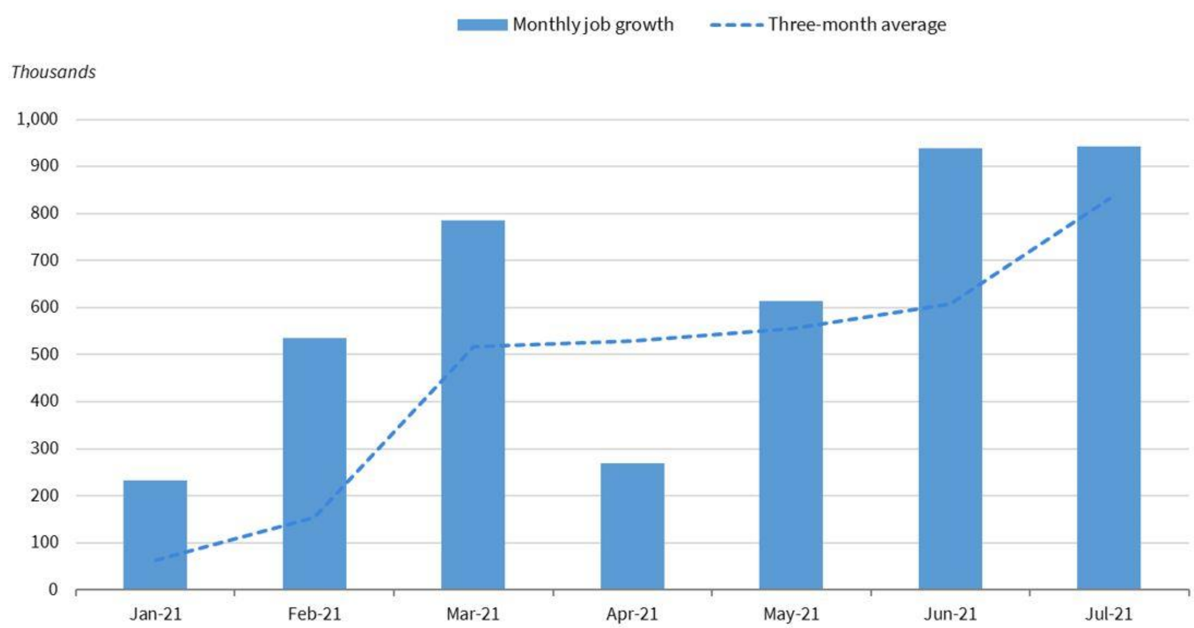
Economic Update, August 6, 2021
Submitted by Bob Moreo

Summary: Reports this week show the economy continued to grow in July, but the rate of growth has slowed considerably from the record pace set in previous months. Chris Williamson, Chief Business Economist at IHS Markit, says the firm's surveys "showed the global economic recovery continuing into July, but the rate of expansion lost momentum for a second month running." Williamson said the slowdown "could be in part linked to supply constraints and further COVID waves from the Delta variant," with "supply running behind demand to a worrying extent," and he noted that "the recent spike in inflationary pressures has yet to peak." June data from the Department of Commerce showed new orders for U.S. manufactured goods jumped more than expected, according to *MarketWatch*. Friday's employment report from the Department of Labor said employers added 943,000 jobs in July, which "exceeded economists' forecast of more than 860,000," according to the AP. The government also revised numbers for May and June upwards by a combined 119,000 jobs. This news came after ADP reported Wednesday just 330,000 new private-sector jobs were added in July, "way below expectations" of 700,000, according to *U.S. News*. Both reports showed gains in the service sector, particularly in leisure and hospitality, but the government's numbers have the benefit of including 221,000 public education jobs—something Raymond James economist Scott Brown cautioned about last Friday as "seasonal noise."

Figure 1. Job growth over the last three months has averaged more than 800,000



Source: Bureau of Labor Statistics; CEA Calculations

Source: White House Council of Economic Advisers.

Federal Government Indicators and Reports:

Bureau of Economic Analysis

Thursday, International Trade: The U.S. goods and services trade deficit was $75.7 billion in June, up $4.8 billion from $71.0 billion in May. "June exports were $207.7 billion, $1.2 billion more than May exports. June imports were $283.4 billion, $6.0 billion more than May imports."

Bureau of Labor Statistics

Friday, Employment Situation: "Total nonfarm payroll employment rose by 943,000 in July, and the unemployment rate declined by 0.5 percentage point to 5.4 percent. . . . The number of unemployed persons fell by 782,000 to 8.7 million. . . . Nonfarm payroll employment in July is up by 16.7 million since April 2020 but is down by 5.7 million, or 3.7 percent, from its pre-pandemic level in February 2020."

Bureau of Transportation Statistics

Monday, North American Freight Data: $108.6 billion of transborder freight moved between the U.S. and North American countries (Canada and Mexico) in May 2021, up 93.8 percent compared to May 2020 but still 1.0 percent below May 2019. This was up from $107.4 billion in April 2021.

Census Bureau

Monday, Construction Spending: "Construction spending during June 2021 was estimated at a seasonally adjusted annual rate of $1,552.2 billion, 0.1 percent above the revised May estimate of $1,551.2 billion. The June figure is 8.2 percent above the June 2020 estimate of $1,435.0 billion."

Tuesday, Manufacturers' Shipments, Inventories, and Orders: "New orders for manufactured goods in June, up thirteen of the last fourteen months, increased $7.4 billion or 1.5 percent to $506.0 billion [following] a 2.3 percent May increase. Shipments, also up thirteen of the last fourteen months, increased $7.6 billion or 1.6 percent to $499.0 billion. This followed a 0.9 percent May increase."

Friday, Monthly Wholesale Trade: "June 2021 sales . . . were $588.1 billion, up 2.0 percent from the revised May level and were up 27.5 percent from the revised June 2020 level. The April 2021 to May 2021 percent change was unrevised from the preliminary estimate of up 0.8 percent. . . . Inventories . . . were $717.6 billion at the end of June, up 1.1 percent from the revised May level . . . up 10.5 percent from the revised June 2020 level.

Department of Labor

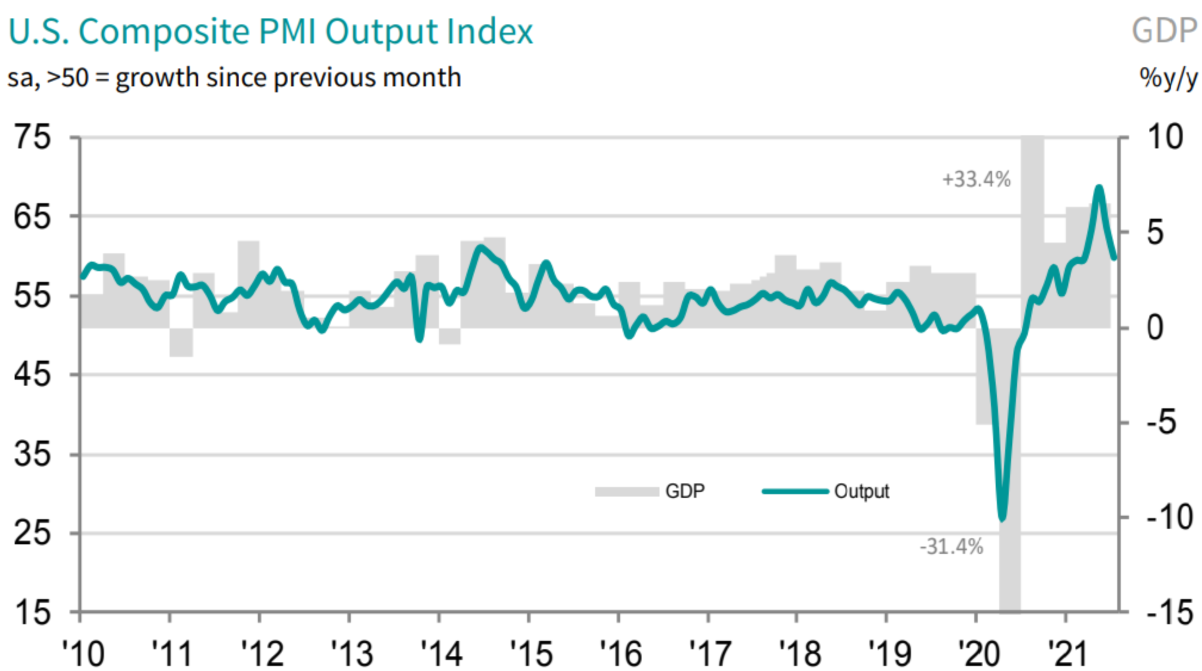
Thursday, Unemployment Insurance Weekly Claims: "In the week ending July 31, the advance figure for seasonally adjusted initial claims was 385,000, a decrease of 14,000 from the previous week's revised level. . . . The 4-week moving average was 394,000, a decrease of 250 from the previous week's revised average. . . . The total number of continued weeks claimed for benefits in all programs for the week ending July 17 was 12,975,015, a decrease of 181,251 from the previous week." Tennessee was among the states with the largest increases in initial claims for the week ending July 24 (+1,694). But the state's unadjusted advance number of initial claims for the week ending July 31 was 4,568—3,273 fewer than the previous week.

Economic Indicators and Confidence:

IHS Markit

Monday, U.S. Manufacturing PMI: "The seasonally adjusted [index] . . . posted 63.4 in July, up from 62.1 in June and slightly higher than the earlier released 'flash' estimate of 63.1. The improvement in the health of the manufacturing sector was the strongest in the 14-year series history." However, the report said, "Unprecedented supplier shortages and delays continued to exert upward pressure on input costs and stymie firms' ability to process incoming new work. As a result, cost burdens rose at a record-breaking rate and the accumulation of backlogs accelerated."

Wednesday, U.S. Services and Composite PMI: "The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 59.9 at the start of the third quarter, down from 64.6 in June. This was broadly in line with the earlier released 'flash' estimate of 59.8 in July. The latest upturn in business activity was marked overall, despite easing to a five-month low. . . . The IHS Markit U.S. Composite PMI Output Index posted 59.9 in July, down from 63.7 in June and falling further from May's recent high. The rate of expansion was the softest since March amid a slower upturn in service sector activity, but was quicker than the series average."



Sources: IHS Markit, Bureau of Economic Analyses.

Wednesday, U.S. Sector PMI: "Greater volumes of business activity were recorded across all seven broad categories monitored by the US Sector PMI series during July. However, only Basic Materials and Consumer Goods reported faster growth than in June, with the remainder all experiencing softer rates of output expansion."

Wednesday, J.P. Morgan Global Composite PMI: The global index "slipped to a four-month low of 55.7 in July, down from 56.6 in June, remaining above its long-run average of 53.4. . . . National PMI data indicated that growth was quickest in Germany, Spain and the US. Rates of expansion in China, Brazil and Russia were all below the global average. Contractions were signaled in India, Japan and Australia."

Investor's Business Daily

Tuesday, Economic Optimism Index: The index "slipped seven-tenths of a point to 53.6 in August, the lowest since February. . . . The optimism gap between investors (+2.2 points to 65.4) and non-investors, who grew a bit more pessimistic (-1.6 points to 48.1), stretched to 17.3 points, a record for the 20-year history of the [index].”

Employment and Businesses:

ADP

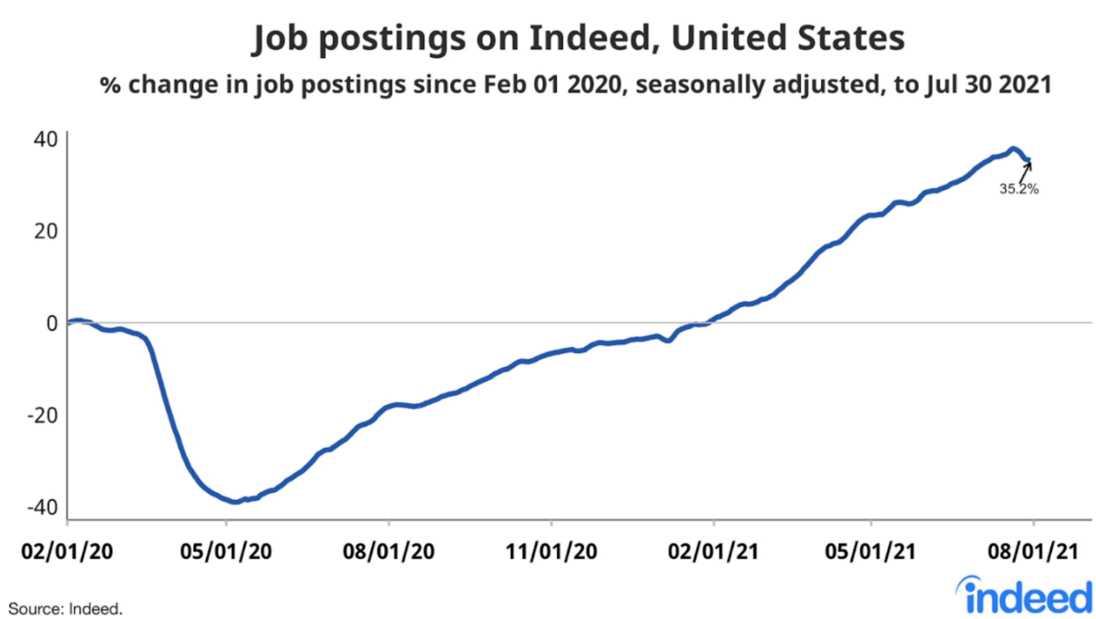
Wednesday, National Employment Report: “Private sector employment increased by 330,000 jobs from June to July. . . . ‘July payroll data reports a marked slowdown from the second quarter pace in jobs growth,’ said Nela Richardson, chief economist, ADP. ‘For the fifth straight month the leisure and hospitality sector is the fastest growing industry, though gains have softened. . . . Bottlenecks in hiring continue to hold back stronger gains.’”

Challenger, Gray, & Christmas

Thursday, Job Cuts Report: “U.S.-based employers announced 18,942 job cuts in July, down 93% from the 262,649 cuts announced in the same month last year. Last month’s total is the lowest since in June 2000. . . . So far this year, employers have announced plans to cut 231,603 jobs from their payrolls . . . the lowest January-July total on record.” According to senior vice president Andrew Challenger, “There are over 9.2 million job openings and 9.5 million unemployed. The positions and workers are not connecting.”

Indeed.com

Tuesday, US Job Postings: “US job postings on Indeed.com on July 30 were 35.2% above February 1, 2020, the pre-pandemic baseline. . . . That’s a dip of two points from last week. Job postings increased in May, June, and July at a slower pace than in March and April.”



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Tuesday, Small Business Employment Watch: “National job growth in July was up notably across all industry sectors and regions over the previous month. . . . The Small Business Jobs Index jumped 0.85 percent in July, the second strongest one-month increase since 2010. . . . At 99.36, the small business jobs index is up more than one percent over last quarter and five percent from last year, suggesting a significant recovery from the COVID-19 pandemic."

Mortgages and Housing Markets:

Freddie Mac

Thursday, Primary Mortgage Market Survey: "30-year fixed-rate mortgage averaged 2.77 percent . . . for the week ending August 5, 2021, down from last week when it averaged 2.80 percent. A year ago at this time, the 30-year FRM averaged 2.88 percent."

Mortgage Bankers Association

Wednesday, Mortgage Applications Survey: "Mortgage applications decreased 1.7 percent from one week earlier, according to data . . . for the week ending July 30, 2021." Mike Fratantoni, MBA's Senior Vice President and Chief Economist, says this "reflect[s] the ongoing lack of inventory that continues to drive rapid home-price appreciation across the country."

National Association of Home Builders

Thursday, Housing Opportunity Index: "Soaring building material costs, high demand and low inventory have added tens of thousands of dollars to the price of a new home and caused housing affordability to fall to its lowest level in nearly a decade during the second quarter of 2021. . . . 56.6 percent of new and existing homes sold between the beginning of April and end of June were affordable to families earning the U.S. median income of $79,900. This is down sharply from the 63.1 percent of homes sold in the first quarter of 2021 and the lowest affordability level since the beginning of the revised series in the first quarter of 2012."