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MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE – August 3, 2020– SHARE

Recovery Hitting COVID-Induced Speed Bumps

The Weekly Toplines

- COVID-19 and the restrictions imposed to contain the virus caused an unprecedented decline in economic activity in the second quarter of 2020. After stay-at-home orders for more than 95% of the U.S. population during most of April, data for May and June showed a rapid rebound in economic activity. However, the economy is still running well below pre-crisis levels, and the latest data show the recovery hitting speed bumps.
  - After weeks of speculation on just how bad it would be, the Bureau of Economic Analysis' latest GDP release showed that the U.S. economy decreased at an annual rate of 32.9% in the second quarter, the largest one-quarter contraction since Q4 1937. The contraction in the second quarter is also nearly four times the 8.4% drop in Q4 2008, the steepest decline during the 2008 financial crisis and Great Recession. Weakness was widespread across households and businesses as the near nationwide lockdowns at the end of March and throughout April curtailed economic activity. The 34.6% drop in consumption was led by a record 43.5% fall in services. Fixed investment declined 29.9%, though the collapse in inventories suggests favorable developments in the coming quarters as production ramps up. Federal government spending made an outsized, critical contribution to second quarter real GDP through transfer payments. Net exports were also a positive contributor due to significantly reduced global trade.
  - Household disposable incomes surged 42.1%, and the personal saving rate spiked to 25.7% in the second quarter, as unprecedented government income support helped to offset wage losses with consumers avoiding out-of-home shopping.
  - The June report on personal income and outlays shows personal consumption recovered by 5.6% in June following an 8.5% increase in May. Meanwhile, personal income fell 1.1% in June as government

transfer payments decreased after the April surge when most stimulus checks were distributed, and enhanced unemployment benefits kicked in. The bright spot was that employee compensation continued to increase following the economic reopening. The personal saving rate declined from an all-time high of 33.5% in April to a still elevated 24.2% in May and 19.0% in June.

  - New orders for durable goods increased 7.3% in June after jumping 15.1% in May but plummeting 16.7% and 18.3% in March and April, respectively. Excluding transportation equipment, new orders rose 3.3% in June. Excluding defense, new orders increased 9.2%. Transportation equipment, also up two consecutive months, led the increase, up 20.0% in June. Yet, over the past six months, new durable goods orders remained 13.3% below the level in the same period of last year. Excluding transportation equipment, new orders have fallen 3.8% year-to-date through June.

- Economic recovery seems to be slowing in recent weeks following the pause and reversal of reopening plans in many states.

  - The labor market weakened in mid-July, although the initial claims data send mixed signals about the week ending July 25. Headline seasonally adjusted initial unemployment claims saw a second straight week of increase to 1.43 million for the week ending July 25, though the pace was lower than in the prior week. While the seasonally adjusted number increased, the non-seasonally adjusted number of initial claims fell to 1.21 million, the second week of decline after spiking to 1.51 million in the week ending July 11. The unadjusted numbers might prove to be more reliable as the seasonal adjustment procedure may not be appropriate for levels of initial claims that are much higher than the historical norms.
  - Continuing claims rose in the week ending July 18, on both a seasonally adjusted and unadjusted basis. Seasonally adjusted continuing claims increased from 16.2 million to 17.0 million for the week ending July 18, the first weekly increase for this series since late May. Non-seasonally adjusted continuing claims increased from 16.3 million to 16.9 million. As a result, the insured unemployment rate rose to 11.6% from 11.1%.
  - Consumer sentiment from the University of Michigan and Thomson Reuters declined in July after increasing in May and June. In the past four months, the sentiment index declined 25.2% from the same period in 2019. A separate measure, consumer confidence from The Conference Board, showed a similar pattern in recent months. Both dropped after the resurgence of infections across the country. Consumers continued to express high levels of concerns about the economic outlook and their personal finances.

- In the FOMC statement released on July 29, the Fed reiterated its commitment to using its full range of tools to support the U.S. economy in this challenging time. As expected, the Fed left the fed funds rate target range unchanged at

0% to 0.25%. The Fed also made no change to its forward guidance, stating that it expects to maintain this target range until it is confident that the economy has weathered recent events. Net investment in Treasury securities and mortgage-backed securities will continue at least at their current pace to support the flow of credit to households and businesses.

- There will be several key economic data points to watch this week.
  - The Bureau of Labor Statistics will release the national employment report for July on Aug. 7. After two months of surprisingly strong job gains, the July report is likely to show a weaker trend or even an outright job loss following recent weakness in initial unemployment claims and other household employment surveys.
  - Other highlights include the ISM® Manufacturing Purchasing Managers' Index® and the international trade report.

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, July 27
Durable Goods Orders

This Week's Indicators:

Monday, August 3
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®

Tuesday, July 28
Conference Board Consumer Confidence

Wednesday, July 29
FOMC Monetary Policy Statement

Thursday, July 30
Gross Domestic Product (Second Quarter)
Weekly Initial Unemployment Claims

Friday, July 31
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision)

Tuesday, August 4
Factory Orders and Shipments

Wednesday, August 5
ADP National Employment Report
International Trade Report

Thursday, August 6
Weekly Initial Unemployment Claims

Friday, August 7
BLS National Employment Report

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