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MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE – June 22, 2020 – SHARE

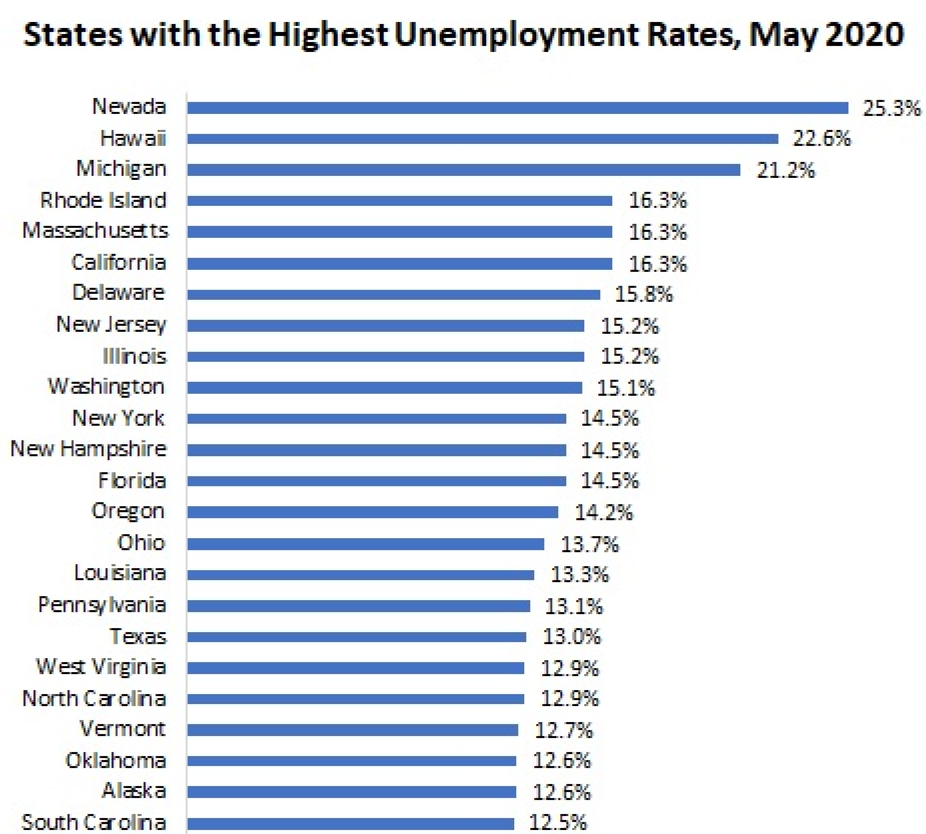
Rebound Could Be First Step to Recovery

The Weekly Toplines

- Several reports out last week reflect a bounce back in activity, which is encouraging and another sign that the worst of the downturn might be behind us. Yet, the data also suggest that there is still a long way to go to get back to pre-recessionary levels.
    - After declining 5.3% and 15.5% in March and April, respectively, manufacturing production rebounded somewhat, rising 3.8% in May. On a year-over-year basis, manufacturing production has declined 16.5%, with durable and nondurable goods output down 23.3% and 9.2%, respectively. Manufacturing capacity utilization was 60% in April, the lowest rate in the data's history, which dates to January 1948, and in May, it edged up to 62.2%. It was 75.1% in February.
    - Regional manufacturing surveys from the New York and Philadelphia Federal Reserve Banks reflect some stabilization in new orders and shipments in the sector after plummeting in the prior two months, even as hiring remained weak in both districts. Manufacturers feel optimistic for continued expansion over the next six months.
    - Consumer spending at retailers jumped 17.7% in May, rebounding strongly after declining 8.2% and 14.7% in March and April, respectively. This suggests that Americans returned to stores to make purchases after stay-at-home orders sent sales plummeting. Even with solid growth in May, retail sales have fallen 6.1% over the past 12 months, with a decline of 3.9% year-over-year excluding automobiles and gasoline.
    - After declining to the slowest pace since February 2015 in April, new residential construction rose 4.3% in May, with the housing market stabilizing somewhat. On a year-over-year basis, new housing starts have dropped 23.2% from 1,268,000 units in May 2019, with single-family and multifamily activity down 17.8% and 33.1% over the past 12 months, respectively.

- Meanwhile, housing permits jumped by an annualized 14.4% to 1,220,000 units in May. Since permits are a proxy of future activity, the data are encouraging, providing some cautious optimism that the housing market will continue to recover over the coming months. Builders feel more upbeat in their expectations for single-family sales over the next six months, particularly with mortgage rates hitting an all-time low last week.

- The labor market has steadied somewhat, but the data continue to reflect significant economic hardships for many Americans, with historically elevated rates of unemployment nationally and in most states.
  - Initial unemployment claims decelerated for the 11th straight week, but with 1,508,000 claims for the week ending June 13, the pace remains frustratingly high. For the week ending June 6, there were 20,544,000 Americans receiving unemployment insurance, or 14.1% of the workforce.
  - With the motor vehicle sector coming back online, Michigan created the most net new manufacturing jobs in May, adding 33,700 workers. Yet, it was also among the states experiencing the greatest declines in manufacturing employment since the recession began in February.
  - Nevada had more than one-quarter of its workforce (25.3%) unemployed in May, the highest in the country but down from 30.1% in April. At the other end of the spectrum, Nebraska (5.2%) had the lowest unemployment rates nationally in May.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, June 15
New York Fed Manufacturing Survey

Tuesday, June 16
Industrial Production
NAHB Housing Market Index
Retail Sales

Wednesday, June 17
Housing Starts and Permits

Thursday, June 18
Conference Board Leading Indicators
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, June 19
State Employment Report

This Week's Indicators:

Monday, June 22
Chicago Fed National Activity Index
Existing Home Sales
IHS Markit Flash U.S. Manufacturing PMI

Tuesday, June 23
New Home Sales

Wednesday, June 24
None

Thursday, June 25
Durable Goods Orders and Shipments
Gross Domestic Product (First Quarter, Second Revision)
International Trade in Goods (Preliminary)
Kansas City Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, June 26
Personal Consumption Expenditures Deflator
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision)

Deeper Dive

- **Conference Board Leading Indicators:** After falling by 7.5% and 6.6% in March and April, respectively, the Leading Economic Index rose modestly, up 2.8% in May. Labor market variables helped to lift the LEI in May, with improvements in the average workweek and for initial weekly unemployment claims. Other positive contributors for the month included better building permits, the interest rate spread and stock prices. In contrast, new manufacturing orders continued to be a drag on the LEI, albeit less than in the previous two months, with consumer confidence and lending conditions also pulling the headline index somewhat lower.

  Meanwhile, the Coincident Economic Index also rebounded, up 1.1% in May after dropping by 2.2% and 10.1% in March and April, respectively. The unexpectedly strong nonfarm payroll data in May, along with the increase in industrial production (see below), helped to lift the CEI for the month. At the same time, the other two components—manufacturing and trade sales and personal income less transfer payments—both weighed on current economic conditions. (Note that personal income soared 10.5% in April, spurred by government assistance checks to combat the COVID-19 crisis, but employee compensation declined 7.7%. May data will be released on June 26.)

- **Housing Starts and Permits:** After declining to the slowest pace since February 2015 in April, new residential construction rose 4.3% in May, with the housing market stabilizing somewhat, even as activity remains well below the pace seen prior to the COVID-19 pandemic. Housing starts increased from 934,000 units at the annual rate in April to 974,000 units in May, spurred higher by more multifamily unit construction, up 15% for the month from 260,000 units to 299,000 units. At the same time, new single-family housing starts edged up from 674,000 units to 675,000 units in May. On a year-over-year basis, new housing starts have dropped 23.2% from 1,268,000 units in May 2019, with single-family and multifamily activity down 17.8% and 33.1% over the past 12 months, respectively.

  Meanwhile, housing permits jumped by an annualized 14.4%, up from 1,066,000 units in April to 1,220,000 units in May. Since permits are a proxy of future activity, the data are encouraging, providing some cautious optimism that the housing market will continue to recover over the coming months. Builders feel more upbeat in their expectations for single-family sales over the next six months, particularly with mortgage rates hitting an all-time low last week.

  In the latest data, single-family permits increased from 666,000 units in April to 745,000 units in May, and multifamily activity rose from 400,000 units to 475,000 units. Despite bouncing back somewhat in May, housing permits remained 8.8% below the pace seen one year ago, which was 1,338,000 units. In addition, single-family and multifamily permits were down 9.9% and 7% year-over-year, respectively.

- **Industrial Production:** After declining 5.3% and 15.5% in March and April, respectively, manufacturing production rebounded somewhat, rising 3.8% in May. In the latest data, durable and nondurable goods production jumped 5.8% and 2.1%, respectively. While the data showed steps in the right direction, it remains clear that manufacturers continue to grapple with the global COVID-19 pandemic, even as firms start to resume activity. Output in the sector had fallen to the lowest level since June 1998 in April, and it will take a while for manufacturing production to get back to pre-recession levels. On a year-over-year basis, manufacturing production has declined 16.5%, with durable and nondurable goods output down 23.3% and 9.2%, respectively.

  Manufacturing capacity utilization was 60% in April, the lowest rate in the data's history, which dates to January 1948, and in May, it edged up to 62.2%. It was 75.1% in February.

Sharp turnarounds in production occurred in many manufacturing sectors, with the most notable shift occurring in motor vehicles and parts, which had output soar 120.8% in May. Other sectors with significant monthly increases in production included apparel and leather (up 20%), textile and product mills (up 10.9%), plastics and rubber products (up 9.6%), furniture and related products (up 9.4%), printing and support (up 9%), nonmetallic mineral products (up 8.9%) and aerospace and miscellaneous transportation equipment (up 8.1%), among others. At the same time, primary metals (down 4.8%), electrical equipment, appliances and components (down 2%) and machinery (down 1.2%) production continued to struggle in May.

It is important to note that, even with gains in output in the latest release, all 19 major sectors in manufacturing still have declines in production on a year-over-year basis, with many experiencing very sharp decreases since May 2019. For instance, over the past 12 months, motor vehicles and parts production has fallen 62.8%. Other segments with sharp year-over-year decreases in output include primary metals (down 30.5%), aerospace and miscellaneous transportation equipment (down 26.7%), apparel and leather (down 24.9%), machinery (down 24.8%), printing and support (down 22.9%), textile and product mills (down 21.5%), furniture and related products (down 21.2%) and petroleum and coal products (down 20.3%).

Meanwhile, total industrial production rose 1.4% in May, recovering a bit of the 4.6% and 12.5% declines in March and April, respectively. While manufacturing production increased, both mining and utilities output fell, down 6.8% and 2.3%, respectively, in May. Over the past 12 months, industrial production has dropped 15.3%. Total capacity utilization increased from a record low 64% in April to 64.8% in May.

- **NAHB Housing Market Index:** The National Association of Home Builders and Wells Fargo reported that confidence improved significantly in June, rising for the second straight month after dropping to the lowest level since June 2012 in April. The Housing Market Index has risen from 30 in April, to 37 in May, to 58 in June. HMI data exceeding 50 suggest that more builders feel positive in their outlook than negative. NAHB Chief Economist Robert Dietz noted the renewed optimism and “momentum” in the housing market, but he also warned that “…elevated unemployment and the risk of new, local virus outbreaks remain a risk to the housing market.” Nonetheless, low mortgage rates should help to boost construction demand.

  The Housing Market Index improved in every region of the country, and the index for single-family home sales over the next six months increased from 46 to 68. That suggests builders feel upbeat about increased sales moving forward. With that said, the index for current prospective buyer traffic remained weaker than desired, despite rising from 21 to 43.

- **New York Fed Manufacturing Survey:** Manufacturing activity in the New York Federal Reserve Bank’s district stabilized, with the composite index of business conditions increasing from -48.5 in May to -0.2 in June. The index for new orders continued to decline, but at a dramatically slower rate, up from -42.4 to -0.6, and the percentage of respondents suggesting that sales rose in the month doubled from 17.8% to 35.3%, albeit with 36% still citing declining demand. Hiring and the number of hours worked also eased in their rates of decline for the month. In June, shipments expanded slightly for the first time since February. In addition, selling prices also steadied despite being negative for the third straight month.

Meanwhile, manufacturers in the Empire State Manufacturing Survey feel very positive that activity would rebound over the next six months. The forward-looking composite index jumped from 29.1 to 56.5 in this release, the best reading since October 2009. More than 65%, for instance, expected new orders and shipments to rise moving forward, with 35% anticipating more employment. Respondents also predicted capital spending to expand modestly over the coming months, after two months of declines.

- **Philadelphia Fed Manufacturing Survey:** Manufacturing activity in June rebounded strongly, suggesting some stabilization for survey respondents in the Philadelphia Federal Reserve's district after struggling mightily from the COVID-19 pandemic in March, April and May. The composite index had dropped to the worst reading since July 1980 in April, but has improved since then, rising from -56.6 in April, to -43.1 in May, to 27.5 in June. It was the first expansion in activity since February, led by strength in new orders and shipments. The labor market variables remained weak, but the rates of decline for hiring and the average employee workweek both slowed.

  The forward-looking index rose from 49.7 in May to 66.3 in June, the best reading in 28 years. This suggests that manufacturers in the Philly Fed's district feel optimistic about a healthy rebound in activity over the next six months. For instance, 76.4% expect orders to rise over the coming months, with 8.5% predicting declines. Similarly, 36.4% and 37.4% see higher employment and capital spending, respectively, in their forecasts for the next six months. On the other hand, firms do anticipate a bounce back in pricing pressures, which have declined in recent months.

- **Retail Sales:** Consumer spending at retailers jumped 17.7% in May, rebounding strongly after declining 8.2% and 14.7% in March and April, respectively. This suggests that Americans returned to stores to make purchases after stay-at-home orders sent sales plummeting. The swings in activity over the past two months—both the decrease in April and the increase in May—have been record-setting and the largest monthly changes since the series began in 1992.

  The pickups in retail spending in May were extraordinary, with the largest increases in businesses that were likely closed in April but had started to reopen in the latest figures. This included very large gains for clothing and accessories stores (up 188%), furniture and home furnishings (up 89.7%), sporting goods and hobby stores (up 88.2%), electronics and appliance stores (up 50.5%), motor vehicle and parts dealers (up 44.1%), department stores (up 36.9%) and food services and drinking places (up 29.1%). Excluding motor vehicles and gasoline, retail sales rose 12.4% for the month.

Even with solid growth in May, retail sales have fallen 6.1% over the past 12 months, with a decline of 3.9% year-over-year excluding automobiles and gasoline.

Nonstore retailers continue to be a major bright spot, with sales up 9% in May as Americans purchased more online. This exacerbated the consumer dynamics seen in recent years, with retail shifting from brick-and-mortar stores to online retailers. Along those lines, sales for nonstore retailers have soared 30.8% year-over-year, whereas department store sales have declined sharply, down 25.8% over the past 12 months.

- **State Employment Report:** With the motor vehicle sector coming back online, Michigan created the most net new manufacturing jobs in May, adding 33,700 workers. Other states with notable employment growth for the month included Pennsylvania (up 24,600), Tennessee (up 20,300), Ohio (up 19,000), New Jersey (up 18,500) and Indiana (up 18,100).

  Even with better data in May, there continue to be sizable declines in manufacturing employment due to COVID-19. Since February, the states with the largest job decreases in the sector included Michigan (down 147,100), California (down 116,700), Ohio (down 78,300), New York (down 67,800), Indiana (down 66,700) and Pennsylvania (down 51,100).

  The national unemployment rate declined from 14.7% in April to 13.3% in May, and many states continued to have jaw-dropping paces of unemployment. Nevada had more than one-quarter of its workforce (25.3%) unemployed in May, the highest in the country but down from 30.1% in April. Hawaii (22.6%), Michigan (21.2%), California (16.3%), Massachusetts (16.3%) and Rhode Island (16.3%) also topped the list. At the other end of the spectrum, Nebraska (5.2%) had the lowest unemployment rate nationally in May, followed by Utah (8.5%), Wyoming (8.8%), Arizona (8.9%), the District of Columbia (8.9%) and Idaho (8.9%).

- **Weekly Initial Unemployment Claims:** There were 1,508,000 initial unemployment claims for the week ending June 13, down slightly from the 1,566,000 claims added for the week ending June 6. Since peaking at 6,867,000 for the week ending March 28, initial claims have continued to decelerate, but the data continue to suggest a highly elevated level of unemployment in the U.S. economy. Over the past 13 weeks, 45,741,000 Americans filed for unemployment insurance, illustrating dire conditions in the labor market as the nation grapples with both the COVID-19 pandemic and a global recession. Seven states had at least 50,000 initial unemployment claims in the past week: California, Florida, Georgia, New York, Oklahoma, Pennsylvania and Texas.

Meanwhile, continuing claims declined from 20,606,000 for the week ending May 30 to 20,544,000 for the week ending June 6 in this report, with 14.1% of the workforce receiving unemployment insurance for the week.

Upcoming Webinar

- **"State of the Industry: The Impact of COVID-19 on the Economy"**
  Tuesday, June 23
  1:00 p.m. – 2:00 p.m. EDT
  Click here to register.

  Panelists:

  - Graham Immerman, Vice President of Marketing, MachineMetrics (moderator)
  - Chad Moutray, Chief Economist, NAM
  - Jerry Foster, Chief Technology Officer, Plex Systems, Inc.
  - Lou Zhang, Chief Data Scientist, MachineMetrics

  The COVID-19 outbreak has caused widespread concern and economic hardship for consumers, businesses and communities around the world. The situation is fast moving, with widespread impacts. One thing is for certain—it has and will continue to have global economic and financial ramifications that will be felt throughout the manufacturing industry. So, how has COVID-19 affected the near-term global manufacturing supply chain today? How will it be affected moving forward? How do we reshape and rebuild an industry to be both more sustainable and resilient for the future? This webinar will highlight economic trends in the manufacturing sector, along with the U.S. and global outlook.

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