The recently passed $1.9 trillion stimulus package (i.e., the American Rescue Plan Act of 2021) significantly ratchets up the growth outlook in the United States for 2021 and carries some of that growth into 2022. We have raised our forecast for the first quarter from 2.9 percent to 4.7, and for the entire year, the forecast increases to 5.7 percent from 4.9 percent. The total economic stimulus in the United States now totals about 38 percent of U.S. GDP, compared with stimulus measures in Europe, which represent about 21 percent GDP. As a result, the U.S. recovery will accelerate and further diverge from Europe, which will likely see flat to negative growth in the first quarter. But even as we move beyond the first quarter, the growth in the United States will far outstrip growth in Europe.

China is also set to see strong growth in 2021. Earlier this month, Chinese Premier Li Keqiang announced the country would target growth of over 6 percent for 2021. Our current forecast is calling for 8.4 percent growth. China grew 2.3 percent in 2020, the only major economy to grow during the year.

The strengthening recovery in the United States will help other countries as well. Mexico and Canada will both benefit, as will countries like China. The overall global economy shrank roughly 3.8 percent in 2020. It is expected to expand 6 percent in 2021.

The additional stimulus in the United States comes at a point in time when the economic recovery is already beginning to accelerate, and this adds additional fuel to the economy. Vaccination rates have steadily been increasing. President Biden had set a goal to administer 100 million vaccinations in his first 100 days in office. Arguably the country was already close to that rate when he was sworn in, but the goal will be reached around his 58th day in office. The United States has now vaccinated about one-third of its population. The United Kingdom is close to 40 percent.

For the European Union, it is about 12 percent of its population. This is a further headwind to Europe’s recovery because it hinders confidence and economic activity. In recent weeks, parts of France have gone under a third lockdown.
The weather is starting to improve across most of the country. COVID-19 restrictions are being lifted, and consumers are longing to spend. As I noted last month, households are sitting on a tremendous amount of precautionary savings that have accumulated during the last year. I estimate in the United States we’ve accumulated an extra $1 trillion in household savings. Much of this will be spent as individuals feel like they can get out and spend.

Another key area of growth is the labor market. We should see the economy add jobs back at a fast clip in the next few months. There were some 6.9 million job openings in January in the United States, the highest level since February 2020. Businesses look ready to hire. The U.S. economy could add six million jobs in 2021, the largest annual addition of jobs in history. But the job market will still be four million jobs smaller than it was pre-pandemic. There is some risk of a mismatch in the labor market as businesses look to hire for the positions they want to have in the years ahead, as opposed to the jobs they’ve had in the past.

By the back half of 2021, the U.S. economy will likely be operating above its maximum sustainable level. This in turn will put upward pressure on inflation. Already, prices are moving higher — much higher in some segments of the economy. Fuel prices are up. Some commodity prices are approaching all-time highs. Supply chains are constrained. Transportation costs have been up for much of the last year. Ports are overloaded, and border crossings have also seen delays. I don’t anticipate these frictions letting up anytime soon. Prices will likely remain elevated through most of the year. The Federal Reserve has made it clear that they are willing to tolerate, and even welcome, inflation rates higher than their traditional targets.

We could possibly see a scenario wherein prices for goods moderate somewhat while prices for services accelerate significantly, if consumers opt to spend more heavily on services as they come out of a year of hibernation. But prices are likely to remain higher for some time.

While Europe will see slower rates of growth in 2021, that will not be universally felt. Countries like the Netherlands and Germany are leading the recovery. Both countries will continue to benefit from exports to markets where demand remains strong. Manufacturers in the Netherlands, Germany and Austria are also reporting higher input costs. In some instances, firms are passing these prices on as market demand improves.

Inventories remain tight in nearly every market. The stock of raw materials and semi-manufactured goods continues to decline. At the same time, firms have raised their purchase orders. There is a growing imbalance between the strength of new orders and inventory levels. Already, we’ve seen widely reported news on semiconductor chip shortages. Shortages could materialize for other inputs as well. Lead times are deteriorating. There have been delays and difficulties in sourcing inputs. At first this was driven by transportation challenges related to COVID-19. Now it’s been driven by strong demand and tight supply. Both have pushed prices higher, and prices are likely to stay elevated for the foreseeable future.
ECONOMIC GROWTH
In the last month, we’ve seen the prospect for economic growth over the next year increase significantly. At the start of the year, we expected the economy to grow 2.3 percent in the first quarter. We raised that to 2.9 percent last month. We now expect the economy to grow 4.7 percent in the first quarter. Here’s a look at how our forecast for growth has changed since the start of the year:

<table>
<thead>
<tr>
<th>TIMEFRAME</th>
<th>JANUARY 2021 FORECAST</th>
<th>MARCH 2021 FORECAST</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q21</td>
<td>2.3%</td>
<td>4.7%</td>
</tr>
<tr>
<td>1Q21</td>
<td>4.4%</td>
<td>7.3%</td>
</tr>
<tr>
<td>1Q21</td>
<td>4.8%</td>
<td>6.9%</td>
</tr>
<tr>
<td>1Q21</td>
<td>4.2%</td>
<td>4.8%</td>
</tr>
<tr>
<td>2021</td>
<td>4.2%</td>
<td>5.7%</td>
</tr>
<tr>
<td>2021</td>
<td>3.4%</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

We’ve raised our forecast for growth for a number of reasons, but it is primarily being driven by the addition of $1.9 trillion in stimulus spending recently passed by Congress and signed into law by President Biden. You’ll note that our forecasts for Europe and China haven’t changed. Our expectations for Canada and Mexico have increased a few tenths of a percentage point, partially as a result of much stronger growth in the United States.

<table>
<thead>
<tr>
<th>2021 ECONOMIC GROWTH (GDP % Change)</th>
<th>2022 ECONOMIC GROWTH (GDP % Change)</th>
<th>2021 EXCHANGE RATE (v. USD)</th>
<th>2022 EXCHANGE RATE (v. USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNITED STATES</td>
<td>5.7%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>CANADA</td>
<td>4.9%</td>
<td>1.27</td>
<td>1.26</td>
</tr>
<tr>
<td>MEXICO</td>
<td>4.2%</td>
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</tr>
<tr>
<td>EURO AREA</td>
<td>4.4%</td>
<td>1.21</td>
<td>1.25</td>
</tr>
<tr>
<td>CHINA</td>
<td>8.4%</td>
<td>6.47</td>
<td>6.47</td>
</tr>
</tbody>
</table>

EMPLOYMENT
The February jobs report was strong, and arguably it masked some headwinds that should reverse in March. The economy added 379,000 new jobs during the month, and results from prior months were revised for a total net gain of 38,000 additional jobs. February’s job growth might have been stronger had it not been for severe weather that kept workers home. Some 897,000 workers were not at work due to bad weather during the month, the most for any February since 2010. This compares to an average of about 300,000 workers who were absent due to weather for Februarys in the last decade. The construction sector lost 61,000 jobs during the month, likely a result of bad weather. Leisure and hospitality added 355,000 jobs, though it had cut 523,000 jobs in the prior two months. We expect leisure and hospitality will add a significant amount of jobs in the coming months as that part of the economy continues to reopen.
SENTIMENT
The Consumer Sentiment Index fell in February from 79 to 76.8. But through the early weeks of March, sentiment has improved. If the preliminary reading of 83 holds, it will be the strongest reading since March 2020. Sentiment reveals the dichotomy that exists in the labor market. Half of consumers expect economic conditions to improve during the year, while half expect bad financial times to persist. All of February’s decline was driven by households with incomes below $75,000. Those who were able to retain their jobs over the last year continue to prosper. Inflation expectations for the next year have increased to 3.3 percent, up from 3 percent in January and 2.5 percent in December.

TRADE-WEIGHTED U.S. DOLLAR INDEX
The trade-weighted dollar index increased 0.5 percent in February, the first increase since April 2020. The value of the dollar is down 3.8 percent over the last year. There are a few things driving the dollar higher. The $1.9 trillion stimulus package has drastically improved the economic outlook for the year ahead. This higher growth is also pointing to higher inflation rates, which in turn has pushed up the yield on 10-year treasury bonds to pre-pandemic levels. As a result, demand for U.S. bonds has increased as interest rate differentials have closed. The rise of government bond yields likely changes our view on a weaker dollar for 2021.

MANUFACTURERS’ SENTIMENT (PMI)
The manufacturing sector expanded in February for the tenth consecutive month. The overall manufacturing PMI improved during the month as sentiment strengthened. The New Orders Index increased to 64.8, while the Production Index increased to 63.2. Manufacturers are reporting that employment is also expanding. Continued strong demand is leading to delays in the supply chain, higher prices and other constraints. Manufacturers reported supplier deliveries were slower in February. Inventories also contracted during the month. The Inventories Index contracted after four months of marginal growth. Customer inventories are also extremely low. Manufacturers also report that prices increased during the month for the ninth consecutive month. Manufacturers report rising a backlog of orders. The Backlog of Orders Index increased to 59.7, the second-highest reading since January 1993.
Industrial production fell 2.2 percent in February, the first decline in five months. Nearly every major category was down during the month — a result of severe winter weather. Look for the upward trend in industrial production to reemerge in the coming months as the impact of adverse weather is reversed. Manufacturing declined 3.1 percent in February.

**U.S. END MARKETS FOR ELECTRONICS**

**AUTOMOTIVE PRODUCTS**
Auto production declined 6.5 percent in February. Auto production is off 5.5 percent from a year ago. Some of the decline is likely a result of component shortages that are curtailing production.

**TRANSIT EQUIPMENT**
Transit equipment production decreased 6.7 percent during the month. The sector is down 8.9 percent from last year.

**INFORMATION PROCESSING & RELATED EQUIPMENT**
Production in the information processing and related equipment sector decreased 1.9 percent during the month. The sector is down 3.6 percent over the last year.

**INDUSTRIAL & OTHER EQUIPMENT**
The industrial segment fell 2.3 percent, after growing 2.2 percent in the prior month. The sector is down 5.7 percent over the last year.

**DEFENSE & SPACE EQUIPMENT**
The defense and space equipment segment decreased 0.3 percent in February, after a gain of 1.8 percent in January. The sector is roughly flat over the last year, up 0.3 percent.
Business Transit Equipment (Y/Y % Change)

Information Processing & Related Equipment (Y/Y % Change)

Industrial & Other Equipment (Y/Y % Change)

Defense & Space Equipment (Y/Y % Change)
Recovery in the industrial and manufacturing sectors slipped slightly in February, primarily related to severe weather. Overall, capacity utilization decreased to 73.8 percent in February, down from 75.5 percent. Manufacturing capacity decreased to 72.3 percent during the month. Computer and electronic product capacity slipped to 70.6 percent from 72 percent during the month. Capacity utilization in electrical equipment, appliance and components was essentially flat, decreasing 0.52 percentage points to 74. Utilization in the motor vehicles and parts sector fell sharply, dropping from 77.8 to 71.4. Finally, aerospace and miscellaneous transportation equipment sector saw utilization rates improve 0.54 percentage points to 68.5.
ECONOMIC GROWTH

Growth in the fourth quarter was revised down slightly. GDP for the European Union fell 0.5 percent during the quarter and 0.7 percent for the Euro area compared to the third quarter. For the year, GDP in the euro area fell 6.6 percent and GDP fell 6.2 percent for the European Union. Compared to the United States, GDP increased 1 percent compared to the prior quarter and decreased 2.4 percent compared to 4Q19.

The French Prime Minister announced a third lockdown for the regions most impacted by COVID-19. These regions represent about 40 percent of France’s GDP. This third lockdown closes nonessential stores and restricts travel. As a result, growth in France will be close to zero in the first quarter, roughly 5 percent below pre-pandemic levels. The lockdowns will also spill into the second quarter, impacting growth there as well.

Elsewhere in Europe, the outlook is improving somewhat. We still expect the economy to shrink in the first quarter and remain muted through much of 2021. Some countries, like the Netherlands and Germany, are closer to their pre-pandemic levels and on more solid footing. These countries tend to export more than countries like Italy and Spain that rely on inbound travelers.

The eurozone has had a rocky start to the year. While the recovery will resume in the second quarter, it will differ across countries.
EMPLOYMENT
The unemployment rate remained steady in January. In the European Union, unemployment remained at 7.3 percent, up from 6.6 percent in January 2020. In the euro area, unemployment was 8.1 percent, up from 7.4 percent in January 2020. Short-time work programs continue to secure employment and prevent much higher unemployment numbers. In Germany, some 2.39 million employees were on shortened working hours during December. The jobs recovery in Europe will be uneven. In Germany, unemployment is 4.6 percent. In the Netherlands it is 3.6 percent. On the other hand, in Spain unemployment is 16 percent.

MANUFACTURERS’ SENTIMENT (PMI)
The Eurozone manufacturing sector continues to lead the recovery. The Eurozone’s manufacturing PMI increased to 57.9 in February. This is the highest level in three years. Manufacturers remain optimistic and the industry continues to expand. According to IHS Markit, Manufacturing again dominated the output growth rankings in February, with the top six sectors all goods producing sectors. Machinery and equipment (38-month high), technology equipment (33-month high) and automobiles and auto parts (two-month high) registered the strongest growth. The headline eurozone manufacturing PMI was driven by strong output and new orders. These are being driven by the strongest rise in new export trade since January 2018. Delivery times for inputs are getting longer. February showed the second greatest deterioration in lead times since data was available 24 years ago.
E.U. END MARKETS FOR ELECTRONICS

Manufacturing output increased in the first month of the new year, rising 0.7 percent from December 2020. This January’s output was just 0.3 percent below January 2020’s output.

**COMPUTER, ELECTRONIC & OPTICAL PRODUCTS**

The electronics industry, which includes categories such as components, loaded boards, computers, communications equipment and consumer electronics, was essentially flat in January, declining 0.2 percent from December. The sector is now up 19.7 percent from last year.

**MOTOR VEHICLES**

The motor vehicle manufacturing production index declined 11 percent in January. Auto production in the European Union is off 16.6 percent from a year ago.

**AIR & SPACECRAFT & RELATED MACHINERY**

The air and spacecraft manufacturing sector continues to struggle. Not surprising given the collapse in air travel. But production did increase in January, rising 2.6 percent from December. The sector remains down significantly, off 22 percent from last year. The category is looking at a prolonged recovery.

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**E.U. Manufacturing Output**

**E.U. Manufacture of Motor Vehicles**

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European Union Manufacturing Output (Y/Y % Change)
12 per. Mov. Avg.

European Union Manufacture of Motor Vehicles (Y/Y % Change)
12 per. Mov. Avg.
E.U. Manufacture of Computer, Electronic & Optical Products (Y/Y % Change)

![Graph showing the change in European Union Manufacture of Computer, Electronic & Optical Products from 2007 to 2021.]

- European Union Manufacture of computer, electronic and optical products (Y/Y % Change)
- 12 per. Mov. Avg.

E.U. Manufacture of Air & Spacecraft & Related Machinery (Y/Y % Change)

![Graph showing the change in European Union Manufacture of Air & Spacecraft & Related Machinery from 2007 to 2021.]

- European Union Manufacture of air and spacecraft and related machinery (Y/Y % Change)
- 12 per. Mov. Avg.