Economic Update, August 28, 2020
Submitted by Bob Moreo

Summary: The Federal Reserve announced a significant change in policy this week, one which "puts more weight on bolstering the labor market and less on worries about inflation that is too high," according to Reuters. Meanwhile, consumers are showing less confidence in the economic recovery. The Conference Board's index "fell in August to a new pandemic low," according to MarketWatch, while economists "had forecast the index to rise to 93.0." Global investors are more optimistic, although more so in Asia and Europe than the US. Mortgage rates remain low, and new home sales "soared to their highest level since December 2006 in July." To keep those affected by the recession in their current homes, Fannie Mae and Freddie Mac both extended a moratorium on evictions and foreclosures on single-family homes through the end of 2020.

Federal Government Indicators and Reports:

Bureau of Economic Analysis

Thursday, Gross Domestic Product and Corporate Profits: "Real gross domestic product (GDP) decreased at an annual rate of 31.7 percent in the second quarter of 2020, according to the 'second' estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP decreased 5.0 percent. . . . Profits from current production (corporate profits with inventory valuation and capital consumption adjustments) decreased $226.9 billion in the second quarter, compared with a decrease of $276.2 billion in the first quarter. Profits of domestic financial corporations increased $39.5 billion in the second quarter, in contrast to a decrease of $42.2 billion in the first quarter. Profits of domestic nonfinancial corporations decreased $170.1 billion, compared with a decrease of $190.5 billion."

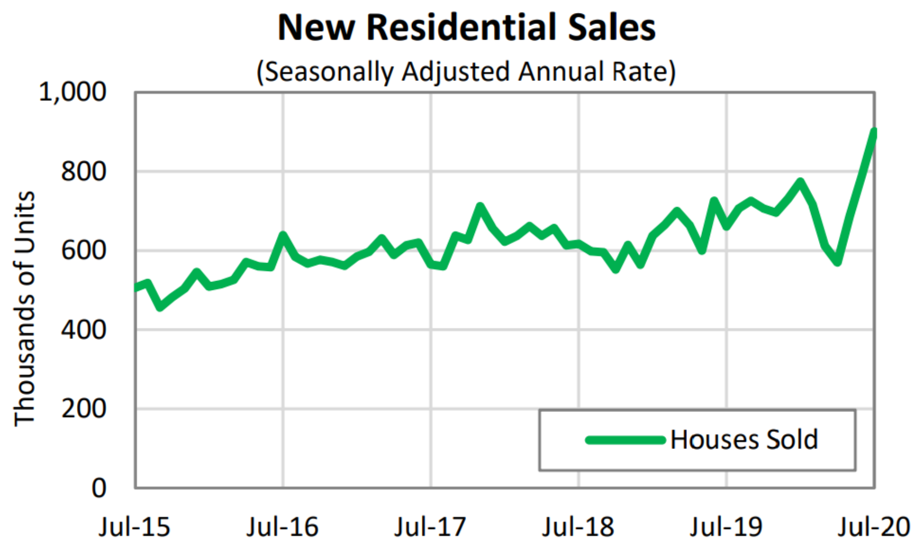
Friday, Personal Income and Outlays: "Personal income increased $70.5 billion (0.4 percent) in July. . . . Disposable personal income (DPI) increased $39.9 billion (0.2 percent) and personal consumption expenditures (PCE) increased $267.6 billion (1.9 percent). . . . The PCE price index increased 0.3 percent."

Bureau of Transportation Statistics

Tuesday, North American Freight Data: Transborder freight moved by all modes of transportation between the U.S. and other North American countries (Canada and Mexico) was valued at $82.1 billion in June 2020, "up 46.3% compared to May 2020 and up 41.2% from April 2020"—but "down 20.9% compared to June 2019."

Census Bureau

Tuesday, New Residential Sales: "Sales of new single-family houses in July 2020 were at a seasonally adjusted annual rate of 901,000. . . . This is 13.9 percent above the revised June rate of 791,000 and is 36.3 percent above the July 2019 estimate of 661,000. The median sales price . . . was $330,600."



Source: U.S. Census Bureau, HUD, August 25, 2020

Wednesday, Advance Report on Durable Goods: "New orders for manufactured durable goods in July increased $23.2 billion or 11.2 percent to $230.7 billion. . . . This increase, up three consecutive months, followed a 7.7 percent June increase. . . . Shipments of manufactured durable goods in July, up three consecutive months, increased $16.6 billion or 7.3 percent to $244.0 billion. This followed a 15.2 percent June increase. . . . Nondefense new orders for capital goods in July increased $5.4 billion or 10.2 percent to $58.0 billion. Shipments increased $1.3 billion or 2.0 percent to $67.6 billion."

Friday, Advance Economic Indicators: "The international trade deficit was $79.3 billion in July, up $8.3 billion from $71.0 billion in June. Exports of goods for July were $115.0 billion, $12.2 billion more than June exports. Imports of goods for July were $194.3 billion, $20.5 billion more than June imports. Wholesale inventories . . . were estimated at an end-of-month level of $633.7 billion, down 0.1 percent from June 2020, and were down 5.4 percent from July 2019. . . . Retail inventories . . . were estimated at an end-of-month level of $594.7 billion, up 1.2 percent from June 2020, and were down 11.2 percent from July 2019."

Department of Labor

Thursday, Unemployment Insurance Weekly Claims: "In the week ending August 22, the advance figure for seasonally adjusted initial claims was 1,006,000, a decrease of 98,000 from the previous week's revised level. The 4-week moving average was 1,068,000, a decrease of 107,250 from the previous week's revised average. . . . The advance seasonally adjusted insured unemployment rate was 9.9 percent for the week ending August 15, a decrease of 0.2 percentage point from the previous week." Tennessee was among the states with the largest increases in initial claims for the week ending August 15 (+3,793).

Federal Reserve Board

Thursday, Statement on Longer-Run Goals and Monetary Policy Strategy: Speaking at the Kansas City Fed's annual Economic Policy Symposium, Fed Chair Jerome Powell explained that the central bank is revising its policy towards inflation in order to target maximum employment goals in an era of persistently low interest rates. "With interest rates generally running closer to their effective lower bound even in good times," Powell said, "the Fed has less scope to support the economy during an economic downturn by simply cutting the federal funds rate. . . . Our longer-run goal continues to be an inflation rate of 2 percent." The revised policy says the Fed "will seek to achieve inflation that averages 2 percent over time. Therefore, following periods when inflation has been running below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time." Translated for the masses by Reuters, "the new language signals the Fed will continue to combat unemployment that is too high, but that it won't raise the alarm over unemployment falling too fast or too far, as it had done in the past. The new strategy also incorporates a loose form of average inflation targeting, under which the Fed would aim to make up for periods when inflation is too low by allowing periods when inflation is too high. Over time, inflation would average 2%."

Federal Reserve Bank of Chicago

Monday, Chicago Fed National Activity Index: "Led by some moderation in the growth of production- and employment-related indicators, the Chicago Fed National Activity Index (CFNAI) declined to +1.18 in July from +5.33 in June. Three of the four broad categories of indicators used to construct the index made positive contributions in July, but all four categories decreased from June." Positive values for the index are associated with above-average growth.

Wednesday, National Financial Conditions Index: "The NFCI was –0.54 in the week ending August 21, down slightly from a revised –0.52 (initially reported as –0.53). . . . Positive values of the NFCI have been historically associated with tighter-than-average financial conditions, while negative values have been historically associated with looser-than-average financial conditions."

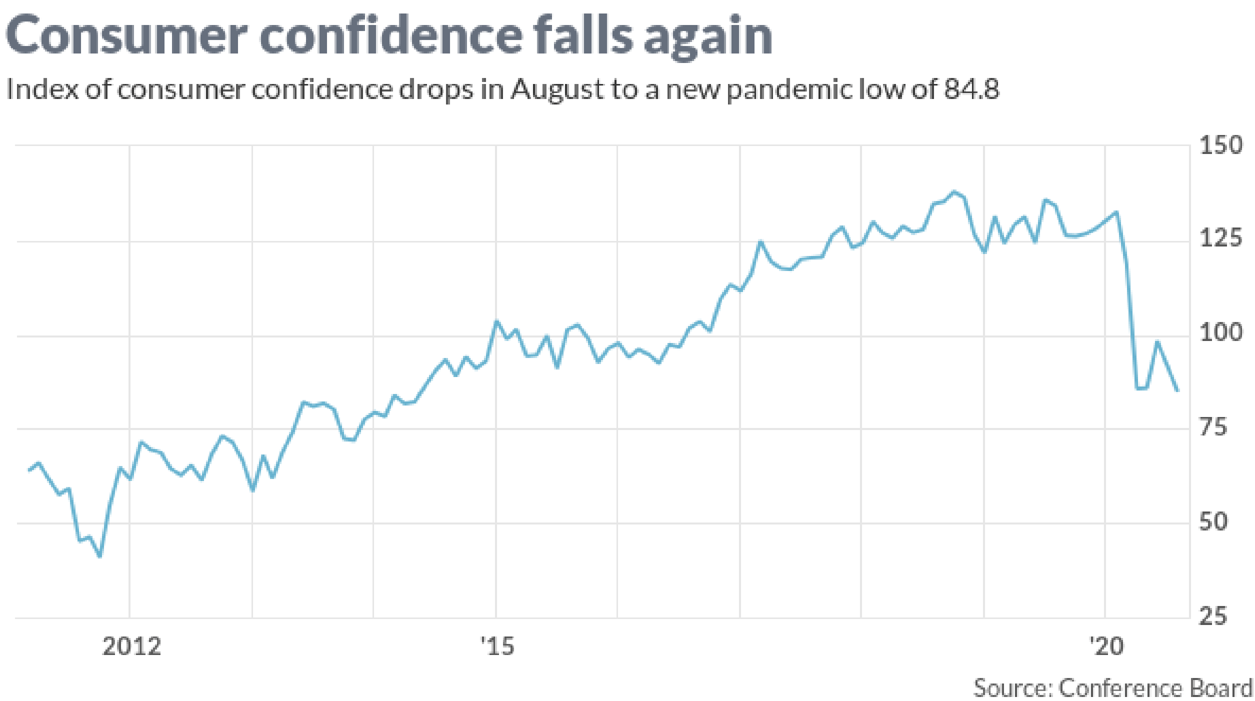
Federal Reserve Bank of New York

Thursday, Weekly Economic Index: The revised index estimate for week ending August 22 is –4.91 percent, an improvement from the final estimate of –6.16 percent for the previous week. "The increase in the WEI for the week of August 22 was due to a decline in initial unemployment insurance claims and increases in fuel sales, rail traffic, and tax withholding, which more than offset a decline in electricity output."

Economic Indicators and Confidence Surveys:

The Conference Board

Tuesday, Consumer Confidence: "The Index now stands at 84.8 (1985=100), down from 91.7 in July. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased sharply from 95.9 to 84.2. The Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – declined from 88.9 in July to 85.2 this month." Lynn Franco, Senior Director of Economic Indicators at The Conference Board, said consumers surveyed stated that "both business and employment conditions had deteriorated over the past month." Franco says "increasing concerns amongst consumers about the economic outlook and their financial well-being will likely cause spending to cool in the months ahead."

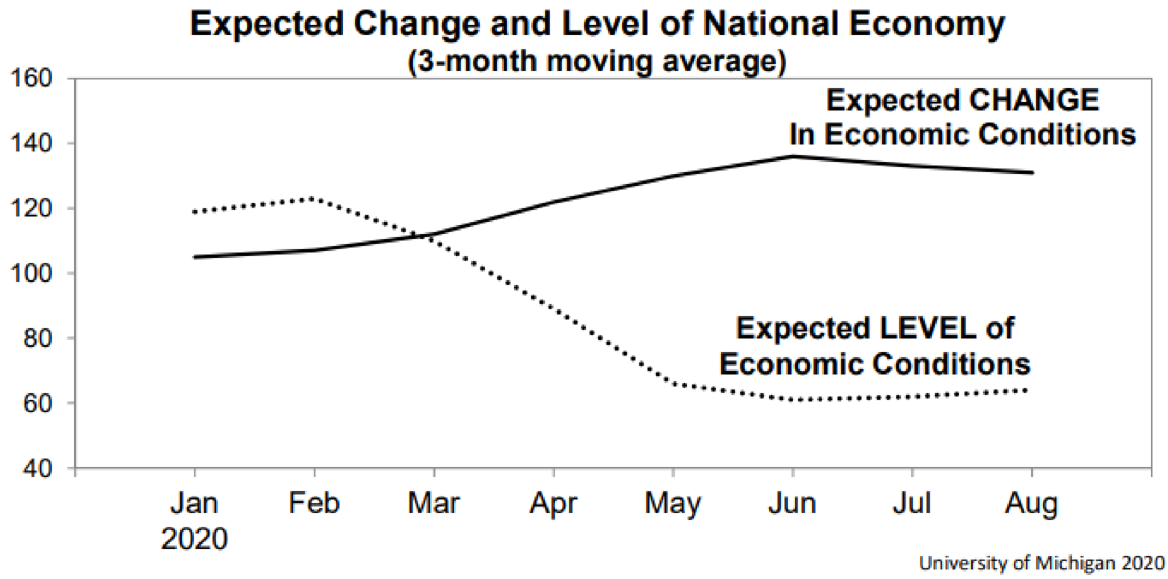


State Street

Wednesday, [Investor Confidence]: "The Global Investor Confidence Index increased to 86.1, up 1.5 points from July's revised reading of 84.6. Investor Confidence rose across all regions, with North American ICI up 1.0 point to 77.6, Asian ICI up 3.3 points to 89.9, and European ICI up 4.8 points to 122.6."

University of Michigan

Friday, [Index of Consumer Sentiment]: The final index for August 2020 was 74.1, with current conditions coming in at 82.9 and consumer expectations reading 68.5. "Consumer sentiment has remained trendless in the same depressed range it has traveled during the past five months," says Surveys of Consumers chief economist Richard Curtin. "The August figure posted an insignificant gain of just +0.4 Index points above the April to July average." The survey shows that, while consumers expect the economy to improve, they also expect conditions to remain below average.



Employment and Businesses:

National Federation of Independent Business

Monday, Covid-19 Small Business Survey: In a survey conducted August 17-18, 2020, 84% of Paycheck Protection Program (PPP) borrowers say they have used up those funds. "If eligible, 44% of small businesses surveyed said they would apply or re-apply for a second PPP loan with another 31% saying they would consider applying for one. . . . About one-in-five (21%) of small business owners report they will have to close their doors if current economic conditions do not improve over the next six months." The survey also says "Over half of owners (52%) anticipate it taking until sometime in 2021 and 20% believe sometime in 2022" for business conditions to improve to normal levels.

Mortgages and Housing Markets:

Freddie Mac

Thursday, Primary Mortgage Market Survey: "30-year fixed-rate mortgage averaged 2.91 percent . . . for the week ending August 27, 2020, down from last week when it averaged 2.99 percent. A year ago at this time, the 30-year FRM averaged 3.58 percent."

Mortgage Bankers Association

Monday, Forbearance and Call Volume Survey: "The total number of loans now in forbearance decreased by 1 basis point from 7.21% of servicers' portfolio volume in the prior week to 7.20% as of August 16, 2020. According to MBA's estimate, 3.6 million homeowners are in forbearance plans. The share of Fannie Mae and Freddie Mac loans in forbearance also dropped by only 1 basis point to 4.93%."

Wednesday, Mortgage Applications: "Mortgage applications decreased 6.5 percent from one week earlier, according to data . . . for the week ending August 21, 2020." Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting, said "despite the lower rates, conventional refinance applications fell 11 percent and government refinance applications fell 6 percent, which pushed the total refinance index to its lowest weekly level since July."

National Association of Realtors

Thursday, Pending Home Sales: "Pending home sales in July achieved another month of positive contract activity, marking three consecutive months of growth. . . . The Pending Home Sales Index . . . rose 5.9% to 122.1 in July. Year-over-year, contract signings rose 15.5%." Lawrence Yun, NAR's chief economist, said "anecdotally, realtors are telling me there is no shortage of clients or home seekers, but that scarce inventory remains a problem. If 20% more homes were on the market, we would have 20% more sales, because demand is that high."

S&P CoreLogic

Tuesday, Case-Shiller National Home Price Index: The national index "reported a 4.3% annual gain in June, no change from the previous month. . . . After seasonal adjustment, the National Index posted a month-over-month increase of 0.2%." Craig J. Lazzara, Managing Director and Global Head of Index Investment Strategy, says "more data will be required to understand whether the market resumes its previous path of accelerating prices, continues to decelerate, or remains stable."