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MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE – July 20, 2020– SHARE

Manufacturing Production Rose 7.2% in June, but Is Down 11.2% Year-Over-Year

The Weekly Toplines

- Manufacturing production rebounded for the second straight month, rising by 3.8% and 7.2% in May and June, respectively. In June, all 19 major manufacturing sectors had increases in production, as the industry attempts to recover from steep declines since February. Yet, it will take a while for output to get back to prerecession levels. On a year-over-year basis, manufacturing production has declined 11.2%, with durable and nondurable goods output down 14.3% and 7.4%, respectively.
- Manufacturing capacity utilization registered 60.0% in April, the lowest rate in the data's history, which dates to January 1948, and it increased to 62.3% in May and 66.9% in June. It registered 75.2% in February.
- Regionally, manufacturers in the New York and Philadelphia Federal Reserve Bank districts both reported expanding activity in July, with rebounding new orders and employment. Respondents also felt positive about growth over the next six months.
- With the motor vehicle sector continuing to come back online, Michigan created the most net new manufacturing jobs in June. Other states with notable employment growth for the month included Ohio, Kentucky, California, Illinois and Indiana. Even with better data in May and June, however, there continue to be sizable declines in manufacturing employment due to COVID-19.
- Consumer spending at retailers rose 7.5% in June, extending the robust 18.2% gain in May. This suggests that Americans have continued to return to stores to make purchases after stay-at-home orders sent sales plummeting. With that said, the July data will be closely watched, as further expansion of the COVID-19 virus has led to renewed restrictions and closures in some areas of the

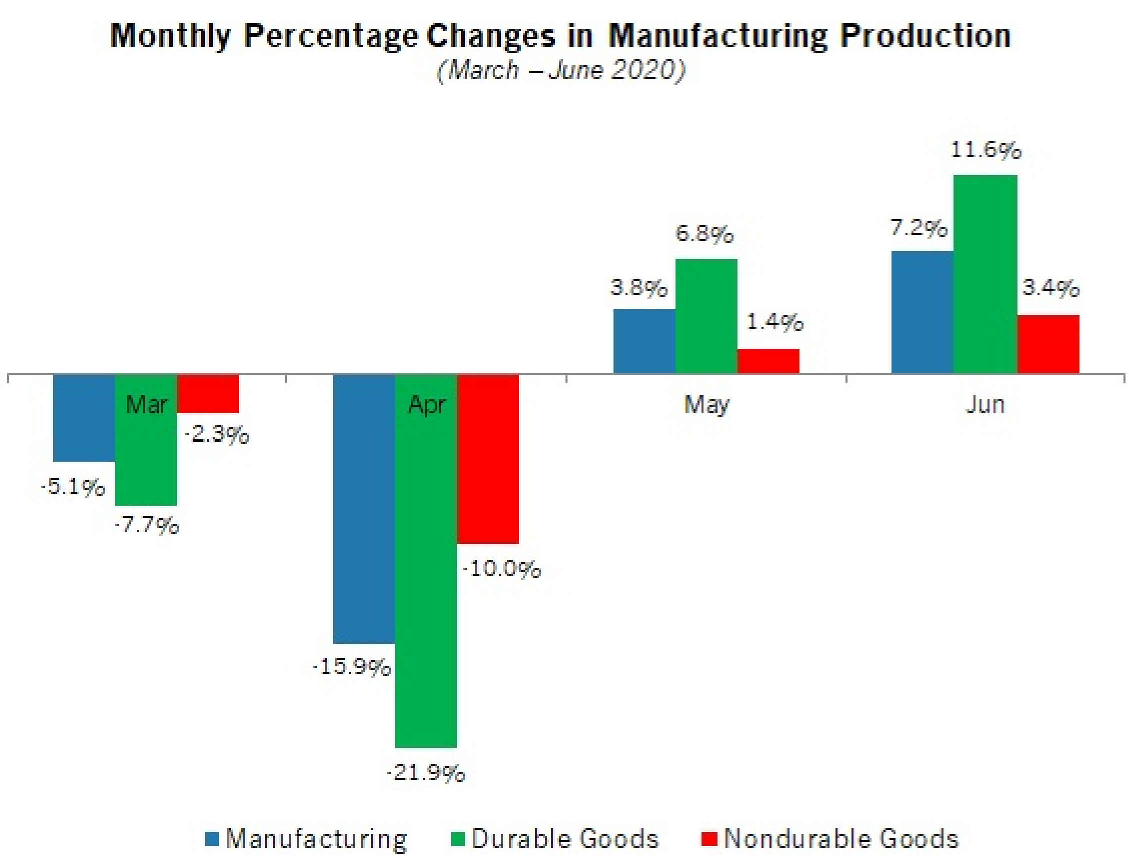
country, which could lead to reduced demand and increased hesitance for many consumers.

- Along those lines, consumer confidence dipped in July as Americans "reassess the likely economic impact from the coronavirus on their personal finances and on the overall economy."

- New residential construction soared 17.3% in June, and the housing market is showing signs of life after plummeting dramatically in April to the slowest pace since February 2015. This was buoyed by mortgage rates, which hit another all-time low last week, falling below 3% for the first time ever. However, new housing starts remain 4% lower than one year ago.

- Meanwhile, housing permits increased modestly to a three-month high, pointing to stronger growth in the housing market over the coming months, albeit at a rate well below from earlier in the year. For their part, builders also feel more upbeat in their expectations for single-family sales over the next six months, with the outlook returning to pre-pandemic levels.

- Consumer prices jumped 0.6% in June, led by higher prices for energy and food. Excluding food and energy, consumer prices increased 0.2% for the month. Overall, even with higher consumer costs in June, the data continue to reflect deflationary effects in the economy due to the COVID-19 outbreak and a global recession. Core inflation has risen 1.2% since June 2019, the same rate as in May and remaining the lowest since March 2011.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, July 13
None

Tuesday, July 14
Consumer Price Index
NFIB Small Business Survey

Wednesday, July 15
Industrial Production
New York Fed Manufacturing Survey

Thursday, July 16
NAHB Housing Market Index
Philadelphia Fed Manufacturing Survey
Retail Sales
Weekly Initial Unemployment Claims

Friday, July 17
Housing Starts and Permits
State Employment Report
University of Michigan Consumer Sentiment

This Week's Indicators:

Monday, July 20
None

Tuesday, July 21
Chicago Fed National Activity Index

Wednesday, July 22
Existing Home Sales

Thursday, July 23
Conference Board Leading Indicators
Weekly Initial Unemployment Claims

Friday, July 24
IHS Markit Flash U.S. Manufacturing PMI
New Home Sales

Deeper Dive

- **Consumer Price Index:** Consumer prices jumped 0.6% in June, bouncing back from three months of declines and the fastest monthly increase since August 2012. Energy and food prices rose in June, up 5.1% and 0.6%, respectively, with gasoline costs soaring 12.3% for the month. At the same time, energy prices remain 12.6% lower than one year ago, whereas food costs have risen 4.5% year-over-year. Excluding food and energy, consumer prices increased 0.2% for the month, inching higher for the first time since February. Increased prices for apparel, household furnishings and supplies, medical care, shelter and transportation services were more than enough to offset declining costs for used cars and trucks.

  Over the past 12 months, the consumer price index has risen by a seasonally adjusted 0.7%, up from 0.2% in May, which was the slowest year-over-year pace since October 2015. Meanwhile, core inflation (which excludes food and energy) has risen 1.2% since June 2019, the same rate as in May and remaining the lowest since March 2011. Overall, even with higher consumer costs in June, the data continue to reflect deflationary effects in the economy due to the COVID-19 outbreak and a global recession.

- **Housing Starts and Permits**: New residential construction soared 17.3% in June, extending the 8.2% increase in May, with housing starts rising from 1,011,000 units at the annual rate in May to 1,186,000 units in June. Overall, the housing market is showing signs of life after plummeting dramatically in April to the slowest pace since February 2015, buoyed by mortgage rates, which hit another all-time low last week, falling below 3% for the first time ever. In June, new single-family construction rose sharply, up from 709,000 units to 831,000 units, with multifamily activity also increasing dramatically, up from 302,000 units to 355,000 units.

  Despite the progress over the past two months, new housing starts remain 4% lower than one year ago, with 1,235,000 units being constructed in June 2019. More importantly, new residential construction is well below the January pace of 1,617,000 units, which had been the best since December 2006.

  Meanwhile, housing permits increased modestly, up 2.1% from an annualized 1,216,000 units in May to 1,241,000 units in June, a three-month high. Since permits are a proxy of future activity, the data continue to point to stronger growth in the housing market over the coming months, albeit at a rate well below from earlier in the year. For their part, builders also feel more upbeat in their expectations for single-family sales over the next six months (see below).

  In the latest data, single-family permits rose from 746,000 units in May to 834,000 units in June, but multifamily permitting fell from 470,000 units to 407,000 units. The latter tends to be more volatile from month to month, making the increase in single-family permits more important from a trend perspective. On a year-over-year basis, housing permits remained 2.5% below the pace seen one year ago, which was 1,273,000 units, with single-family and multifamily permits down 1.1% and 6.3% over the past 12 months, respectively.

- **Industrial Production**: Manufacturing production rebounded for the second straight month, rising by 3.8% and 7.2% in May and June, respectively. Durable and nondurable goods production jumped 11.6% and 3.4% in June, respectively, extending the 6.8% and 1.4% gains in May. While the data showed steps in the right direction, manufacturers continue to grapple with the global COVID-19 pandemic, even as firms have resumed activity in the past two months. 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 prerecession levels. On a year-over-year basis, manufacturing production has declined 11.2%, with durable and nondurable goods output down 14.3% and 7.4%, respectively.

  Manufacturing capacity utilization registered 60.0% in April, the lowest rate in the data's history, which dates to January 1948, and it increased to 62.3% in May and 66.9% in June. It registered 75.2% in February.

In June, all 19 major manufacturing sectors had increases in production, as the industry attempts to recover from steep declines since February. Sharp turnarounds in production occurred in many manufacturing sectors, with the most notable shift occurring in motor vehicles and parts, which saw output soar by 120% in May and 105% in June. Other sectors with significant monthly increases in production in June included apparel and leather (up 10.3%), miscellaneous durable goods (up 10.2%), plastics and rubber products (up 8.7%), machinery (up 6.4%), computer and electronic products (up 5.6%), furniture and related products (up 5.3%), textile and product mills (up 4.7%), aerospace and miscellaneous transportation equipment (up 4.5%) and petroleum and coal products (up 4.3%), among others.

Even with gains in output in the latest release, all but one of the 19 major sectors in manufacturing still have declines in production on a year-over-year basis, with computer and electronic products being the only exception (up 2% since June 2019). The largest year-over-year declines occurred in the following sectors: primary metals (down 27.3%), motor vehicles and parts (down 24.6%), aerospace and miscellaneous transportation equipment (down 23.7%), printing and support (down 19.4%), textile and product mills (down 17.0%), petroleum and coal products (down 16.7%), machinery (down 15.8%), plastics and rubber products (down 15.2%), apparel and leather (down 14.9%) and furniture and related products (down 14.0%).

Meanwhile, total industrial production rose 5.4% in June, extending the 1.4% increase in May. In addition to manufacturing, utilities production also increased, up 4.2% for the month, but output in the mining sector fell for the fifth straight month, off 2.9% in June. Over the past 12 months, industrial production has dropped 10.8%. Total capacity utilization increased from a record low 64.2% in April to 65.1% and 68.6% in May and June, respectively. It registered 76.9% in February.

- **NAHB Housing Market Index:** The National Association of Home Builders and Wells Fargo reported that confidence returned to where it was in March before the COVID-19 pandemic pulled sentiment dramatically lower. The Housing Market Index has risen from 30 in April, to 37 in May, to 58 in June, to 72 in July. HMI data exceeding 50 suggest that more builders feel positive in their outlook than negative. NAHB Chief Economist Robert Dietz noted that the renewed housing market has been fueled by historically low mortgage rates despite rising construction costs and high unemployment rates.

  The Housing Market Index improved in every region of the country, and the index for single-family home sales over the next six months has increased from 68 to 75, matching the level in March. That suggests builders feel upbeat about increased sales moving forward.

- **New York Fed Manufacturing Survey:** After falling for four straight months, manufacturing activity expanded in the New York Federal Reserve Bank's district, with the composite index of business conditions increasing from -0.2 in

June to 17.2 in July, the best reading since November 2018. Growth in new orders and employment were positive once again, with shipments activity accelerating and building on the gains in June. The average employee workweek narrowed for the sixth consecutive month, albeit stabilizing with a slower pace of decline. On the other hand, inventories deteriorated further in July, with reduced stockpiles for the fourth straight month.

Meanwhile, manufacturers in the Empire State Manufacturing Survey remain positive about stronger activity over the next six months, but with less optimism than in the June survey. The forward-looking composite index pulled back from 56.5, the highest reading since October 2009, to a still elevated 38.4. More than 55% expect new orders and shipments to rise moving forward, with 33.6% and 28.6% anticipating more employment and capital spending, respectively.

- **NFIB Small Business Survey:** The National Federation of Independent Business reported that the Small Business Optimism Index exceeded 100—traditionally consistent with growth in the sector—in June for the first time since February, even as small business owners remained anxious in their outlook. The headline index rose from 94.4 in May to 100.6 in June, but that continued to be lower than the 104.5 reading in February. The percentage of respondents saying the next three months are a "good time to expand" increased from 5% in May to 13% in June, equaling March's rate but half of the 26% who said the same thing in February. This reflects just how much things have changed since then, even with some progress in June.

  A net 13% of small business owners expect sales to rise over the next three months, bouncing back from April's -42% reading, which was the lowest in the survey's 46-year history. Yet, poor sales remained one of the top concerns among respondents, with 17% citing it as the "single most important problem." The top responses included taxes and insufficient labor, both with 19%, reflecting political uncertainty and lingering workforce challenges.

  Along those lines, the rate of owners planning to hire in the next three months doubled from 8% to 16%. In addition, 32% of respondents had job openings in June, up from 23% in May, which was the lowest since September 2014 and below the 38% seen in February. Meanwhile, capital spending was softer than desired. In June, 48% of small firms have made an investment over the past three months, down from 52% in the previous survey and off from the 58% average over the past 12 months. The percentage of respondents planning to make a capital investment over the next three to six months rose from 20% to 22%, inching closer to the 26% average over the past year.

- **Philadelphia Fed Manufacturing Survey:** Manufacturing activity expanded strongly for the second straight month in July, with the sector rebounding after struggling mightily in March, April and May due to the COVID-19 pandemic. The composite index declined from 27.5 in June to 24.1 in July, but with an acceleration in new orders and bounce backs in employment and the average employee workweek. Nearly 47% of respondents said sales had risen in July, with 23.7% citing declines and 29.4% saying orders were flat for the month. At the same time, shipments slowed somewhat, and inventories declined once again.

The forward-looking index pulled back after notching the best reading in 28 years, dropping from 66.3 in June to 36.0 in July. Yet, manufacturers in the district remained very positive in their outlook, with business leaders expecting the sector to continue rebounding in the coming months. For instance, two-thirds of respondents expect orders to rise over the next six months, with 10.4% predicting declines. Similarly, 36.8% and 33.0% see higher employment and capital spending, respectively, in their forecasts for the second half of this year.

- **Retail Sales:** Consumer spending at retailers rose 7.5% in June, extending the robust 18.2% gain in May. This suggests that Americans have continued to return to stores to make purchases after stay-at-home orders sent sales plummeting. The rebound in retail spending in May and June has been extraordinary and record-setting, but so were the declines in April. Over the past 12 months, retail spending has risen 1.1%, a major turnaround after being down 19.9% and 5.6% year-over-year in April and May, respectively. With that said, the July data will be closely watched, as further expansion of the COVID-19 virus has led to renewed restrictions and closures in some areas of the country, which could lead to reduced demand and increased hesitance for many consumers.

  In June, the largest increases in retail sales occurred in segments that were reopening after being closed or had limited their operations in prior months. This included very large gains for clothing and accessory stores (up 105.1%), electronics and appliance stores (up 37.4%), furniture and home furnishing stores (up 32.5%), sporting goods and hobby stores (up 26.5%), food services and drinking places (up 20.0%), department stores (up 19.8%), miscellaneous store retailers (up 17.7%), gasoline stations (up 15.3%, mostly reflecting higher prices) and motor vehicle and parts dealers (up 8.2%). Excluding autos and gasoline stations, retail sales rose 6.7% in June, adding to the 12.1% increase in May.

  In contrast, less spending in June occurred for nonstore retailers (down 2.4%), grocery stores (down 1.6%) and building material and garden supply stores (down 0.3%)—categories that had benefited disproportionately during the COVID-19 pandemic in the spring months.

  Along those lines, the bright spots on a year-over-year basis included nonstore retailers (up 23.5%), sporting goods and hobby stores (up 20.6%), building material and garden supply stores (up 17.3%), food and beverage stores (up 12.4%) and motor vehicle and parts dealers (up 7.5%). At the other end of the spectrum, food services and drinking places (down 26.3%), clothing and accessory stores (down 23.2%), gasoline stations (down 19.1%), electronics and appliance stores (down 12.7%) and department stores (down 10.6%) led the declines in retail sales over the past 12 months.

- **State Employment Report:** With the motor vehicle sector continuing to come back online, Michigan created the most net new manufacturing jobs in June, adding 78,600 workers. Other states with notable employment growth for the month included Ohio (up 28,900), Kentucky (up 26,500), California (up 23,400), Illinois (up 19,000) and Indiana (up 17,800).

  Even with better data in May and June, 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 California (down 97,800), Michigan (down 69,100), New York (down 51,600), Indiana (down 46,400) and Ohio (down 42,300).

  The national unemployment rate declined from 13.3% in May to 11.1% in June, and the unemployment rate fell in 42 states in June. Yet, the job loss continued to be extraordinary, especially relative to what was seen earlier in the year. Massachusetts had the highest unemployment in the country at 17.4%, followed by New Jersey (16.6%), New York (15.7%), Nevada (15.0%), California (14.9%), Michigan (14.8%) and Illinois (14.6%). At the other end of the spectrum, the lowest unemployment rates in the United States in June occurred in Kentucky (4.3%), Utah (5.1%), Idaho (5.6%), North Dakota (6.1%), Maine (6.6%), Oklahoma (6.6%) and Nebraska (6.7%).

- **University of Michigan Consumer Sentiment:** Consumer confidence dipped from 78.1 in June to 73.2 in July, pulling back after rising for two straight months, according to preliminary data from the University of Michigan and Thomson Reuters. Americans felt less upbeat about both the current economic environment and the outlook. Richard Curtin, chief economist for the Surveys of Consumers, noted, “Following the steepest two-month decline on record, it is not surprising that consumers need some time to reassess the likely economic impact from the coronavirus on their personal finances and on the overall economy.”

  Overall, the headline index remains well below the levels seen before the COVID-19 outbreak, with a reading of 101.0 in February. Respondents to the latest survey continue to express a record high level of uncertainty regarding the future of the economy, especially with the pandemic continuing to spread.

- **Weekly Initial Unemployment Claims:** The week ending July 11 saw 1,300,000 initial unemployment claims, little changed from the 1,310,000 claims added for the week ending July 4. Initial claims have continued to decelerate since peaking at 6,867,000 for the week ending March 28, but they remain highly elevated.

  Meanwhile, continuing claims declined from 17,760,000 for the week ending June 27 to 17,338,000 for the week ending July 4. In the latest data, 11.9% of the workforce received unemployment insurance, down from 12.2% in the previous report.

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