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MONDAY ECONOMIC REPORT

Real GDP Surpasses Pre-Pandemic Levels in Q2

August 2, 2021

The Weekly Toplines

This past week, economic data have confirmed the ongoing trends within the U.S. manufacturing sector and overall economy. Demand remains strong, but supply chain and labor-related factors continue to constrain growth. Please see a summary of these releases below, with a deeper dive on the most important economic releases following.

- In the second quarter of 2021, real gross domestic product grew 6.5% at an annualized rate, or 12.2% against the second quarter of 2020, according to the initial estimate of the Bureau of Economic Analysis. This marked the first quarter when real GDP surpassed the pre-pandemic level achieved in Q4 2019.

- Durable goods orders and shipments remained strong in the month of June. Durable goods orders rose 0.8% in June versus May, while shipments rose 1.0% in June versus May. Durable goods orders have risen a remarkable 13 of the last 14 months, and in June, they surpassed their pre-pandemic high reached in March 2019. Capital goods orders excluding defense and aircraft grew 0.5% in June versus May to also reach a new all-time high.

- Preliminary international trade figures for June showed that exports grew only 0.3% versus May, while imports rose 1.5%. The monthly trade deficit grew to more than $91 billion in June. Both imports and exports rose significantly versus this time last year.

- At its two-day meeting last week, the Federal Reserve's Federal Open Market Committee left the benchmark federal funds rate unchanged at a target range of 0% to 0.25%. The FOMC also maintained the current pace of asset purchases at $120 billion per month. The FOMC noted progress on reaching its inflation and employment goals but indicated it would need to see further progress in the coming months before tapering its rate of bond purchases.

- New single-family home sales for June came in at a seasonally adjusted annual rate of 676,000 units. June sales were at their lowest rate in 14 months and 19% lower than in June 2020. Pandemic-related fiscal and monetary stimuli helped boost recent demand for housing. However, the supply side has lagged, resulting in a shortage of homes for sale and rising prices, which contributed to this deceleration in new home sales.

- According to a survey by the Federal Reserve Bank of Dallas, manufacturing activity held up at strong levels in July, despite ongoing supply constraints. The production index from the Texas Manufacturing Outlook Survey was up from 29.4 points in the previous month to 31.0 points in July. This result was above the year-to-date average of 26.1 points and surpassed historical averages by wide margins.

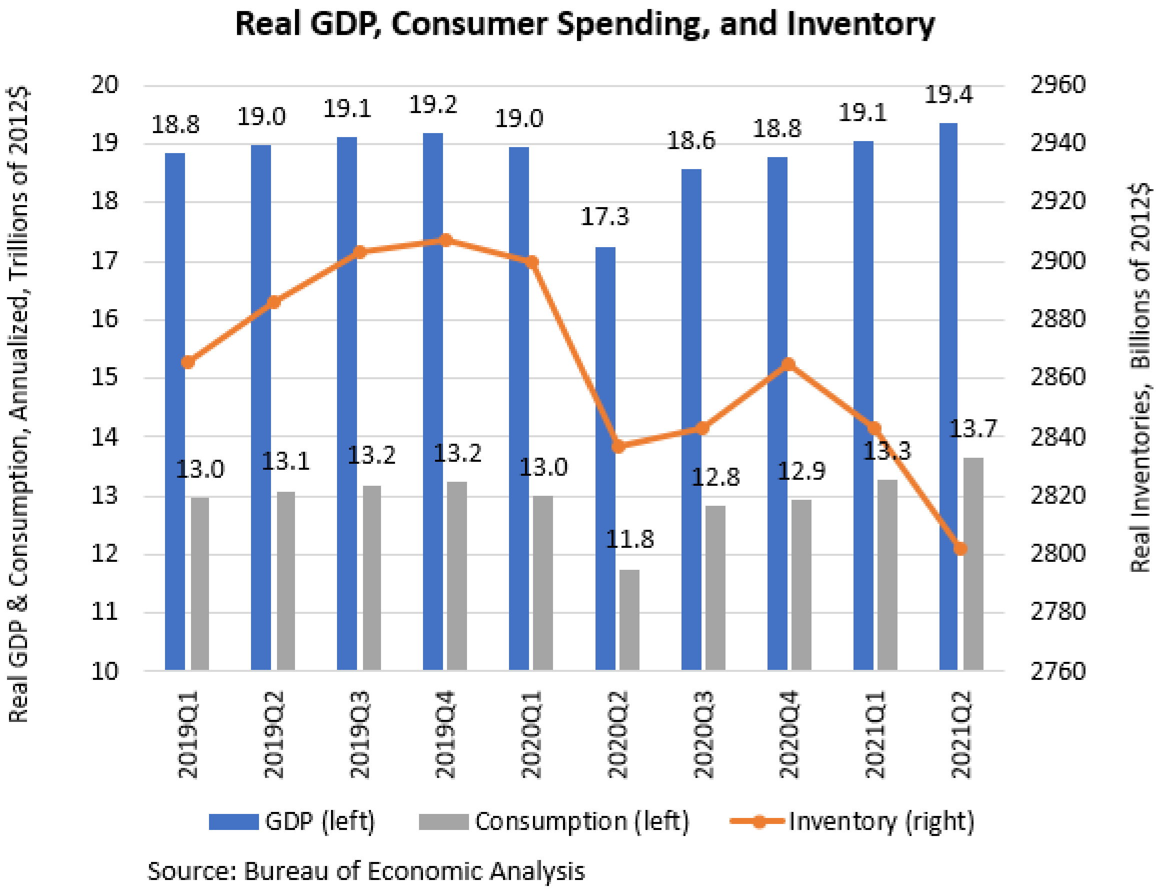
- The Richmond Federal Reserve District regional manufacturing index remained firm in July, rising by one point from a strong reading of 26 to 27. (Note that readings greater than 0 equal growth.) Both shipments and employment showed stronger growth than the June survey, while orders grew at a slower rate, according to survey respondents. Inventories of raw materials and finished goods both hit record lows in this survey. Responses showed that manufacturers are struggling to find needed workers with the appropriate skills.

- According to the June monthly personal income and outlays report by the Bureau of Economic Analysis, personal incomes grew 0.1% in June versus May to $20.4 trillion annualized. Personal consumption expenditures grew 1.0% in June to $16.3 trillion annualized. Falling government income support offset rising incomes. The savings rate fell to 9.4% in the month of June.

- The Conference Board Consumer Confidence Index increased for the sixth consecutive month in July. Consumer confidence is at its highest level since February 2020, suggesting U.S. consumers remain optimistic about the economic recovery, despite inflationary pressures and growing concerns about the spread of COVID-19 variants.

- Initial claims for unemployment insurance totaled 400,000 in the week ending July 24, a decrease of 24,000 from the previous week, seasonally adjusted. For the week ending July 17, continued claims totaled 3,269,000, up slightly from the previous week, and accounting for 2.4% of the workforce.

Editor's Note: *Thanks to Jordan Vickers, director of economics at Eaton Corporation, for writing this week's economic report.*



Economic Indicators

Last Week's Indicators:
(Selected Summaries Appear Below)

Monday, July 26
Dallas Fed Manufacturing Survey
New Home Sales

Tuesday, July 27
Conference Board Consumer Confidence
Durable Goods Orders and Shipments
Richmond Fed Manufacturing Survey

Wednesday, July 28
FOMC Monetary Policy Statement
International Trade in Goods (Preliminary)

Thursday, July 29
Gross Domestic Product
Weekly Initial Unemployment Claims

Friday, July 30
Personal Income and Spending

This Week's Indicators:

Monday, August 2
ISM Manufacturing PMI
Construction Spending

Tuesday, August 3
Vehicle Sales
Manufacturing Orders and Shipments

Wednesday, August 4
ISM Services

Thursday, August 5
Weekly Initial Unemployment Claims
Trade Deficit

Friday, August 6
Labor Market Report

- In the second quarter of 2021, real gross domestic product grew 6.5% at an annualized rate, or 12.2% against the second quarter of 2020, according to the initial estimate of the Bureau of Economic Analysis. This marked the first quarter when real GDP surpassed the pre-pandemic level achieved in Q4 2019. Headline growth of only 6.5% was disappointing, as many economists were expecting growth of over 8% for the quarter. Sagging inventories continue to weigh on GDP. Real inventories fell $166 billion at an annual rate in Q2, hitting a new post-pandemic low. Not surprisingly, motor vehicle dealer inventories contributed significantly to this decline in Q2.

  Despite the disappointing top-line GDP growth, some underlying dynamics were strong. Personal consumption expenditures grew a solid 11.8% annualized from the first quarter, following 11.4% growth in Q1. Nonresidential equipment spending was also robust, growing 13% annualized from the first quarter.

  Lastly, the other notable reading in this week's GDP report was the eye-opening reading on pricing in GDP and its subcomponents. The headline GDP deflator rose 6.0% annualized versus the first quarter. Pricing on personal consumption expenditures rose 6.4% annualized versus the first quarter. These figures represent the strongest quarterly reading on this measure since the early 1980s.

- Durable goods orders and shipments remained strong in the month of June. Durable goods orders rose 0.8% in June versus May, while shipments rose 1.0% in June versus May. Durable goods orders have risen a remarkable 13 of the last 14 months, and in June, they surpassed their pre-pandemic high reached in March 2019.

  Durable goods orders were led higher during the month by aircraft orders, as several major airlines placed long dated orders during the month. However, even without these strong aircraft orders, durable goods orders showed growth in June. Other categories contributing included machinery, primary metals and computers & electronics.

  Capital goods orders excluding defense and aircraft grew 0.5% in June versus May, to also reach a new all-time high. This metric now sits 10.8% above its pre-pandemic high reached in July 2018. To say the post-pandemic recovery in capital goods spending has been strong would be an understatement.

- Monetary policy will remain unchanged at present. The Federal Reserve's Federal Open Market Committee decided last week to keep policy rates unchanged, maintaining the target range of the federal funds rate at 0% to 0.25%. The FOMC will also continue to purchase $80 billion in Treasury securities and $40 billion in agency mortgage-backed securities each month. Overnight repurchase and reverse repurchase transactions will remain unchanged (although an aggregate limit on repurchases of $500 billion was established), and the interest rate on reserve balances will remain at 0.15%. Relative to its meeting last month, the FOMC did acknowledge that progress has been made toward achieving its mandate of maximum employment and price stability. Yet the FOMC also stated that the portions of the economy most impacted by the pandemic have not yet fully recovered, noting that the economic recovery is still dependent on COVID-19. Thus, policy will remain accommodative.

- According to the U.S. Census Bureau, 676,000 new single-family homes were sold in June, at a seasonally adjusted annual rate. June sales were at their lowest rate in 14 months and 19% lower than in June 2020. This decline was most notable in the Northeast and South, while the Midwest outperformed the rest of the country and posted positive sequential and annual growth rates. Home sales in the first six months of the year averaged 812,000 units, up 15% year-over-year. The median sales price in the United States was $361,800 in June, down from the May sales price of $380,700, but 6% higher than the previous year.

  Pandemic-related fiscal and monetary stimuli helped boost recent demand for housing. Home sales posted double-digit growth rates for three straight quarters (from Q3 2020 to Q1 2021) but moderated to 3% year-over-year in the second quarter. Despite solid demand, the supply side has lagged, with builders struggling with material and labor shortages, while also dealing with soaring costs. High demand and restricted supply have resulted in a shortage of homes for sale and rising prices, which contributed to this recent decline in new home sales.

Questions or comments? Email NAM Chief Economist Chad Moutray at cmoutray@nam.org.