

Equity Research
Economics

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Economics Weekly

What's Driving Consumer Spending?



We are seeing lower recession challenges and the U.S. consumer very resilient, and that's bringing resiliency in our core products for food demand.

– Archer Daniels Midland Company, Second-Quarter Earnings Call

I'll let you know we're really starting down at consumer spending and it's been flat last few months, maybe several months, but it's differentiated as you look at goods versus services. We're clearly seeing, and I talked about it in my opening remarks, less on the goods and more on the services.

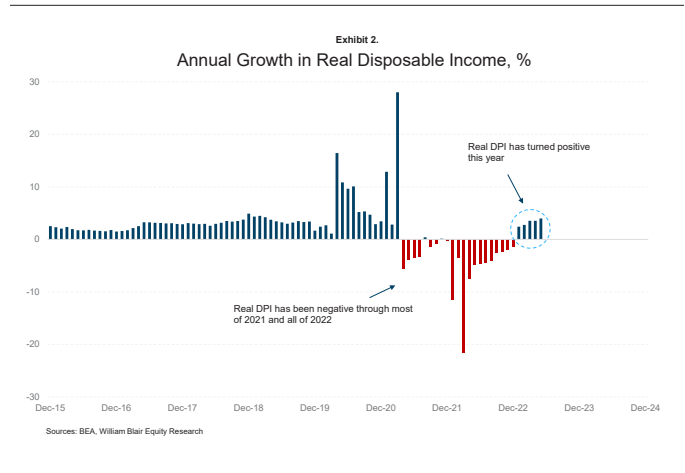
– Union Pacific, Second-Quarter Earnings Call

The resiliency of the U.S. consumer over the last year in the face of sharp increases in interest rates has been a surprise to most. Not only has the unemployment rate remained exceptionally low, but consumer confidence has recently been rising again. However, spending is already starting to moderate and in the coming quarters we anticipate this activity to slow further to the point where a mild recession is more likely than not—i.e., we may not be in for as clean an escape, or an “immaculate disinflation” back to 2% inflation and no recession, as the market currently anticipates. **Given that the behavior of the consumer is key to this narrative, in this *Economics Weekly*, we reexamine what have been the main drivers of consumer spending over the last few years, and what those drivers might look like in the quarters ahead.**

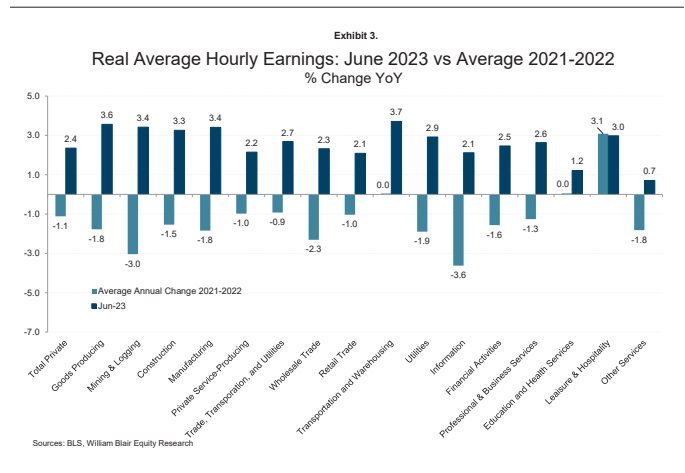
There are four key drivers of consumer spending—savings, disposable income, credit, and consumer confidence. Below we examine each of these factors.

Real Personal Income Growth—From Drag to Driver, but ... Then Back to Drag?

The foundation and largest source of financing for consumer spending is income growth, with wages accounting for the bulk of this (exhibit 1). Here we can see that real personal income growth was negative through most of 2021 and all of 2022; encouragingly, it turned positive in January 2023 (exhibit 2).

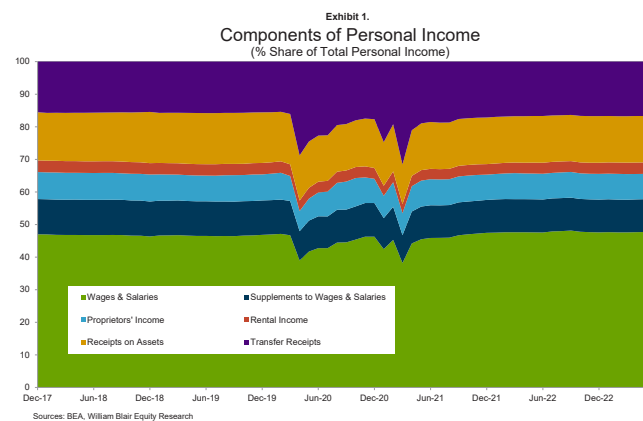


Hence, despite what seemingly have been rapid gains in wages and salaries over the last few years, much of this was money illusion; these increases were in many instances significantly below the pace of inflation. Exhibit 3, for example, shows the mean growth in real average hourly earnings between 2021 and 2022 compared to the latest reading for June 2023. Only one sector experienced wage increases over this prior period, leisure and hospitality, with every other major sector flat to down.

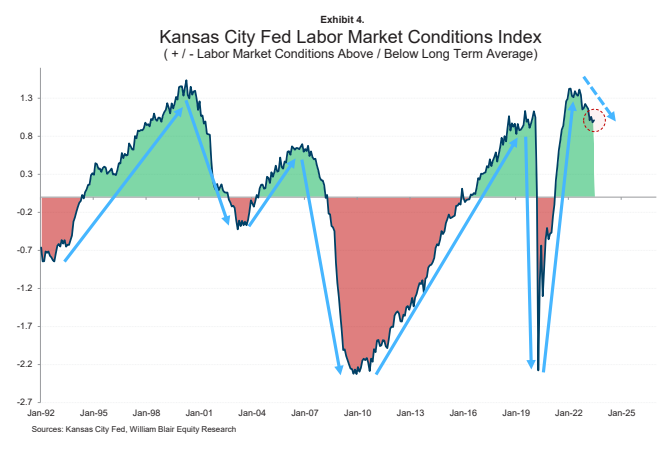


The upshot here is twofold. First, to the extent that real income growth was weak and/or negative throughout much of the previous two years, this suggests consumption was being driven by factors other than income. Second, if real income is now accelerating, this could be a major catalyst for consumer strength going forward, assuming it continues and based on the extent that it is not offset by weakness from the other areas that have supported spending in recent years.

Unfortunately, labor market conditions have indeed already started to turn. Exhibit 4 shows the Kansas City Fed’s Labor Market Conditions Index, which is an aggregate of 24 different labor market variables (e.g., initial jobless claims, average hourly earnings, JOLTS data, and nonfarm payrolls). This series has tended to be highly consistent over time, either heading in one direction



or another for extended periods, with relative few false signals. Thus, what the exhibit also shows is that once the index starts to turn down, the decline tends to be quite rapid. The current rolling over would therefore be consistent with a moderation in both employment and income growth in the coming months and quarters.

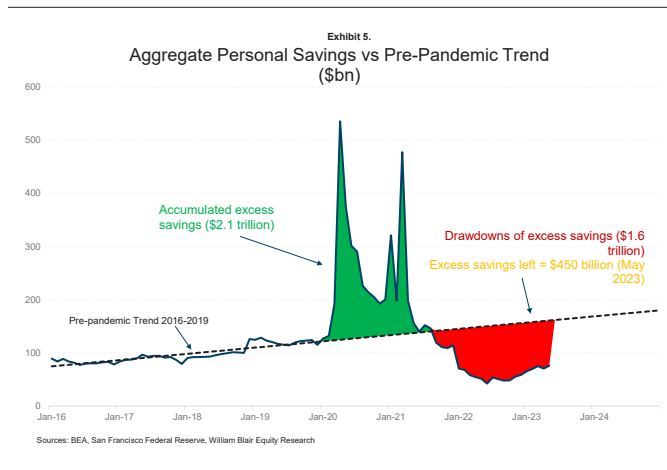


Excess Savings—Diminishing Steadily

A clear factor helping to support consumption over the last three years has been the excess savings that were built up during the peak quarantine period and were mainly the result of government stimulus in the form of tax rebates, tax credits, direct payments, and the suspension of student debt repayments.

There is no one perfect measure of exactly how much in the way of excess savings were accrued, but the San Francisco Fed’s method, which simply looks at the level of savings above the pre-pandemic trend, is sensible enough. It shows that between January 2020 and August 2021, U.S. households accumulated \$2.1 trillion in excess savings. Since then, they have been drawing down those savings as was the intended purpose.

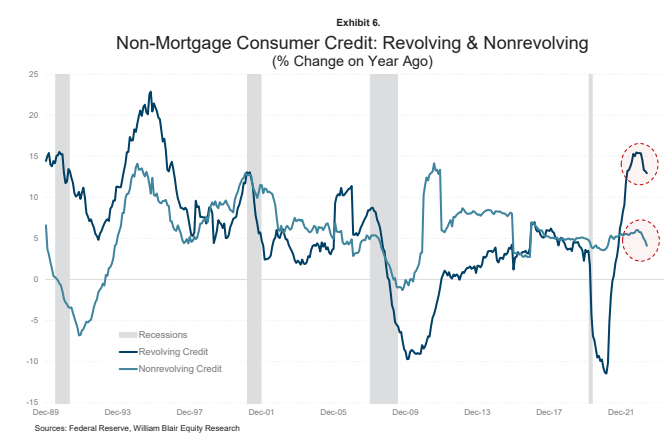
Through 2023, households have been spending on average \$88 billion per month of these excess savings, leaving them with approximately \$400 billion still in the bank, as shown in exhibit 5.



If this pace continues, it will wipe out this excess by the end of the year, meaning that savings return to their pre-pandemic trend. While this does not represent a dire situation for consumers—they were in great shape before the pandemic—it does imply that this source of additional spend will no longer be supporting consumption going forward, making households once again more dependent on both income and credit.

Credit—Banks Reluctant to Lend, Rates High, but Consumer Balance Sheets Solid

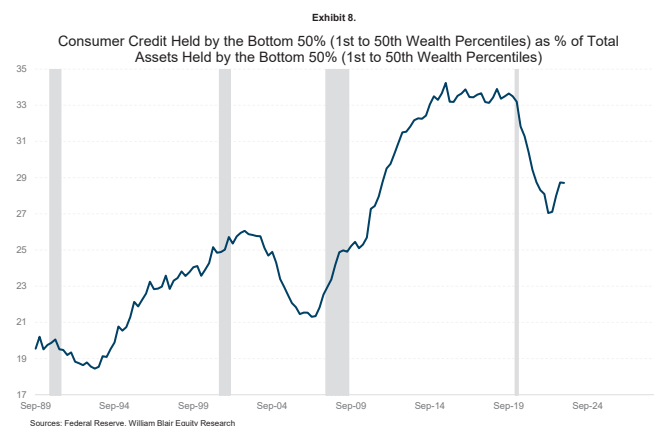
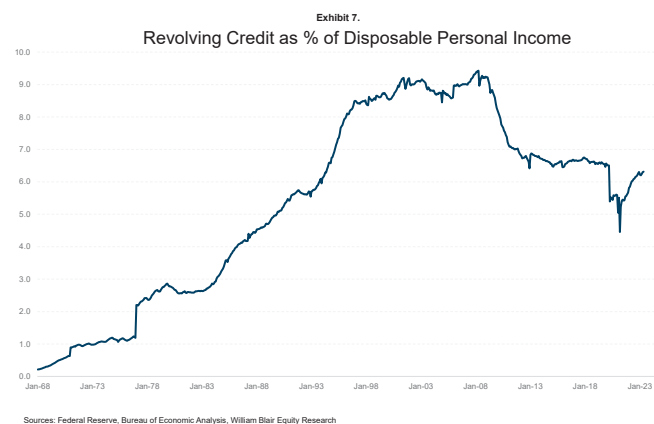
Much has been made about the recent surge in credit card debt by U.S. consumers over the last year, as depicted in exhibit 6. Yet, it is worth placing this increase in revolving credit context.



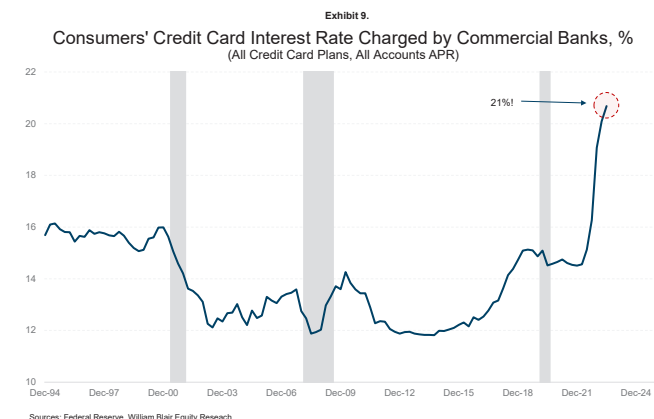
Just about all of this increase is considered normalization of credit from pandemic lows, which was mentioned by the major credit card companies presenting at William Blair’s 43rd Annual Growth Stock Conference this past June. Households had limited need for their credit cards during the pandemic, given the COVID restrictions and that the stimulus payments were used in part to pay down debt; however, households generally are used to carrying a certain amount of revolving debt, and hence the recent

increase has largely been a return to that amount, rather than a major jump related to either stress or exuberance.

This is evident in the fact that revolving credit now accounts for 6.3% of disposable personal income, which is roughly the same amount as before the pandemic and still far lower than the peak 9.4% during the GFC in 2008 (exhibit 7). Of note and as shown in exhibit 8, it has not been the lower-income households taking on this debt; their level (while high at 28.7% of total assets) is still lower than the amount they held pre-pandemic.



One concern is the fact that credit card interest rates have jumped to a stunning 21%. This will undoubtedly close off this avenue of consumption financing to all but the most desperate going forward. It also puts significant pressure on current borrowers to pay down any extended debt (exhibit 9).



What about other forms of debt? For most existing homeowners, mortgage debt has been locked in at rates of 2%-3% for the foreseeable future. Any new mortgage borrowers will have to accept 7% rates or are being enticed with lower teaser rates offered by the homebuilders for the first year or two, before being switched to the market rate, at which time—it is hoped—mortgage rates will have fallen.

In terms of non-mortgage nonrevolving consumer credit, there has not been a similar surge to that experienced in revolving credit (as shown in exhibit 6 above). This includes loans for motor vehicles, education, boats, trailers, mobile homes, and vacations. However, the New York Fed recently revealed that rejection rates on various forms of consumer loan applications, such as auto loans, increased in the second quarter to 8.8% from 7.1% in the first quarter—the highest rate since 2018.

These rejection rates are a reflection of tighter bank lending standards (exhibit 10) and the banks' decreased willingness to extend consumer loans (exhibit 11). It is also now showing up in the weakness in actual bank loans, where growth has deteriorated sharply (exhibit 12).

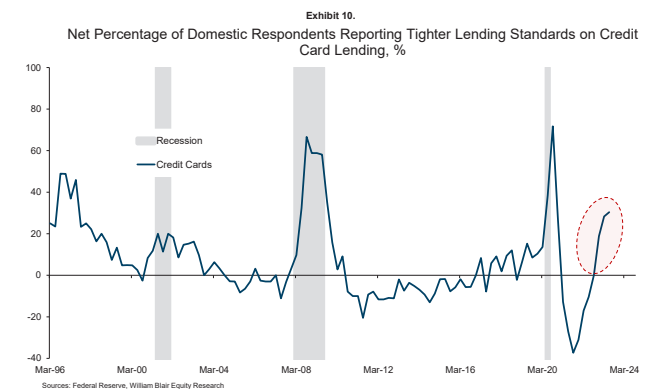


Exhibit 11.

Net Percentage of Domestic Respondents Indicating More Willingness to Make Consumer Installment Loans

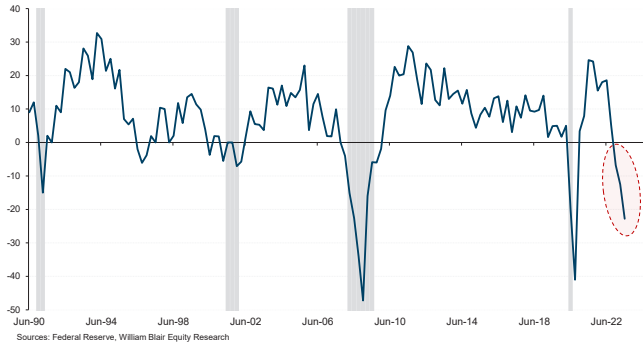
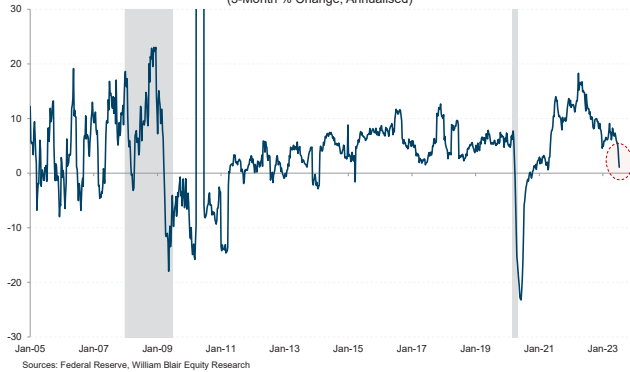


Exhibit 12.

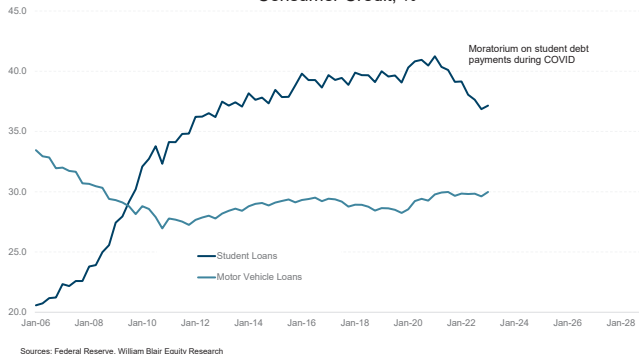
Consumer Loans (3-Month % Change, Annualised)



One major point to highlight here concerns student loan debt. Prior to the pandemic moratorium, this debt accounted for 41.2% of total consumer credit. It subsequently fell to 36.9% at the end of 2022 (exhibit 13), as debt repayments were suspended for government-backed loans and some loans were paid off with the help of stimulus payments and savings. However, this debt holiday ends come September, which will mean that roughly 45 million Americans with student debt will once again need to start paying this off. This will, on average, amount to an [estimated](#) \$250 per month per student and in turn act as an average pay cut of around 4%-5% for those individuals.

Exhibit 13.

Student & Motor Vehicle Loans as Share of Total (Non-Mortgage) Consumer Credit, %



Nevertheless, we are not yet seeing much in the way of stress in the credit area. Debt service ratios remain exceptionally low (exhibit 14). And while delinquency rates across all parts of the consumer space have increased (except for student loans), they have only risen to pre-pandemic rates, a time when the consumer was actually viewed as being in one of the strongest positions in decades (exhibit 15). This will deteriorate as and when the unemployment rate starts to rise (exhibit 16).

Exhibit 14.

Consumers' Debt Service Ratio

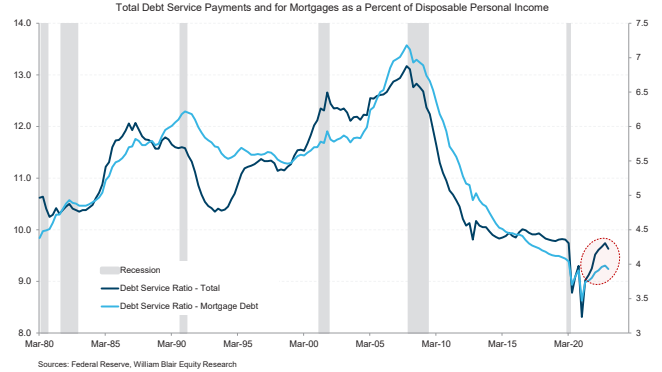


Exhibit 15.

Transition into Delinquency (30+) by Loan Type

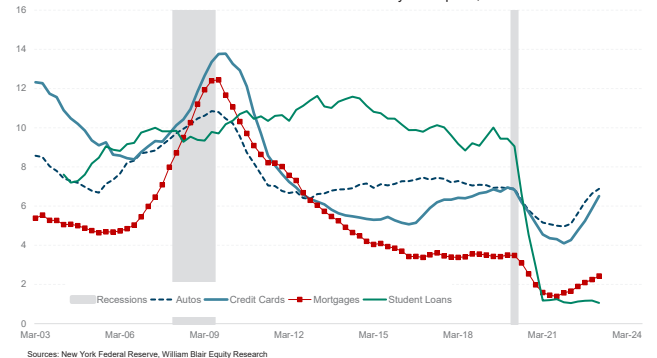
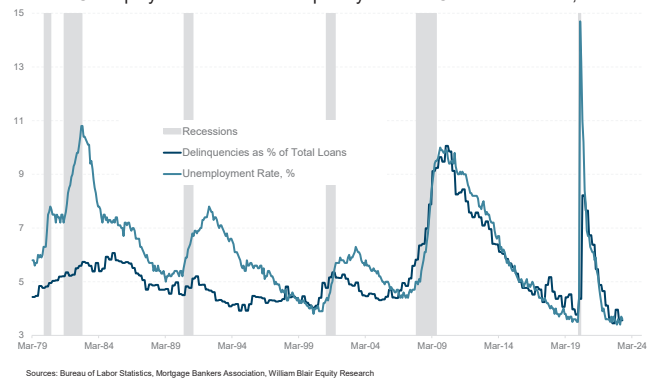


Exhibit 16.

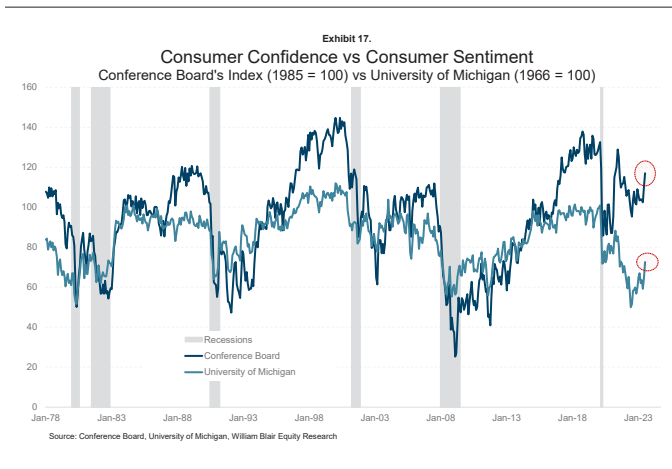
Unemployment Rate vs Delinquency Rate on Consumer Loans, %



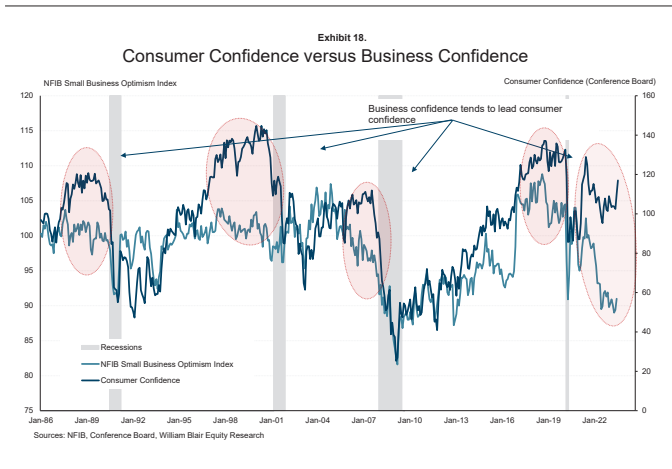
Consumer Confidence—Surprisingly Resilient

Lastly, while the role of consumer confidence may not be nearly as quantifiable as that of income, savings, and credit, we nevertheless view it as an important factor in the overall picture of consumer engagement with the economy and growth.

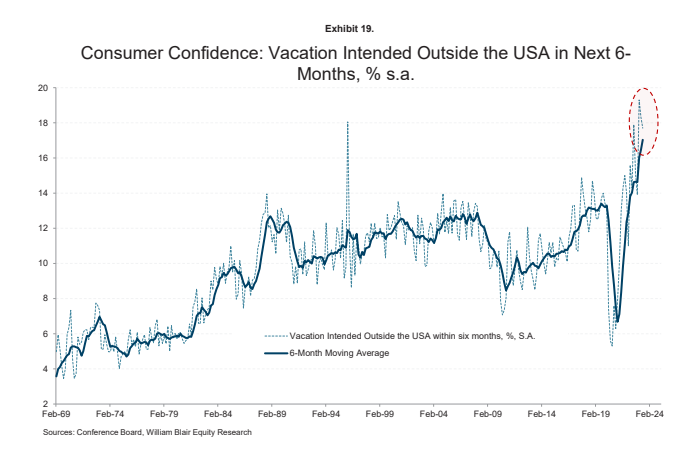
Today, aggregate levels of confidence—from the more forward-looking University of Michigan Survey (more reflective of inflation and consumer buying intentions) and the Conference Board’s Survey of consumer confidence (more reflective of developments in the labor market)—are showing a steady improvement in confidence over the last few months (exhibit 17).



While this is not surprising in light of the high level of employment and limited job cuts so far, it is surprising in the face of the interest rate and credit situation and the decline in confidence from the corporate sector (exhibit 18).



We suspect that a large part of this is still related to an ongoing surplus of savings and the aftereffects from the pandemic, whereby consumers are still keen to undertake “revenge” travel, dining, and other experiential social events (exhibit 19). Our concern here would be that after the summer, when the credit card bills start to roll in and excess savings are gone, we may start to see a turn in this confidence.



Conclusion

There is no question that the consumer has been surprisingly resilient over the last year. However, sentiment on the current and expected future position of consumers among analysts and investors is now decidedly mixed. Some still see the consumer in great shape, others are extremely worried and see their situation as precarious at best.

We view spending as being built on the foundations of income, savings, credit, and confidence. While the employment situation continues to be strong and it is certainly encouraging that real income growth is now positive again, we are also starting to see evidence of slowing in the labor market.

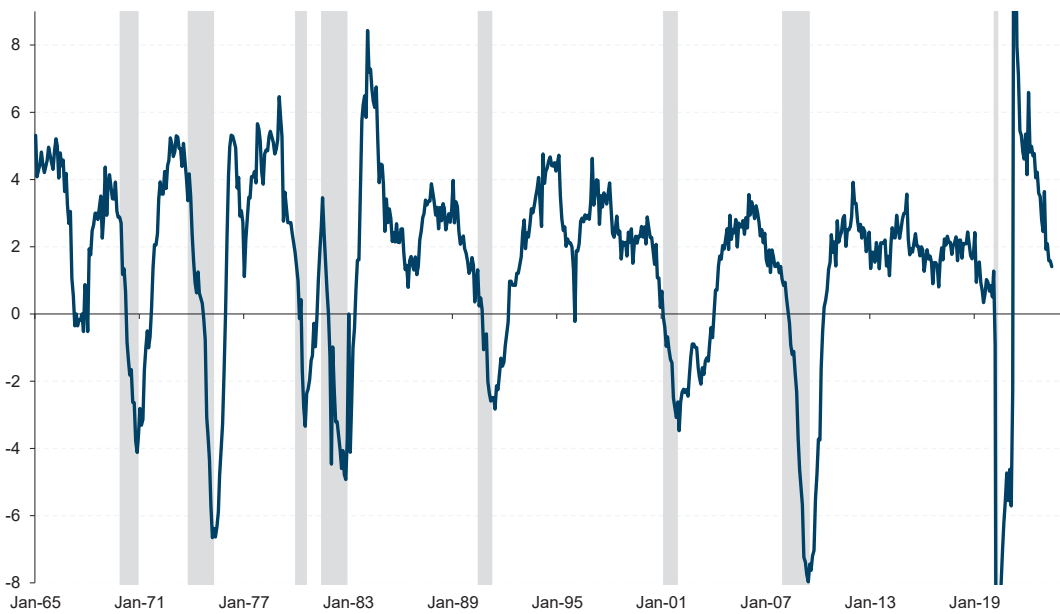
This suggests that we have likely passed the peak in improvement and activity will increasingly deteriorate in the coming quarters. The excess savings will similarly be gone by year-end/early 2024, and credit is becoming increasingly scarce for those that want to borrow. Meanwhile, the improvements in consumer confidence have been encouraging, though we are cautious about how much of this may still be related to post-pandemic euphoria, which fades after the summer is over and revenge travel is done.

Date	Time (EDT)	Indicator	Last	Consensus	WB Estimate	Actual
1 Aug	10:00 a.m.	ISM Manufacturing (July)	46.0	46.6	46.2	
2 Aug	8:15 a.m.	ADP Employment (July)	497K	185K	N/A	
3 Aug	8:30 a.m.	Nonfarm Productivity (Q2)	-21%	1.2%	1.0%	
3 Aug	10:00 a.m.	Factory Orders (Jun)	0.3%	-0.2%	-0.5%	
3 Aug	10:00 a.m.	ISM Services Index (Jul)	53.9	53.3	53.0	
4 Aug	8:30 a.m.	Nonfarm Payrolls (Jul)	209K	185K	150K	
		Unemployment Rate	3.6%	3.6%	3.6%	
		Average Hourly Earnings	0.4%	0.3%	0.3%	

Sources: Bloomberg, William Blair Equity Research

Indicator of the Week: Employment Situation

Aggregate Hours of Weekly Production Workers, % Change YoY



Source: BLS, William Blair Equity Research

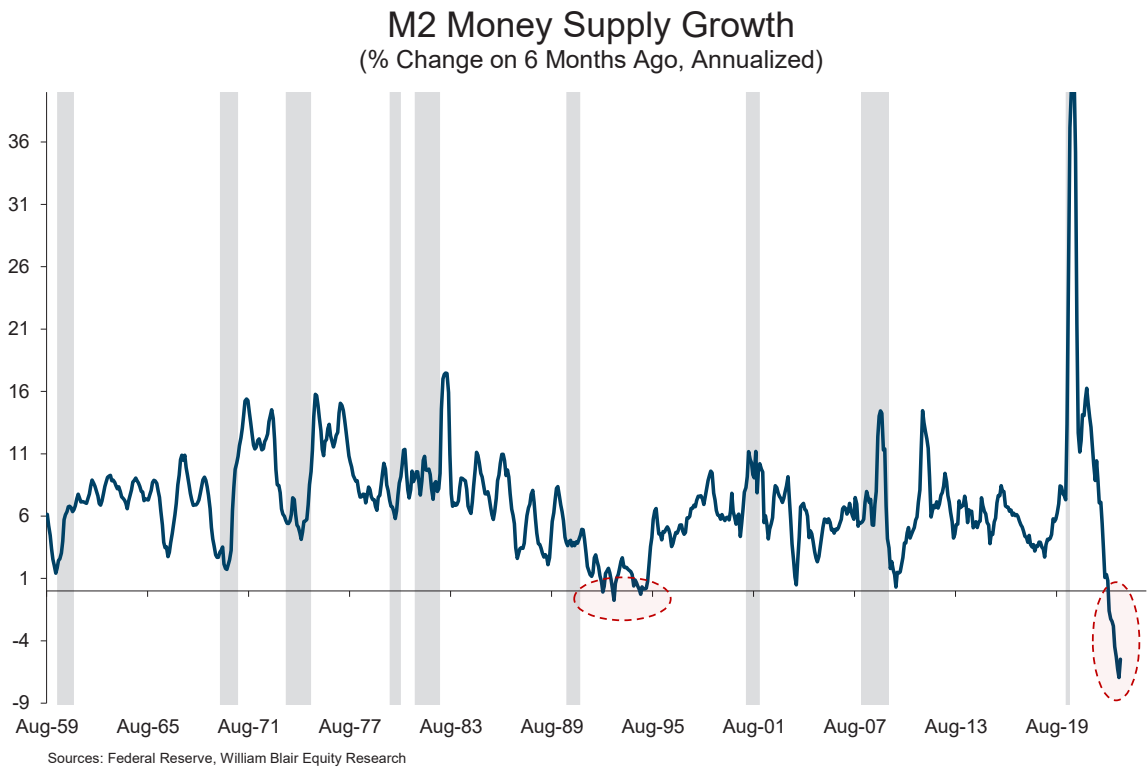
Economic Scorecard

Rolling monthly heat map, % Change on Year Ago (unless otherwise noted)

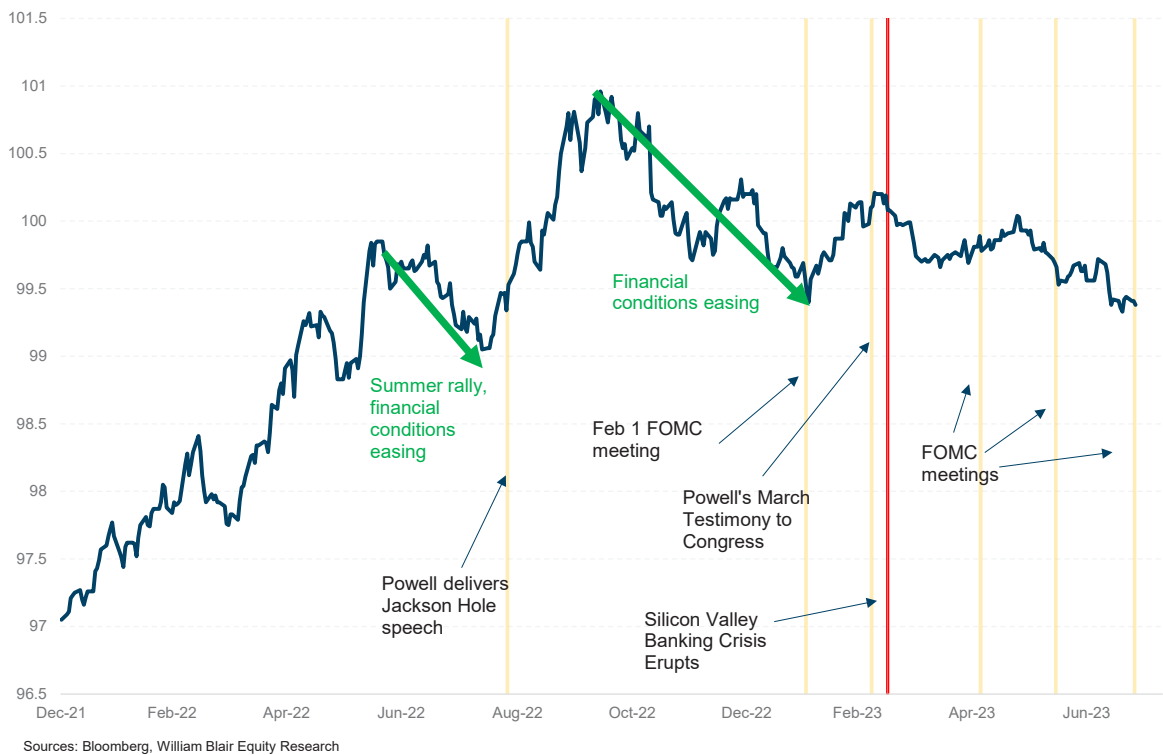
	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Growth																			
US Leading Indicators	6.7	7.0	6.0	4.4	2.8	1.3	-0.3	-1.1	-1.6	-3.2	-4.6	-6.0	-6.0	-6.8	-7.9	-8.0	-7.8	-7.8	
US Coincident Indicators	3.0	4.1	2.6	2.6	2.4	1.8	2.0	2.2	2.4	1.9	1.4	1.5	1.5	1.3	1.4	1.3	1.6	1.6	1.8
US Lagging Indicators	3.8	2.1	6.4	4.8	5.5	6.7	6.6	7.4	7.5	7.4	7.6	7.5	6.7	6.7	5.6	5.0	4.0	3.0	
Consumer																			
Total Retail Sales	13.3	17.8	8.4	8.9	9.7	9.3	10.3	10.2	9.4	8.8	6.1	6	7.4	5.3	2.2	1.3	2.0	1.5	
Personal Income	-2.4	5.6	-12.1	1.4	3.9	4.3	3.9	4.2	5.6	5.4	5	4.9	5.8	5.6	5.5	5.5	5.5		
Real Disposable Personal Income	-11.5	-3.4	-21.6	-7.4	-4.8	-4.7	-4.6	-4.1	-2.6	-2.3	-2	-1.5	2.4	2.8	3.5	3.5	4		
Real Personal Consumption	5.6	6.7	2.3	2.4	2.6	2.1	2.2	2.3	2.1	1.7	1.4	1.9	2.6	2.4	2.1	2.2	2.1		
Personal Saving Rate (%)	4.7	4.5	3.8	3.6	3.4	2.7	3.5	3.2	3	3	3.5	3.7	4	4.3	4.6	4.3	4.6		
Consumer Confidence (Conference Board)**	111.1	105.7	107.6	108.6	103.2	98.4	95.3	103.6	107.8	102.2	101.4	109	106	103.4	104	103.7	102.5	110.1	
Employment																			
Employment Growth	5.0	5.2	4.9	4.9	4.8	4.5	4.4	4.2	4.0	3.7	3.4	3.2	3.3	2.8	2.7	2.6	2.6	2.5	
ASA Temporary Staffing Index	17.6	17.9	13.9	11.6	11.2	9.2	9.3	9.3	5.4	1.1	0.2	1.0	-2.1	-6.1	-6.5	-6.8	-5.9	-6.6	
ISM Employment Index Manufacturing*	53.8	52.7	55.3	51.2	50.2	48.1	49.8	54.2	49.3	49.9	48.9	50.8	50.6	49.1	46.9	50.2	51.4	48.1	
ISM Employment Index Services*	52.2	49	53.5	49.7	50.3	48.7	49.5	50.2	52.3	49.2	50.6	49.4	50	54	51.3	50.8	49.2	53.1	
Unemployment Rate, %	4	3.8	3.6	3.6	3.6	3.6	3.5	3.7	3.5	3.7	3.6	3.5	3.4	3.6	3.5	3.4	3.7	3.6	
Average Hourly Earnings	5.7	5.3	5.9	5.8	5.5	5.4	5.4	5.4	5.1	4.9	5	4.8	4.4	4.7	4.3	4.4	4.4	4.4	
Initial Jobless Claims (avg. wkly. chg. '000s)	240	222	218	216	212	217	216	210	191	202	213	209	200	219	238	239	230	254	
Job Openings	60.1	49.5	43.2	26.6	16.3	8.9	4.6	-7.0	-0.3	-7.9	-4.3	-5.0	-8.0	-14.0	-19.0	-12.2	-14.1	-10.4	
Layoff Announcements	-76	-55.9	-30.1	6	-15.8	58.8	36.3	30.3	67.6	48.3	416.5	129.1	440	410.1	319.4	175.9	286.7	25.2	
Housing Market																			
Housing Starts	4.2	24.5	0.8	21.5	-3.6	-6	-13.9	-4.5	-6.2	-8.9	-16.6	-24.1	-19.7	-18.9	-19.4	-25.2	1	-8.1	
New Home Sales	-10.1	1	-16.8	-24.6	-11	-21.4	-28.6	-7.5	-23.6	-15.1	-24.6	-23.4	-19.9	-19.1	-9.5	9.8	12.4	23.8	
Existing Home Sales	-3.4	-4.1	-5.5	-6.5	-8.9	-14.8	-19.9	-20.2	-24.0	-28.2	-35.2	-34.0	-36.9	-23.1	-22.1	-23.0	-20.4	-18.9	
Median House Price (Existing Homes)	15.4	18.1	21.2	21.7	15.4	15.5	17.8	8.9	15.6	16.3	7.4	17	0.4	1.4	0.7	-10.4	-7.4	-4	
Existing Homes Inventory (Mths' supply)	1.9	1.9	2.1	2.2	2.4	2.7	2.9	3	3	3.2	3.4	3.5	3.4	2.9	2.8	2.8	2.8	2.8	
New Homes Inventory (Mths' supply)	5.8	6.2	7	8.5	8.3	9.5	10.1	8.7	9.7	9.7	9.4	8.5	8.1	8.4	8.1	7.7	7.2	7.4	
NAHB Homebuilder Sentiment*	83	81	79	77	69	67	55	49	46	38	33	31	35	42	44	45	50	55	
Inflation																			
Consumer Price Index	7.5	7.9	8.5	8.3	8.6	9.1	8.5	8.3	8.2	7.7	7.1	6.5	6.4	6	5	4.9	4	3	
CPI Less-food & energy	6	6.4	6.5	6.2	6	5.9	5.9	6.3	6.6	6.3	6	5.7	5.6	5.5	5.6	5.5	5.3	4.8	
Producer Price Index	10.1	10.4	11.7	11.2	11.1	11.2	9.7	8.7	8.5	8.2	7.4	6.4	5.7	4.7	2.7	2.1	0.9	0.1	
PPI Less-food & energy	8.6	8.9	9.7	9	8.6	8.3	7.6	7.2	7.2	6.9	6.3	5.7	5	4.6	3.3	3	2.6	2.4	
PCE Price Index	6.1	6.4	6.8	6.4	6.5	7	6.4	6.3	6.3	6.1	5.7	5.3	5.4	5	4.2	4.3	3.8	3.8	
PCE Prices Less-food & energy	5.2	5.4	5.4	5.0	4.9	5.0	4.7	4.9	5.2	5.1	4.8	4.6	4.7	4.7	4.6	4.7	4.6	4.6	
Business Activity - US																			
Industrial Production	2.3	6.6	4.4	4.6	3.7	3.2	3.0	3.1	4.5	3.1	1.9	0.6	1.5	0.9	0.2	0.5	0.0	-0.4	
New Cap Gds Orders less-aircraft & parts	10.1	9.3	8	4.8	9.5	7.6	6.3	8.2	5.6	5	3.2	1	5.6	2.7	1.9	1	3.1	3.1	
Business Inventories	13.5	14.3	15.4	17.9	19	20.1	20.5	19.6	19.4	18.3	16.8	15.1	12.6	10.7	8.8	6.2	5.2	3.5	
ISM Manufacturing PMI*	57.6	58.4	57	55.9	56.1	53.1	52.7	52.9	51	50	49	48.4	47.4	47.7	46.3	47.1	46.9	46	
Markit US Manufacturing PMI*	55.5	57.3	58.8	59.2	57	52.7	52.2	51.5	52	50.4	47.7	46.2	46.9	47.3	49.2	50.2	48.4	46.3	
ISM Services Index*	60.4	57.2	58.4	57.5	56.4	56	56.4	56.1	55.9	54.5	55.5	49.2	55.2	55.1	51.2	51.9	50.3	53.9	
Markit US Services PMI*	51.2	56.5	58	55.6	53.4	52.7	47.3	43.7	49.3	47.8	46.2	44.7	46.8	50.6	52.6	53.6	54.9	54.4	
Business Activity - International																			
Germany Manufacturing PMI Markit/BME*	59.8	58.4	56.9	54.6	54.8	52	49.3	49.1	47.8	45.1	46.2	47.1	47.3	46.3	44.7	44.5	43.2	40.6	
Japan Manufacturing PMI Jibun Bank*	55.4	52.7	54.1	53.5	53.3	52.7	52.1	51.5	50.8	50.7	49	48.9	48.9	47.7	49.2	49.5	50.6	49.8	
Caixin China Manufacturing PMI*	49.1	50.4	48.1	46	48.1	51.7	50.4	49.5	48.1	49.2	49.4	49	49.2	51.6	50	49.5	50.9	50.5	
China Manufacturing PMI*	50.1	50.2	49.5	47.4	49.6	50.2	49	49.4	50.1	49.2	48	47	50.1	52.6	51.9	49.2	48.8	49	
UK Manufacturing PMI Markit/CIPS*	57.3	58	55.2	55.8	54.6	52.8	52.1	47.3	48.4	46.2	46.5	45.3	47	49.3	47.9	47.8	47.1	46.5	
France Manufacturing PMI Markit*	55.5	57.2	54.7	55.7	54.6	51.4	49.5	50.6	47.7	47.2	48.3	49.2	50.5	47.4	47.3	45.6	45.7	46	
Currencies***																			
Euro (EUR/USD)	-7.4	-7.1	-5.7	-12.3	-12.2	-11.6	-13.9	-14.9	-15.4	-14.5	-8.2	-5.8	-3.3	-5.7	-2.1	4.5	-0.4	4.1	
Renminbi (USD/CNY)	-1.0	-2.5	-3.2	2.1	4.7	3.8	4.4	6.7	10.4	14.0	11.4	8.5	6.2	9.9	8.4	4.7	6.5	8.3	
Yen (USD/Yen)	10.0	7.9	9.9	18.7	17.4	22.1	21.5	26.3	30.1	30.5	22.0	13.9	13.0	18.4	9.2	5.1	8.3	6.3	
Sterling (GBP/USD)	-1.9	-3.7	-4.7	-9.0	-11.3	-12.0	-12.5	-15.5	-17.1	-16.2	-9.3	-10.7	-8.4	-10.4	-6.1	-0.1	-1.3	4.3	
Canadian \$ (USD/CAD)	-0.5	-0.5	-0.5	4.6	4.8	3.8	2.6	4.1	9.1	10.0	5.0	7.3	4.7	7.7	8.1	5.5	7.3	2.9	
Mexican Peso (USD/MXN)	0.3	-1.9	-2.8	0.9	-1.5	0.9	2.5	0.3	-2.4	-3.7	-10.2	-5.0	-8.7	-10.6	-9.2	-11.9	-10.0	-14.9	
US Equities																			
S&P 500	21.6	14.8	14.0	-1.2	-1.7	-11.9	-6.0	-12.6	-16.8	-15.9	-10.7	-19.4	-9.7	-9.2	-9.3	0.9	1.2	17.6	
S&P 400 Midcap	12.6	6.6	3.2	-8.3	-7.8	-15.8	-7.1	-11.7	-16.6	-12.9	-4.8	-14.5	0.7	-2.3	-6.7	-0.4	-4.3	15.6	
S&P 600 Smallcap	9.3	2.9	-0.1	-9.7	-9.9	-18.0	-7.6	-13.4	-20.0	-13.1	-7.4	-17.4	-2.5	-5.1	-10.4	-5.5	-8.9	7.8	
Russell 2000	-2.2	-6.9	-6.8	-17.8	-17.8	-26.1	-15.3	-18.9	-24.5	-19.6	-14.2	-21.6	-4.8	-7.4	-12.9	-5.1	-6.1	10.6	

* Diffusion Index, **1985=100, ***Currencies - green/red = strengthening/weakening foreign currency vs dollar
Source: ISM, Federal Reserve, Census Bureau, Bureau of Labor Statistics, Conference Board, Bloomberg, William Blair

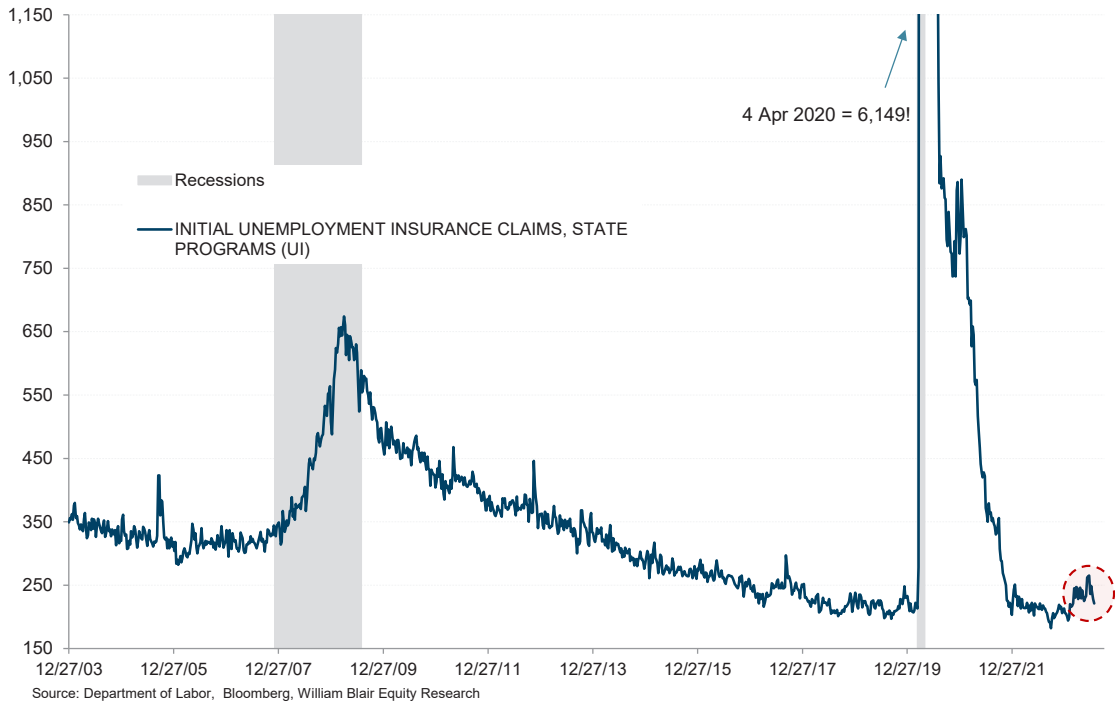
Other Economic Indicators



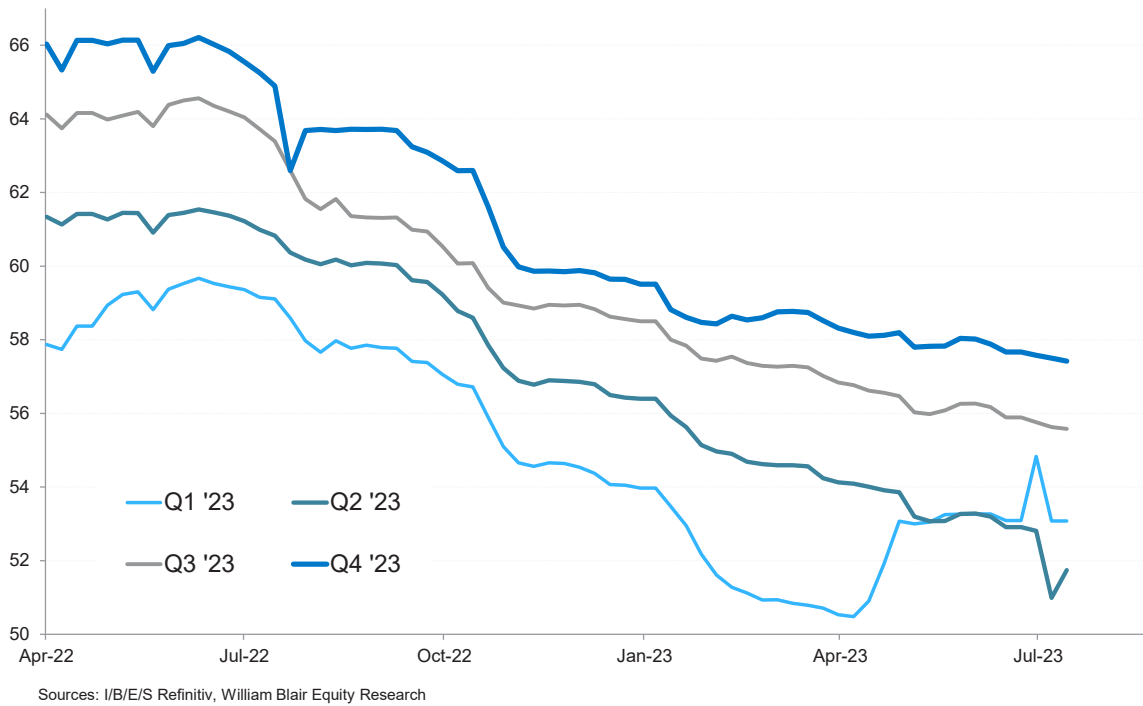
Goldman Sachs Financial Conditions Index



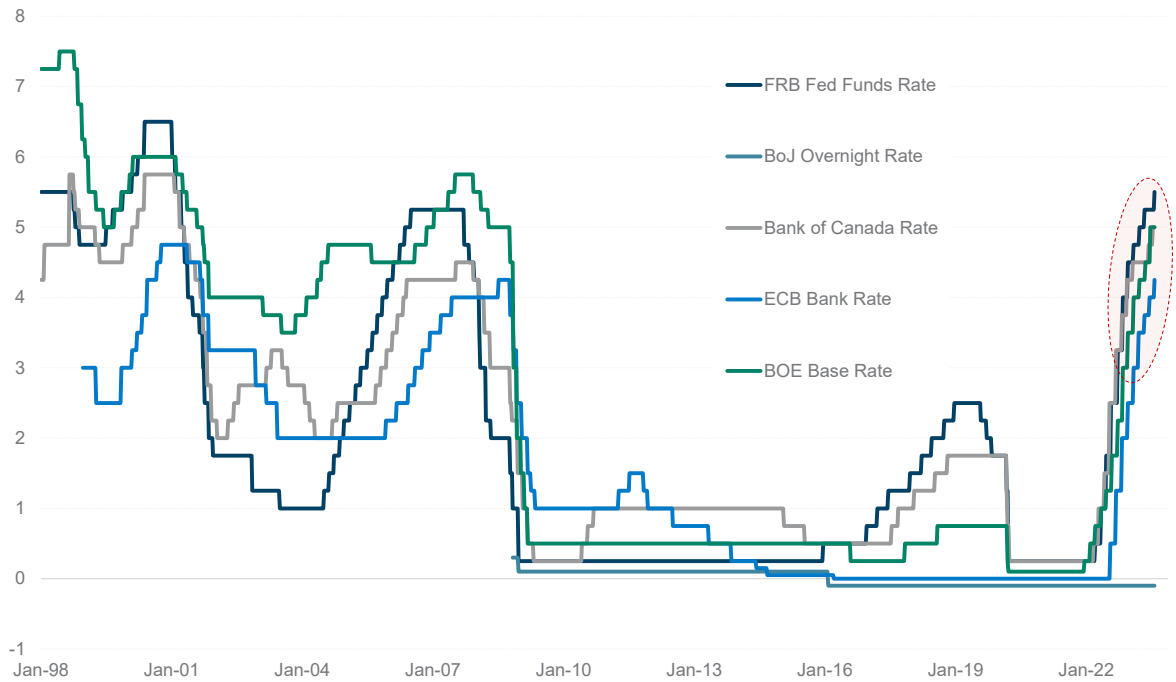
Initial Jobless Claims ('000s, Seasonally Adjusted)



Progression of S&P 500 Bottom-Up EPS Estimates (2023, \$/Shr)

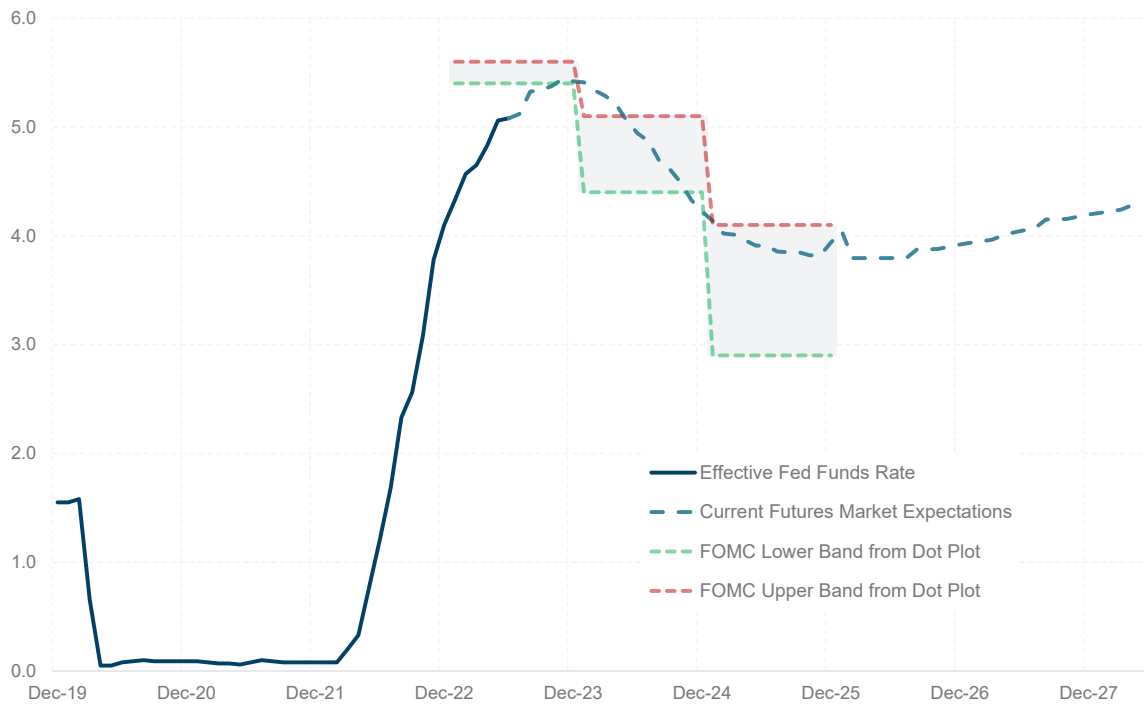


Central Bank Target Short-term Interest Rates, %



Sources: Bloomberg, William Blair Equity Research

Fed Funds Rate, Futures Market Expectations & FOMC Projections, %



Sources: Bloomberg, William Blair Equity Research

S&P 500 Sector Performance

Global Industry Classification System	Current Weight* 27-Jul-23	Week Ago 20-Jul-23	Month Ago 27-Jun-23	Qtr-to-Date 30-Jun-23	Year-to-Date 30-Dec-22
S&P 500 Index	100.00	0.06	3.63	1.96	18.18
S&P400 MidCap Index		-0.63	4.63	2.76	10.87
S&P600 SmallCap Index		-0.12	5.48	3.54	8.80
Dow Jones Industrials		0.16	4.00	2.54	6.44
Nasdaq Composite		-0.09	3.65	1.90	34.24
Communication Services	8.95	3.92	5.58	4.37	41.51
Advertising	0.08	-8.96	-14.84	-13.39	0.71
Broadcasting	0.07	-3.33	-4.23	-3.71	0.96
Cable & Satellite	0.64	4.29	10.03	9.15	26.02
Integrated Telecommunication Services	0.63	-0.59	-8.28	-9.46	-17.65
Interactive Home Entertainment	0.35	-0.23	6.70	6.87	21.70
Interactive Media & Services	5.73	6.66	9.01	8.02	69.98
Movies & Entertainment	1.01	-3.58	-1.85	-4.76	18.70
Publishing & Printing	0.03	-3.01	0.23	-1.12	5.90
Wireless Telecommunication Svcs	0.42	-0.16	2.72	0.70	-0.09
Consumer Discretionary	11.08	-0.60	1.66	-0.02	32.31
Apparel Retail	0.36	1.18	4.35	1.75	5.32
Apparel & Accessories & Luxury Goods	0.06	-1.04	-0.32	0.05	-4.20
Auto Parts & Equipment	0.10	0.21	10.62	7.73	21.58
Automobile Manufacturers	2.37	-2.55	1.82	-2.59	87.62
Automobile Retail	0.30	-2.09	-0.53	-2.59	2.81
Broadline Retail	3.48	-1.48	-0.65	-1.50	24.58
Casinos & Gaming	0.23	2.27	8.51	6.83	33.51
Computer & Electronics Retail	0.05	-0.10	0.76	1.94	4.15
Consumer Electronics	0.05	-1.35	1.62	0.85	13.97
Distributors	0.13	0.76	-2.20	-4.50	2.12
Footwear	0.34	0.13	-5.23	-2.45	-7.98
Home Furnishings	0.02	4.19	11.35	11.48	12.50
Home Improvement Retail	1.21	2.84	5.08	5.52	8.11
Homebuilding	0.29	1.88	2.06	2.80	45.97
Hotels, Resorts & Cruise Lines	0.73	2.34	9.64	6.45	46.52
Household Appliances	0.02	-6.40	-4.20	-4.71	0.23
Housewares & Specialties	0.01	3.02	16.08	17.81	-21.64
Leisure Products	0.02	-1.50	0.45	-2.91	3.07
Restaurants	1.17	-1.51	0.94	-1.17	11.42
Other Specialty Retail	0.14	0.63	-1.85	-2.02	-4.39
Consumer Staples	7.32	0.07	1.64	1.46	1.42
Agricultural Products	0.16	3.38	16.26	13.74	-8.86
Brewers	0.04	-1.14	5.24	5.19	34.43
Hypermarkets	2.09	0.69	3.80	2.65	10.44
Distillers & Vintners	0.18	0.73	8.64	8.68	14.24
Drug Retail	0.07	1.29	6.95	7.51	-18.01
Food Distributors	0.10	0.19	2.89	1.75	-1.24
Food Retail	0.09	0.50	2.84	2.34	7.90
Household Products	1.31	0.28	0.32	-0.73	0.61
Packaged Foods & Meats	0.94	-1.62	-3.11	-1.06	-2.18
Personal Products	0.10	-4.83	-11.72	-11.68	-30.09
Soft Drinks	1.64	0.04	1.79	2.75	1.74
Tobacco	0.60	0.22	2.35	0.87	-1.79
Energy	4.25	2.41	8.00	5.08	-2.54
Integrated Oil & Gas	2.02	2.02	2.41	-0.16	-6.86
Oil & Gas Equipment & Services	0.48	0.66	16.53	14.27	6.30
Oil & Gas Exploration & Production	1.12	3.44	13.66	9.99	-1.47
Oil & Gas Refining & Marketing & Transportation	0.38	4.30	13.40	10.81	5.16
Oil & Gas Storage & Transportation	0.33	1.24	9.04	5.24	2.46
Financials	12.42	-0.72	6.60	4.10	2.52
Asset Management & Custody Banks	0.69	-2.40	5.16	3.71	1.51
Consumer Finance	0.53	-4.22	-1.86	-3.90	12.19
Diversified Banks	2.89	-0.34	11.70	8.52	6.94
Financial Exchanges & Data	1.12	-0.64	5.64	3.32	14.98
Insurance Brokers	0.65	-1.12	1.38	-1.41	11.34
Investment Banking & Brokerage	1.06	-1.04	13.23	10.75	-3.30

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Life & Health Insurance	0.42	0.57	9.54	7.27	-5.75
Multi-line Insurance	0.19	1.38	7.19	5.63	-1.72
Multi-Sector Holdings	1.17	0.78	4.17	2.44	13.08
Property & Casualty Insurance	0.79	1.94	4.00	2.93	-3.37
Regional Banks	0.32	-1.08	12.34	11.64	-30.35
Reinsurance	0.04	-1.97	5.91	4.68	8.02
Health Care	13.40	-0.13	2.76	1.36	-1.00
Biotechnology	1.94	0.56	5.21	4.19	-6.99
Health Care Distributors	0.33	-2.67	-1.44	-3.67	10.65
Health Care Equipment	2.65	-1.84	1.18	-0.94	11.42
Health Care Facilities	0.22	-4.40	-7.78	-9.44	12.56
Health Care Services	0.58	-0.55	6.85	5.70	-12.91
Health Care Supplies	0.15	7.22	7.45	5.03	45.22
Life Sciences Tools & Services	1.64	2.54	7.97	4.91	-1.14
Managed Health Care	1.79	-0.08	4.64	4.73	-6.58
Pharmaceuticals	4.11	-0.19	-0.02	-1.03	-2.72
Industrials	8.63	-0.51	3.80	1.99	11.40
Aerospace & Defense	1.67	-1.40	-0.01	-1.46	-2.60
Agricultural & Farm Machinery	0.32	-2.50	4.67	5.78	-0.03
Air Freight & Logistics	0.60	0.12	6.79	4.82	18.07
Building Products	0.45	1.07	6.58	5.34	20.64
Construction & Engineering	0.08	0.83	3.58	2.64	41.50
Construction Machinery & Heavy Trucks	0.61	-1.10	7.50	4.66	12.00
Data Processing & Outsourced Services	0.05	0.37	5.14	2.52	25.53
Diversified Support Svcs	0.24	-1.72	1.12	-0.68	25.14
Electrical Components & Equipment	0.56	-2.21	1.84	0.18	16.62
Environmental & Facilities Services	0.35	-4.13	-1.78	-4.06	8.87
Human Resource & Employment Services	0.49	3.49	14.41	12.37	16.74
Industrial Conglomerates	0.82	0.21	4.59	1.54	14.01
Industrial Machinery	0.87	0.29	2.58	0.99	17.68
Passenger Airlines	0.21	-7.59	-4.11	-5.92	23.84
Railroads	0.67	2.93	8.15	6.73	6.94
Research & Consulting Svcs	0.22	-1.25	-0.22	-2.02	9.97
Trading Companies & Distributors	0.26	-3.24	-1.30	-3.91	25.34
Information Technology	28.23	-0.52	2.95	1.01	43.50
Application Software	2.33	-0.63	5.50	4.58	41.97
Communications Equipment	0.86	-0.11	3.68	1.46	13.03
Electronic Components	0.21	4.13	4.26	1.72	12.82
Electronic Equipment & Instruments	0.20	-2.09	1.01	-1.91	1.36
Electronic Manufacturing Services	0.12	1.34	5.21	2.63	25.30
Internet Software & Services	0.09	-0.30	-1.13	-2.55	5.86
IT Consulting & Services	1.09	1.72	6.21	4.03	9.37
Semiconductor Equipment	0.87	7.50	2.29	2.17	31.93
Semiconductors	6.51	1.53	6.32	5.16	83.68
Systems Software	7.82	-4.08	-0.90	-2.68	38.54
Technology Distributors	0.07	-0.18	5.86	2.49	5.31
Technology Hardware, Storage & Peripherals	8.08	0.10	2.86	-0.23	47.64
Materials	2.50	1.11	3.67	2.12	8.88
Commodity Chemicals	0.18	4.62	5.59	4.07	11.90
Construction Materials	0.15	-2.18	-1.27	-3.40	27.97
Copper	0.16	3.34	7.13	8.23	13.92
Diversified Chemicals	0.03	0.04	7.22	4.65	7.58
Fertilizers & Agricultural Chemicals	0.21	0.16	1.87	2.07	-8.98
Gold	0.09	-0.80	-0.82	-1.29	-10.78
Industrial Gases	0.66	0.72	2.77	0.98	12.06
Metal & Glass Containers	0.05	1.05	0.90	-0.31	13.47
Paper Packaging	0.18	6.37	9.85	9.40	-1.44
Specialty Chemicals	0.68	0.02	4.60	1.93	10.73
Steel	0.15	1.13	2.16	0.14	20.36
Real Estate	2.47	-1.12	2.34	0.74	2.60
Health Care REITs	0.18	-1.35	2.24	1.99	10.87
Hotel & Resort REITs	0.03	0.34	5.41	4.16	9.22
Industrial REITs	0.30	0.96	3.37	1.88	10.83
Office REITs	0.08	3.17	9.60	11.27	-10.83
Real Estate Service	0.15	-8.68	-3.85	-4.59	1.22
Residential REITs	0.33	-4.06	-0.30	-1.11	8.17
Retail REITs	0.29	-1.13	5.85	4.74	0.54
Specialized REITs	0.13	-2.06	5.06	3.62	7.26

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Utilities	2.55	-0.37	2.25	2.59	-4.76
Electric Utilities	1.67	-0.47	1.96	2.05	-5.23
Gas Utilities	0.05	0.07	4.33	5.09	9.09
Independent Power Producers & Energy Traders	0.04	-2.06	2.25	3.14	-25.66
Water Utilities	0.07	1.05	3.93	4.02	-2.58
Multi-Utilities	0.72	-0.21	2.65	3.51	-3.24

*Current Weight is market cap based, based on calculations by William Blair Intl. Ltd.

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DOW JONES: 35282.70
 S&P 500: 4537.41
 NASDAQ: 14050.10

Additional information is available upon request.

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Coverage Universe	Percent	Inv. Banking Relationships *	Percent
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Market Perform (Hold)	26	Market Perform (Hold)	3
Underperform (Sell)	1	Underperform (Sell)	50

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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