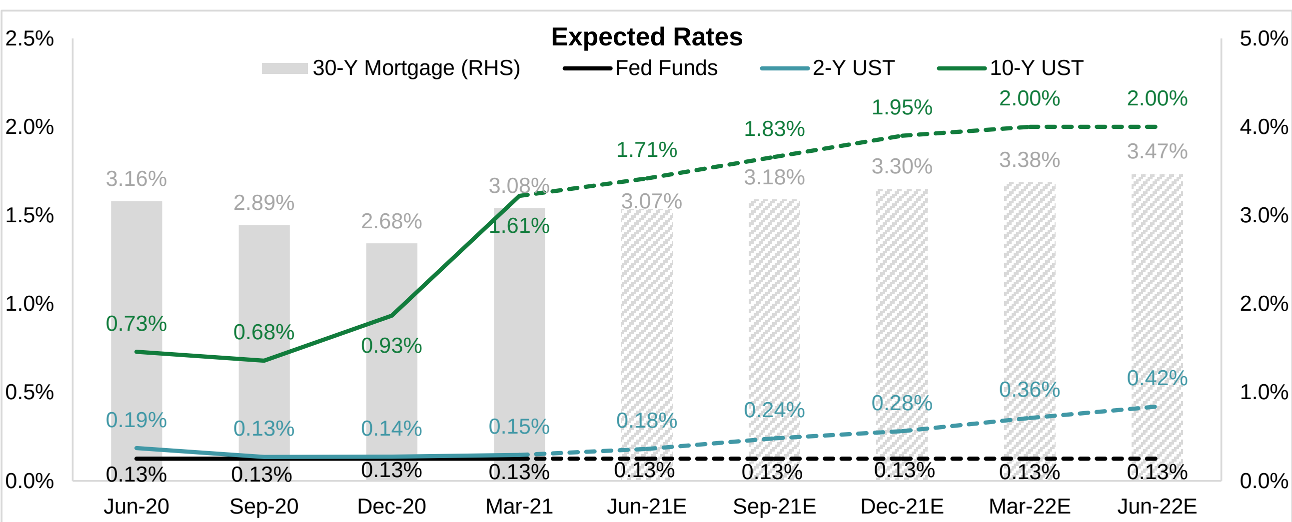
Below we rank respondents' factors that have the greatest impact on expectations for long-term Treasury yields in 2021: inflation/inflation expectations and FOMC policy were the top factors.

(Last survey: inflation/inflation expectations and U.S. economic conditions were the top factors)



Full Question: Which of the following will have the greatest impact on long-term Treasury yields in 2021? (Ranked by percentage of economists that listed a factor). Other = big picture factors (demographics, infrastructure, productivity), low bond yields outside the U.S. and Fed asset purchases

Below and on the following pages, we review our Roundtable economists' forecast for rates and yield curve.

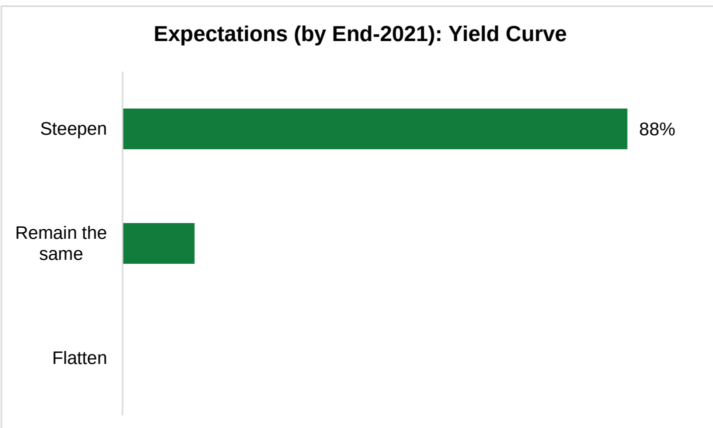


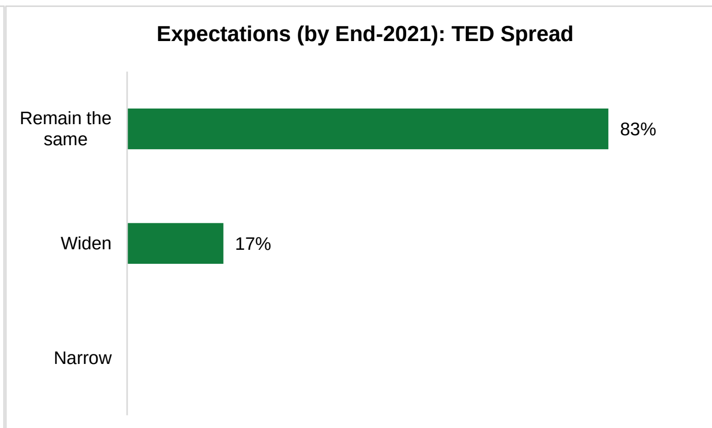
Source: Federal Reserve, Bloomberg, SIFMA Economic Advisory Roundtable

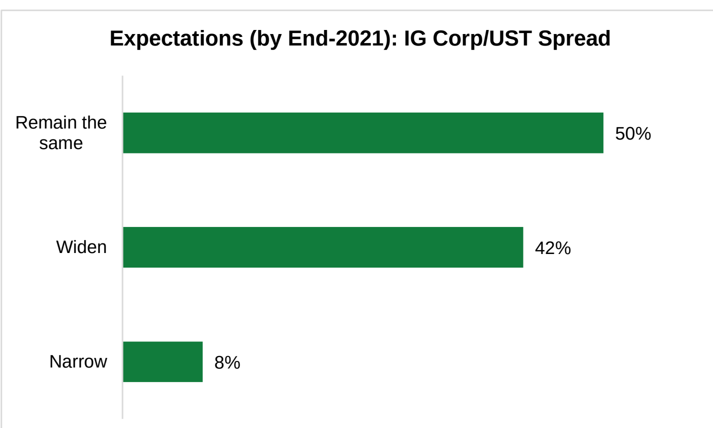
Respondents expect the following movements in key rates:

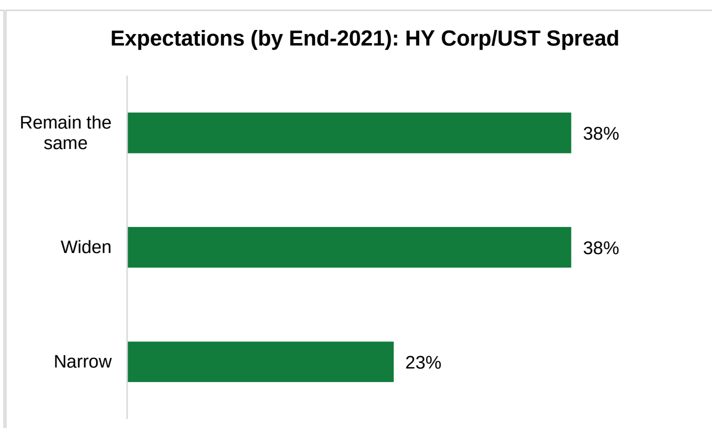
- Yield curve (Fed funds-to-10-year Treasury yield) = 88% steepen
- TED (Treasury-to-Eurodollar, now LIBOR) = 83% remain the same
- Investment-grade corporate-to-Treasury spreads = 50% remain the same
- High-yield corporate-to-Treasury spreads = 38% each remain the same and widen

(Last survey: YC 100% steepen; TED 67% remain the same; IG/UST 60% remain the same; HY/UST 47% remain the same)







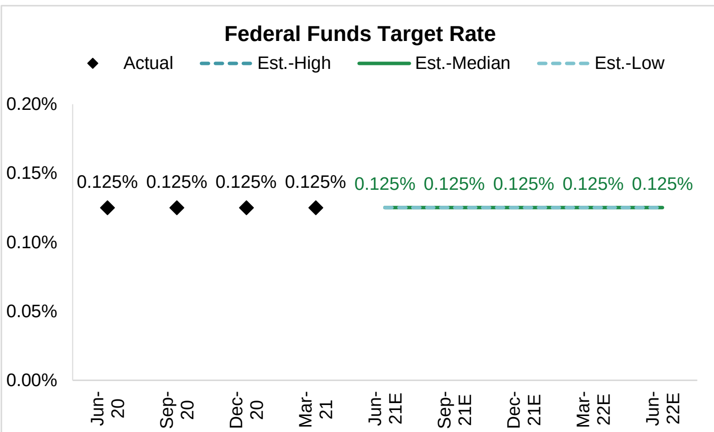


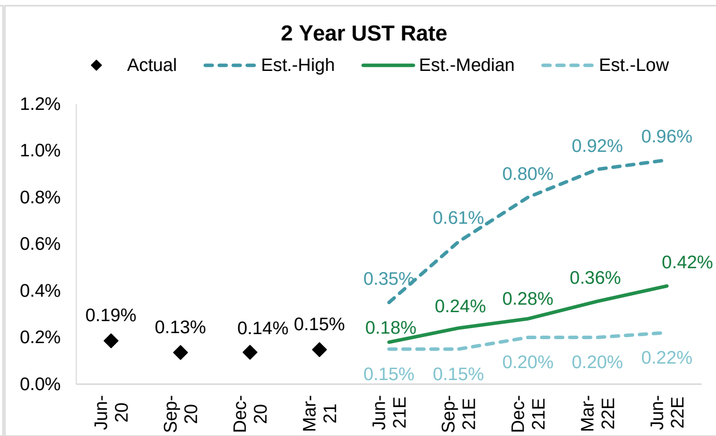
Source: Federal Reserve, Bloomberg, SIFMA Economic Advisory Roundtable
Note: Monthly averages. Fed funds = midpoint of target rate range

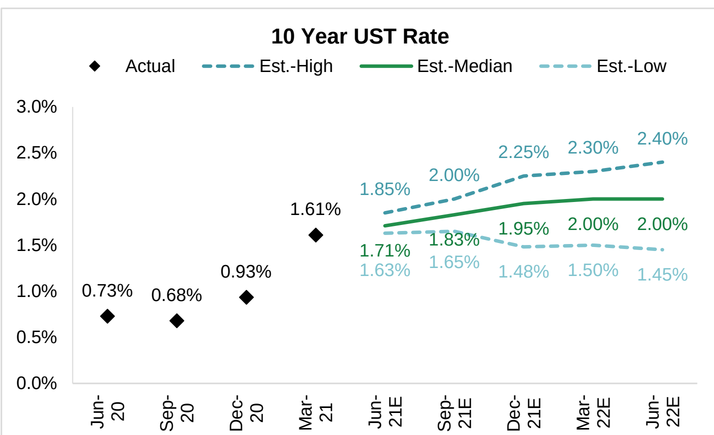
Surveyed Roundtable economists expect the following rates and therefore yield curve:

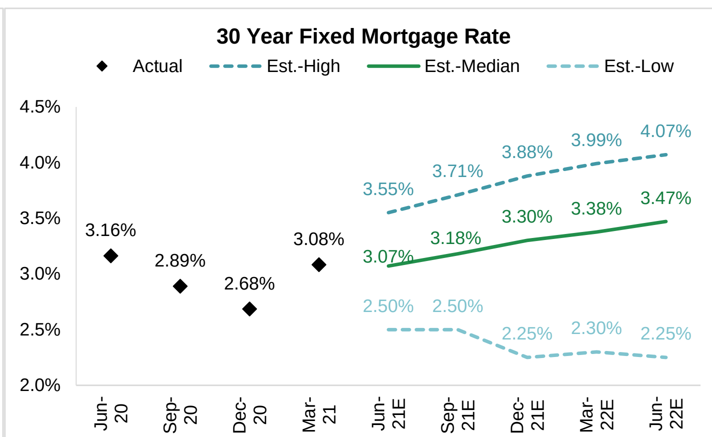
- Fed Funds = 2Q21 0.125%, 4Q21 0.125%
- 2-Year UST = 2Q21 0.18%, 4Q21 0.28%
- 10-Year UST = 2Q21 1.71 %, 4Q21 1.95%
- 30-Year Mortgage = 2Q21 3.07%, 4Q21 3.30%

(Last survey, 4Q21: FF 0.13%; 2Y UST 0.30%; 10Y UST 1.30%; 30Y mortgage 3.07%)









Source: Federal Reserve, Bloomberg, SIFMA Economic Advisory Roundtable

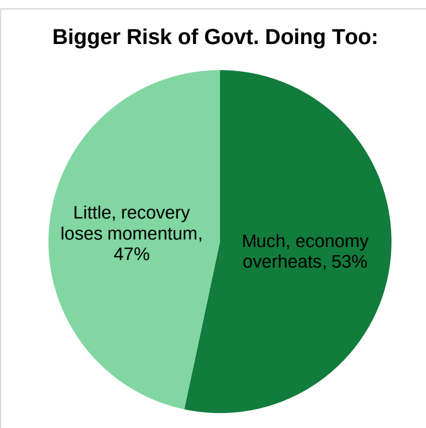
Macro Policy

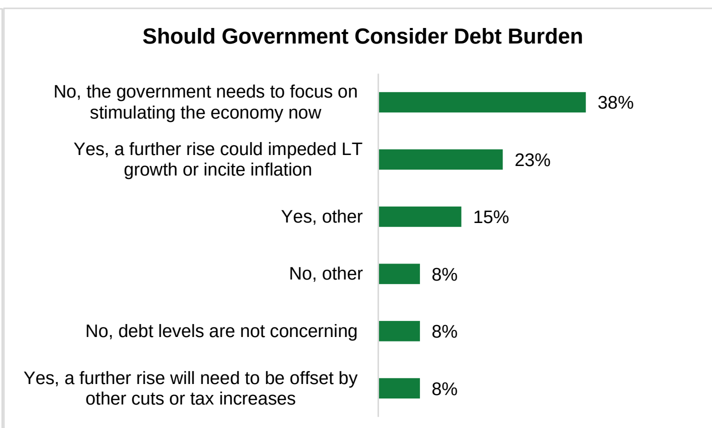
Fiscal Stimulus

To complement monetary policy tools, there is no shortage of fiscal spending (actual and proposed) to help the U.S. economy recover from COVID. In addition to the enacted $1.9 trillion American Rescue Plan, the Biden administration has proposals outstanding for over $4 trillion. While last year, market participants viewed this money as urgent to stop the economic damage and help people and companies suffering from the pandemic, now questions turn to the long run and concerns over long-term damage from overspending.

Therefore, we polled our Roundtable economists on their thoughts on additional fiscal stimulus and the impact on GDP forecasts.

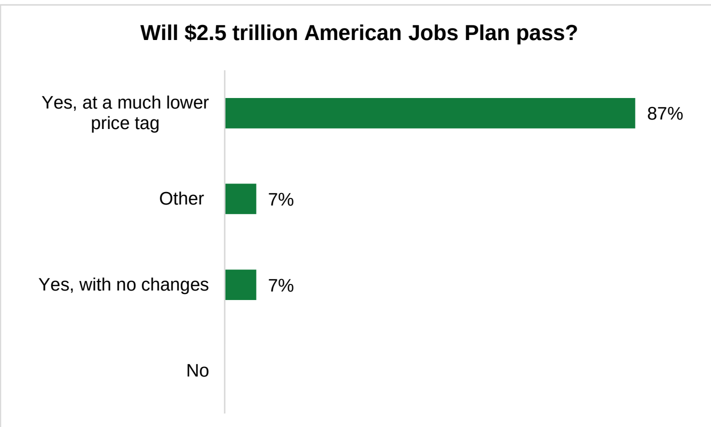
- 53% of respondents view the bigger risk to the economy is the government doing too much, therefore the economy overheats
- When considering additional stimulus, 38% respondents indicated government should not be considering the debt level (debt/GDP currently over 100%), noting the government needs to focus on stimulating the economy now; 23% responded they should consider the debt level as it could impede long-term growth or incite inflation. For whatever reason, 46% of respondents said the government should consider the debt burden while 54% said it should not be a factor to consider in policy.

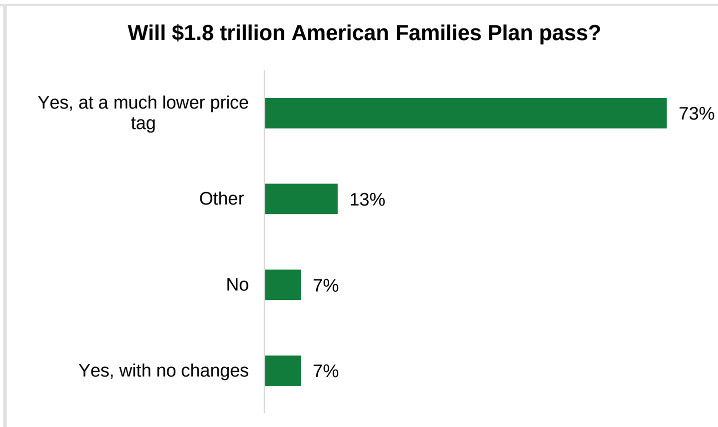


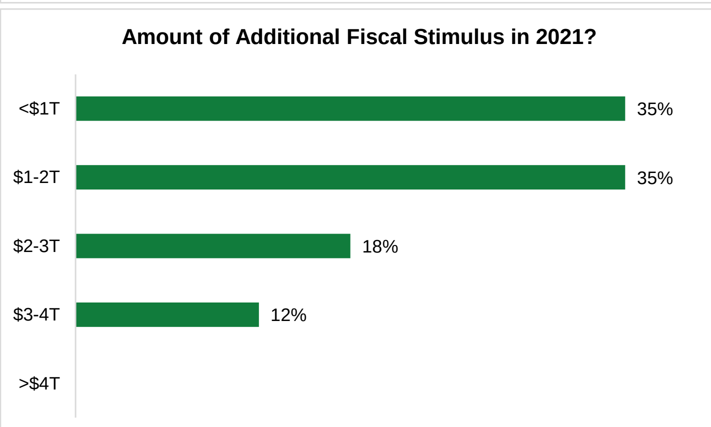


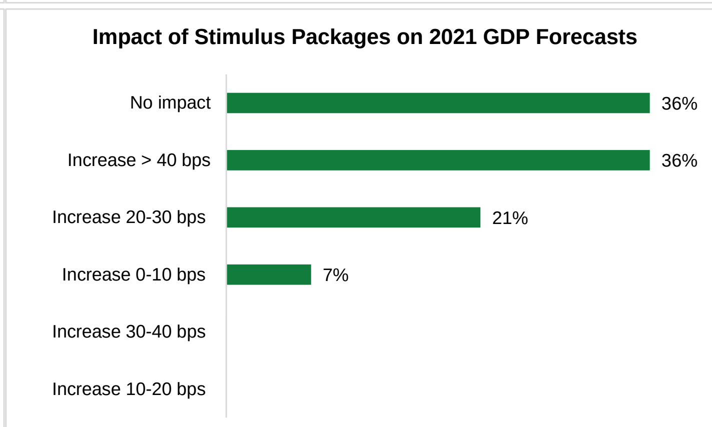
Full Question: What do you view is the bigger risk, the government does?
Full Question: With the Debt/GDP ratio already above 100%, should the government be considering the debt burden when proposing additional spending? Other (yes) = Yes but does not need to be immediate/should wait until COVID is further in the rearview, the government should always consider the debt burden when proposing additional spending but whether that spending is "worth it" depends on a variety of factors such as what the spending is/what prevailing interest rates are/the state of the economy; other (no) = inflation is the constraint/public sector's deficit is private sector's surplus we can always tax later (assuming a functional congress)/the US is losing its hegemonic geopolitical advantage/need red hot economy to stave off China threat

- 87% of respondents expect the American Jobs Plan to pass at a much lower price tag
- 73% of respondents expect the American Families Plan to pass at a much lower price tag
- 35% of Roundtable economists estimate the total amount of additional stimulus in 2021 will be below $1 trillion and another 35% expect $1-2 trillion
- The impact of stimulus on 2021 GDP forecasts is expected to be either no impact or an increase of over 40 bps (36% of respondents each)







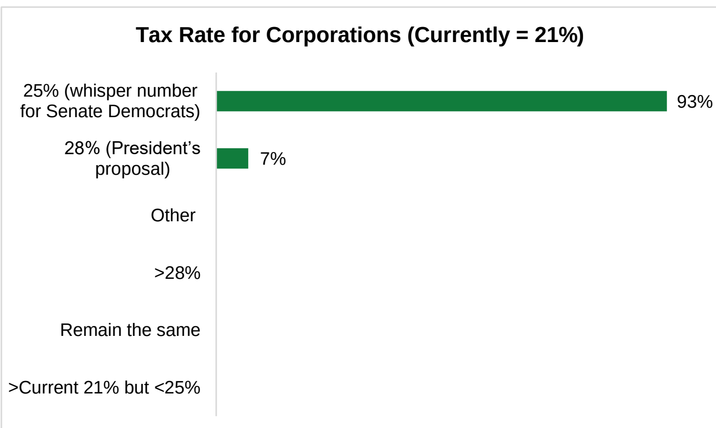


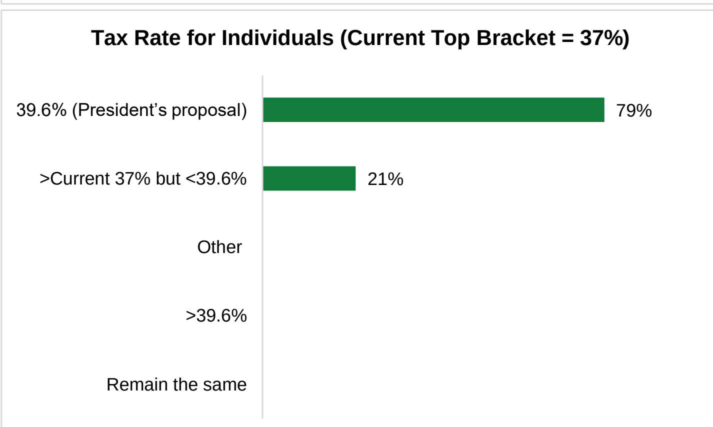
Full Question: Do you expect the proposed $2.5 trillion American Jobs Plan/the proposed $1.8 trillion American Families Plan to pass? Other = (Jobs) yes but with a reduced amount with increase in tax code progressivity and slightly higher corporate taxes; (Families) parts of it end up combined with parts of the American Jobs Plan, yes but with a reduced amount with increase in tax code progressivity and slightly higher corporate taxes.
Full Question: All in, how much additional fiscal stimulus do you expect to pass for 2021 (beyond the $1.9 billion coronavirus relief package)?
Full Question: What impact do you expect total stimulus packages (based on your estimate above) to have on your GDP forecasts for 2021?

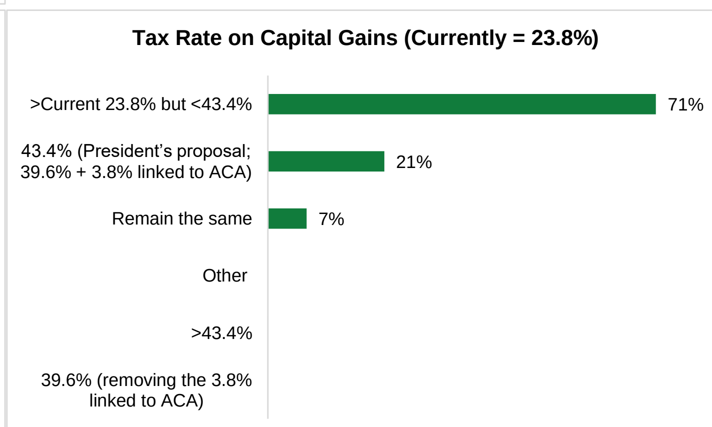
Tax Policy

The next set of questions on the minds of economists – all market participants really – is how the government will pay for all of the fiscal spending, how high taxes will go, and what will be the impacts on the economy?

- 93% of respondents expect the corporate tax rate to be raised to 25%, followed by 7% of respondents estimating a 28% rate (the President's proposal)
- 79% of respondents expect the top bracket for the individual tax rate to be raised to 39.6% (the President's proposal), followed by 21% of respondents estimating a 37-39.6% rate
- 71% of respondents expect the capital gains tax rate to be raised to higher than the current 23.8% but less than the maximum proposed by the President at 43.4% (inclusive of the 3.8% linked to the Affordable Care Act), followed by 21% of respondents estimating the 43.4% rate

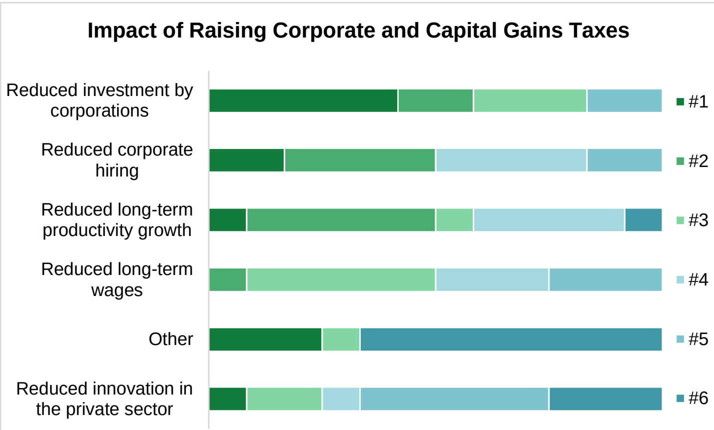


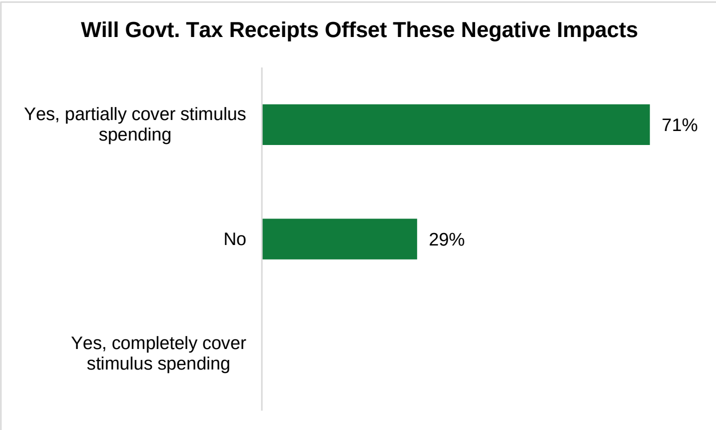




Full Question: With the Biden Administration focused on raising taxes to pay for stimulus packages, what do you expect the tax rate to increase to for corporations (currently 21%)?
Full Question: With the Biden Administration focused on raising taxes to pay for stimulus packages, what do you expect the tax rate to increase to for individuals (top income bracket currently 37%)?
Full Question: With the Biden Administration focused on raising taxes to pay for stimulus packages, what do you expect the tax rate to increase to for capital gains (currently 23.8%)? ACA = Affordable Care Act

- Looking at the potential negative impacts of raising taxes, respondents ranked reduced investment by corporations as the top impact, followed by reduced corporate hiring and reduced long-term productivity growth
- As to whether tax receipts can offset these negative impacts, 71% of respondents replied yes, tax receipts will partially cover stimulus spending, followed by 29% saying no





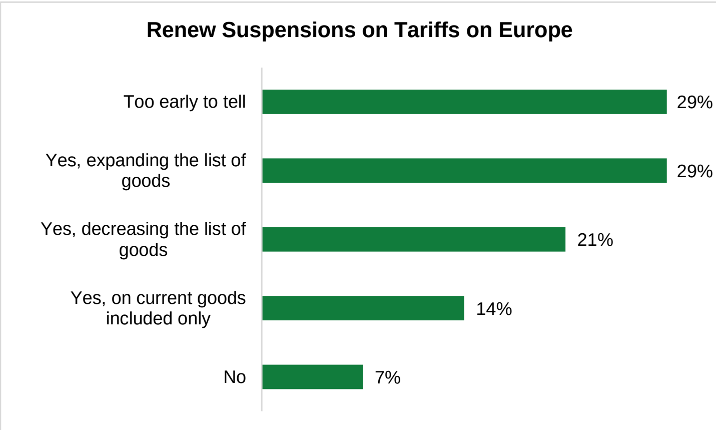
Full Question: What could be the impact of raising corporate and capital gains taxes on the economy? (Ranked by percentage of economists that listed a factor) Other = lower sentiment becomes contagious, decreased margins for corporates and investors, impact spread out over time but boost to productivity growth should offset economic impact of higher taxes, no impact
Full Question: Will the increase in government tax receipts offset these negative impacts?

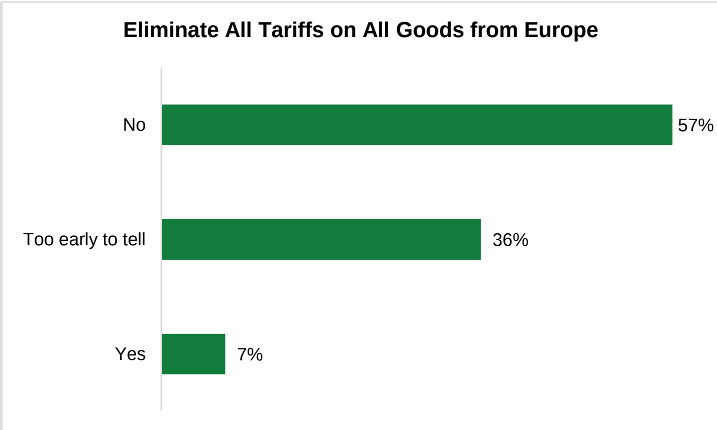
Trade Policy

In the trade policy section of the survey – focused on relations with both the European Union and China – we analyzed sentiment given the change in administrations, as well as the impact of COVID as it relates to U.S.-China trade relations.

European Union

- 29% of Roundtable economists say it is too early to tell whether U.S. will renew suspensions on tariffs with the EU and another 29% expect the suspension to be renewed expanding the list of goods
- As to whether the U.S. would eliminate tariffs on all goods from the EU, 57% responded no

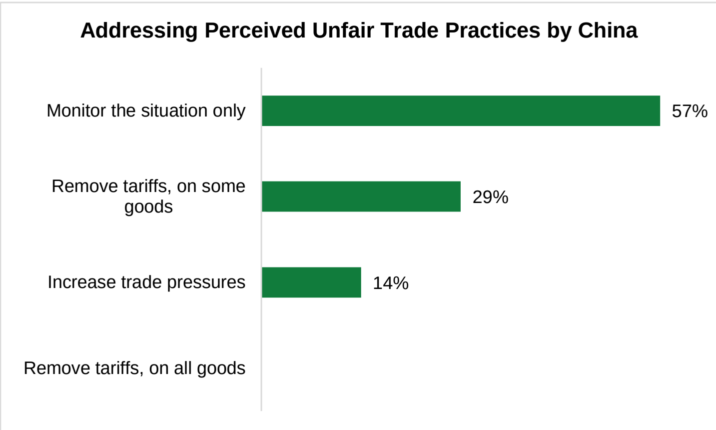


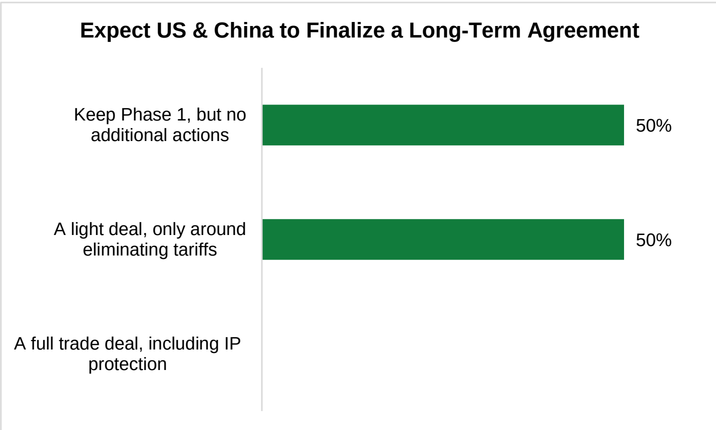


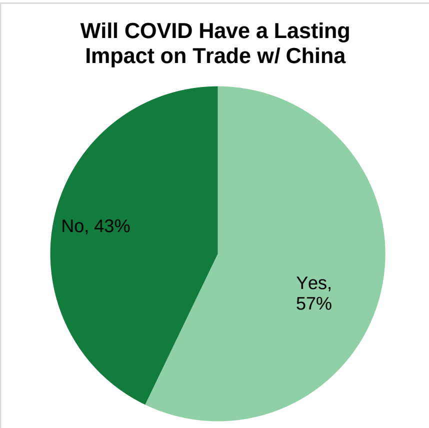
Full Question: Looking at trade policy with Europe, do you expect the U.S. to renew suspensions on tariffs after the four months is over?
Full Question: Looking at trade policy with Europe, do you expect the U.S. to eliminate all tariffs on all goods?

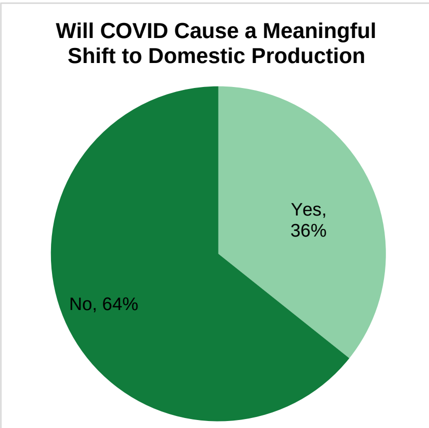
China

- 57% of Roundtable economists expect the U.S. to address perceived unfair trade practices by China by only monitoring the situation, with 29% expecting tariffs on some goods to be removed
- 50% of respondents expect that the U.S. and China will eventually agree on a Phase 1 deal only and a light deal on eliminating tariffs
- When asked if the negative sentiments around China's handling of COVID will have a lasting impact on trade relations with China, 57% responded yes
- In light of this, 36% of respondents expect a meaningful shift to domestic production, thereby reducing U.S. reliance on overseas production









Full Question: Looking at trade policy with China, how do you expect the U.S. to proceed with addressing perceived unfair trade practices?
Full Question: Looking at trade policy with China, do you expect the U.S. to finalize a long-term agreement?
Full Question: Will COVID have a lasting impact on trade relations with China?
Full Question: Will COVID cause a meaningful shift to domestic production, reducing the country's reliance on overseas production in terms of a replacement scenario not a nominal increase?

SIFMA Economic Advisory Roundtable Forecasts

Economic Indicators – Annual

(%, unless indicated)	2018	2019	2020	2021E	2022E
Real GDP (4Q/4Q)	2.5	2.3	-2.4	7.5	3.1
Real Personal Consumption (4Q/4Q)	2.4	2.5	-2.7	8.4	3.1
Nonresidential Fixed Investment (4Q/4Q)	6.5	1.4	-1.4	8.2	4.4
Residential Fixed Investment (4Q/4Q)	-3.9	1.6	14.3	8.3	3.7
Real Federal Government Spending (4Q/4Q)	3.0	4.8	2.4	4.5	1.5
Real State and Local Government Spending (4Q/4Q)	0.6	1.9	-2.3	3.1	2.2
Non-Farm Payroll Employment (K, avg. monthly change)	193.2	167.6	-784.7	552.3	283.7
Unemployment Rate (4Q average)	3.8	3.6	6.8	5.2	4.0
Labor Force Participation Rate (4Q average)	62.9	63.2	61.5	62.0	62.7
Average Hourly earnings (4Q/4Q)	3.4	3.1	4.8	3.0	3.0
Real Disposable Income (4Q/4Q)	3.7	1.6	3.9	1.8	2.4
Personal Savings Rate (annual average)	7.9	7.6	16.2	12.3	7.6
CPI (4Q/4Q)	2.2	2.0	1.2	3.8	2.3
Core CPI (4Q/4Q)	2.2	2.3	1.6	2.9	2.4
PCE deflator (4Q/4Q)	2.0	1.5	1.2	3.2	2.0
Core PCE deflator (4Q/4Q)	2.0	1.6	1.4	2.8	2.1
Industrial Production Index (annual % change)	3.9	0.9	-6.7	5.7	4.0
Housing Starts (K, annual average)	1,247	1,292	1,397	1,613	1,649
S&P Corelogic Case-Shiller Home Prices (Y/Y)	5.8	3.5	6.0	9.4	4.0
New Home Sales (K, annual average)	614	683	828	902.0	919.0
Motor Vehicle Sales (M, annual average)	17.1	16.9	14.4	17.1	16.8
Federal Budget ($B, FY)	-779	-984	-3,132	-3,289	-1,711
Current Account Deficit ($B)	-449.7	-480.2	-647.2	-849.3	-955.8

Economic Indicators – Quarterly

(%)	2Q20	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E	1Q22E
Real GDP (Q/Q, annualized)	-31.4	33.4	4.3	6.4	10.0	7.9	5.6	3.9
Real Personal Consumption (Q/Q, annualized)	-33.2	41.0	2.3	11.3	10.0	6.8	5.3	4.0
Nonresidential Fixed Investment (Q/Q, annualized)	-27.2	22.9	13.1	10.8	7.3	7.5	7.1	5.5
Residential Fixed Investment (Q/Q, annualized)	-35.6	63.0	36.6	12.7	7.5	8.5	6.0	3.7
Unemployment Rate	13.1	8.8	6.8	6.2	5.8	5.2	4.7	4.5
CPI (Y/Y)	0.4	1.3	1.2	1.9	4.4	3.8	3.8	3.4
Core CPI (Y/Y)	1.3	1.7	1.6	1.4	3.3	2.9	2.9	3.3
PCE Deflator (Y/Y)	0.6	1.2	1.2	1.8	3.5	3.2	3.2	2.8
Core PCE Deflator (Y/Y)	1.0	1.4	1.4	1.6	3.0	2.7	2.8	2.7

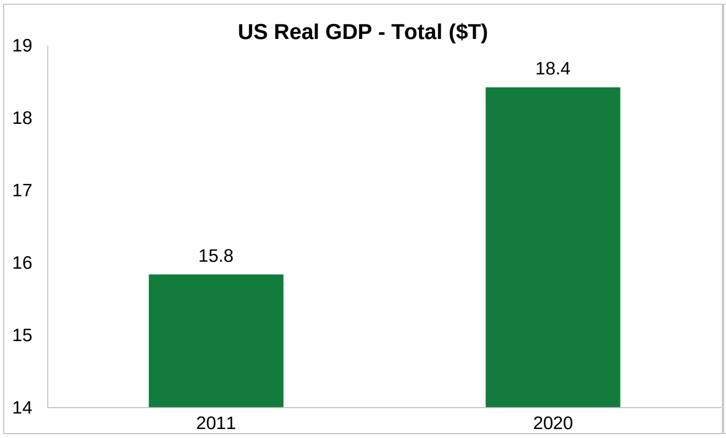
Interest Rates (Monthly Average)

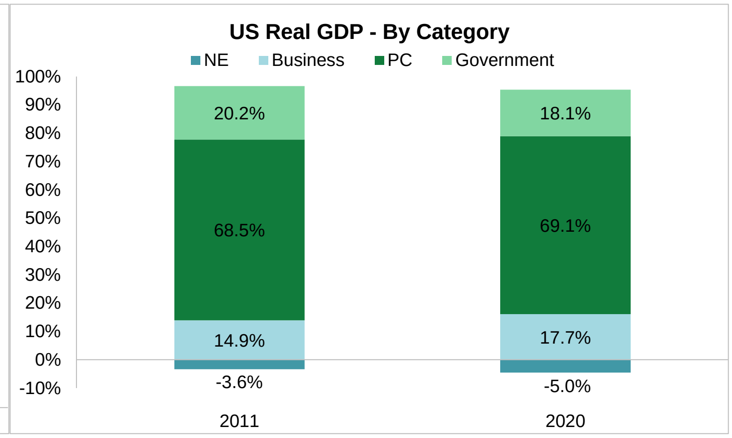
(%)	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21E	Sep'21E	Dec'21E	Mar'22E
Federal Funds Target Rate (midpoint)	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125
2-Year UST Yield	0.19	0.13	0.14	0.15	0.18	0.24	0.28	0.36
10-Year UST Yield	0.73	0.68	0.93	1.61	1.71	1.83	1.95	2.00
30-Year Fixed Mortgage Rate	3.16	2.89	2.68	3.08	3.07	3.18	3.30	3.38

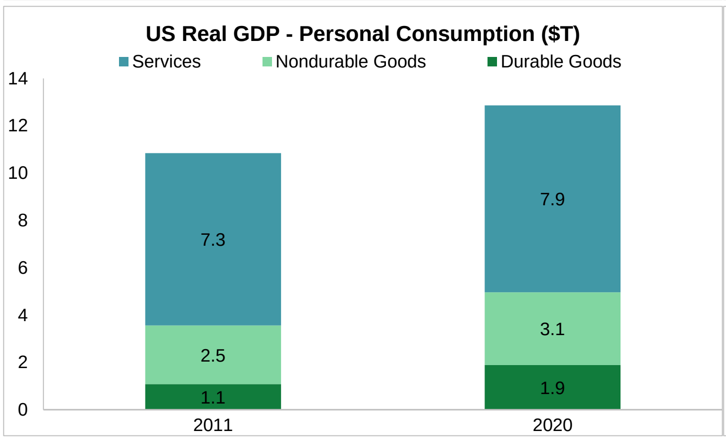
Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Bloomberg, SIFMA Economic Advisory Roundtable

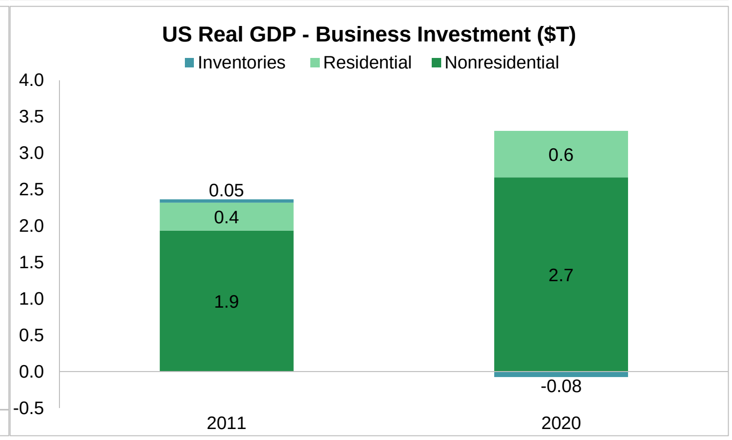
Reference Guide: Economic Landscape

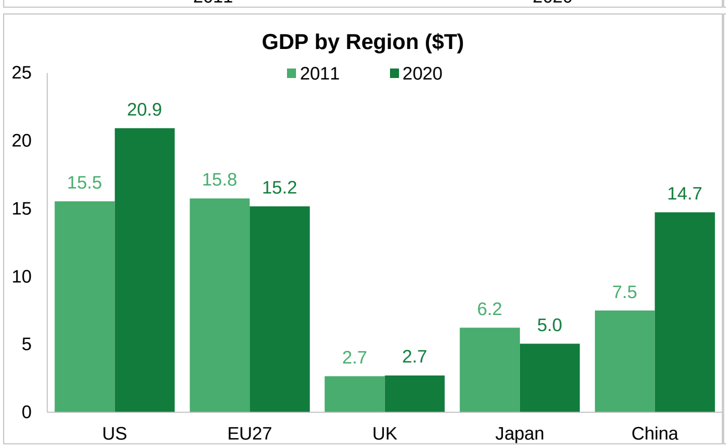
US GDP Growth and Comparison Across Regions

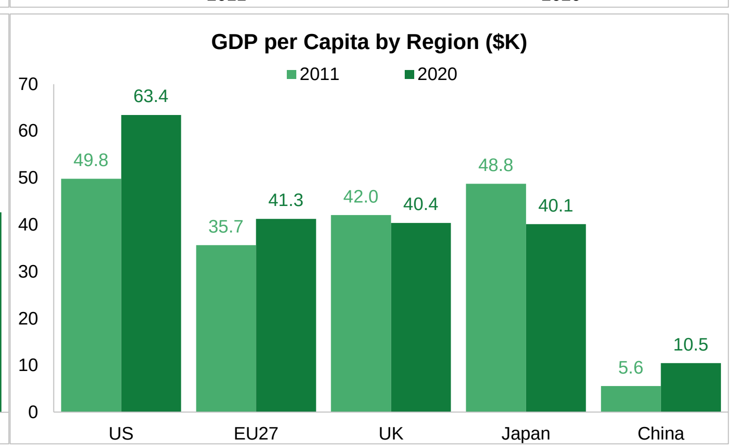








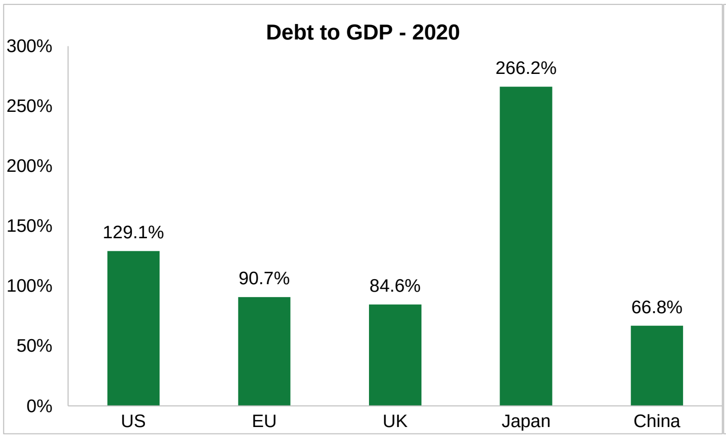


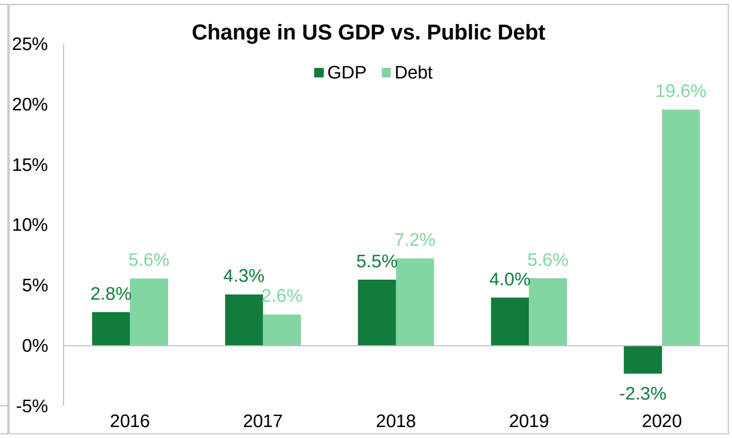


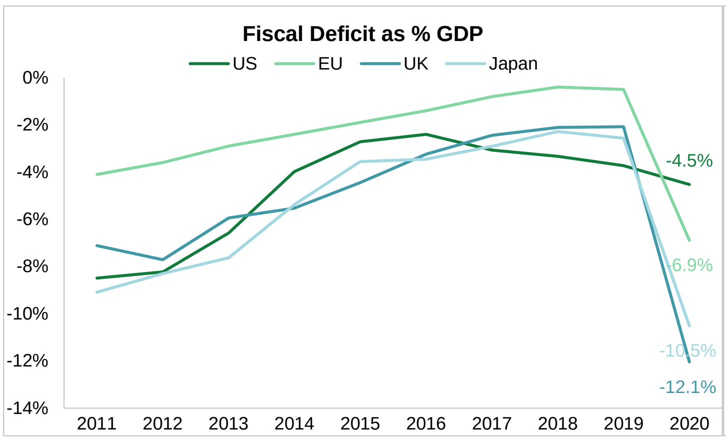
Source: Bureau of Economic Analysis, International Monetary Fund

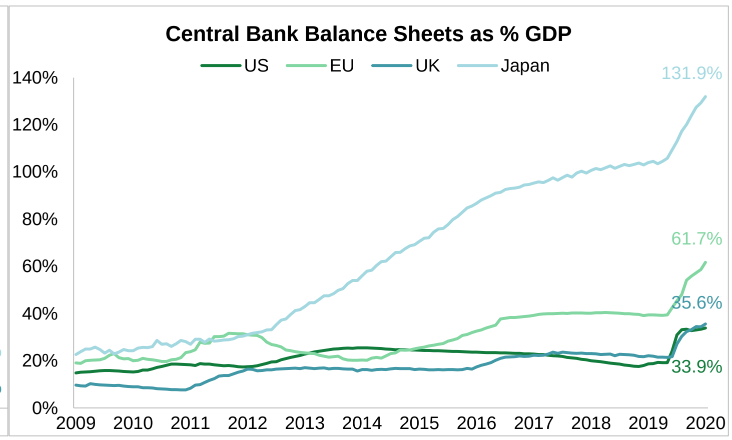
Note: NE = net exports, Business = business investment, Government =govt consumption & investment, PC = personal consumption expenditure

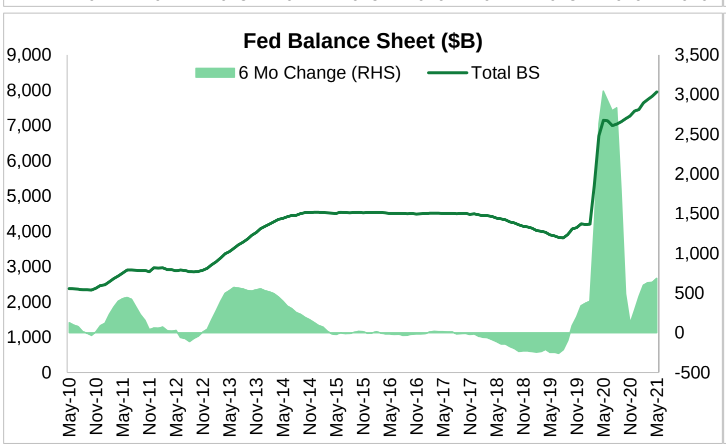
US Debt and Fed Balance Sheet and Comparison Across Regions

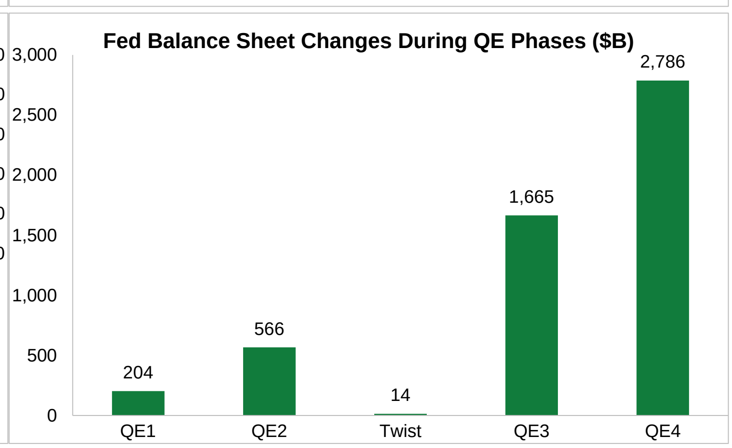






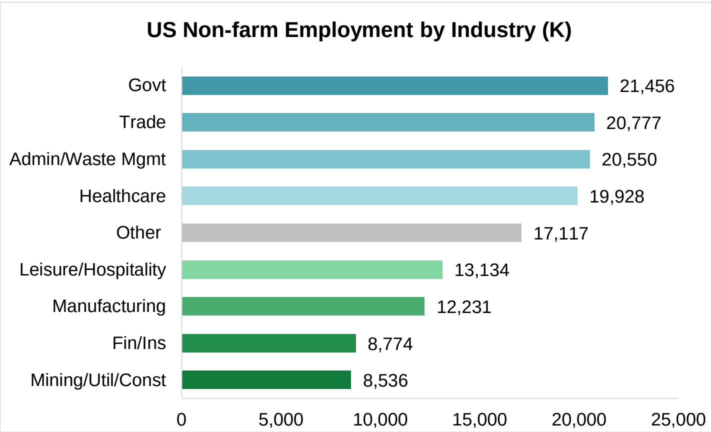


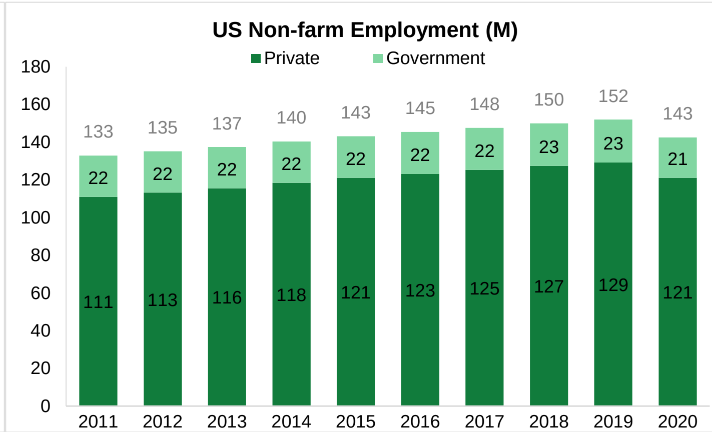


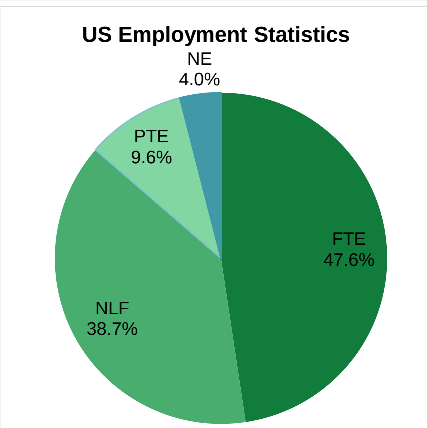


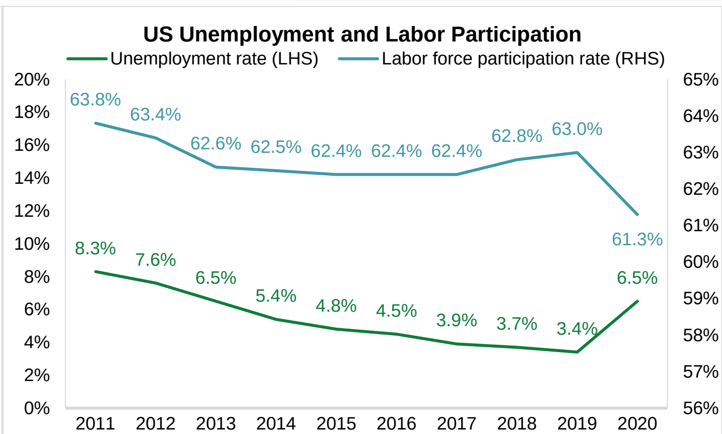
Source: Bloomberg, Bureau of Economic Analysis, Eurostat, Statista, US Treasury
Note: QE = Quantitative easing is a monetary policy when a central bank purchases financial assets to inject money into the economy; Twist = monetary policy when a central bank buys long-term and sells short-term bonds to flatten the yield curve without expanding the balance sheet; QE1: Nov'08-Mar'10, QE2: Nov'10-Jun'11, Twist: Sep'11-Jun'12, QE3: Sep'12-Oct'14, QE4: Mar'20-May'20

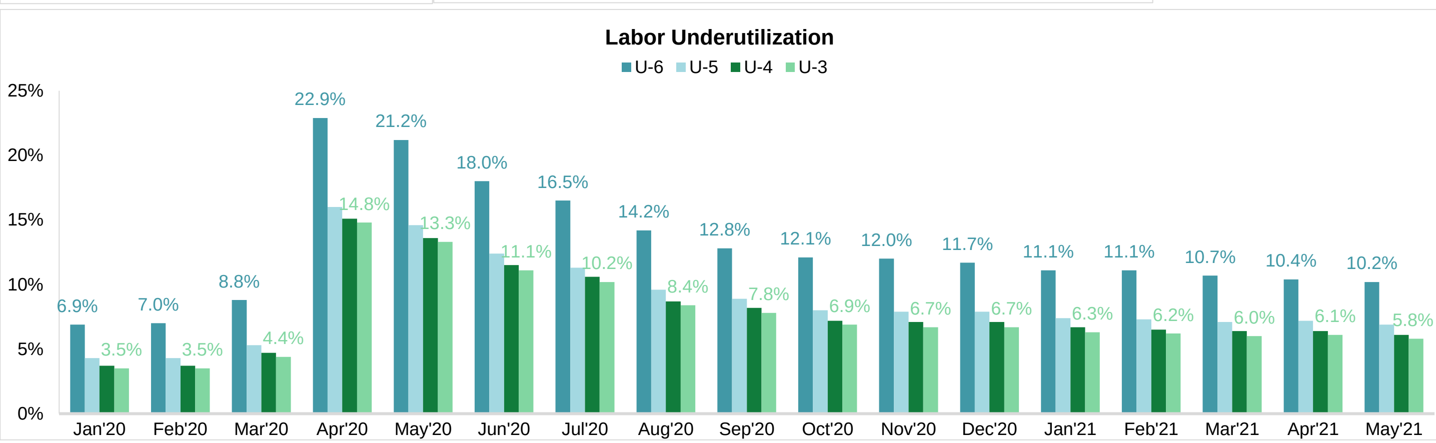
US Employment Landscape











Source: Bureau of Labor Statistics
Note: NE = not employed (unemployed), FTE = full time employment, NLF = not in labor force, PTE = part time employment. Employment statistics based on civilian population 16 years or over

SIFMA Economic Advisory Roundtable Members

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Nicholas Van Ness
Credit Agricole

James Sweeney
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Michael Moran
Daiwa Capital Markets America

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Christopher Low
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Michael Feroli
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