

Economic Update, July 16, 2021
Submitted by Bob Moreo

Summary: Inflation is getting a lot of attention this week—June saw the biggest monthly increase in the CPI-U since 2008, and Reuters reported [“so-called core CPI surged 4.5 percent on a year-on-year basis, the largest rise since November 1991.”](#) The University of Michigan Survey of Consumers revealed [“complaints about rising prices on homes, vehicles, and household durables has reached an all-time record.”](#) However, in one response, Professor George Calhoun writes in [Forbes](#) that comparing June 2021 CPI to the pandemic-depressed CPI in June 2020 “inflates the current year-over-year percentage increase by about 0.9 percent for the month of June 2021—the so-called base effect” and notes that soaring used car prices distort the headline numbers even more. [Reuters](#) too reported on the effects of the auto industry’s troubles: “A global semiconductor shortage is undercutting auto production, leading to stocks being run down and prices of used car and trucks soaring, boosting inflation.” Meanwhile, Federal Reserve Chairman Jerome Powell reaffirmed the Fed’s position that the increase in consumer prices is a temporary result of the reopening of the economy, [MarketWatch](#) reported. Retail and food service sales rebounded in June.

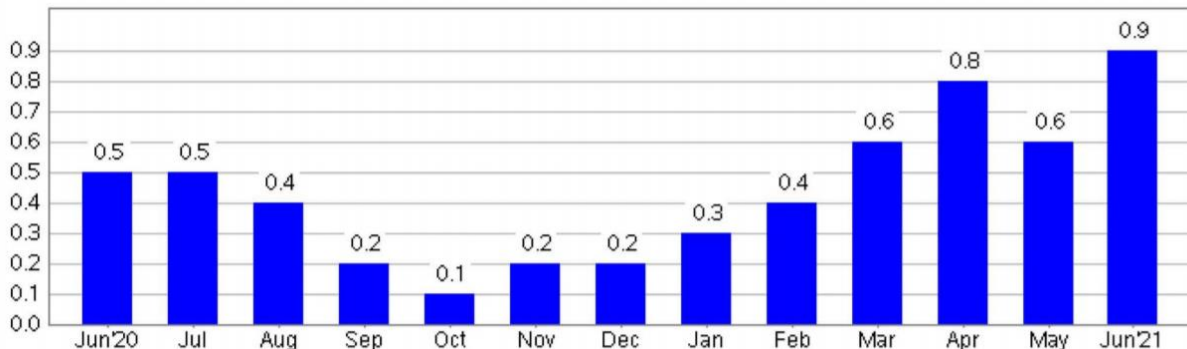
TACIR’s partners at the MTSU Business & Economic Research Center have updated their [“Tracking Tennessee’s Economy”](#) dashboard with data for May 2021. Center director Dr. Arik says these updates “continue to show promising growth in Tennessee.”

Federal Government Indicators and Reports:

Bureau of Labor Statistics

Tuesday, [Consumer Price Index](#): “The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.9 percent in June on a seasonally adjusted basis after rising 0.6 percent in May . . . the largest 1-month change since June 2008 when the index rose 1.0 percent. Over the last 12 months, the all items index increased 5.4 percent before seasonal adjustment. . . . The index for used cars and trucks continued to rise sharply, increasing 10.5 percent in June. . . . The energy index increased 1.5 percent in June, with the gasoline index rising 2.5 percent over the month. . . . The index for all items less food and energy rose 4.5 percent over the last 12-months, the largest 12-month increase since the period ending November 1991.”

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, June 2020 - June 2021
Percent change



Tuesday, [Real Earnings](#): “Real average hourly earnings for all employees decreased 0.5 percent from May to June, seasonally adjusted . . . [the result of] an increase of 0.3 percent in average hourly earnings combined with an increase of 0.9 percent in the [CPI-U]. . . . Real average hourly earnings

decreased 1.7 percent, seasonally adjusted, from June 2020 to June 2021. . . . Real average hourly earnings for production and nonsupervisory employees decreased 0.6 percent from May to June, seasonally adjusted” and decreased 2.2 percent from June 2020 to June 2021.

Wednesday, [Producer Price Index](#): “The Producer Price Index for final demand increased 1.0 percent in June, seasonally adjusted. . . . On an unadjusted basis, the final demand index moved up 7.3 percent for the 12 months ended in June, the largest advance since 12-month data were first calculated in November 2010.” Among the factors driving producer prices higher in June were a 10.5-percent increase in margins for automobiles and automobile parts retailing, a 4.5-percent increase in prices for industrial chemicals, a 6.2-percent increase in prices for steel mill products, and a 9.9-percent jump in the index for crude petroleum.

Thursday, [U.S. Import and Export Price Indexes](#): “U.S. import prices advanced 1.0 percent in June following a 1.4-percent increase in May. . . . Prices for U.S. exports increased 1.2 percent in June, after rising 2.2 percent the previous month. . . . Prices for import fuel advanced 4.7 percent in June . . . [while] nonfuel import prices rose 0.7 percent. . . . Consumer goods prices rose 0.4 percent.”

Friday, [State Employment and Unemployment](#): “Unemployment rates were lower in June in 7 states and the District of Columbia, higher in 3 states, and stable in 40 states. . . . The national unemployment rate, 5.9 percent, was little changed over the month. . . . Nonfarm payroll employment increased in 25 states, decreased in 1 state, and was essentially unchanged in 24 states and the District of Columbia in June 2021.” Tennessee’s unemployment rate for June 2021 was 4.9 percent—a slight improvement from 5.0 percent in April and May. Nonfarm payroll employment in Tennessee increased by 22,100 (0.7 percent) from May 2021 to June, with 164,399 Tennesseans unemployed (seasonally adjusted).

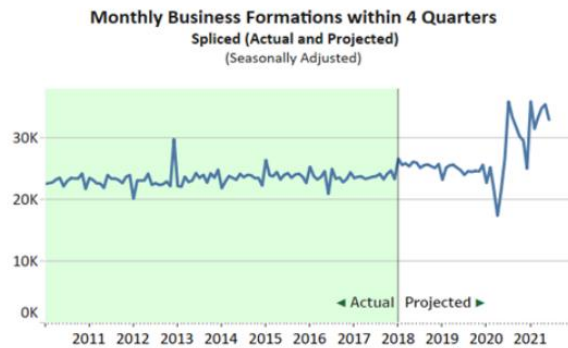
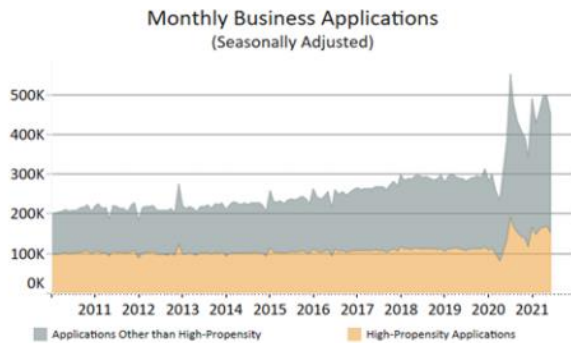
Friday, [Usual Weekly Earnings of Wage and Salary Workers](#): “Median weekly earnings of the nation’s 113.6 million full-time wage and salary workers were \$990 in the second quarter of 2021 (not seasonally adjusted). . . . This was 1.2 percent lower than a year earlier, compared with a gain of 4.8 percent in the [CPI-U] over the same period.”

Bureau of Transportation Statistics

Wednesday, [Freight Transportation Services Index](#): “The Freight Transportation Services Index (TSI), which is based on the amount of freight carried by the for-hire transportation industry, rose 0.1% in May from April. . . . The May freight index increase was the third consecutive rise and the fifth increase in six months for a cumulative increase of 3.6% since November. The Freight TSI is above any level it attained during the COVID pandemic but is still . . . 3.0% below its record level of 141.9 in August 2019.”

Census Bureau

Thursday, [Monthly Business Formation Statistics](#): “Business Applications for June 2021, adjusted for seasonal variation, were 448,533, a decrease of 9.8 percent compared to May 2021. Projected Business Formations (within 4 quarters) for June 2021, adjusted for seasonal variation, were 32,990, a decrease of 6.9 percent compared to May 2021.” Both figures remain well above their pre-pandemic levels.



Friday, [Advance Monthly Sales for Retail and Food Services](#): “Advance estimates of U.S. retail and food services sales for June 2021 [seasonally adjusted] . . . were \$621.3 billion, an increase of 0.6 percent from the previous month, and 18.0 percent above June 2020. . . . Retail trade sales were up 0.3 percent from May 2021, and up 15.6 percent above last year. Clothing and clothing accessories stores were up 47.1 percent from June 2020 [and up 2.6 percent from May 2021], while food services and drinking places were up 40.2 percent from last year [and up 2.3 percent from May 2021].”

Friday, [Manufacturing and Trade Inventories and Sales](#): “The combined value of distributive trade sales and manufacturers’ shipments for May [seasonally adjusted] . . . was estimated at \$1,615.9 billion, down 0.3 percent from April 2021, but was up 28.7 percent from May 2020. Manufacturers’ and trade inventories for May . . . were estimated at an end-of-month level of \$2,039.3 billion, up 0.5 percent from April 2021 and were up 4.5 percent from May 2020. The total business inventories/sales ratio based on seasonally adjusted data at the end of May was 1.26.”

Department of Labor

Thursday, [Unemployment Insurance Weekly Claims](#): “In the week ending July 10, the advance figure for seasonally adjusted initial claims was 360,000, a decrease of 26,000 from the previous week’s revised level.” The unadjusted advance figure for initial claims in Tennessee the week ending July 10 was 9,376, an increase of 2,780 from the previous week’s number—which itself had been 1,410 higher than the week prior, because of “layoffs in the transportation and warehousing, retail trade, administrative and support and waste management and remediation services, health care and social services, and accommodation and food services industries.”

Federal Reserve Board

Wednesday, [Semiannual Monetary Policy Report \(Testimony\)](#): Federal Reserve Chairman Jerome H. Powell appeared before the House Committee on Financial Services to present the Fed’s semiannual [Monetary Policy Report](#). He said, “Household spending is rising at an especially rapid pace . . . [and] housing demand remains very strong, and overall business investment is increasing at a solid pace.” He added that the report describes how “supply constraints have been restraining activity in some industries, most notably in the motor vehicle industry, where the worldwide shortage of semiconductors has sharply curtailed production so far this year.” He said June’s 5.9 percent unemployment rate “understates the shortfall in employment, particularly as participation in the labor market has not moved up from the low rates that have prevailed for most of the past year.” Regarding inflation, Powell testified that “inflation has increased notably and will likely remain elevated in coming months before moderating,” further explaining his belief that the increase will be temporary as “production bottlenecks or other supply constraints” and surging demand for “services that were hard hit by the pandemic” both ease. The Policy Report says that “as these extraordinary circumstances pass,

supply and demand should become better aligned, and inflation is widely expected to move down toward the FOMC’s 2 percent longer-run goal.”

Wednesday, [The Beige Book](#): “The U.S. economy strengthened further from late May to early July, displaying moderate to robust growth. . . . Supply-side disruptions became more widespread, including shortages of materials and labor, delivery delays, and low inventories of many consumer goods. . . . The outlook for demand improved further, but many contacts expressed uncertainty or pessimism over the easing of supply constraints.” In the Sixth District, which includes Middle and East Tennessee, the Federal Reserve Bank of Atlanta reported that “Economic activity expanded at a moderate pace,” with improvements in retail sales, leisure, hospitality, and tourism activity, real estate, and manufacturing. The report notes, “While leisure travel is expected to continue to grow at a healthy pace over the summer, business travel and convention activity is expected to remain soft.” In the Eighth District, which includes West Tennessee, the Federal Reserve Bank of St. Louis reported that “conditions have continued to improve at a moderate pace,” although firms in the district report “that labor and material shortages are restraining their ability to meet customer demand.” The report mentions that “consumer sentiment on the current economic situation rose significantly in West Tennessee,” that “large logistics firms continue to make significant investments and expand hiring in the Memphis and Louisville areas,” and that “in Memphis, the industrial vacancy rate has fallen sharply.”

Thursday, [Industrial Production and Capacity Utilization](#): “Industrial production increased 0.4 percent in June after moving up 0.7 percent in May. In June, manufacturing output edged down 0.1 percent, as an ongoing shortage of semiconductors contributed to a decrease of 6.6 percent in the production of motor vehicles and parts. . . . For the second quarter as a whole, total industrial production rose at an annual rate of 5.5 percent. Manufacturing output increased at an annual rate of 3.7 percent despite a drop of 22.5 percent for motor vehicles and parts. . . . Capacity utilization for the industrial sector rose 0.3 percentage point in June to 75.4 percent,” 6.7 points higher than in June 2020 but “4.2 percentage points below its long-run (1972–2020) average.”

Economic Indicators and Confidence:

The Conference Board

Wednesday, [Global Consumer Confidence](#): “The survey found that overall global consumer confidence rose slightly to 109 in Q2 2021 from 108 in Q1. The global index now surpasses the 106 reading registered at the pandemic’s onset in Q1 2020 and is the highest recorded since the survey began in 2005. Confidence rose in 42 of 65 markets (65%) surveyed, with the strongest gains in regions like North America and Europe with relatively high vaccination rates. . . . North America, where confidence already stood at a strong 110 in Q1, surged further to 125 in Q2—reflecting continued fiscal and monetary support as well as ongoing vaccination campaigns and loosened mobility restrictions.”

Wednesday, [Economic Forecast for the US Economy](#): “The Conference Board forecasts that US Real GDP growth will rise to 9.0 percent (annualized rate) in Q2 2021 and 6.6 percent (year-over-year) in 2021. Following solid economic growth in Q1 2021 we expect the recovery to continue through the remainder of the year. . . . Inflation will likely remain elevated into early 2022, but then begin to moderate.”

Federal Reserve Bank of New York

Monday, [Survey of Consumer Expectations](#): The June 2021 survey shows consumers’ short-term inflation, income, and spending expectations continue to rise. “Median inflation expectations increased 0.8 percentage point in June to 4.8% at the one-year horizon, reaching a new series’ high, and remained unchanged at 3.6% at the three-year horizon. . . . Median year-ahead home price change expectations

remained unchanged at 6.2% in June, substantially higher than its 12-months trailing average of 3.7%. . . . Median one-year ahead expected earnings growth increased by 0.1 percentage point to 2.6% in June, its highest reading since the start of the pandemic. . . . The median expected year-ahead household income growth increased to 3.0% in June from 2.8%.”

University of Michigan

Friday, [Index of Consumer Sentiment \(Preliminary\)](#): “Consumer sentiment posted a monthly decline of 5.5% in early July, largely due to less favorable prospects for the national economy. This decline was caused by a misjudgement by consumers in the pace that the economy would recover as the pandemic eased. This involved both underestimating the economy’s ability to reactivate supply lines and restore jobs, and the resulting impact on inflation.” Surveys of Consumers chief economist Richard Curtin pointed out consumers’ “postponement of large discretionary purchases, especially among upper income households” but wonders “whether consumers will find greater value in keeping a significant portion of their savings as a precautionary hedge, or spending a significant portion in an effort to avoid their inflationary erosion and to benefit from buying-in-advance of increasing market prices.”

Preliminary Results for July 2021

	Jul 2021	Jun 2021	Jul 2020	M-M Change	Y-Y Change
Index of Consumer Sentiment	80.8	85.5	72.5	-5.5%	+11.4%
Current Economic Conditions	84.5	88.6	82.8	-4.6%	+2.1%
Index of Consumer Expectations	78.4	83.5	65.9	-6.1%	+19.0%

Employment and Businesses:

National Federation of Independent Business

Monday, [Covid-19 Small Business Survey](#): “While the economy is surging ahead for many due to strong consumer spending, the recovery remains uneven across the small business sector. Some small businesses are still waiting for consumers to return to their industry sector, while others are saddled with aggravating supply chain disruptions or challenges filling open positions that are slowing sales opportunities.”

Tuesday, [Small Business Economic Trends](#): “The NFIB Optimism Index increased 2.9 points in June to 102.5, the first time the Index exceeded 100 since November 2020.” NFIB Chief Economist Bill Dunkelberg said, “Small businesses optimism is rising as the economy opens up, yet a record number of employers continue to report that there are few or no qualified applicants for open positions. Owners are also having a hard time keeping their inventory stocks up with strong sales and supply chain problems.”

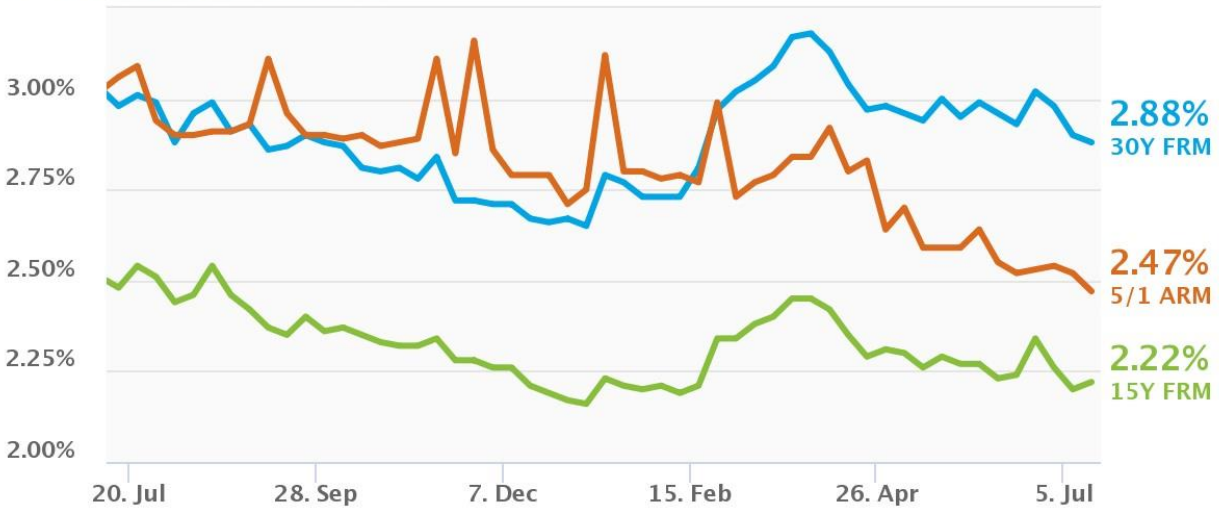
Mortgages and Housing Markets:

Freddie Mac

Thursday, [Primary Mortgage Market Survey](#): “[A] 30-year fixed-rate mortgage averaged 2.88 percent . . . for the week ending July 15, 2021, down from last week when it averaged 2.90 percent. A

year ago at this time, the 30-year FRM averaged 2.98 percent.” Sam Khater, Freddie Mac’s Chief Economist, said the average rate “fell for the third consecutive week” and that “since their peak at 3.18% in April, mortgage rates have declined by thirty basis points.”

Freddie Mac Primary Mortgage Market Survey®
U.S. weekly average mortgage rates as of 07/15/2021



Thursday, [Quarterly Forecast](#): Freddie Mac’s Economic & Housing Research group forecast says “the low mortgage rates that have supported the housing market throughout the pandemic are expected to increase later in the year, but just gradually,” and Freddie Mac “predicts that the market will remain strong through 2021.” According to the forecast, “The average 30-year fixed-rate mortgage is expected to be 3.1 percent in 2021 and 3.7 percent in 2022. House price growth is expected to be 12.1 percent in 2021, slowing to 5.3 percent in 2022. . . . Home sales are expected to reach 6.9 million in 2021, remaining flat in 2022.”

Mortgage Bankers Association

Wednesday, [Weekly Mortgage Applications Survey](#): “Mortgage applications increased 16.0 percent from one week earlier, according to data . . . for the week ending July 9, 2021.” According to Joel Kan, MBA’s Associate Vice President of Economic and Industry Forecasting, the increase in applications was “driven heavily by increased refinancing as rates dipped again . . . with the 30-year fixed rate hitting 3.09 percent, its lowest level since February.”