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U.S. Economic Overview

Consumers and the Macro Economy

MARCH 2023

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Contents

Summary

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Summary

- Despite inflationary pressures, consumers are continuing to spend, even though they are taking on revolving debt; February retail sales *(excl. autos/parts/gas stations)* increased 7.9% over 2022
  - *Food services and drinking places were up 15.3 percent*
  - *General merchandise stores were up 10.5 percent YOY in January, and increased 2.6% over previous month*
  - *Consumer Electronics continues to slide, down 2.8%*
- 30-year mortgage rate stood at 6.73% through the first week of March 2023, compared to 3.85% in 2022; housing markets continue to feel the impact with new home sales declining over 19% in January; U.S. housing starts decreased 21.4%
- The Consumer Sentiment Index rose 3.2% (2.1 index points) above January; consumers continued to express uncertainty over short-run inflation, thus their expectations may be unstable in the months to come
- Personal disposable income rose 6.2% in January 2023, exceeding Core CPI of 5.5%; personal consumption expenditures increased 6.1%
  - *Revolving credit debt continues to climb, increasing 15.5%*
- As consumers continue to take on more debt and deal with the impact of inflation, hardship withdrawals from retirement accounts have reached record highs
- The Consumer Price Index increased 6.0 percent YOY, with Core CPI up 5.5%; the index for shelter was again a large contributor to the monthly all items increase, accounting for over 70% of the monthly all items increase, with the indexes for food also contributing
  - *Gas prices continue to remain stable – average price per gallon nationally declined 16% YOY – $ 3.51 / gallon nationally through March 6 vs. $4.20 last year*
- It is amazing to see the resiliency of the consumer when it comes to travel – TSA checkpoint data is up 26%, while the price of the average ticket is up 26.5%; this is having a positive impact on leisure, hospitality and dining out
- Global supply chain pressures decreased considerably in February and are now below the historical average; the GSCPI's recent movements suggest that global supply chain conditions have returned to normal after experiencing temporary setbacks in early 2023
- Inventories were up nearly 12% over LY – while a large portion of this is due to the inflation in COGS and transportation, companies are still chewing thru excess inventory with heavy markdowns, while cutting back on orders and a meager outlook to the balance of the year
- In this month's edition we provide a 'sneak peek' at Q4-2022 performance from the earnings season – we will issue a special report in the next few weeks with our assessment and outlook

Key Consumer Metrics

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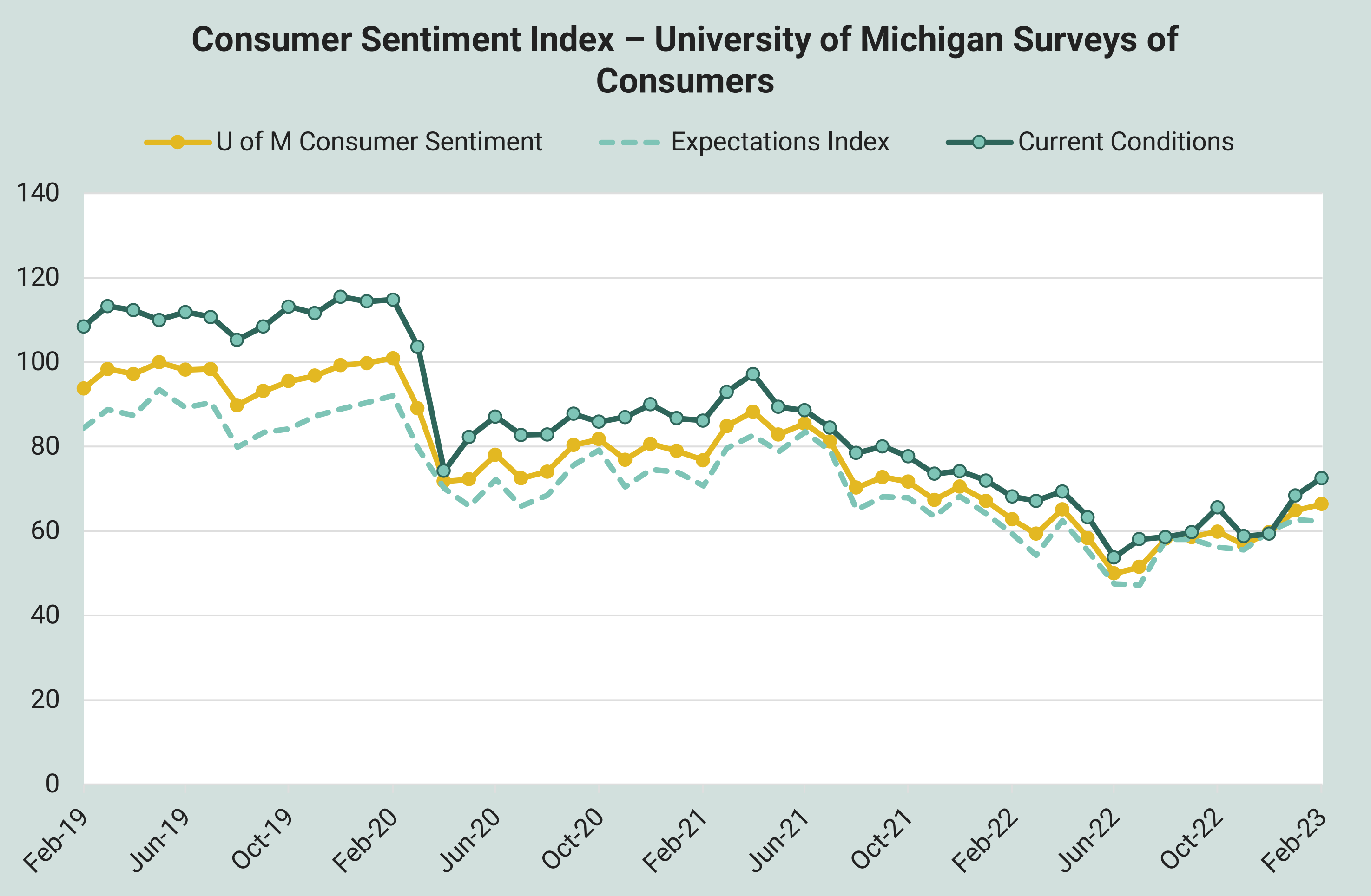
Consumer Sentiment Index

The February Consumer Sentiment Index rose 3.2% (2.1 index points) above January; consumers continued to express uncertainty over short-run inflation, thus their expectations may be unstable in the months to come

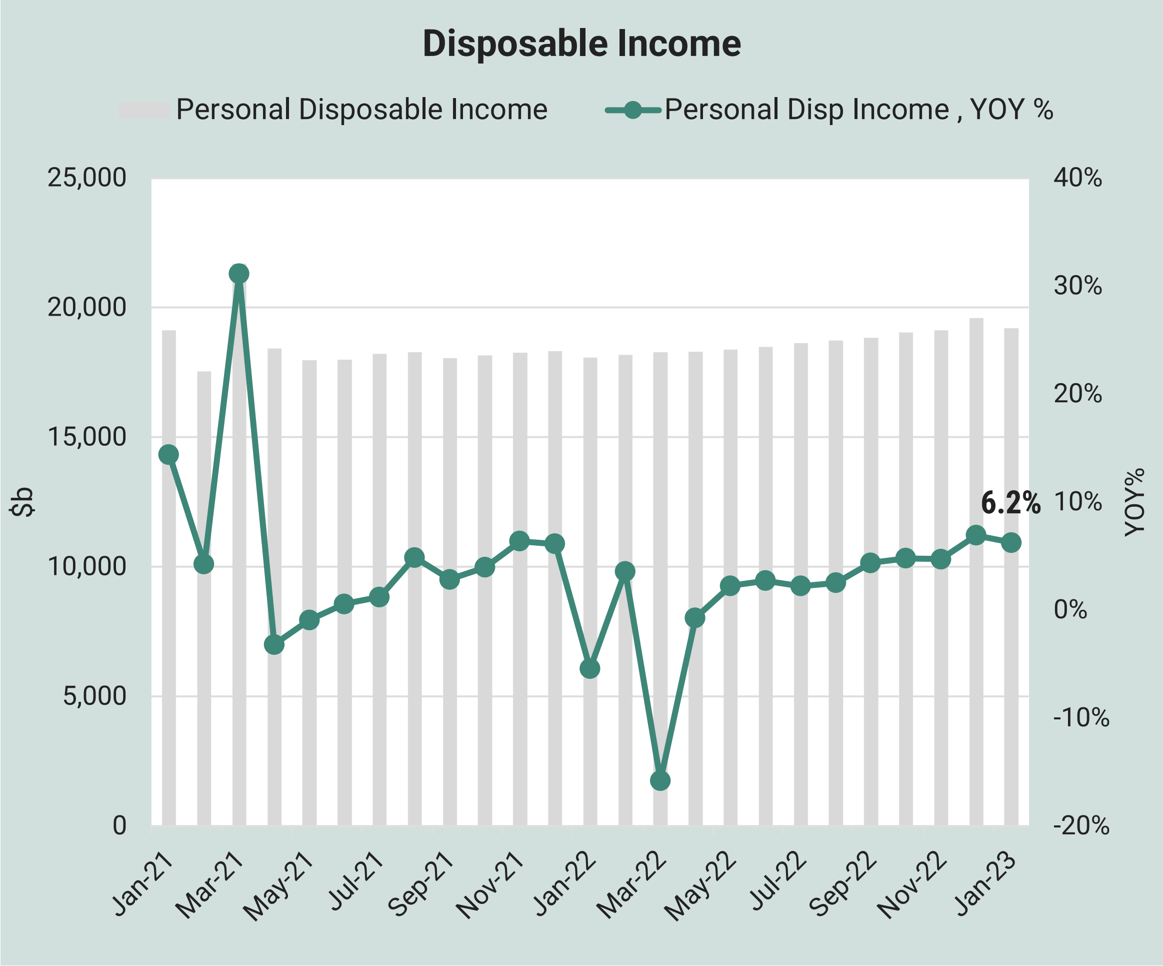
	Consumer Sentiment	Expectations Index	Current Conditions
2-Year High	88.3	83.5	97.2
2-Year Avg.	67.7	64.5	72.6
2- Year Low	50.0	47.3	53.8
Current	67.0	64.7	70.7
LY	62.8	59.4	68.2
YOY % Change	6.7%	8.9%	3.7%
Previous Month	64.9	62.7	68.4
MTM % Change	3.2%	3.2%	3.4%

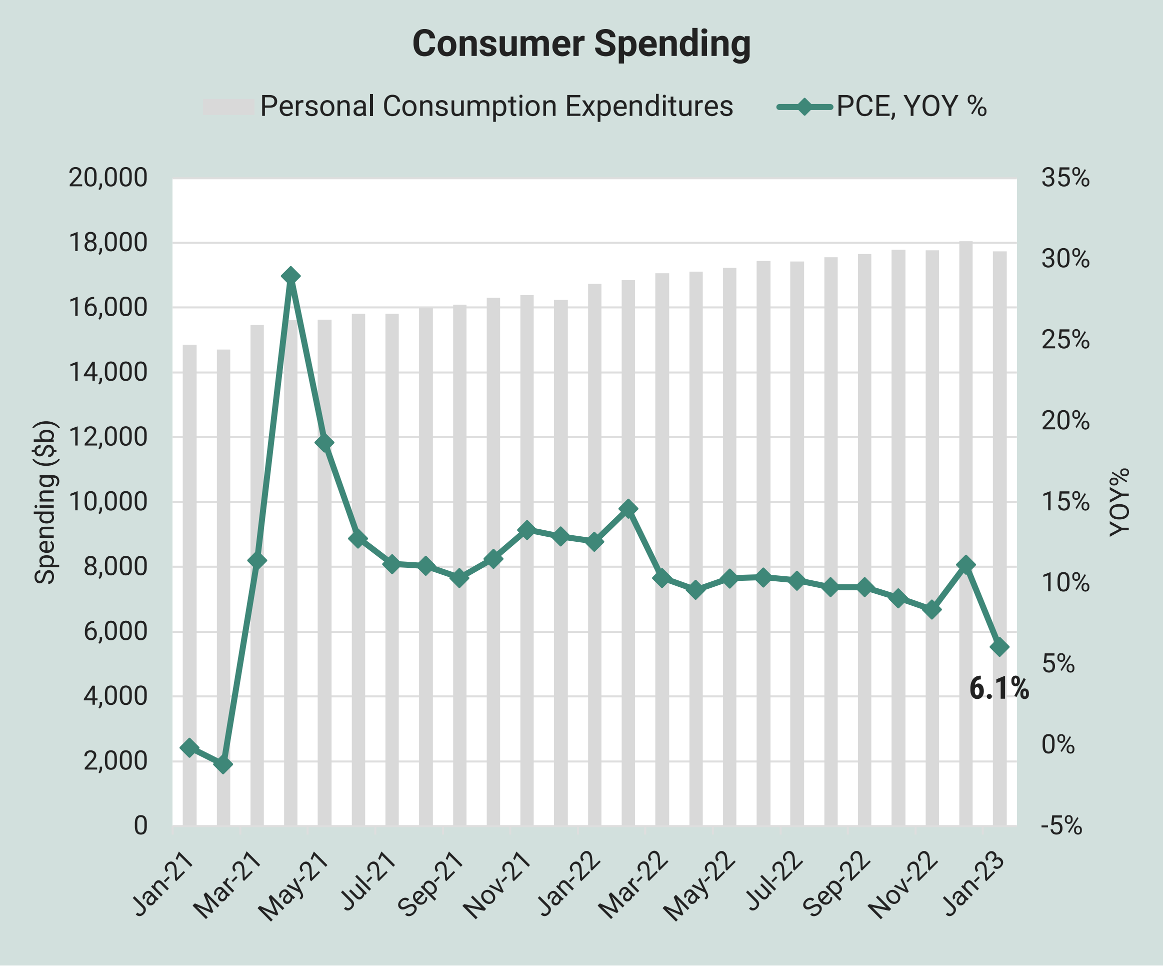
Source: The Surveys of Consumers are conducted by the Survey Research Center at the University of Michigan. (https://data.sca.isr.umich.edu/survey-info.php)



Consumer Income and Spending

Personal disposable income rose 6.2% in January 2023, exceeding Core CPI of 5.5%; personal consumption expenditures increased 6.1%

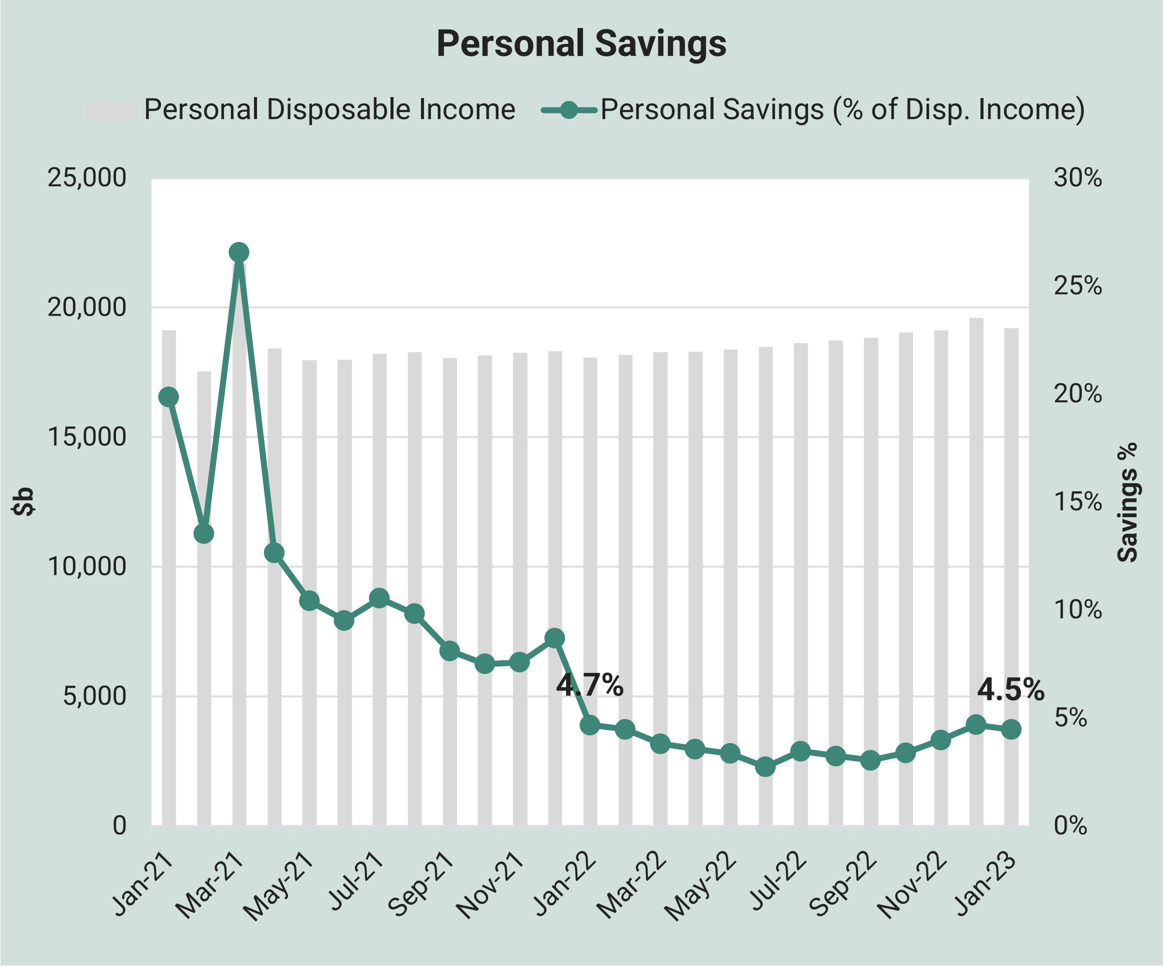


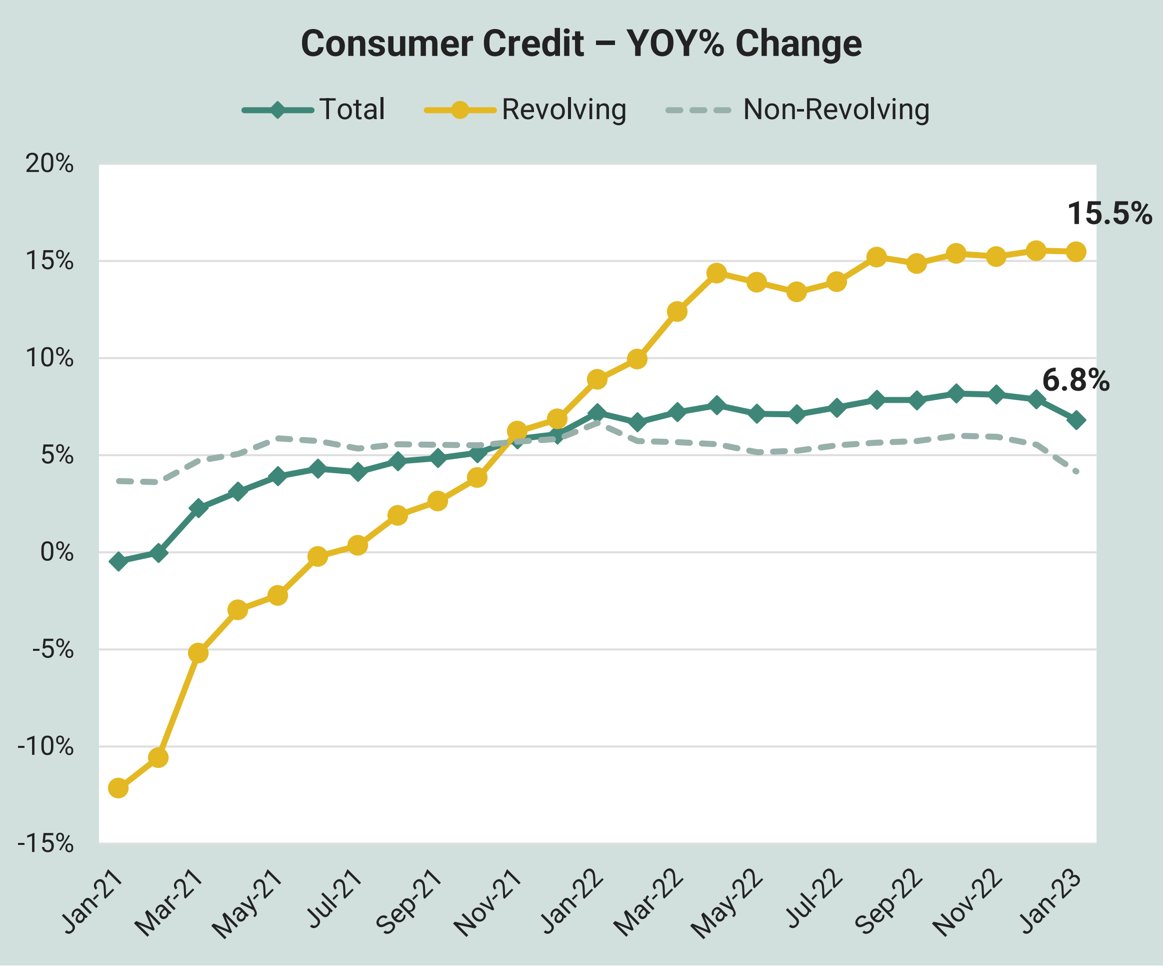


Source: U.S. Bureau of Economic Analysis

Personal Savings & Consumer Credit

Personal savings (through January) rate rose MTM to 4.5% and approximately equal to 2022 (4.7%); revolving credit debt is 15.5% over 2022 – we continue to see consumers' revolving debt load continue to climb





Source: U.S. Bureau of Economic Analysis

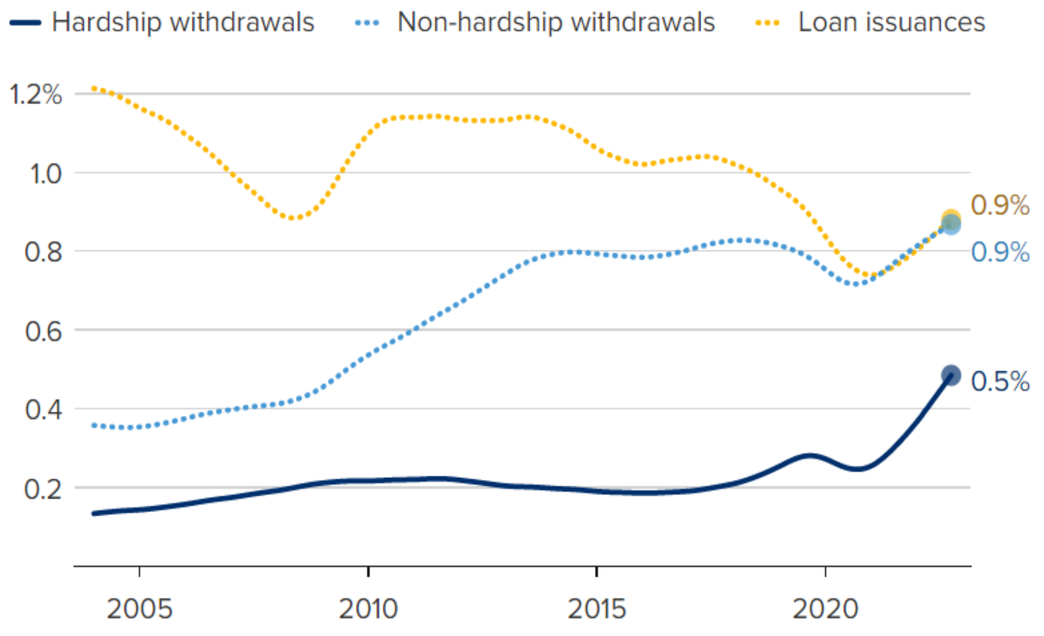
As consumers continue to take on more debt and deal with the impact of inflation, hardship withdrawals from retirement accounts have reached record highs

401(k) "Hardship" Withdrawals Increasing

- *According to a recent GOBankingRates report, retirement plan balances overall decreased by 20% over 2022 as 3% of workers reported taking a "hardship withdrawal" last year.*
- *According to a Vanguard Group report, nearly 0.5% of workers participating in a 401(k) plan took a new "hardship distribution" in October 2022, the largest share since they starting tracking in 2004.*
- *Vanguard also reported that savers dipped into loans and "non-hardship" distributions in higher numbers throughout 2022.*
- *CBS News reports (Feb 2023) the share of 401(k) participants taking hardship withdrawals rose to 2.4% last year, up from 1.9% in 2021, according to financial services firm Fidelity. That represents the highest share of hardship withdrawals recorded at Fidelity, which noted the share typically ranges from 2% to 2.3% annually.*

https://www.gobankingrates.com/retirement/401k/401k-hardship-withdrawals-are-increasing-with-cost-of-living/

The share of 401(k) savers who withdraw cash for a hardship is at an all-time high



Note: Data as of October 2022
Hardship withdrawals are for an immediate (and often expensive) financial need that meets specific criteria. **Non-hardship withdrawals** are those savers take after age 59½. Some plans also allow them in other circumstances. **Loans** are withdrawals that must be paid back.

Chart: Gabriel Cortes / CNBC
Source: Vanguard

https://www.cnbc.com/2022/12/08/401k-hardship-withdrawals-hit-all-time-high-vanguard-says.html

U.S. Retail Sales

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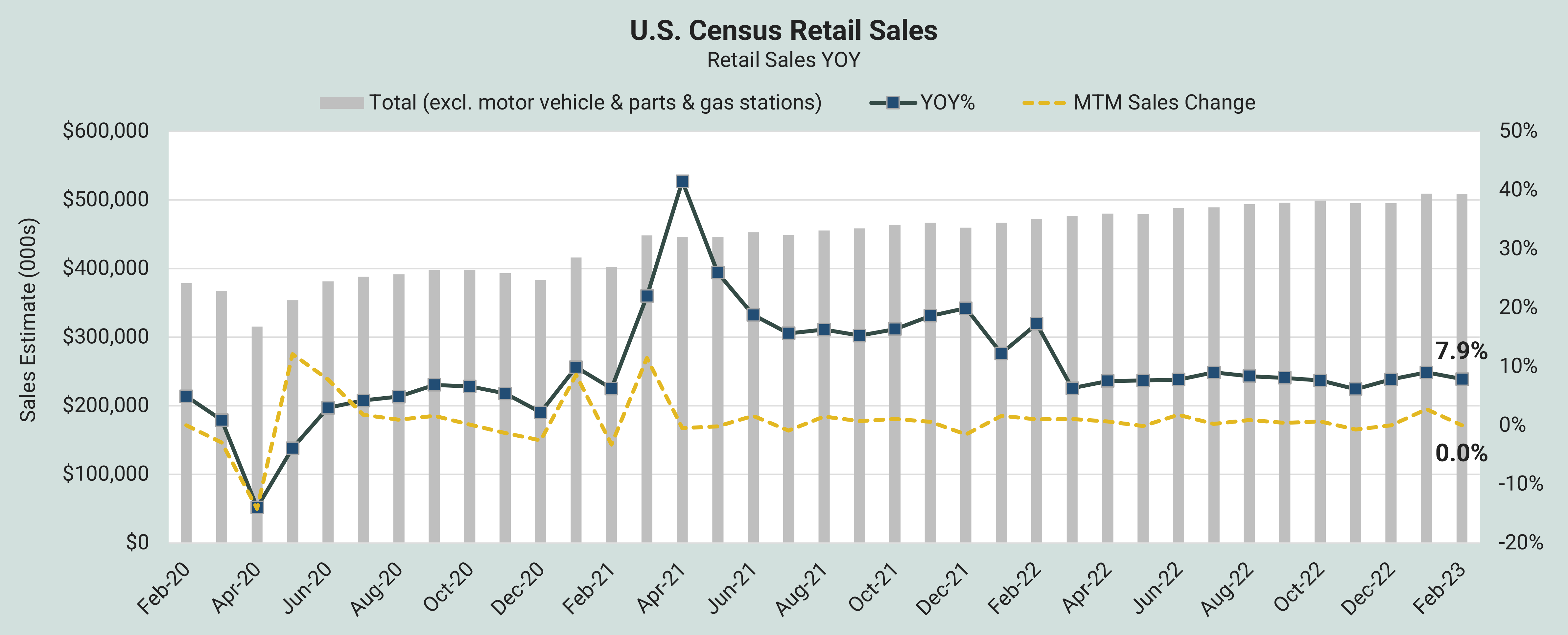
U.S. Retail Sales *(excl. motor vehicles and gas stations)*

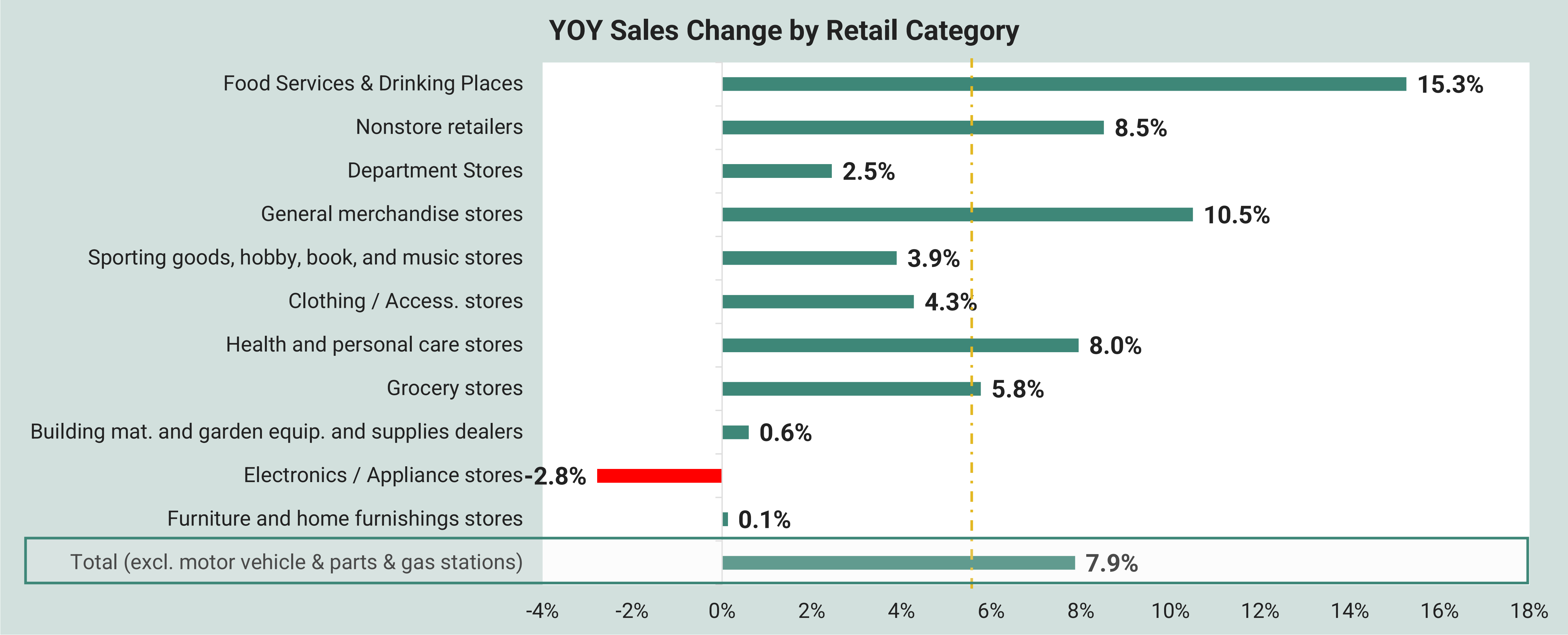
February retail sales increased 7.9% over 2022; food services and drinking places were up 15.3 percent, while general merchandise stores were up 10.5 percent YOY in January, and increased 2.6% over previous month



Source: U.S. Census Bureau

U.S. Retail Sales by Retail Category

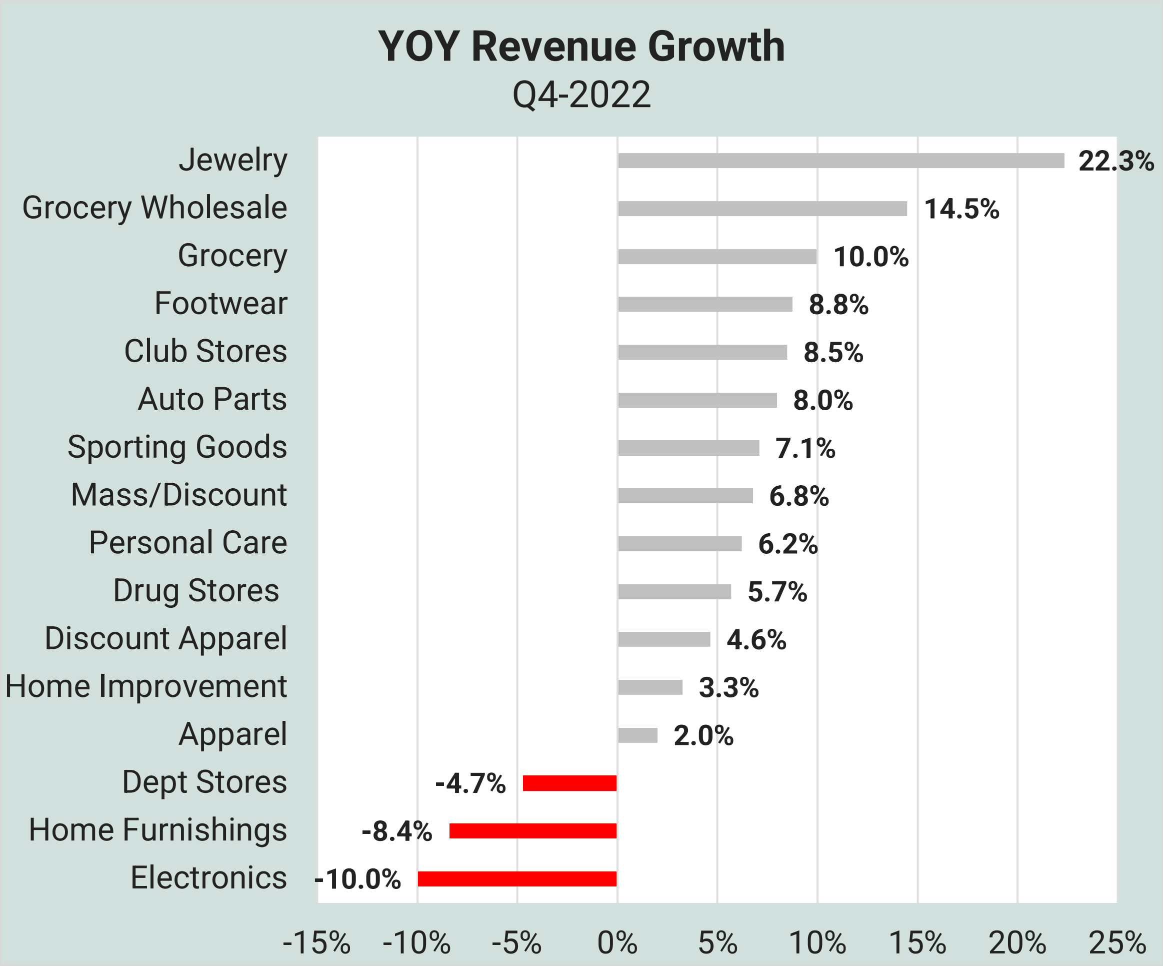
Food Services / Dining increased 15.3% in February; General Merchandise stores increased 10.5% and Consumer Electronics continues to slide

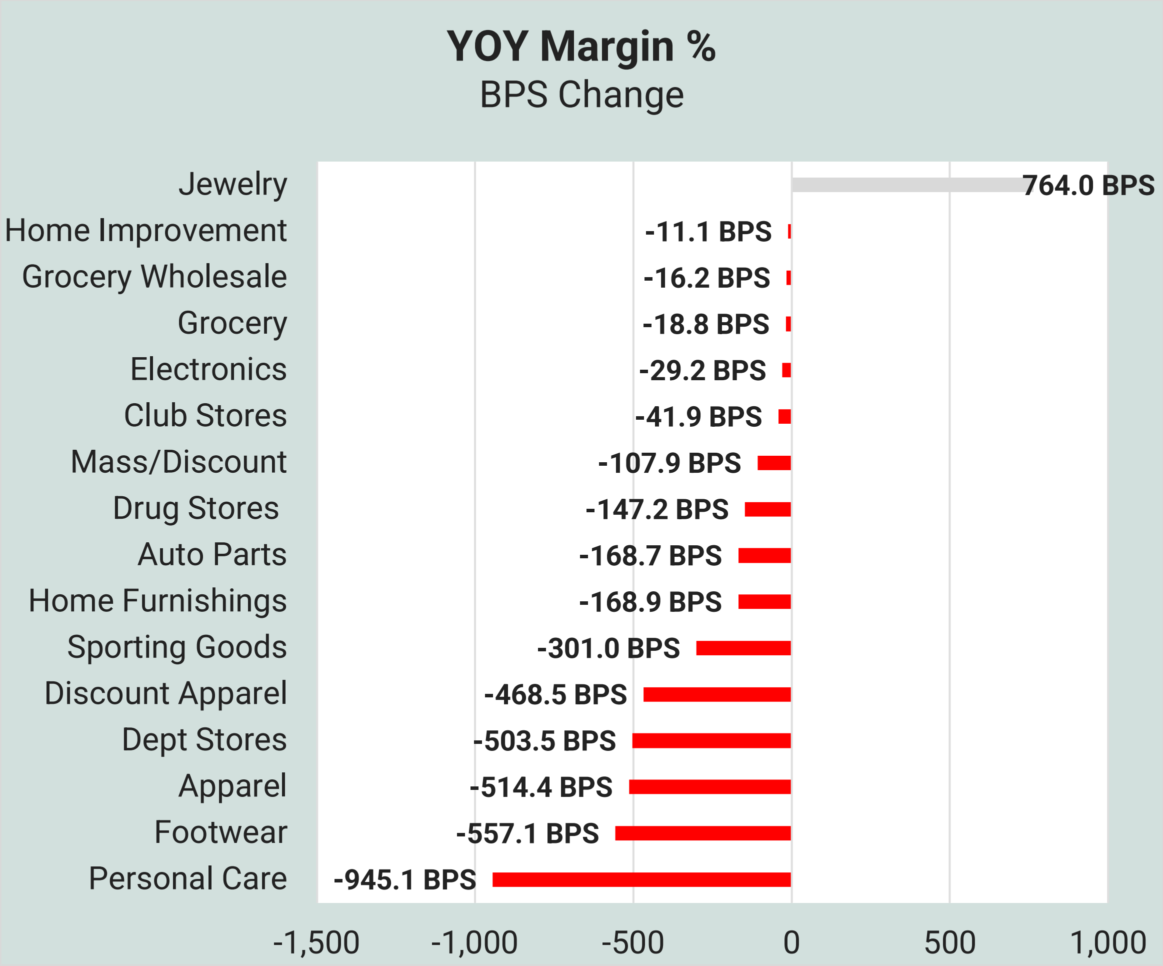


Source: U.S. Census Bureau

Q4 Retail Financial KPIs *(partial results, 93/104 retailers & consumer brands reporting)*

Ankura tracks quarterly results for 104 companies in the retail sector. With nearly all now reporting, it is clear that department stores, furnishings and electronics suffered the most in sales, while all other channels struggled with margin

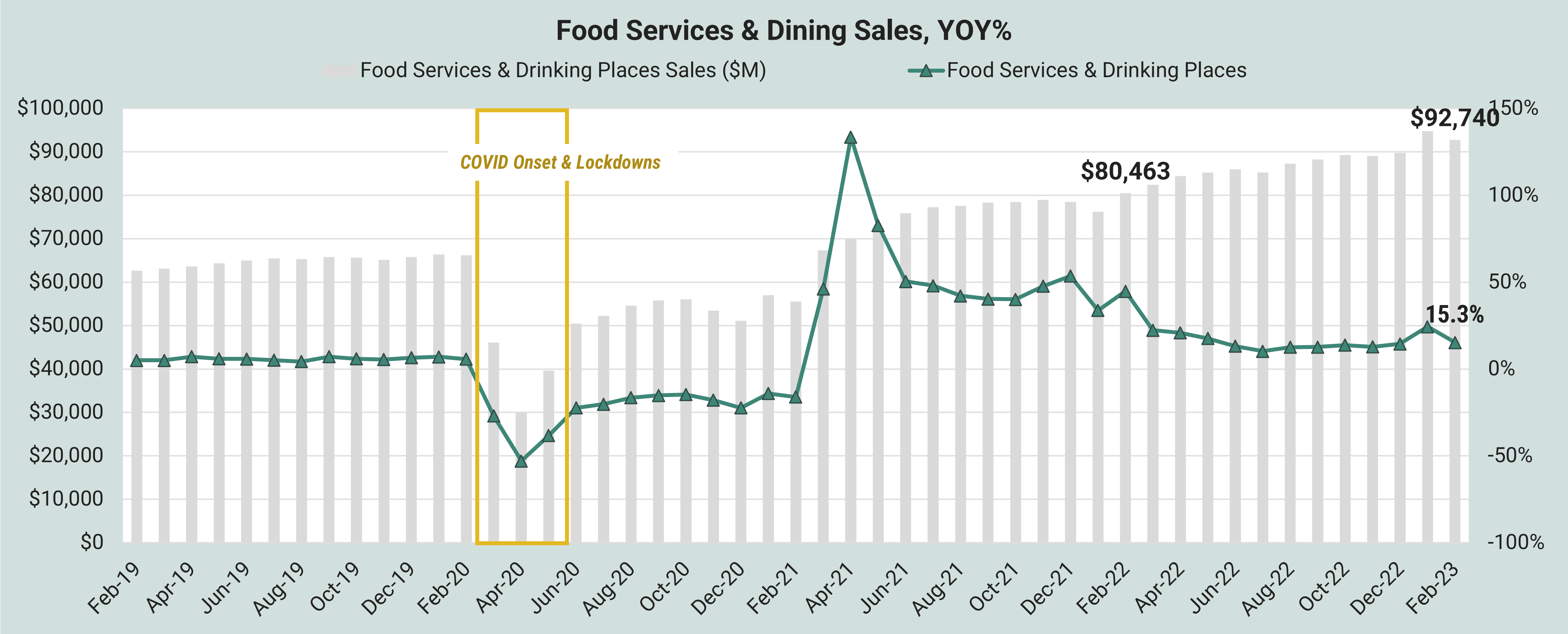




Source: CapIQ, Company 10Ks, Ankura analysis
Note: Ankura tracks quarterly financial results of 104 retailers across 17 segments; final totals to be reported when available

U.S. Retail Sales – Food Services & Dining

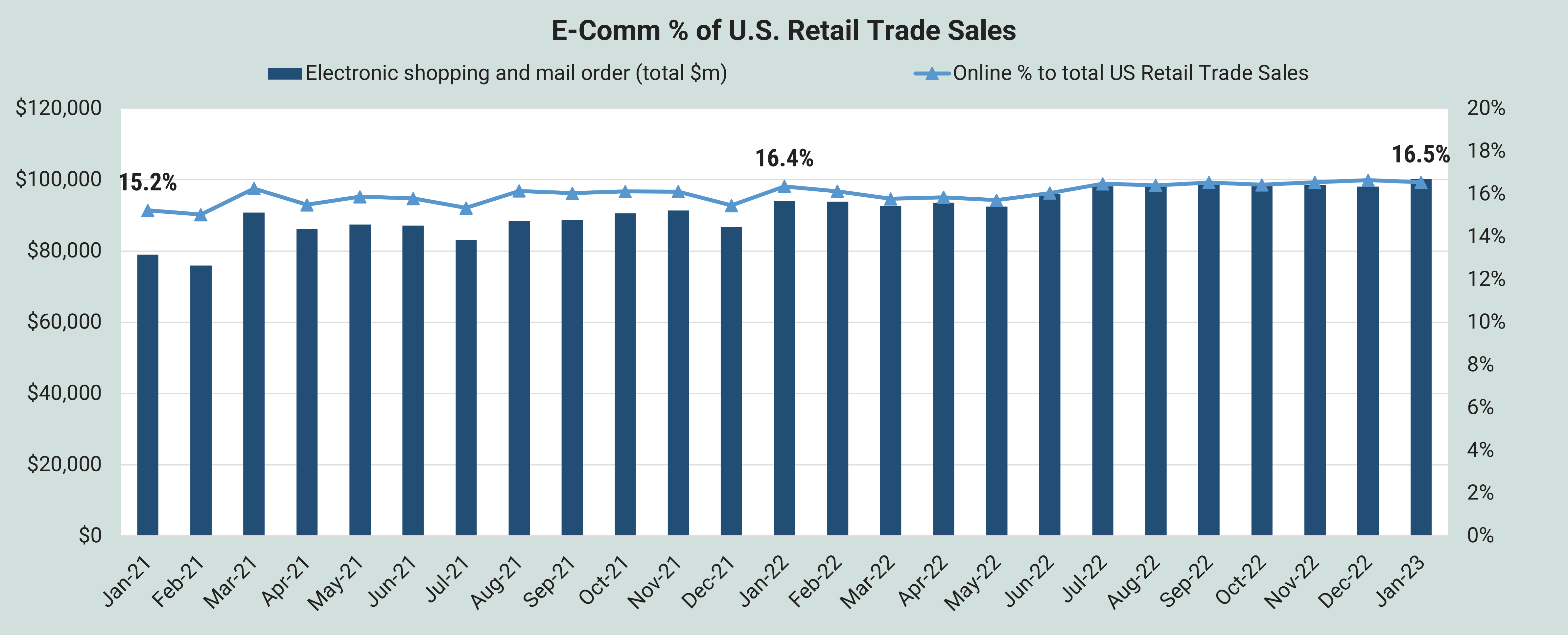
Food Services / Dining continues to show YOY gains, increasing 15.3% in February with the return to in-person socialization



Source: U.S. Census Bureau

U.S. Retail Sales – E-Commerce

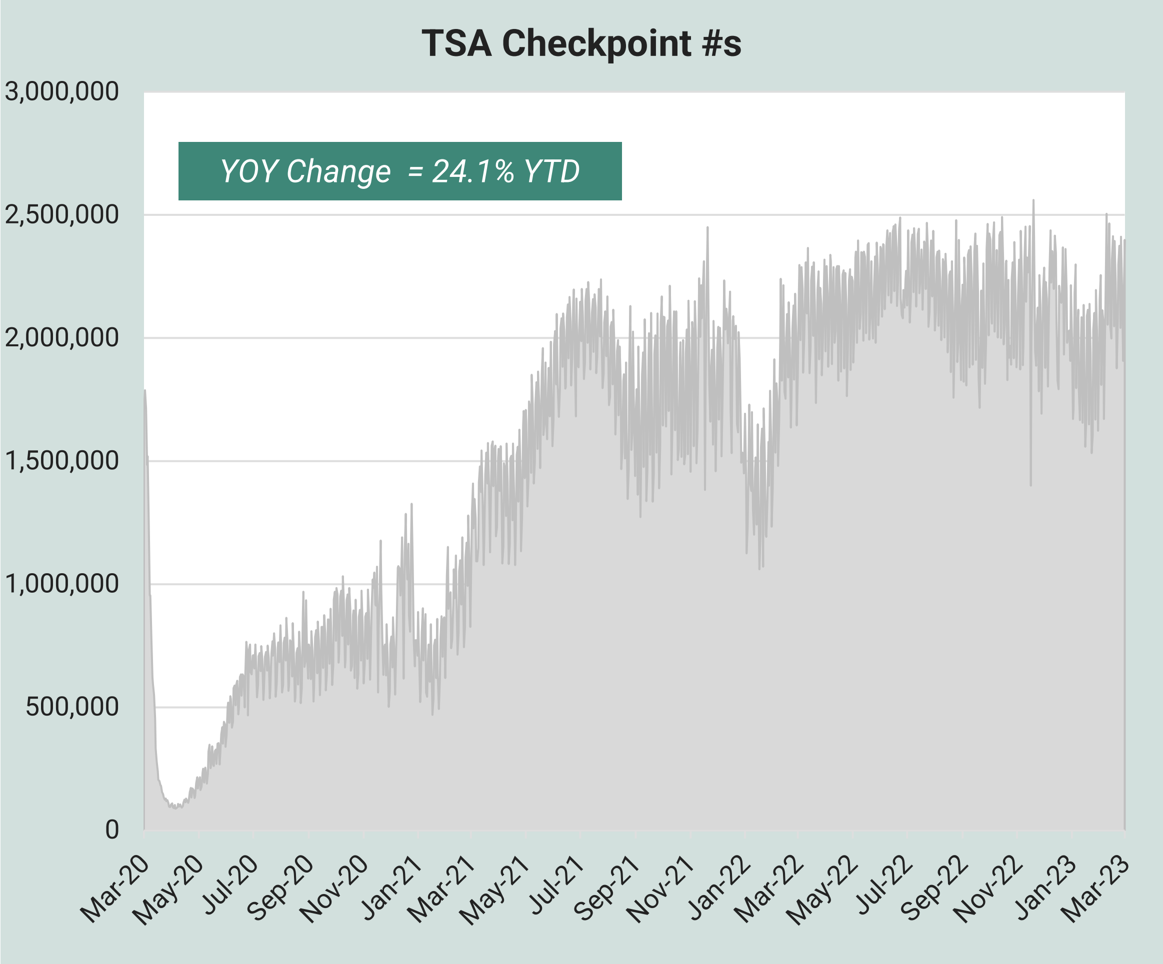
E-comm % of Retail Trade Sales have continued to flatten out while remaining above 16% through Q4-2022



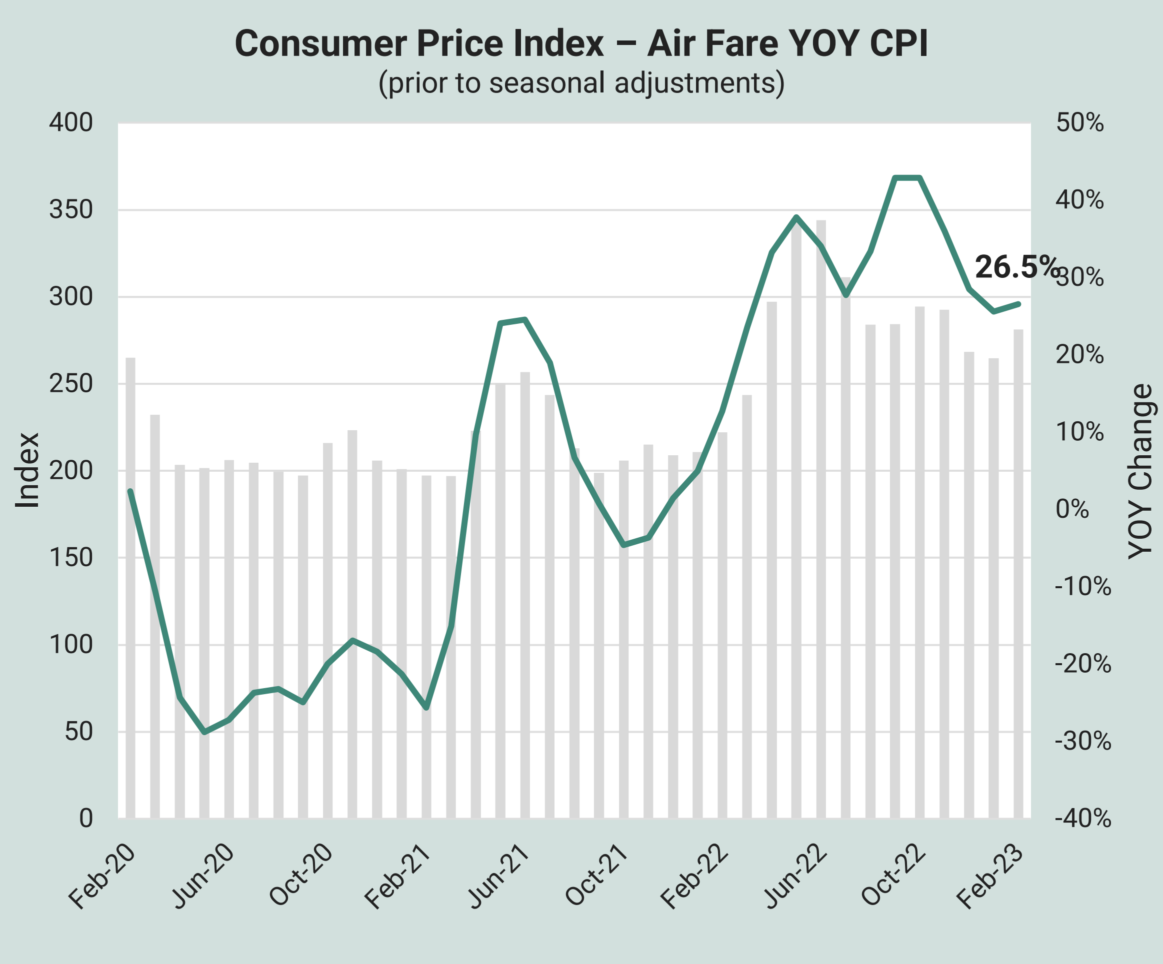
Source: U.S. Census Bureau

TSA Checkpoint Travel Numbers

U.S. travelers are still traveling by air at a rate well above 2022, with an especially large increase in January 2023 vs. previous year despite rising price of air travel of above 26% YoY as Americans get back in the air



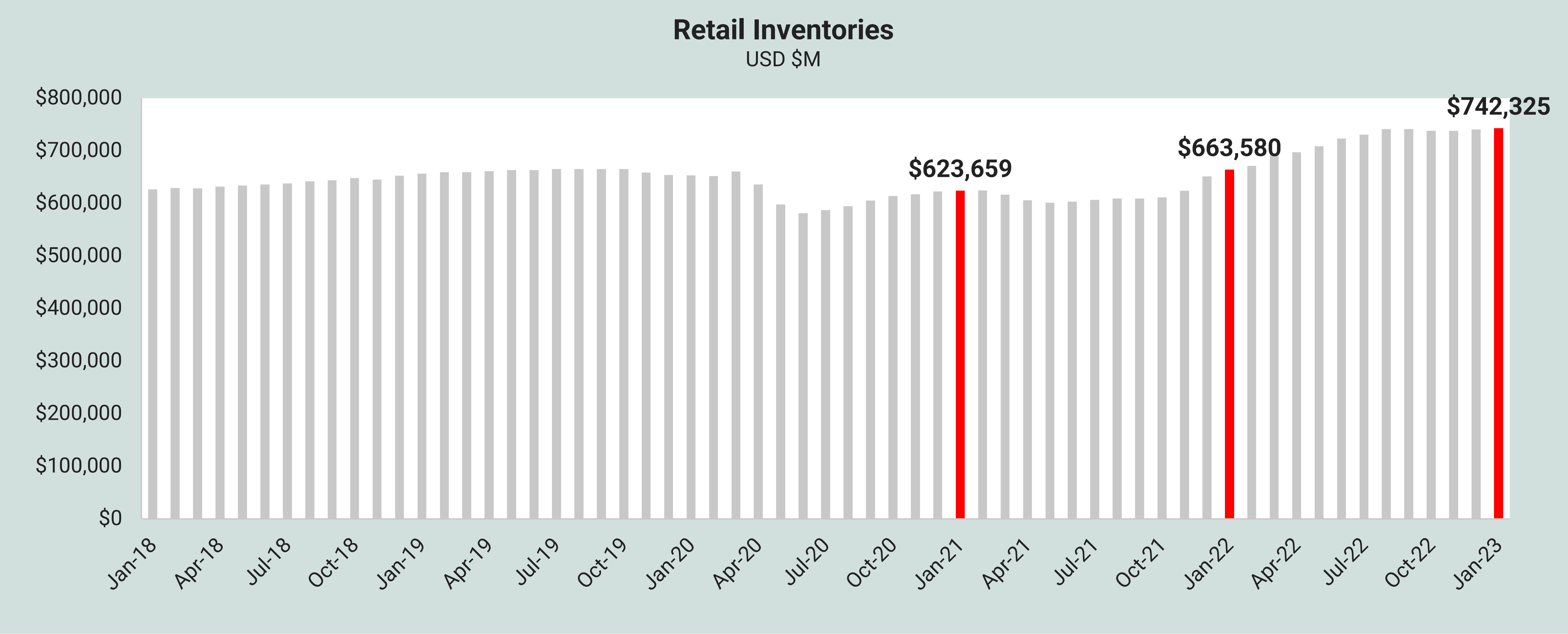
Source: U.S. Transportation Security Administration



Source: U.S. Bureau of Labor Statistics

Retail Inventories

Inventories for January 2023 were 11.9% above 2022; while inflation in COGS has had an impact, companies are still working thru excess with heavy markdowns, cutting outstanding orders with a meager outlook to the balance of the year



U.S. Census Bureau, Retailers Inventories [RETAILIMSA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/RETAILIMSA

Broad Economic Indicators

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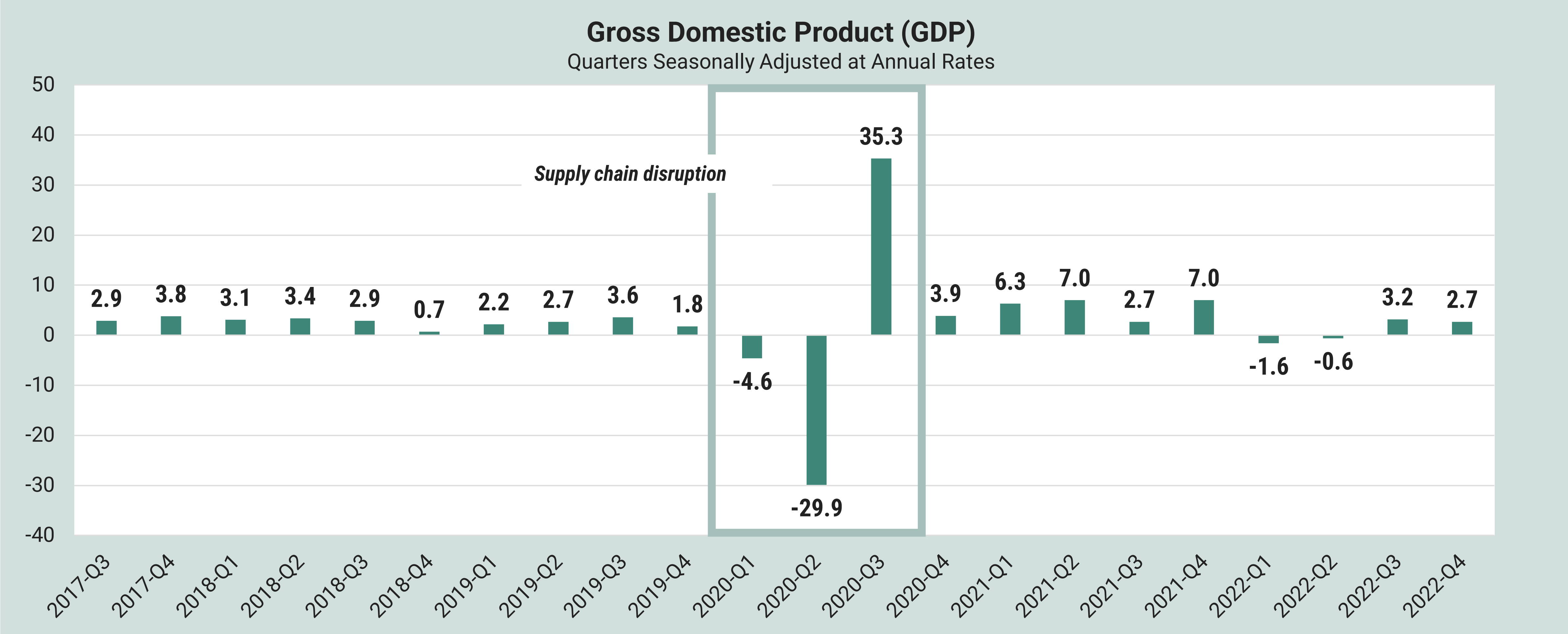
Gross Domestic Product

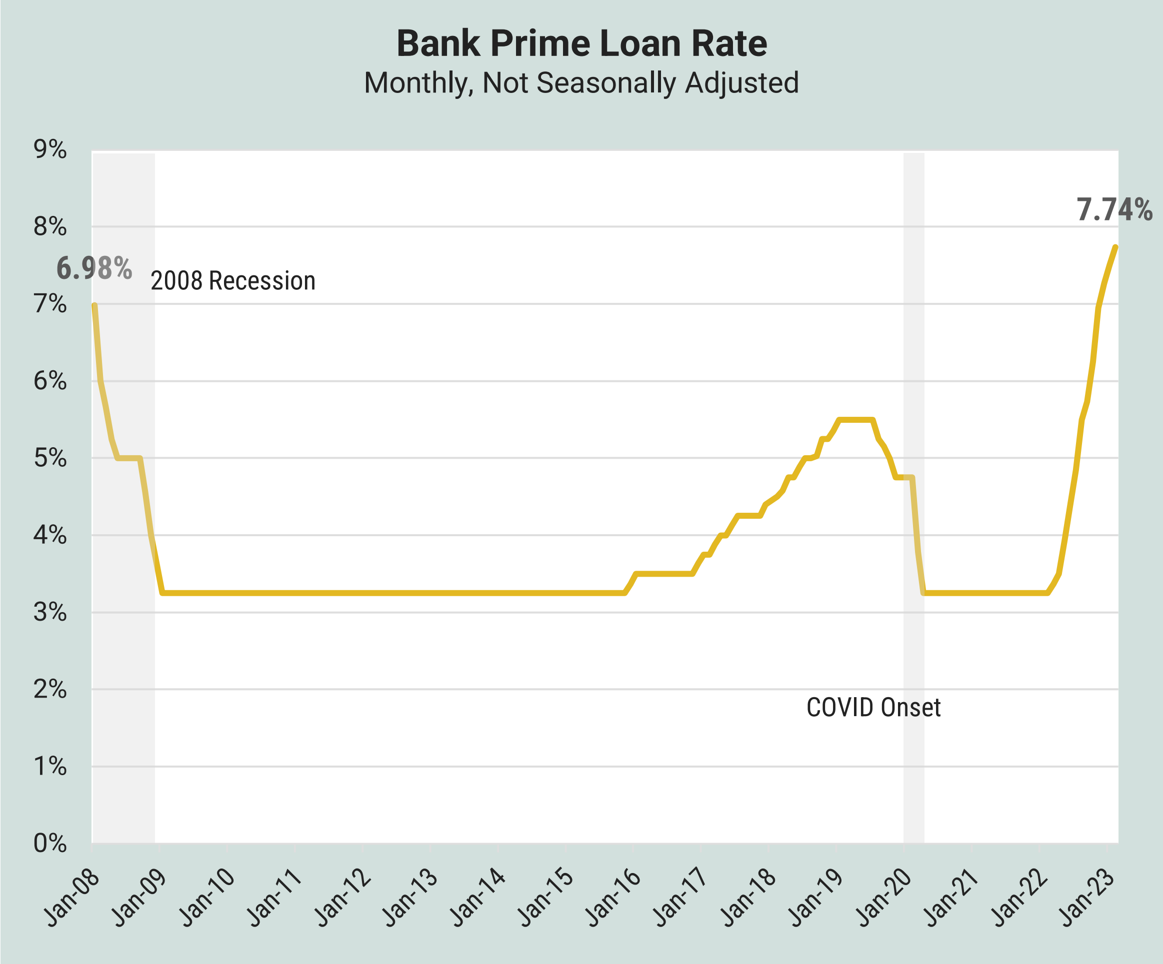
Real gross domestic product (GDP) was adjusted slightly downward to 2.7 percent in Q4-2022 from previous estimate of 2.9 percent; Q4 increase primarily driven by increases in inventory investment and consumer spending

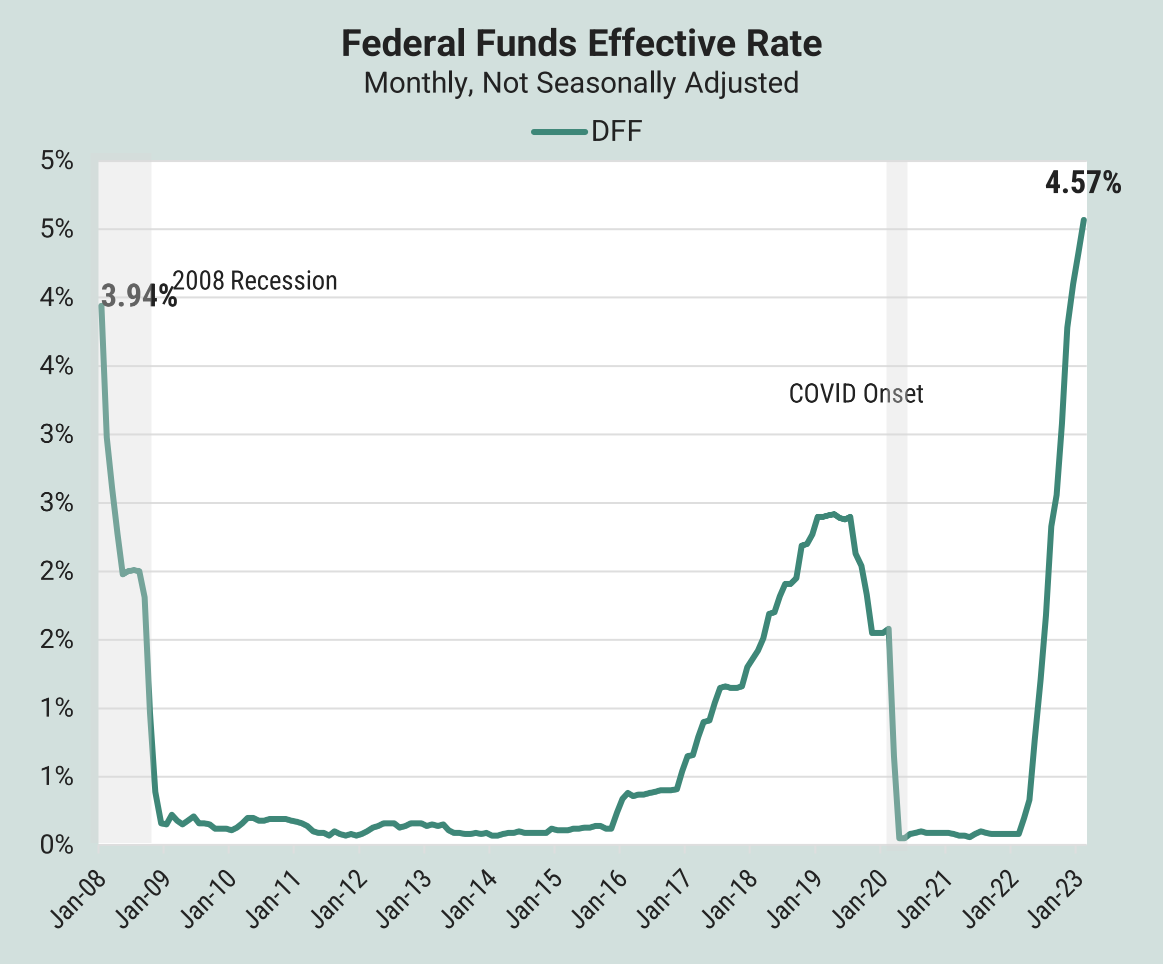


Source: U.S. Bureau of Economic Analysis

Federal Reserve – Interest Rates

Bank Prime Loan Rate rose to 7.74%; Federal Funds Rate increased to nearly 4.6% through February 1





Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis

Consumer Price Index *(non-seasonally adjusted)*

The Consumer Price Index increased 6.0 percent YOY, with Core CPI up 5.5%. The index for shelter was again a large contributor to the monthly all items increase, accounting for over 70% of the monthly all items increase, with the indexes for food also contributing

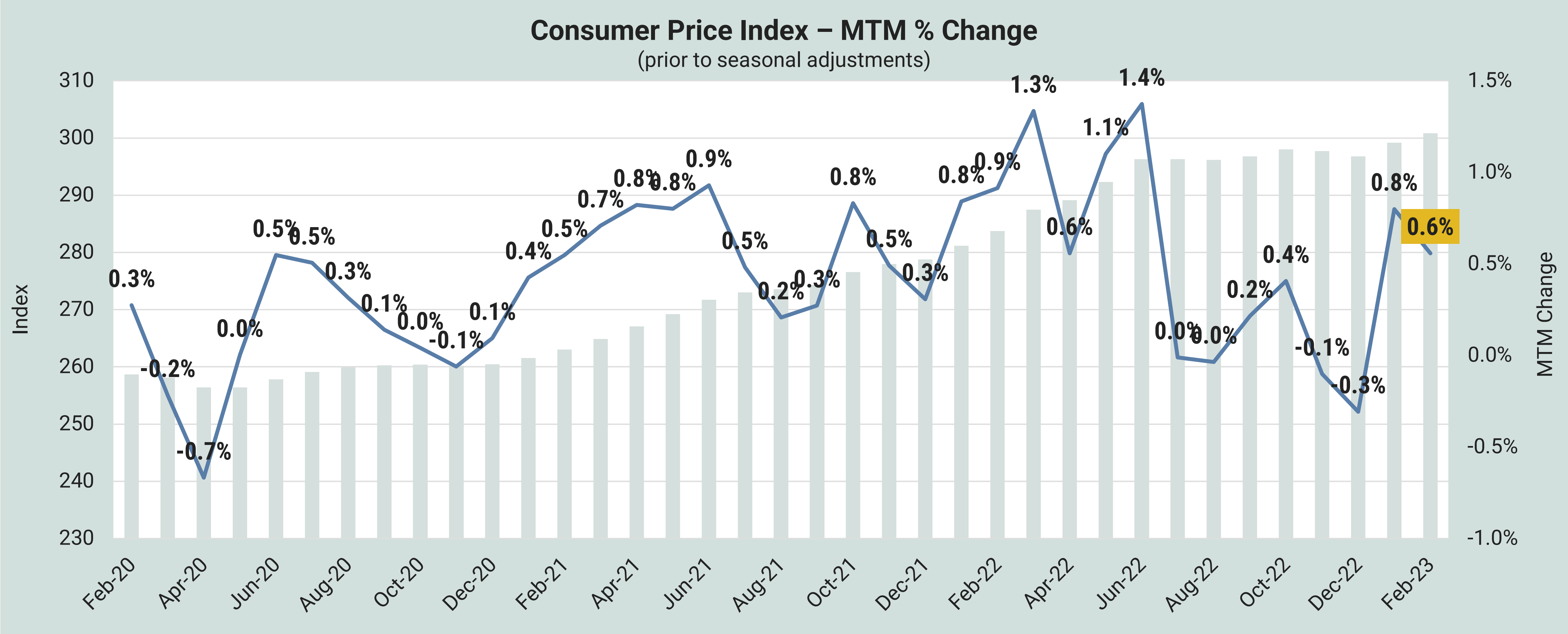
- *Food at Home +10.2%*
- *Food Away From Home +8.4%*
- *Housing +8.2%*
- *Fuel -1.7%*
- *Air Fares +26.5%*

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
Total CPI	**8.2%**	**7.7%**	**7.1%**	**6.5%**	**6.4%**	**6.0%**
All Items Less Food & Energy (Core CPI)	**6.6%**	**6.3%**	**6.0%**	**5.7%**	**5.6%**	**5.5%**
Food at Home	13.0%	12.4%	12.0%	11.8%	11.3%	10.2%
Food Away From Home	8.5%	8.6%	8.5%	8.3%	8.2%	8.4%
Motor Fuel	18.8%	18.1%	10.8%	-0.9%	1.9%	-1.7%
Apparel	5.5%	4.1%	3.6%	2.9%	3.1%	3.3%
Housing	8.0%	7.9%	7.8%	8.1%	8.2%	8.2%
Education	3.1%	3.0%	3.1%	3.3%	3.4%	3.3%
Medical Care	6.0%	5.0%	4.2%	4.0%	3.1%	2.3%
Transportation	12.6%	11.2%	7.8%	3.9%	3.8%	2.6%
Air Fares	42.9%	42.9%	36.0%	28.5%	25.6%	26.5%

Source: U.S. Bureau of Labor Statistics

Consumer Price Index – Month-to-Month Trends

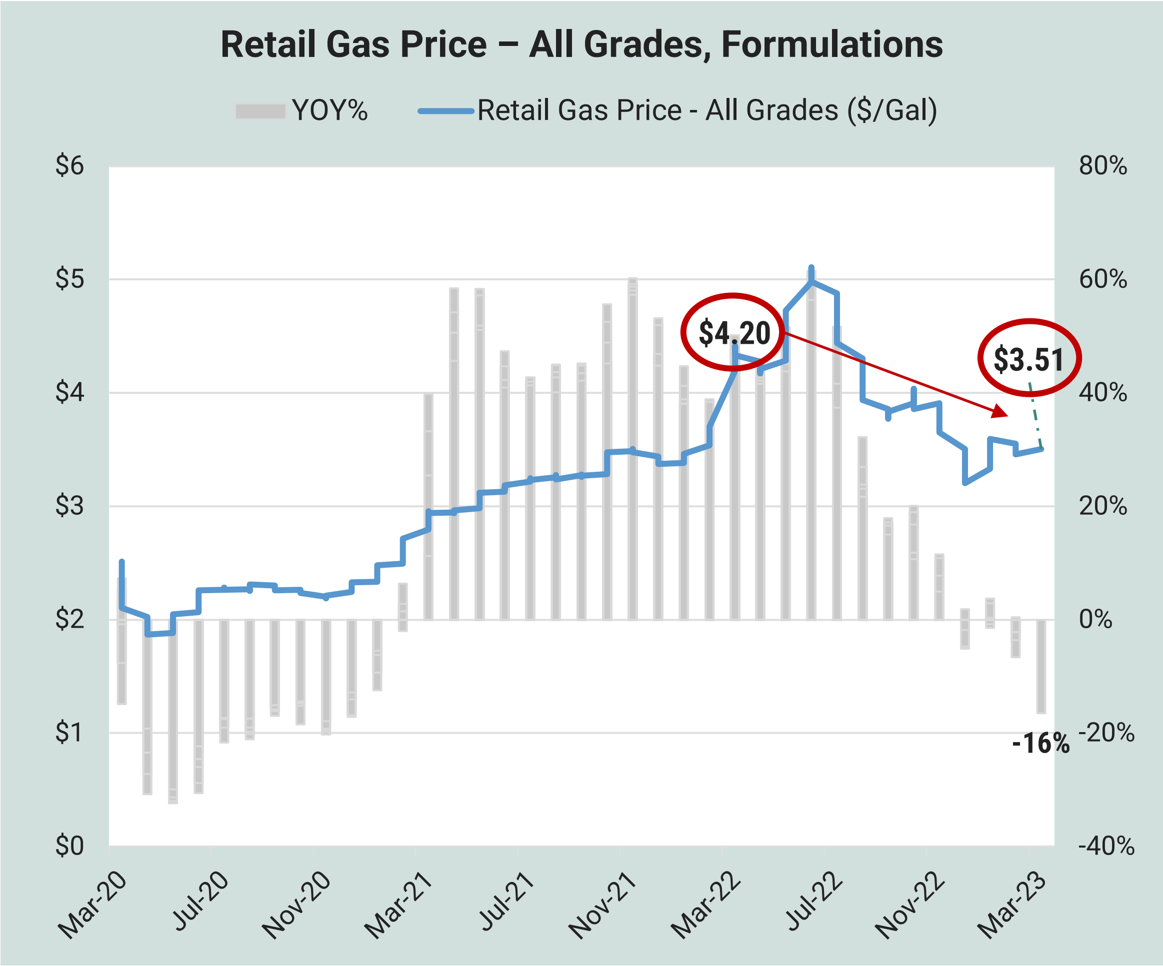
On a *monthly* basis, the CPI for All Urban Consumers (CPI-U) increased 0.6 percent (prior to seasonal adjustments)

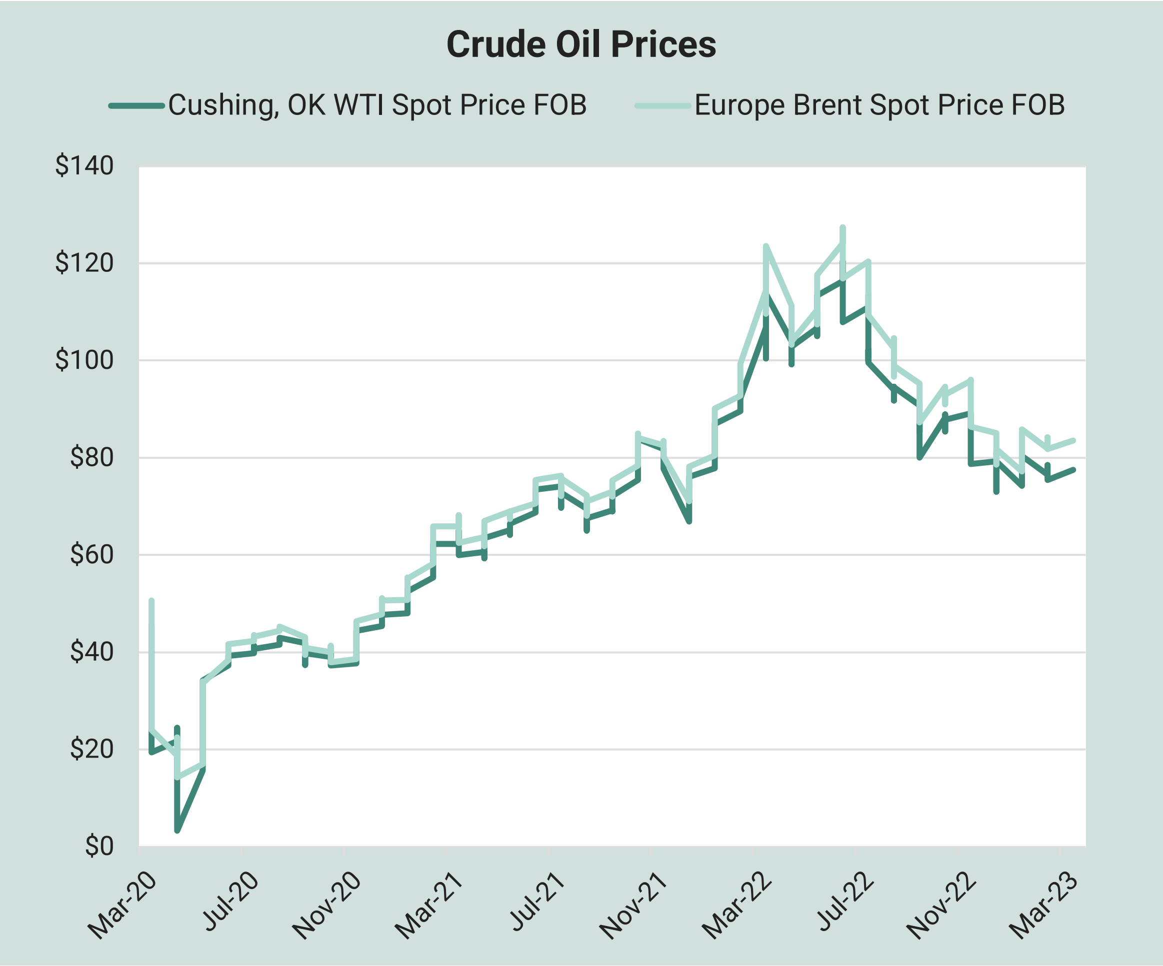


Source: U.S. Bureau of Labor Statistics

Gasoline (Retail Price) and Crude Oil Prices

Retail gas prices declined 16% YOY – $ 3.51 / gallon nationally through March 6 vs. $4.20 last year





Source: U.S. Energy Information Administration

U.S. Employment

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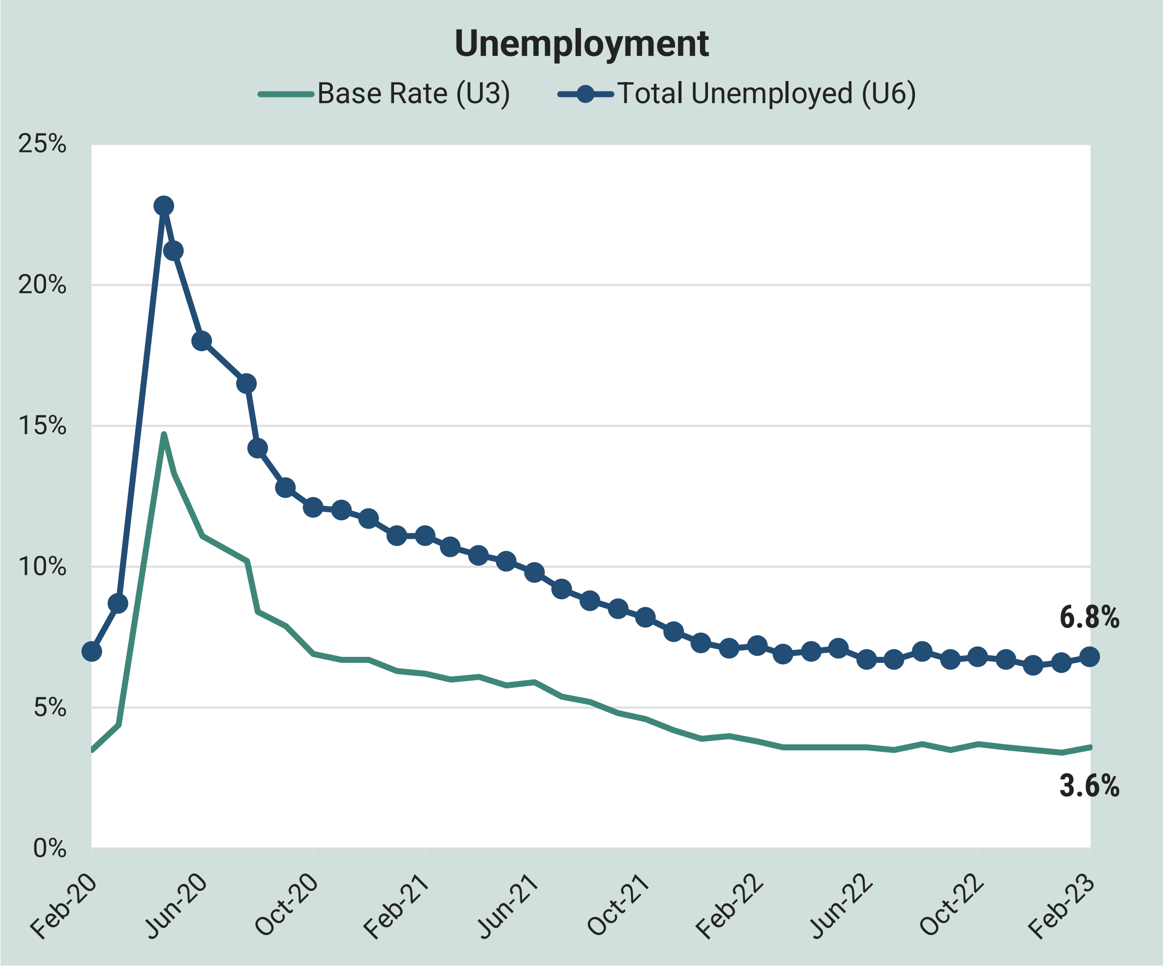
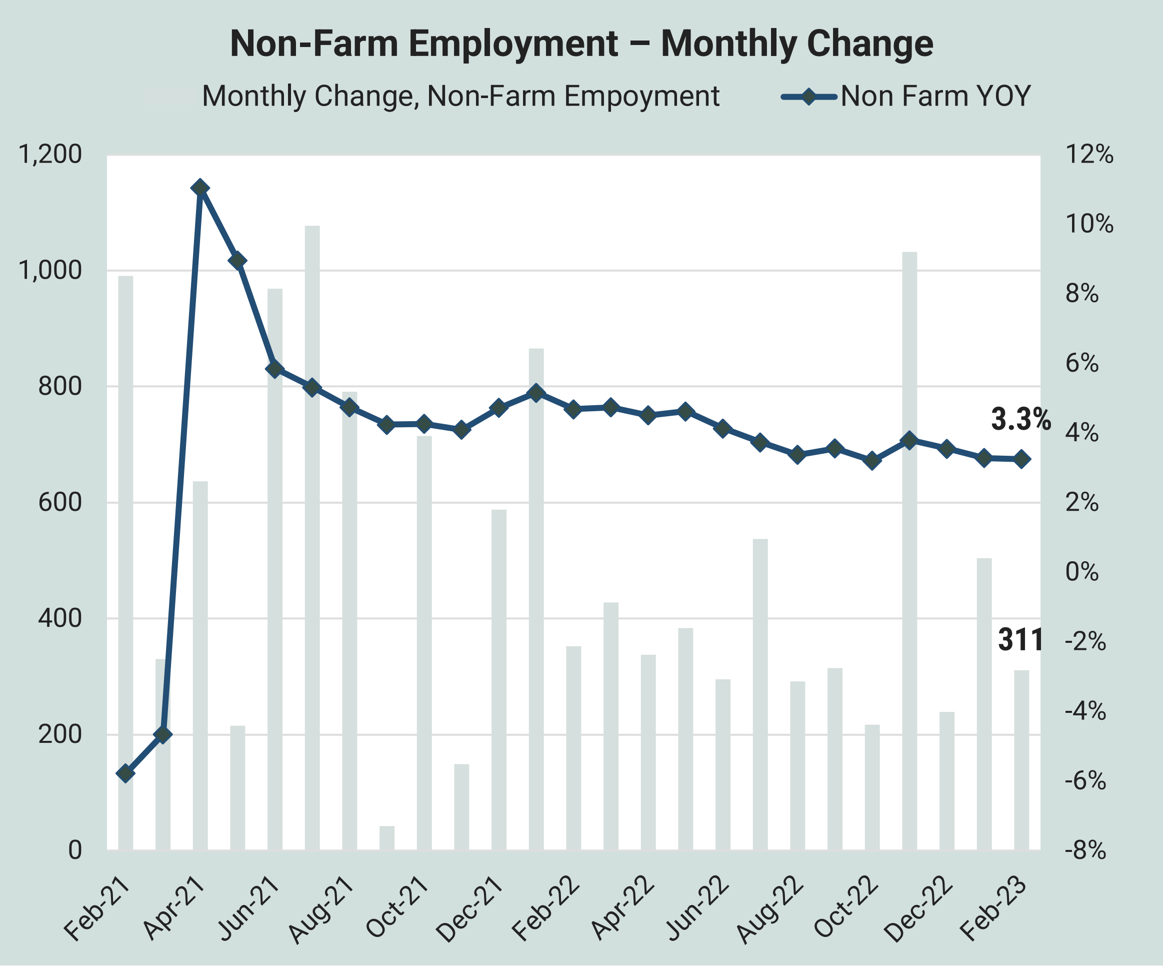
U.S. Employment Overview

Unemployment remains below 4%; non-farm employment was up 3.3% month-to-month, with employment rising by 311,000 in February, again exceeding analysts’

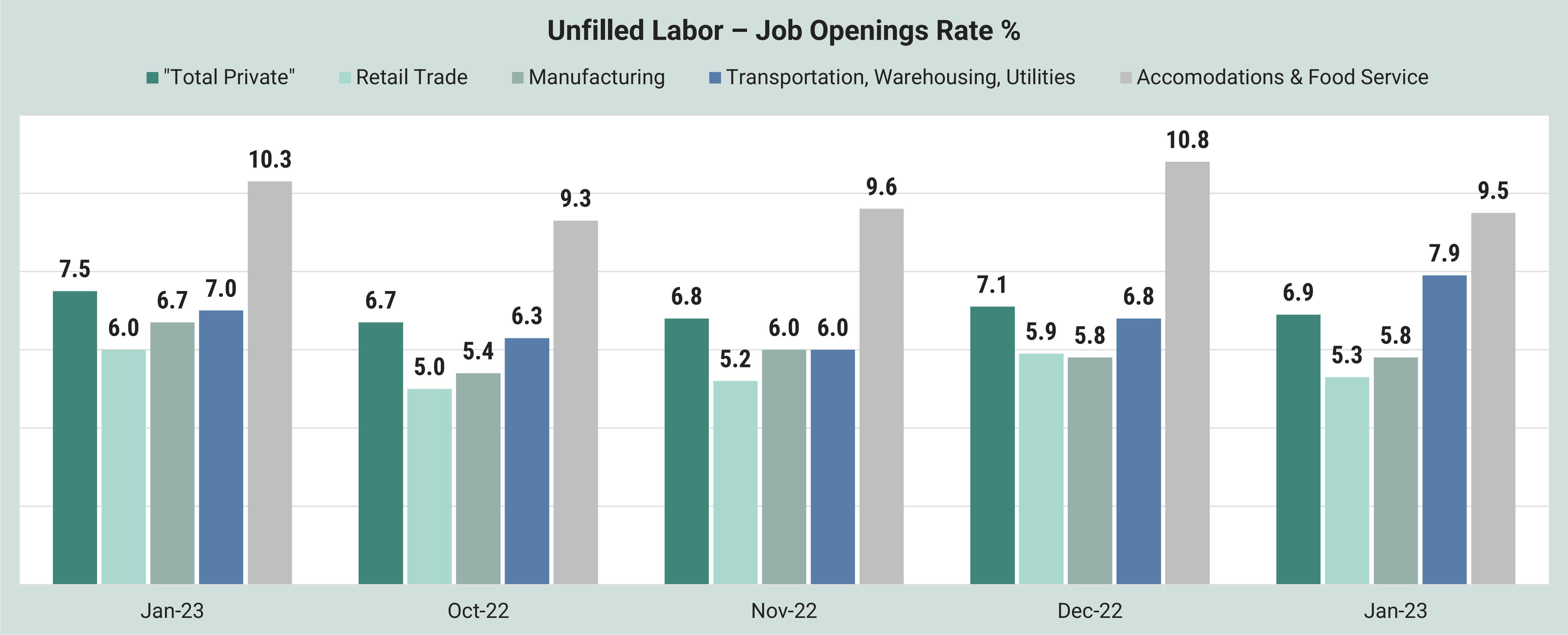




Source: U.S. Bureau of Labor Statistics

Private Industry Labor – Job Openings

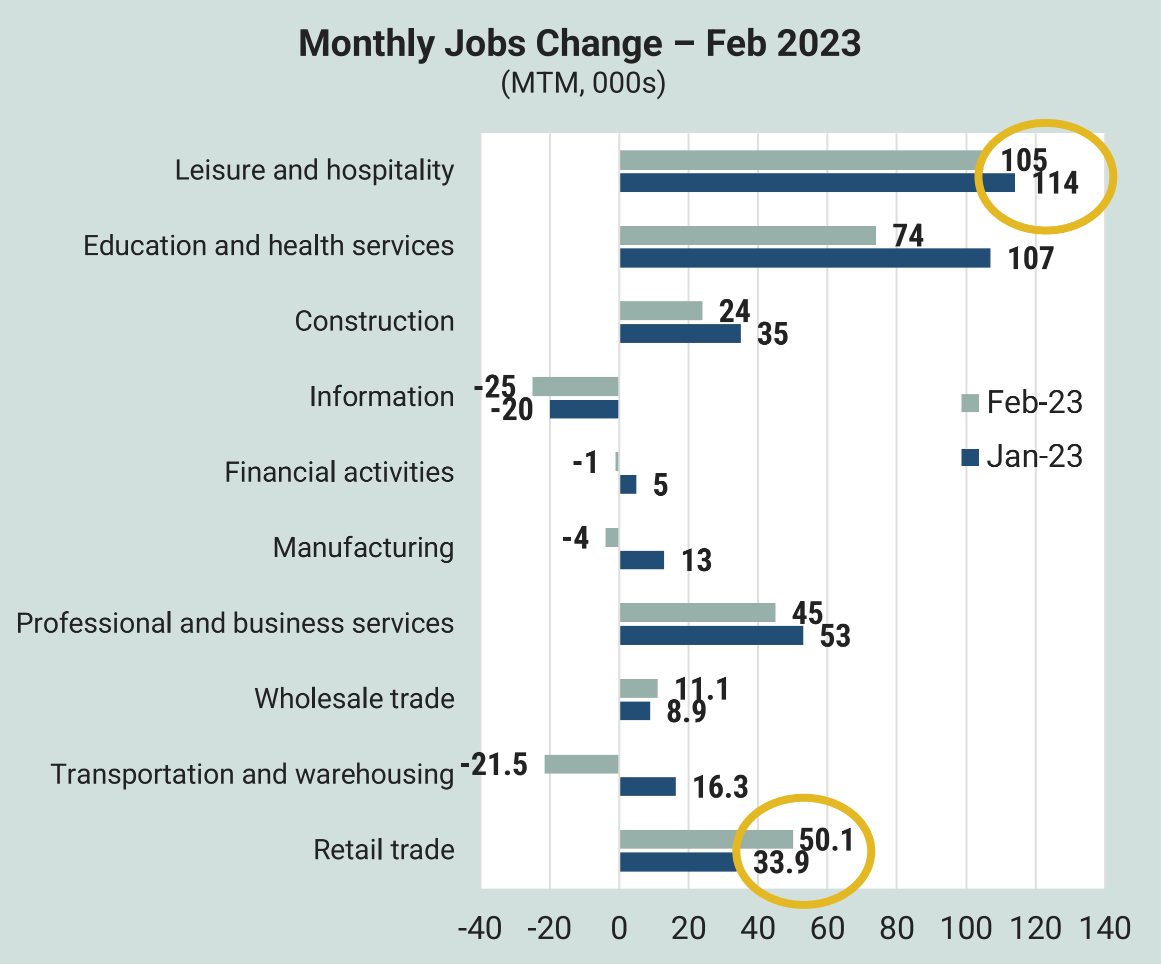
Job openings generally remained stable through January 2023; Accommodations & Food Services job openings rate declined from Dec 2022 spike

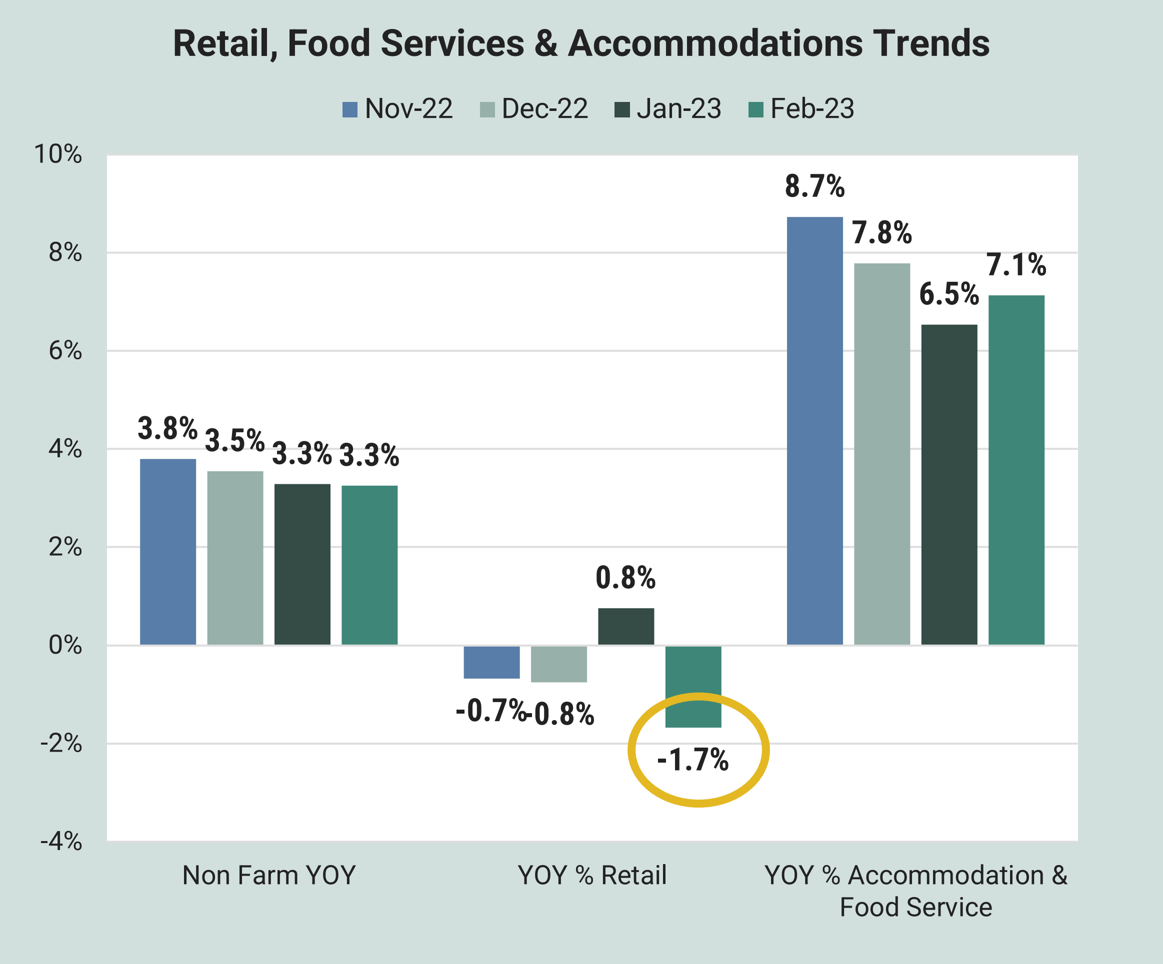


Source: U.S. Bureau of Labor Statistics; job openings rate = number of job openings on the last business day of the month as a percent of total employment plus job openings

Industry Employment Trends

Several industries showed MTM jobs increases, with Retail and Leisure & Hospitality both experiencing healthy gains in February on top of similar increases in January; YOY retail jobs decreased nearly 2%





Source: U.S. Bureau of Labor Statistics

Supply Chain

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The GSCPI tracks the state of global supply chains using data from the transportation and manufacturing sectors.

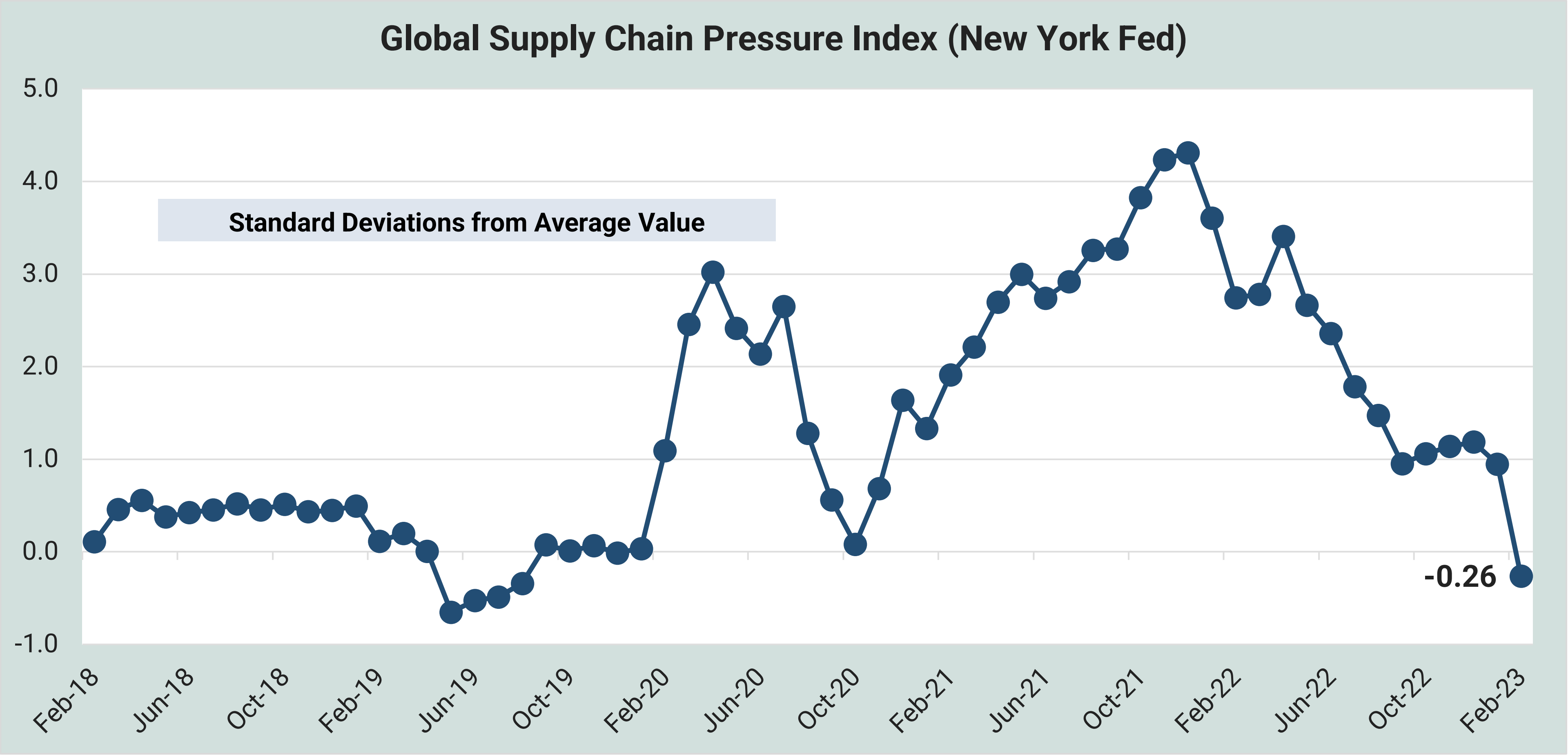
The GSCPI is not an official estimate of the Federal Reserve Bank of New York, its President, the Federal Reserve System, or the Federal Open Market Committee.

The GSCPI is a product of the Applied Macroeconomics and Econometrics Center (AMEC).

https://www.newyorkfed.org/research/policy/gscpi#/overview

Global Supply Chain Index

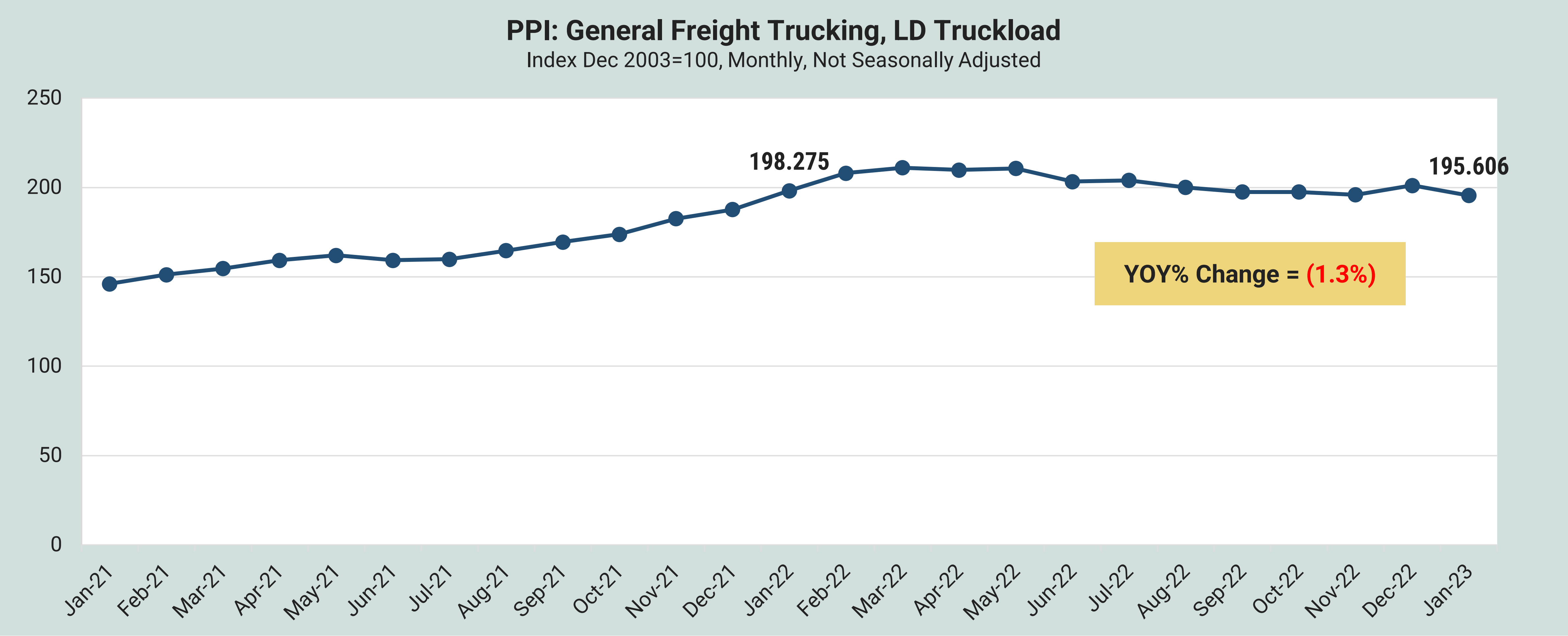
Global supply chain pressures decreased considerably in February and are now below the historical average; the GSCPI's recent movements suggest that global supply chain conditions have returned to normal after experiencing temporary setbacks around the turn of the year



Source: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, https://www.newyorkfed.org/research/gscpi.html.

Freight Inflation - Trucking

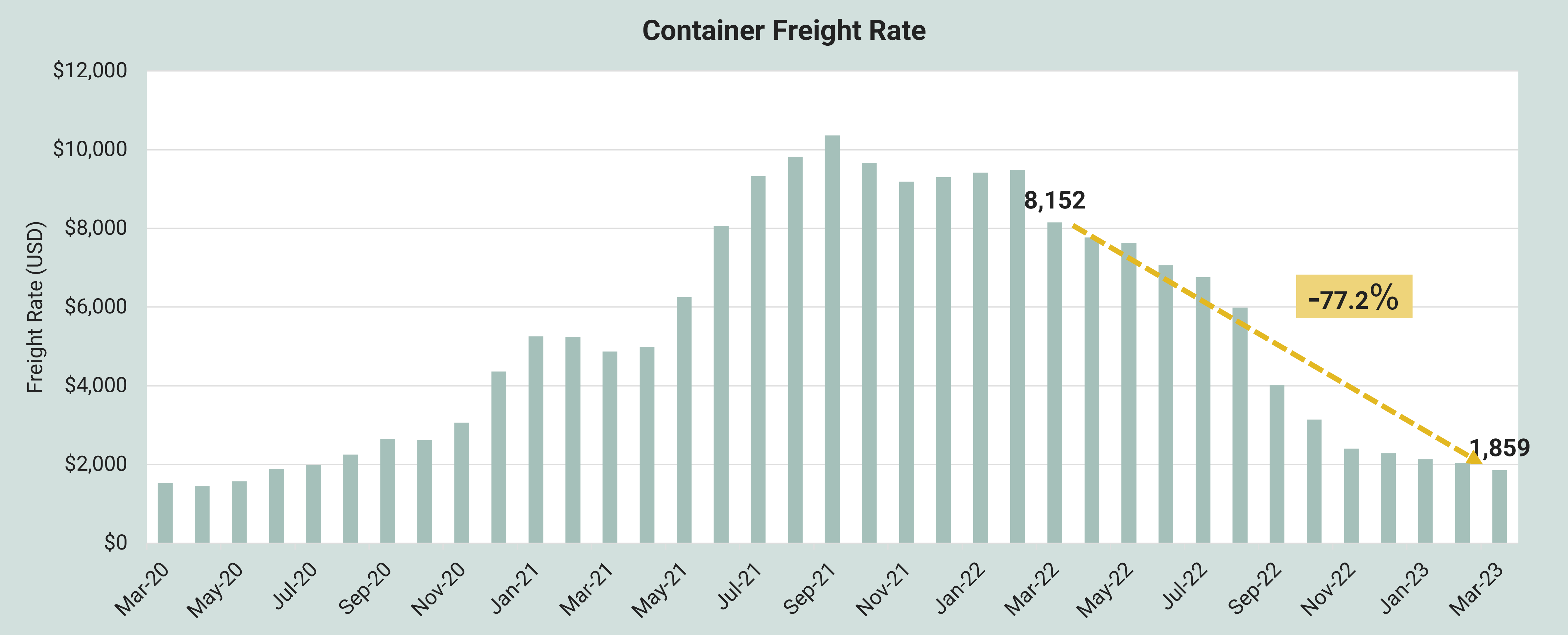
Through January, general freight trucking cost is down 1.3% over last year and 2.8% lower than the previous month



Source: U.S. Bureau of Labor Statistics, FRED, Federal Reserve Bank of St. Louis

Global Container Freight Rate Index

Container rates have stabilized; Drewry's composite World Container Index continues to decrease – rates were 77% below last year through March 2



Source: Drewry, https://www.drewry.co.uk/supply-chain-advisors/supply-chain-expertise/world-container-index-assessed-by-drewry

Housing

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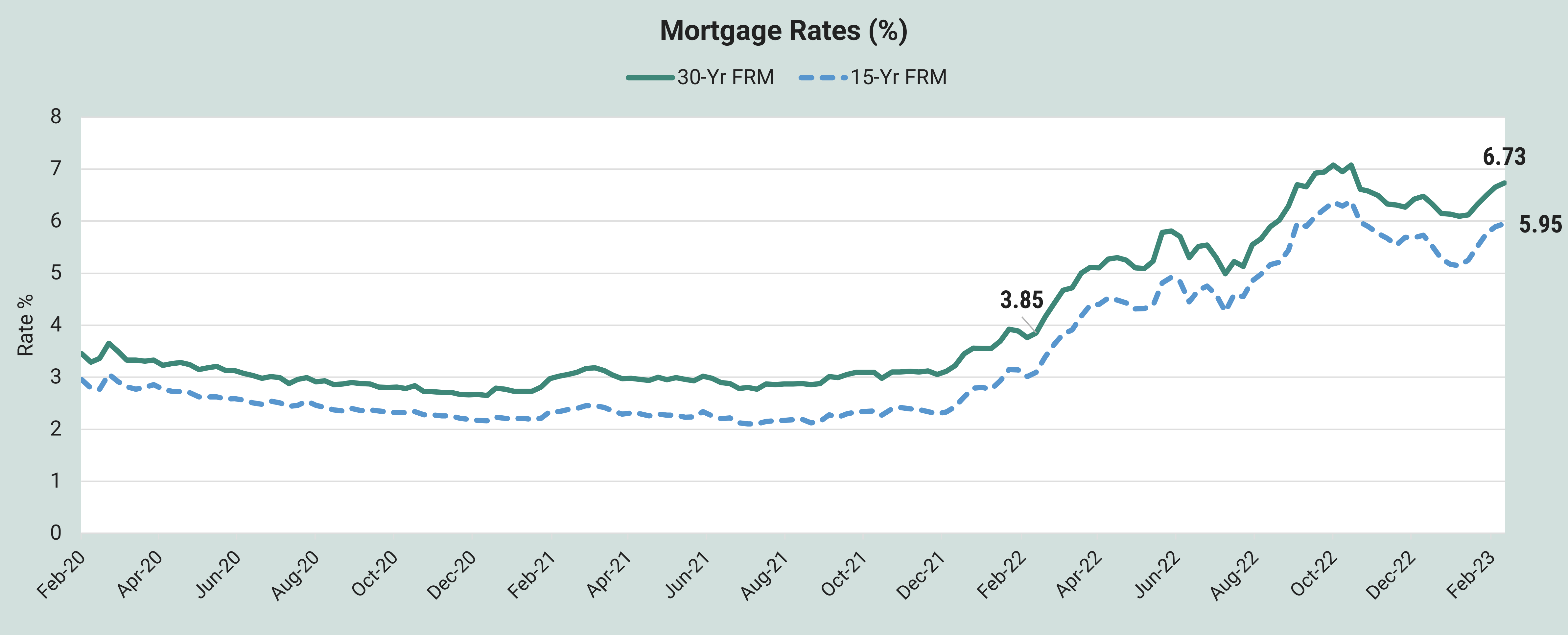
Mortgage Rates

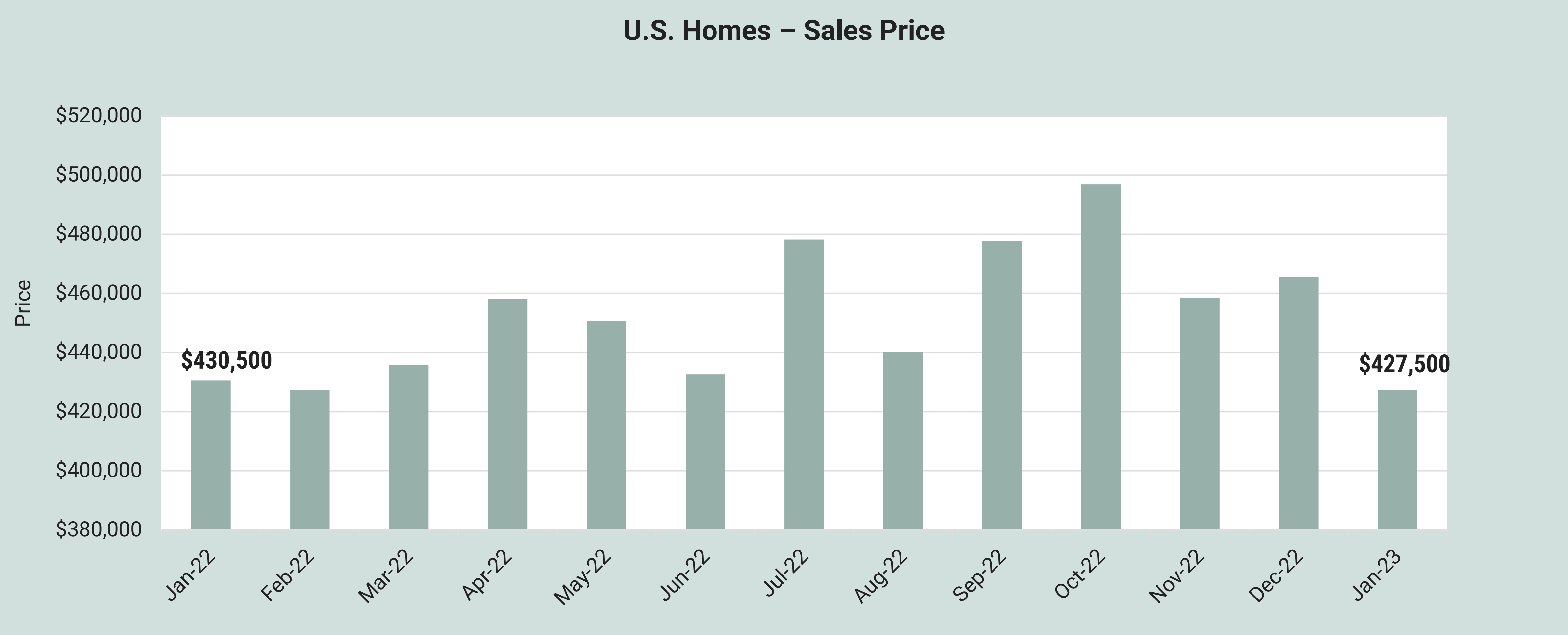
30-year FRM rate stood at 6.73% through the first week of March 2023, compared to 3.85% in 2022; housing markets continue to feel the impact as well as those retail and consumer sectors associated with them



Source: FreddieMac Mortgage Market Survey

U.S. Housing – New Home Prices

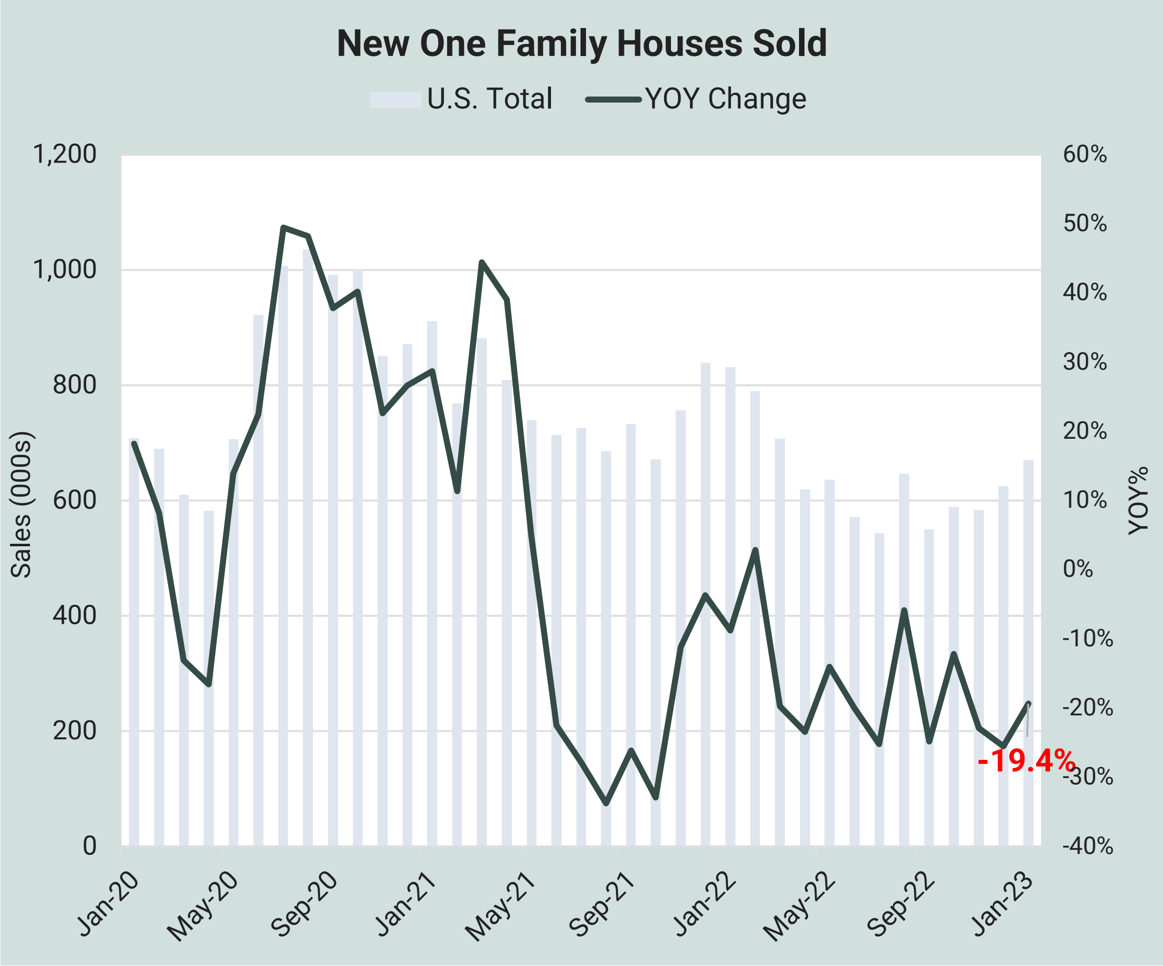
The median U.S. home price in January was .7% lower than last year but falls well short of mitigating impact of rising mortgage rates



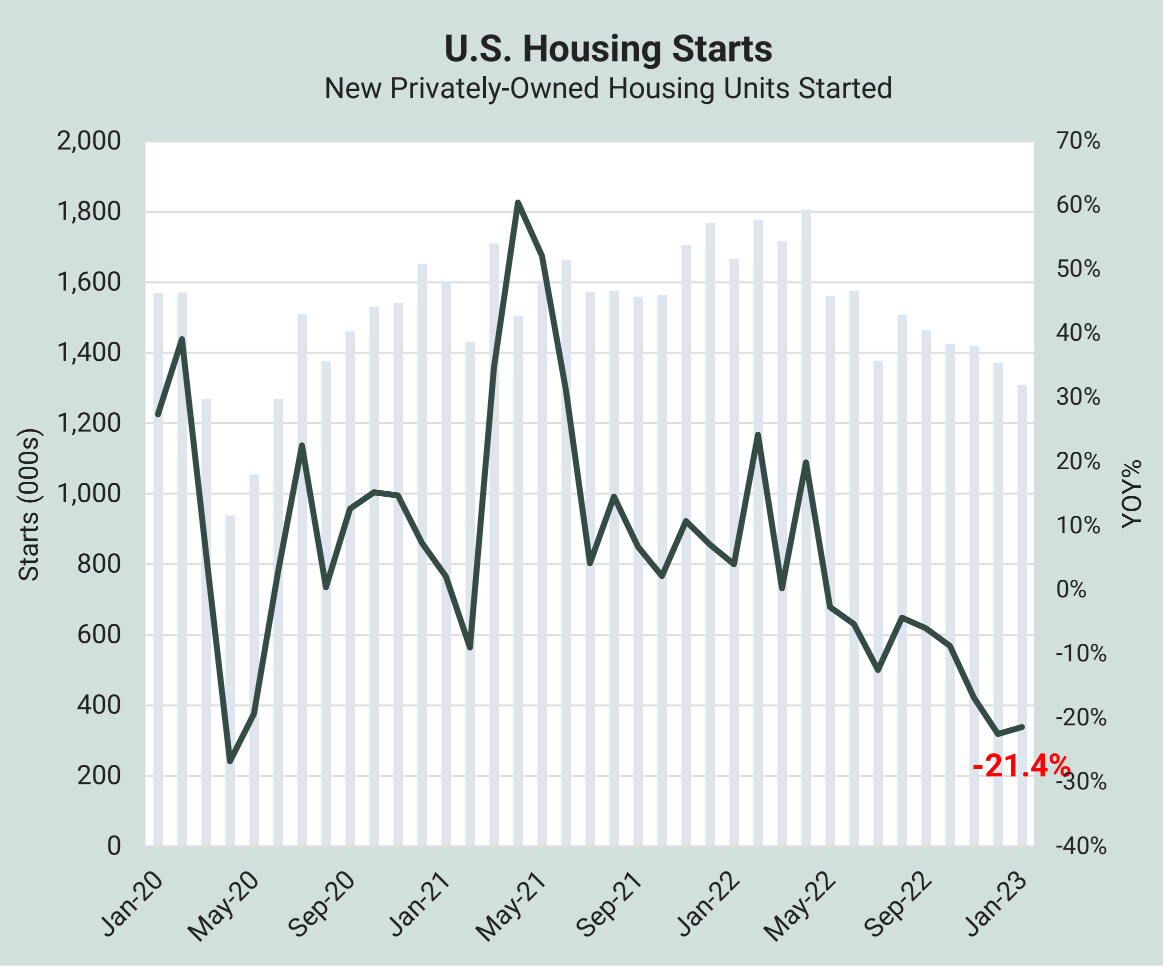
Source: U.S. Census Bureau, Federal Reserve Bank of St. Louis, Economic Research Division

Housing – New Home Sales and Starts

New home sales declined over 19% in January; U.S. housing starts decreased 21.4%



U.S. Census Bureau and U.S. Department of Housing and Urban Development, New One Family Houses Sold: United States, retrieved from FRED, Federal Reserve Bank of St. Louis



U.S. Census Bureau and U.S. Department of Housing and Urban Development, New Privately-Owned Housing Units Started, retrieved from FRED, Federal Reserve Bank of St. Louis;

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