APRIL 2021

National Economic Intelligence Report

Western Alliance Bank®
Alliance Association Bank
Alliance Bank of Arizona
Bank of Nevada
Bridge Bank
First Independent Bank
Torrey Pines Bank

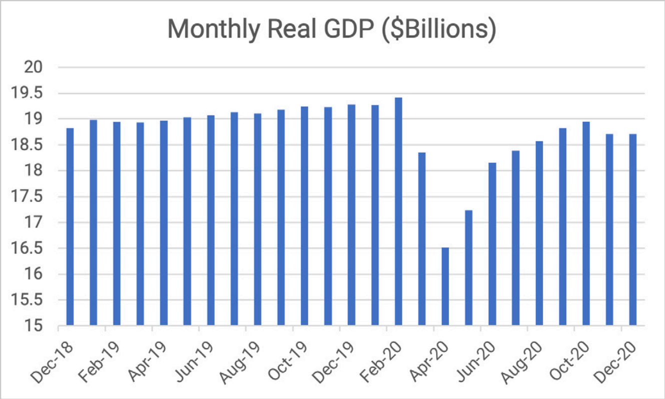
Prepared by Beacon Economics, LLC
Presented by Western Alliance Bank

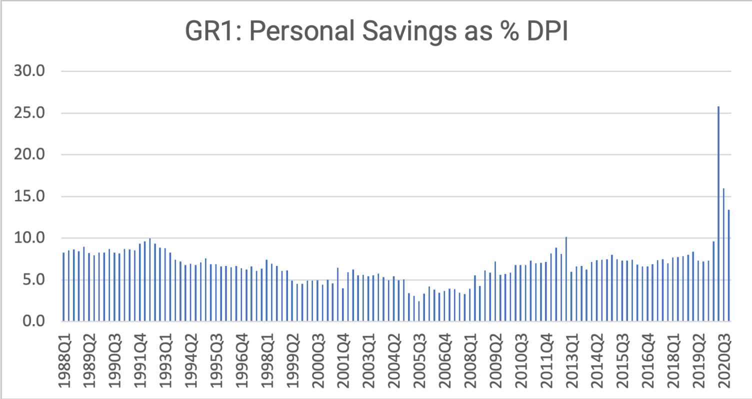
U.S. Outlook

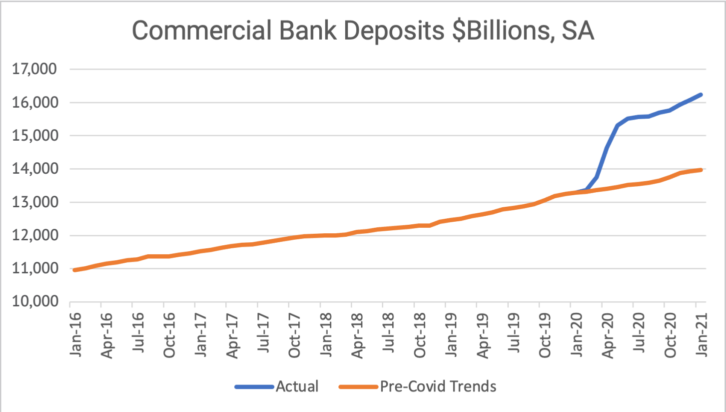
The U.S. economy lost some momentum at the end of 2020, as the spread of the coronavirus reached its most recent peak. The surge of new cases led to a number of business restrictions across states, weaker than anticipated consumer spending, and diminished consumer activity. In December, jobs contracted nationally after months of job gains, following the major fallout in March and April 2020. Despite this backdrop, 2021 is expected to be a year of unprecedented growth, at least as far as recent history is concerned. There are a number of reasons for this. First, after a slow December, when the U.S. significantly fell behind its vaccination deployment target, the pace of the vaccine rollout has gained significant momentum in 2021. As a result, the spread of the virus is expected to slow greatly in 2021, therefore loosening one of the major constraints on growth. In fact, the number of daily new cases has dropped significantly, after peaking around the middle of January. Second, the U.S. Congress passed fiscal stimulus legislation in December, which was signed into law by President Trump. In addition, the Biden administration is on the cusp of passing further fiscal stimulus, widely believed to total a value of $1.9 trillion. Third, unlike prior recessions which occurred due to structural imbalances in the economy, the pandemic-induced recession occurred against the backdrop of strong fundamentals: high savings rates, low household debt, and a healthy consumer. The combination of declining cases and healthy consumers paves the way for strong economic expansion in 2021.

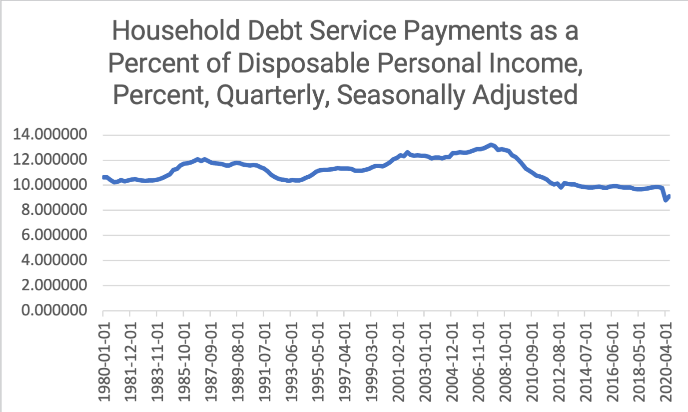
Healthy Balance

While GDP experienced its largest annual fall in decades in 2020, Beacon Economics believes these gains will be offset, and the economy will return to trend in 2021. Growth in 2021 will be driven by the health of consumers. Over the past year, the household savings rate shot up to levels not seen in the history of the United States: 25% in the second quarter and a still high of 13.4% by the end of the year. This was driven by the fiscal stimulus but also by the fact that spending dropped significantly more than incomes grew. Aggregate disposable personal income in the nation surged during 2020, with government payments offsetting earned income losses by a ratio of 2 to 1. As a result, commercial bank deposits swelled like never before, increasing by $3 trillion in 2020 compared to 2019 levels. These factors have had the combined effect of bringing household debt to its lowest point in decades. Along with the expected recovery in the labor market, consumer spending will be the rocket fuel that ignites economic growth in 2021.



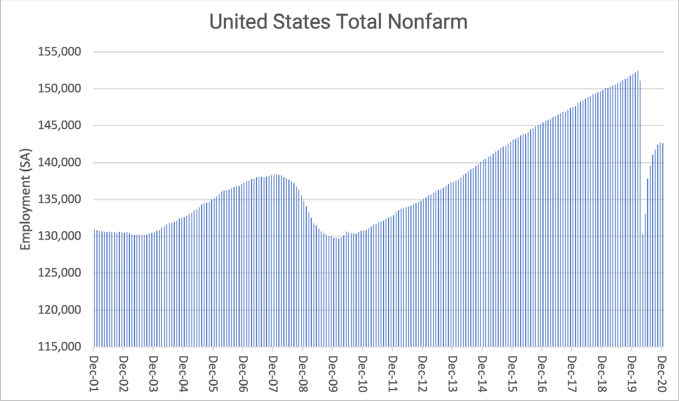


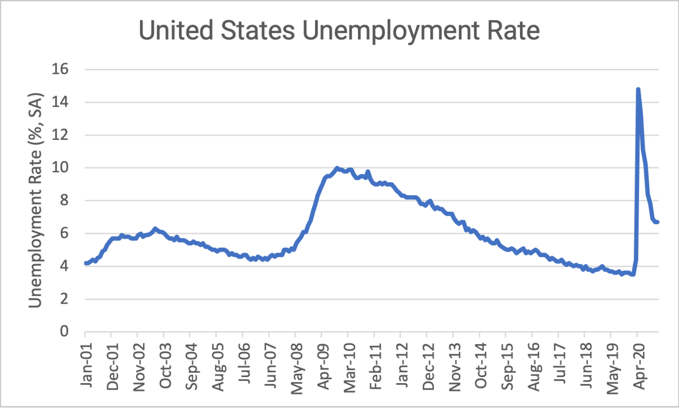




Labor Market Pains

Nationally, the heaviest and most persistent damage to the economy has been sustained in the labor market, which sustained significant damage in March and April of 2020, when, due to the outbreak of the coronavirus and the public responses to it, employers shed around 22 million jobs. This sent the unemployment rate from 3.5% to 14.8%. While it was initially hoped that many of these job losses were temporary, as of December 2020, only 55% of the jobs lost have been recovered, which is still 10 million positions below pre-pandemic levels, or around 6.5% lower. The unemployment rate has since fallen to 6.7%. While no sector of the economy gained jobs in 2020, some sectors fared better than others. Around 40% of the job losses occurred in the Leisure and Hospitality Sector alone. By contrast, Financial activities and Professional, Scientific, Technical and Management Services were relatively unscathed. As these figures would suggest, lower-income workers have been the hardest hit by the labor market fallout. As mandated business closures and restrictions are lifted, there will be strong growth in Leisure and Hospitality jobs in 2021, if not quite returning to pre-pandemic levels.



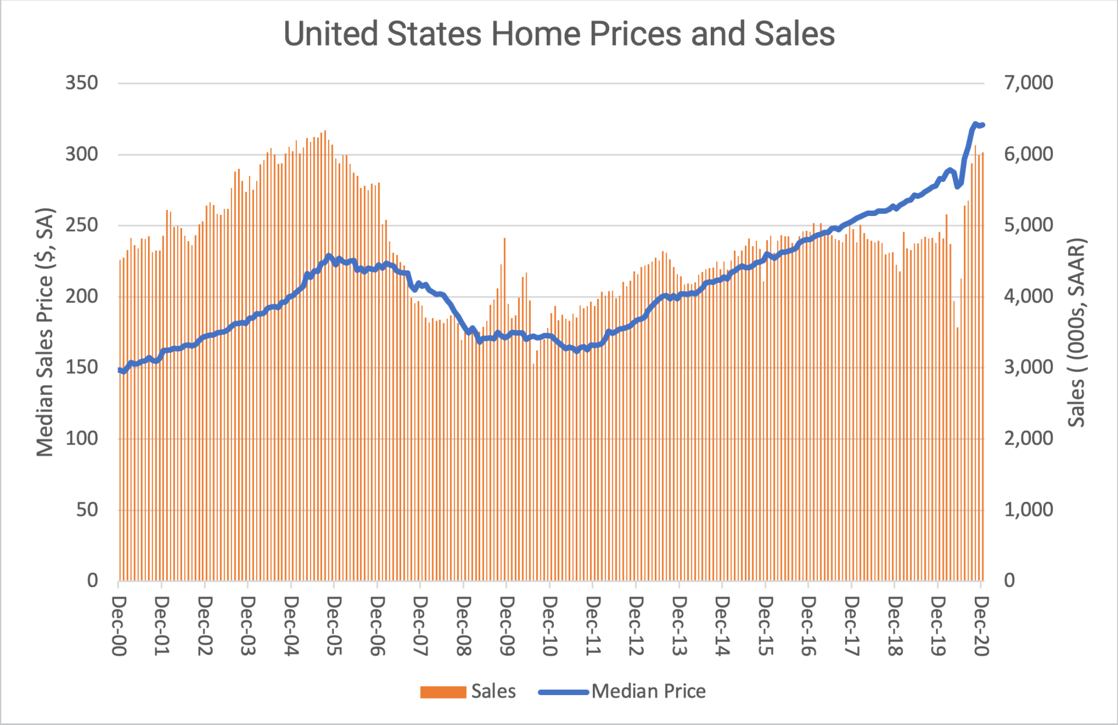


United States Industry Employment

INDUSTRY	Dec-19	Dec-20	YoY Change (000s)	YoY Change (%)
Total Nonfarm	151,998	142,624	-9,374	-6%
Manufacturing	12,866	12,309	-557	-4%
Wholesale Trade	5,933.2	56,83.5	-249.7	-4%
Retail Trade	15,672.2	15,261.3	-410.9	-3%
Information	2,883	2,626	-257	-9%
Financial Activities	8,814	8,743	-71	-1%
Prof Sci Tech	9,667.4	9,508.1	-159.3	-2%
Management	2,447.7	2,368.1	-79.6	-3%
Admin Support	9,387.4	8,815.3	-572.1	-6%
Education	3,810.3	3,378.5	-431.8	-11%
Health Care	20,654.2	19,913.8	-740.4	-4%
Leisure and Hospitality	16,784	12,959	-3,825	-23%
Other Services	5,925	5,488	-437	-7%
Government	22,679	21,401	-1,278	-6%

Housing Strength

If the labor market has been the weakest aspect of the economy, residential real estate has been by far the strongest. The sale of single-family homes in the U.S. increased by 23% from December 2019 to December 2020, compared to 10% growth from December 2018 to December 2019. At the same time, house prices increased by 13% from December 2019 to December 2020, compared to 8% growth from December 2018 to December 2019. The strength of the housing market has been driven by two primary factors. First, mortgage rates were at historic lows in 2020, as the Federal Reserve slashed interest rates in response to the economic fallout. Second, since the labor market damage has predominantly affected low-income workers, the typical home-owner has been relatively unaffected over the past year. With inventories at record lows, and increased savings, this created a cocktail for sharp housing price increases. Mortgage rates have started to creep up, which will likely slow the pace of sales and the price growth that was seen in 2020. However, given low inventory levels and historically friendly mortgage rates, significant sales and price appreciation is expected in 2021.



A Strong Year Ahead

Despite the bullish outlook for the year, downside risks exist, particularly on the public health front. New variants of COVID-19 could lead to a reversal in new case growth, and a worst-case scenario could render vaccines and therapeutics ineffective. Even in such an event, the extent of the damage to the economy seen in early 2020 is highly unlikely to be replicated, since vaccine boosters to fight new variants are expected and treatments for the virus improve. All in all, 2021 is expected to be an incredibly strong year for the economy, driven by a strong consumer and healthy fundamentals.

Prepared By Beacon Economics

Beacon Economics, LLC is a leading provider of economic research, forecasting, industry analysis, and data services. By delivering independent, rigorous analysis we give our clients the knowledge they need to make the right strategic decisions about investment, growth, revenue, and policy. **For more information, please visit www.BeaconEcon.com**

Services

- Economic, revenue & occupational forecasting
- Economic impact analysis
- Regional economic analysis
- Economic policy analysis
- Real estate market analysis
- Industry and market analysis
- EB-5 Economic analysis
- Public Speaking
- Expert Testimony

Western Alliance Bank is one of the country's top-performing financial institutions. Western Alliance is unique because we offer businesses the best of both worlds: the resources and sophisticated services and solutions of a national bank along with the flexibility, commitment and market knowledge of a bank with strong regional roots.

Bank on Accountability®

westernalliancebank.com

Divisions of Western Alliance Bank, Member FDIC.

Western Alliance Bank®
Alliance Association Bank
Alliance Bank of Arizona
Bank of Nevada
Bridge Bank
First Independent Bank
Torrey Pines Bank