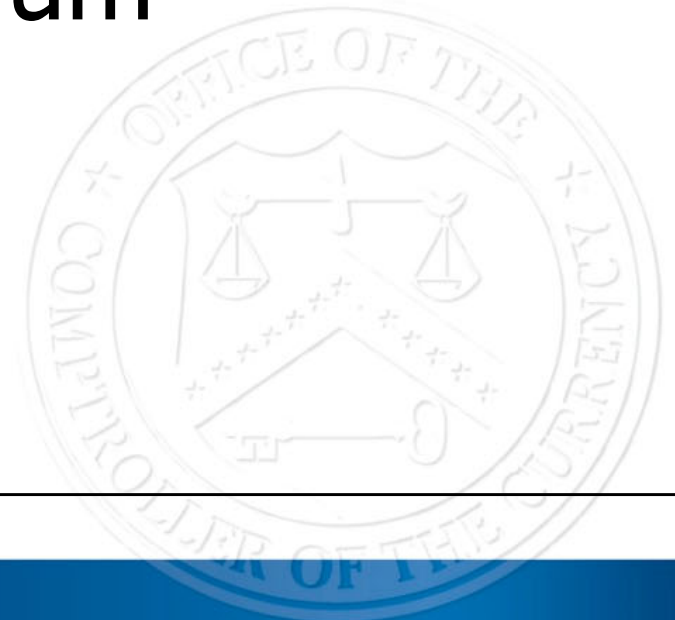


Economic Update



OCC Mutuals Forum

June 28, 2022

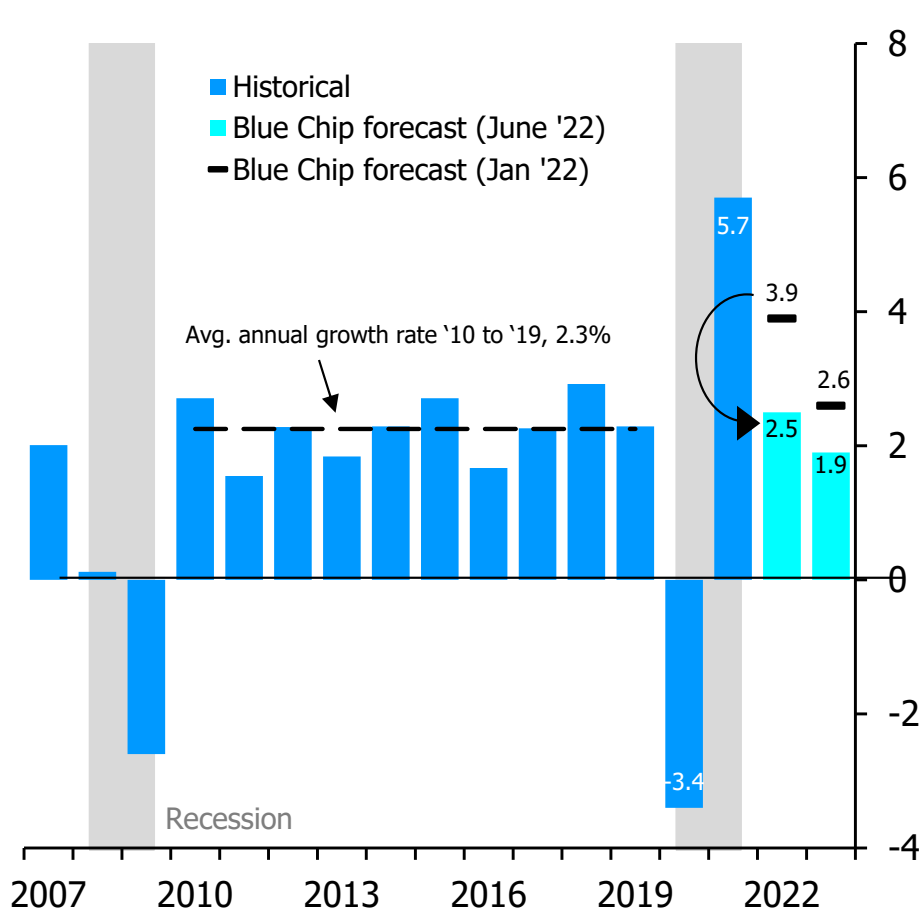


Key Takeaways

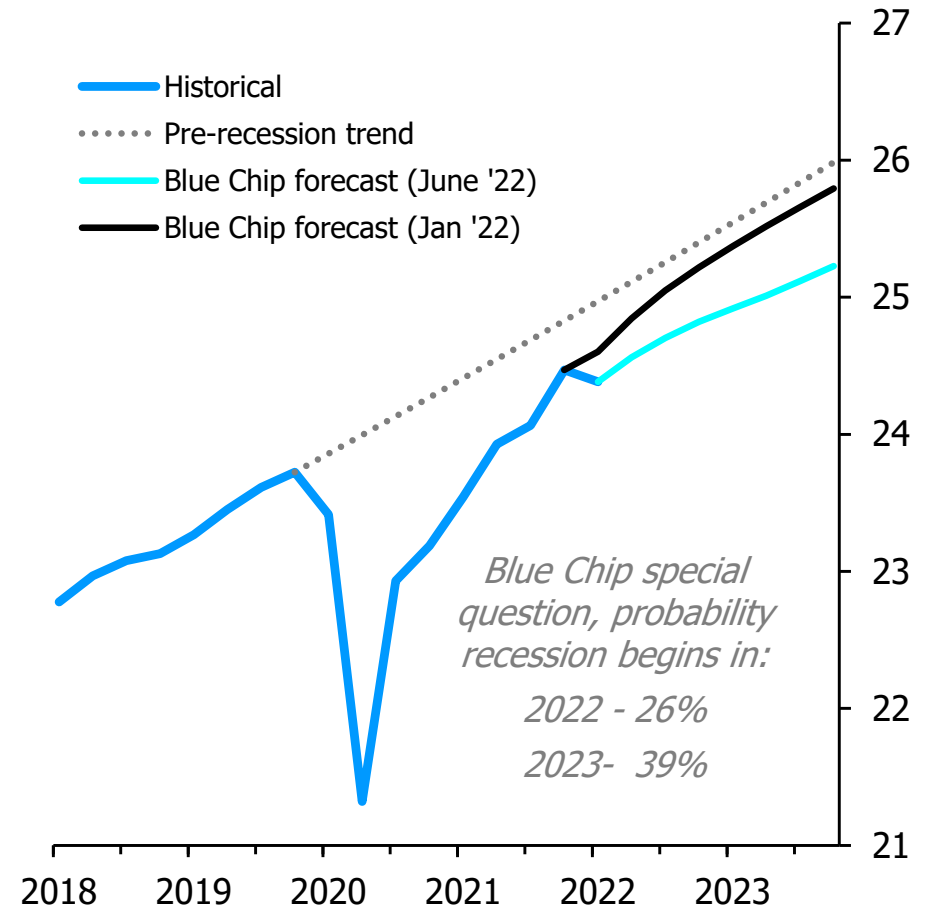
- Economy still expected to grow in 2022 due to elevated consumer spending, but risk of recession has increased
 - Prolonged and elevated inflation increases likelihood of aggressive Fed response, likely causing an economic recession

Consensus forecasts show downward revision of GDP; now at average pre-recession growth rate

Real GDP, % change annual rate



Real GDP, SAAR in trillions of 2022 \$'s

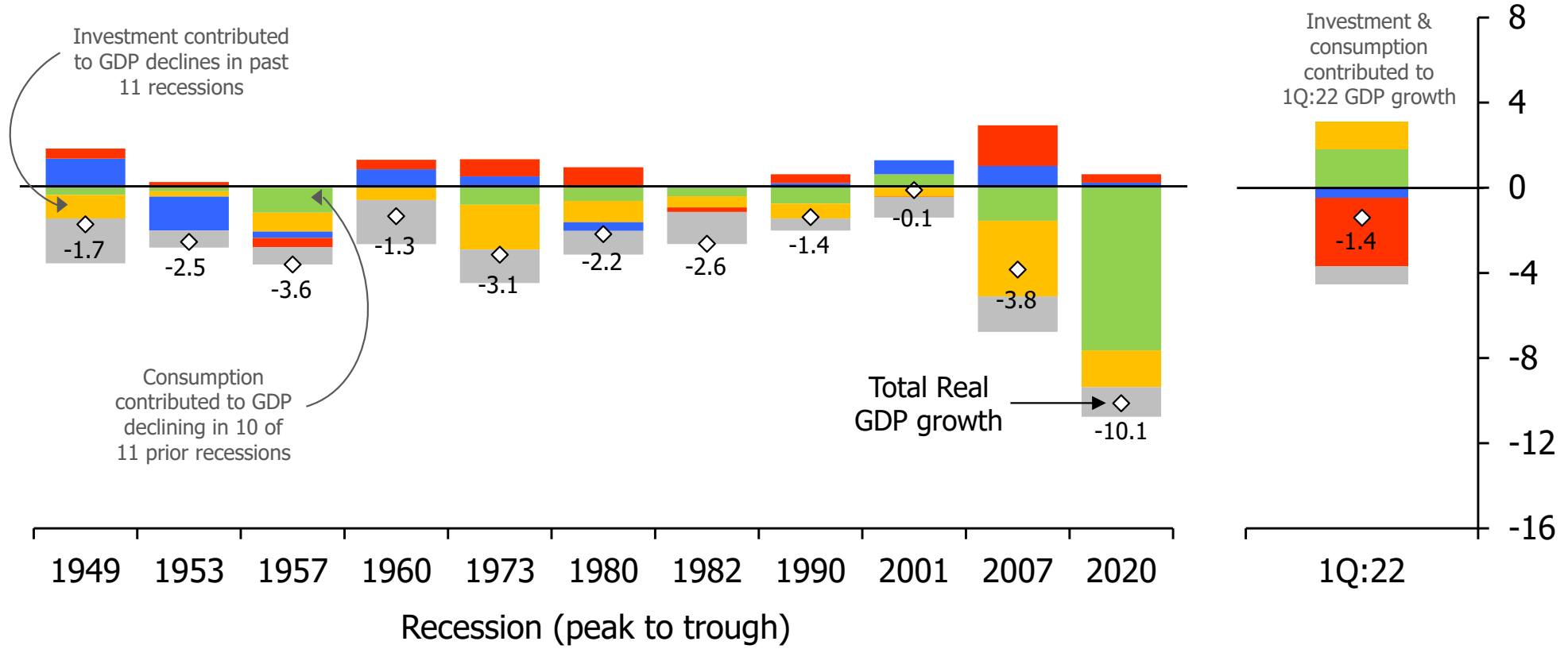


Source: BEA (data through 1Q:2022); Blue Chip Economic Indicators (June 2022)

First quarter GDP decline driven by components not usually associated with recessions

Contribution to real GDP growth rate, by component, %

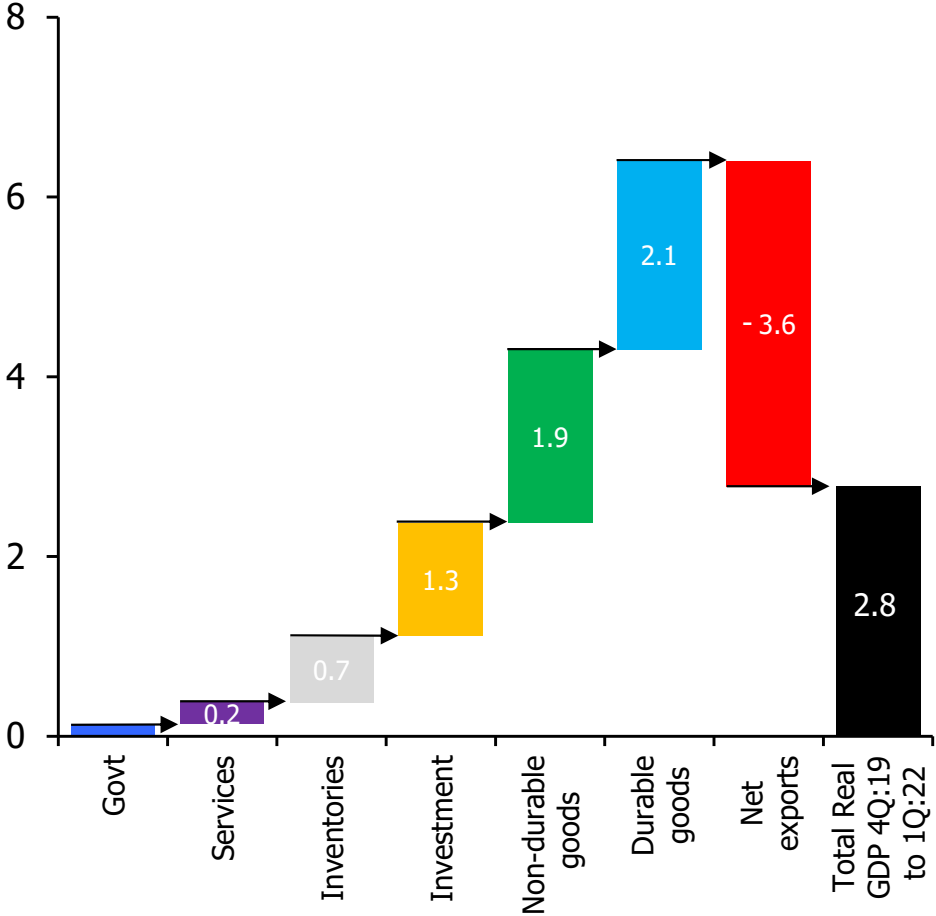
■ Consumption
 ■ Investment
 ■ Inventories
 ■ Government
 ■ Net exports



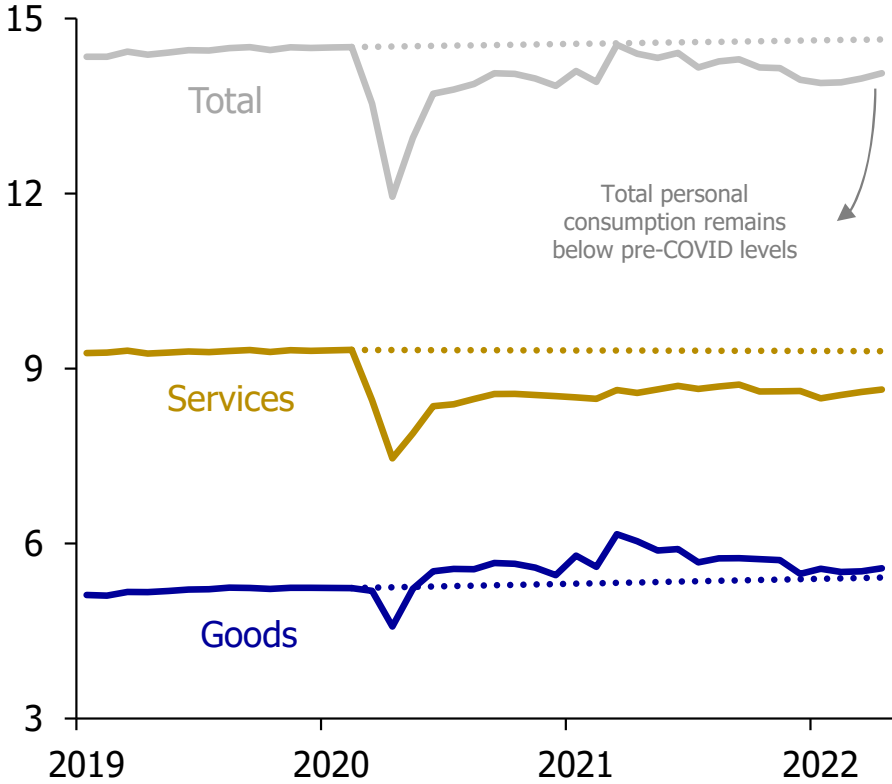
Source: BEA (data through 1Q:22); and EBC calculations

Households led economy out of recession; however, total personal spending yet to recover

Contribution to real GDP growth from 4Q:19 to 1Q:22 by component, %



Real personal consumption expenditures, SAAR in trillions of 2021 \$'s

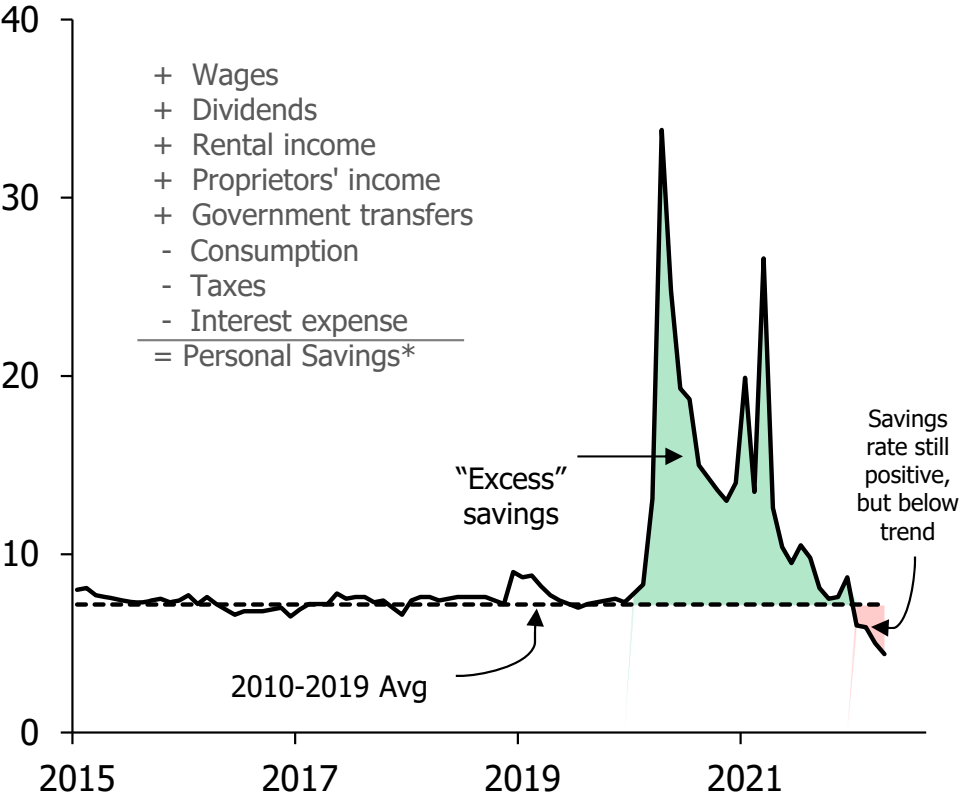


Sources: BEA (data through 1Q:22); Federal Reserve Board (Dec. 2021)

Reduced spending & fiscal stimulus allowed households to significantly increase savings

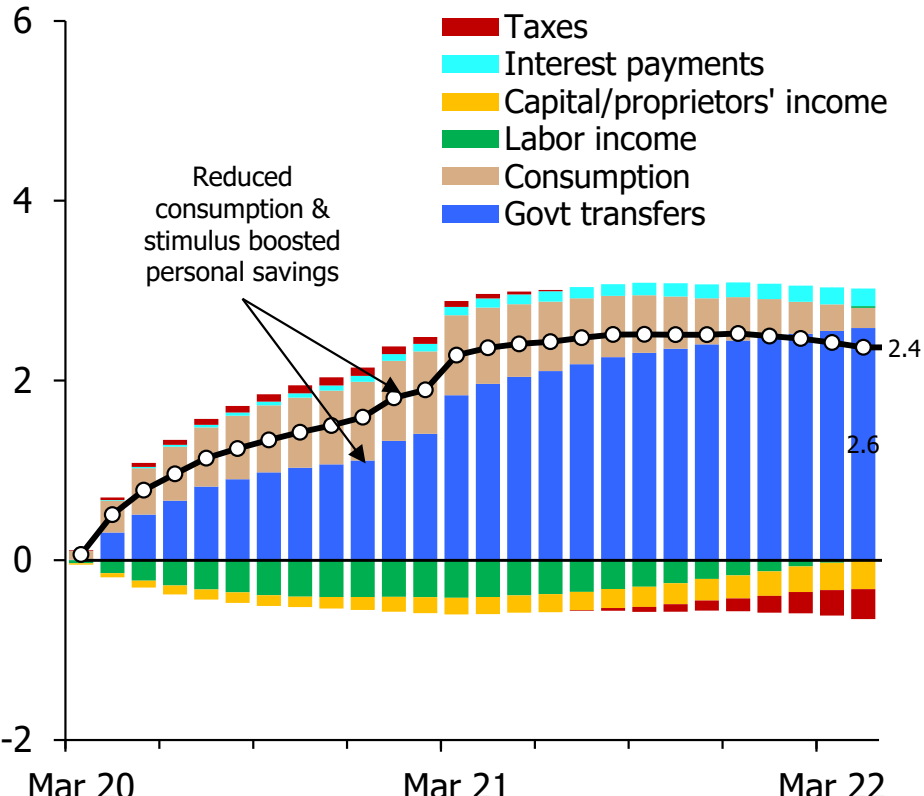
Personal savings as a percentage of disposable personal income, %

Measures the "FLOW" of household savings



Cumulative contribution to excess personal savings since Feb. '20, in trillions of 2021 \$'s

Estimating the "STOCK" of the household savings



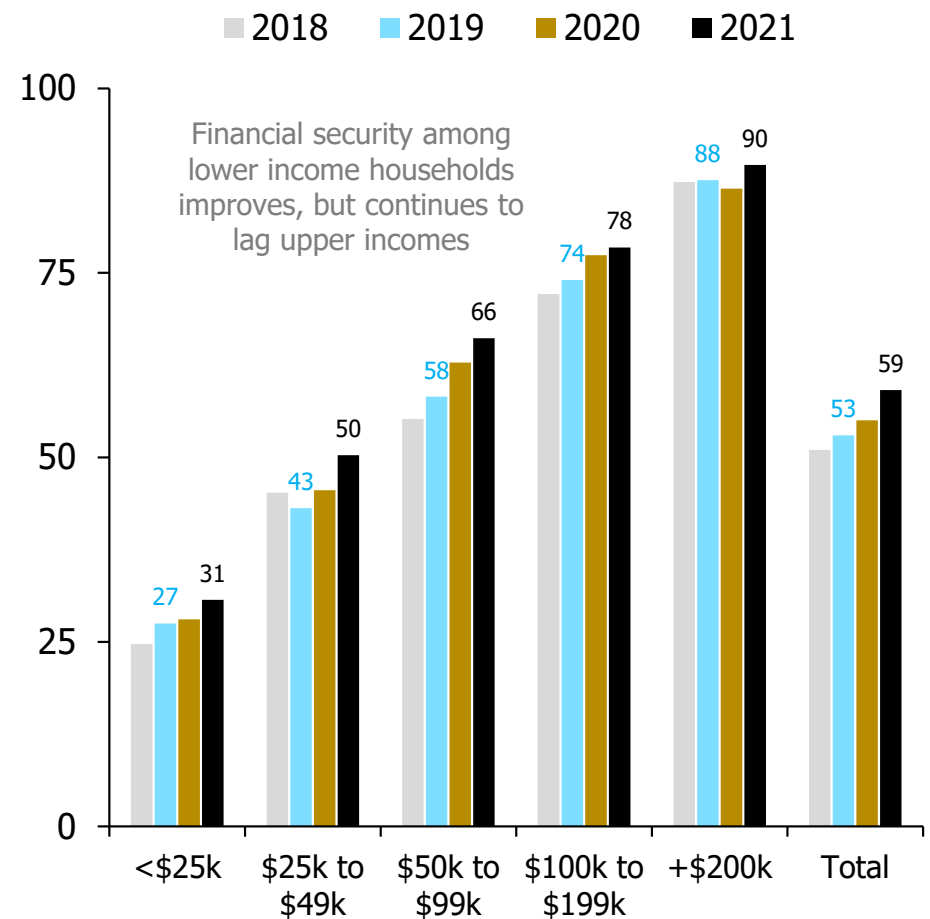
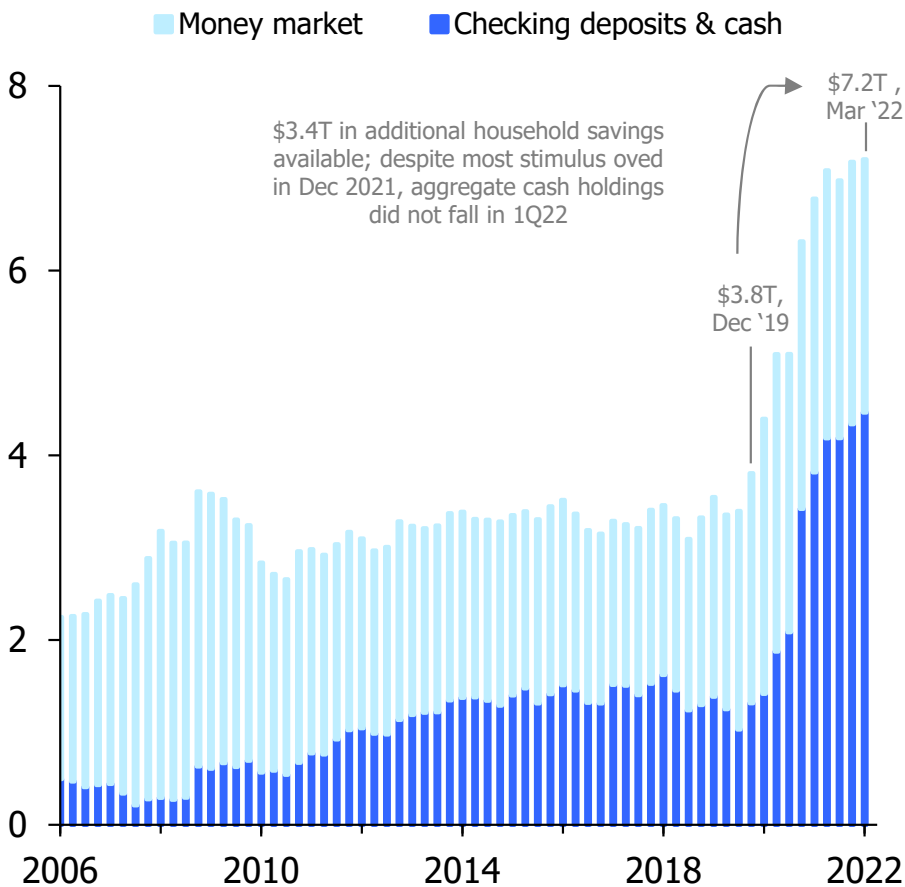
Source: Federal Reserve Board (data through Mar. 2022); BEA (April 2022); EBC calculations

*BEA's the National Income & Product Accounts, or NIPA, defines personal savings rate as monthly savings as a percentage of disposable income

Household cash holdings through March 2022 yet to decline; currently, \$3.4T above Dec. '19 level

Real household cash and money market holdings, in trillions of 2021 \$'s

Share of households with a 3-month emergency fund by income and year, %

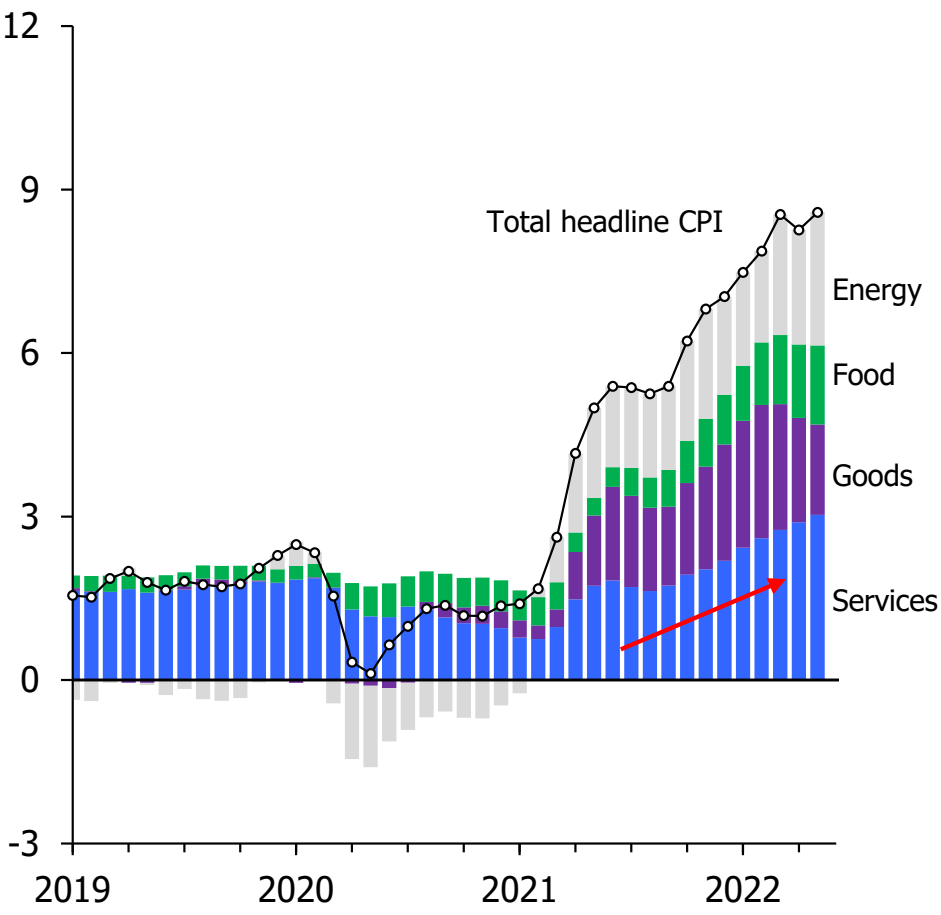


Source: FRB US Financial Accounts (data through Mar. 2022); BEA (1Q:22); FRB Survey of Household Economics & Decision-making (SHED)

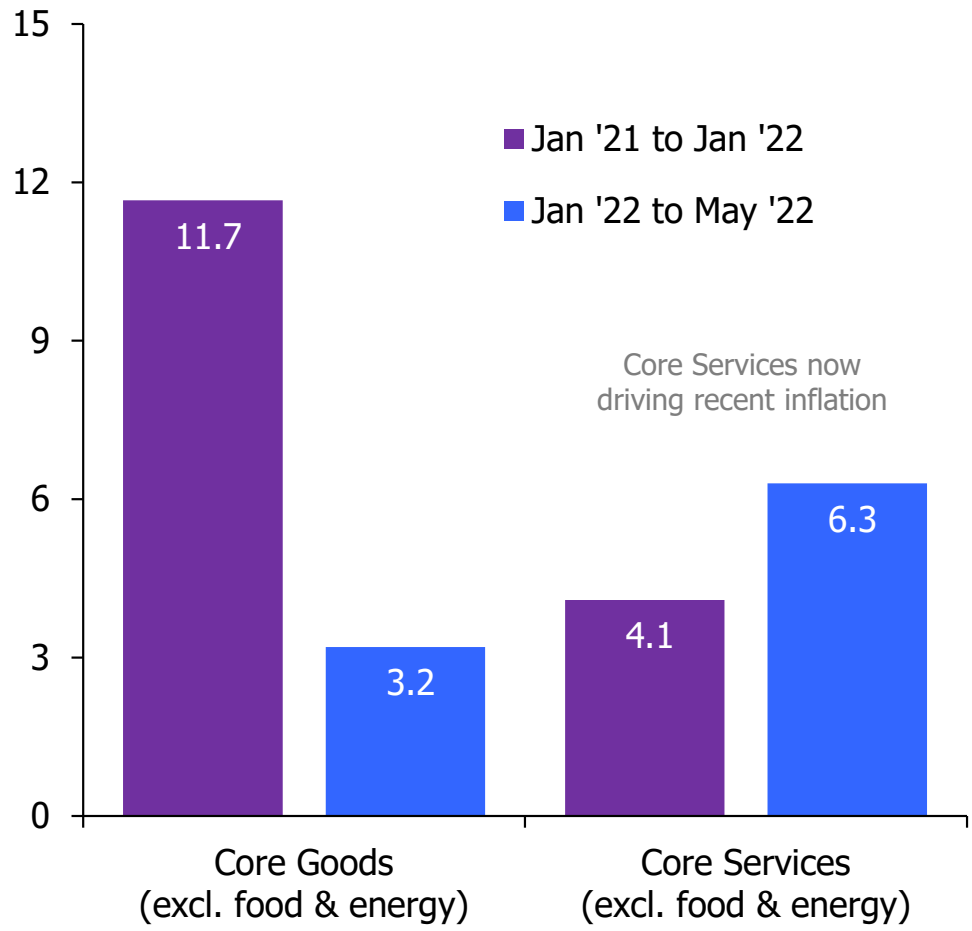
Note: FRB report based on the ninth annual Survey of Household Economics and Decisionmaking, which was conducted in October and November of 2021

Services driving 2022 core inflation; supply chain & pandemic less of a driver

Contribution to monthly headline CPI year-over-year growth by item, %



CPI special aggregate indexes percent change at an annual rate, %

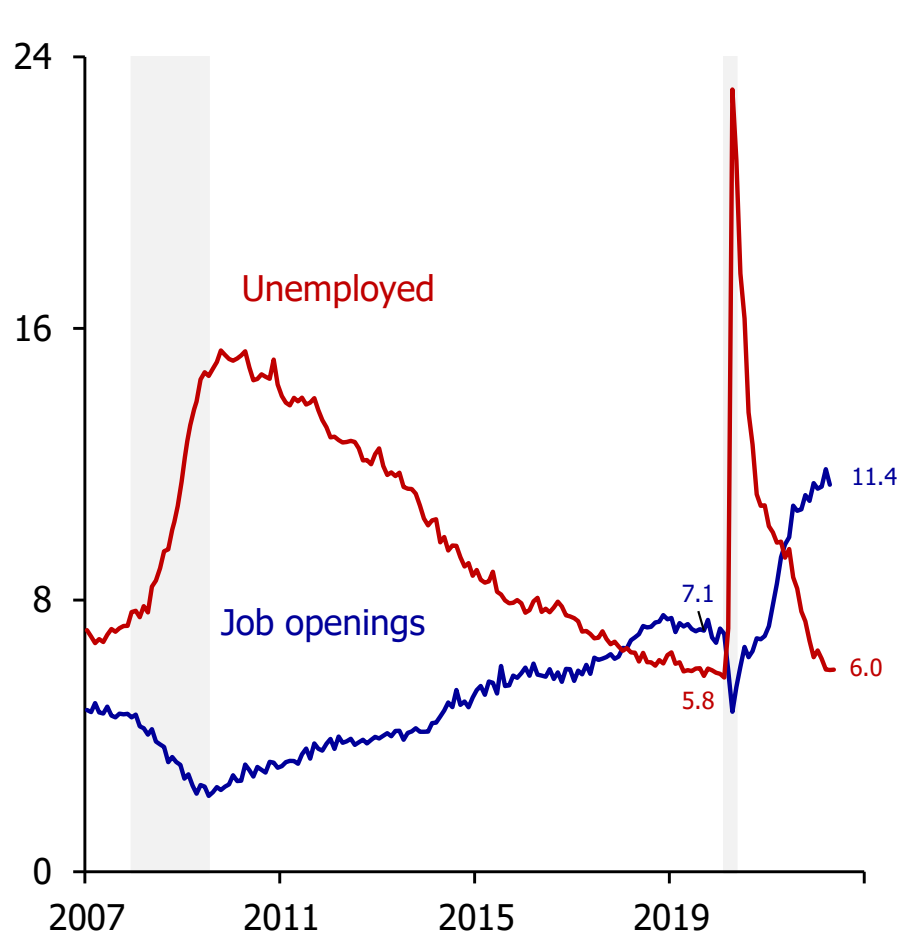


Source: BEA (data through Apr. 2022); BLS (May. 2022); EBC calculations

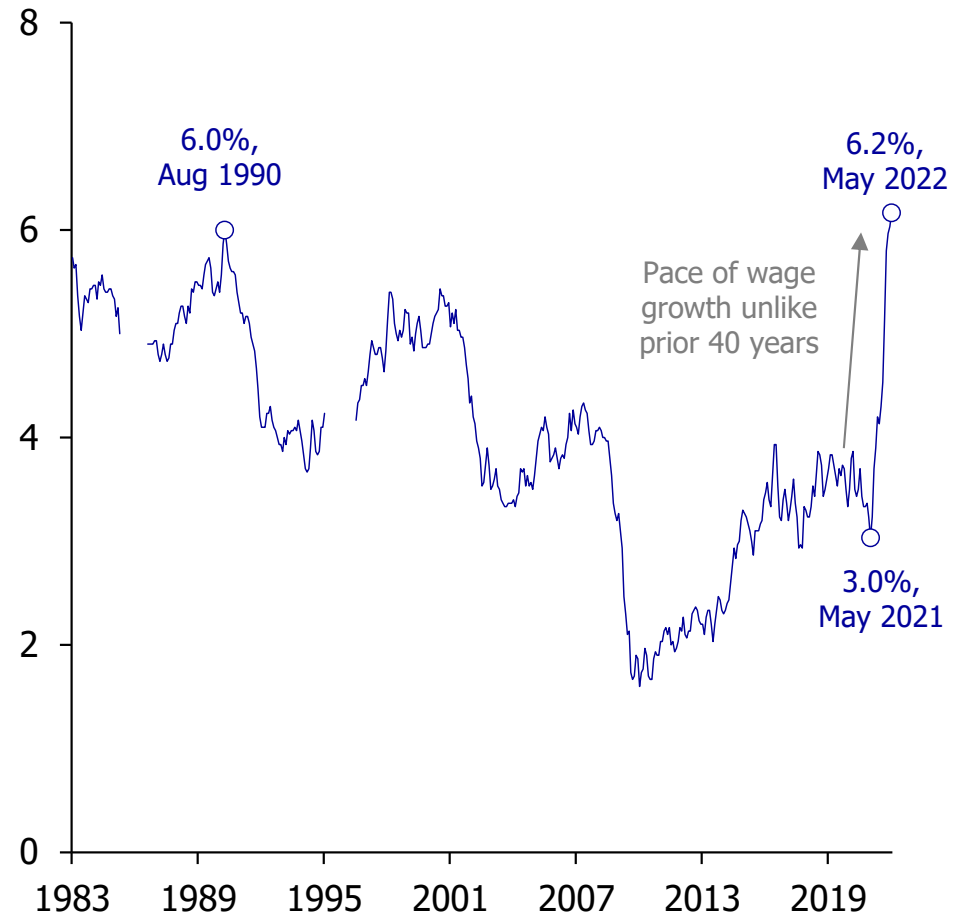
Note: Core goods refers to CPI: Commodities less food and energy commodities, while core services refers to CPI: Services less Energy Services. Core goods account for 21% of headline CPI compared to 57% of core services.

Demand for workers outpacing available supply, resulting in increased wages

Job openings and unemployed persons, in millions



FRB Atlanta wage growth tracker, 3-month moving average, Y/Y % chg, %

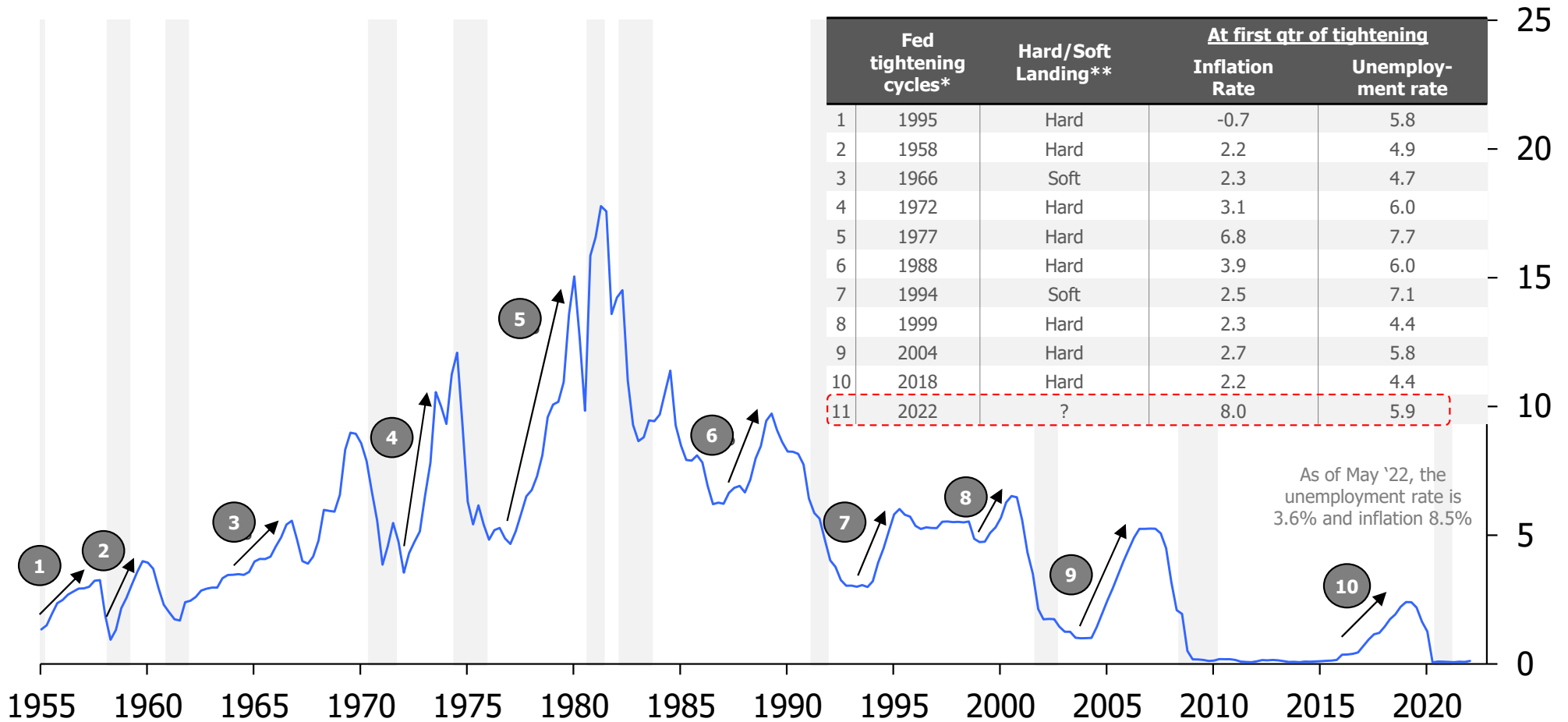


Source: BLS (data through Apr. 2022); FRB Atlanta (data through May 2022)

Note: FRB Atlanta wage tracker measures nominal wage growth using microdata from the Current Population Survey. Services PCE Chain Price Index measures housing and utilities, health care, transportation services, recreation services, food services and accommodations, financial services and insurance, and other services.

Engineering a soft landing is hard, particularly when inflation exceeds the unemployment rate

Effective federal funds rate at month end, %



Source: Federal Reserve Board (data through 1Q:22); BLS

*Fed tightening cycle defined as 4 consecutive quarters of effective Fed Funds (end of period) increases
 **Hard landings defined as those where a recession begins within 9 quarters of last quarter of Fed Funds tightening
 Note: Inflation is the headline CPI including food & energy.

Key Takeaways

- Economy still expected to grow in 2022 due to elevated consumer spending, but risk of recession has increased
 - Prolonged and elevated inflation increases likelihood of aggressive Fed response, likely causing an economic recession