Economic Update, August 27, 2021
Submitted by Kevin Vanzant

Summary: At its annual meeting in Jackson Hole this week, the Federal Reserve focused on the varied economic effects of the pandemic on different segments of the population and on different sectors of the economy. Many Fed officials sounded a hawkish tone on the economy, expressing concern that inflation may be permanent more than transitory and suggesting that the Fed should move quickly to start tapering asset purchases. However, on Friday morning, Federal Reserve Chairman Jerome Powell reaffirmed his stance that inflation is mostly transitory, though he also signaled support for tapering in the near future. For the data released this week, the IHS Markit Composite PMI showed continued growth in business activity in August, albeit at a slower pace for the third straight month, as capacity constraints and supply shortages continued to be a drag on business activity. This headwind showed up in durable goods orders for July, as well, which were down slightly, while wholesale and retail inventories showed small increases for the month. Initial claims for unemployment insurance for the past week continued to hover around pandemic-era lows. And personal Income was up strongly in July, buoyed by earnings from wages, investment returns, and government relief programs, but this did not carry over to consumer spending, which decreased in July and could be seen as another leading indicator that the recovery may be losing some steam in the face of rising COVID cases. On inflation, the core personal consumption expenditures price index (excluding food and energy), which the Federal Reserve sees as the broadest measure of inflation, rose 3.6 percent in July from a year ago, tying the highest number in about 30 years, but on a monthly basis, the inflation reading was more subdued, rising only 0.3 percent, which was in line with estimates. The housing market remained strong in July, as mortgage applications and sales of new and existing homes all increased.

Federal Government Indicators and Reports:

Census Bureau

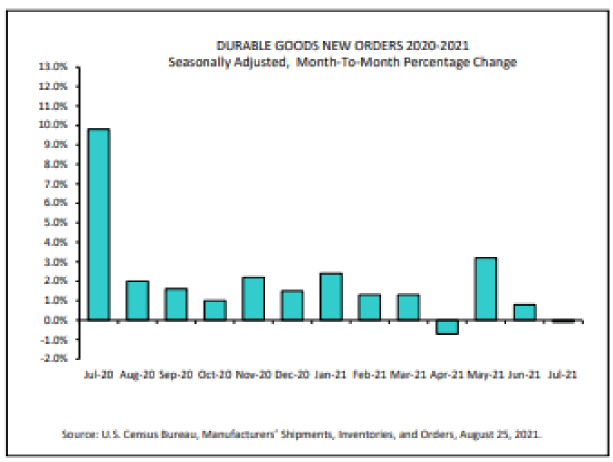
Wednesday, Durable Goods Orders: "New orders for manufactured durable goods in July decreased $0.4 billion or 0.1 percent to $257.2 billion. . . . This decrease, down following two consecutive monthly increases, followed a 0.8 percent June increase."

DURABLE GOODS – NEW ORDERS

JULY 2021	**$257.2 billion**	**-0.1%°**
JUNE 2021 (revised)	**$257.6 billion**	**+0.8%°**

Next release: September 27, 2021

Data adjusted for seasonal variation but not for price changes.
°Statistical significance is not measurable for this survey. The Manufacturers' Shipments, Inventories, and Orders estimates are not based on a probability sample, so the sampling error of these estimates cannot be measured nor can the confidence intervals be computed.
Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories and Orders, August 25, 2021.

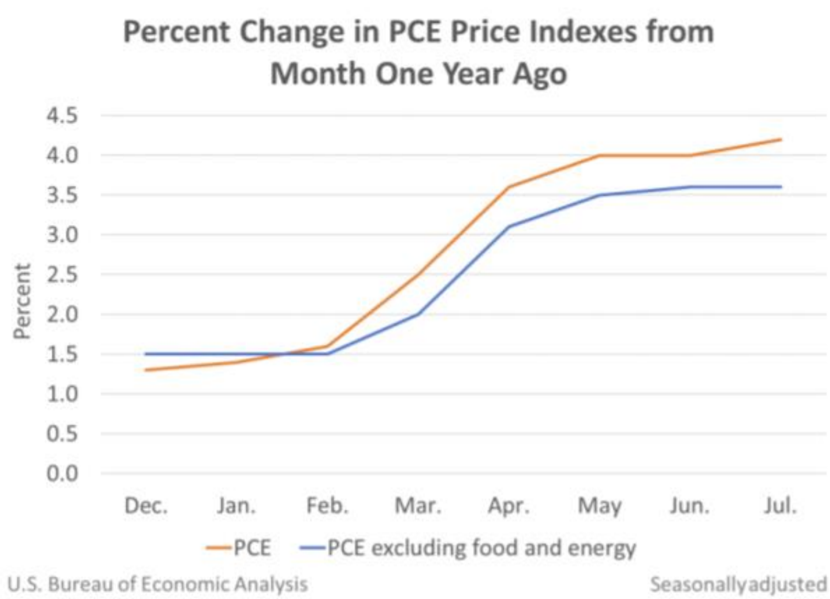


Friday, Advance Economic Indicators (international trade and wholesale/retail inventories): "The international trade deficit was $86.4 billion in July, down $5.7 billion from $92.1 billion in June. Exports of goods for July were $147.6 billion, $2.2 billion more than June exports. Imports of goods for July were $233.9 billion, $3.4 billion less than June imports. Wholesale inventories for July . . . were estimated at an end-of-month level of $722.5 billion, up 0.6 percent from June 2021, and were up 11.5 percent from July 2020. . . . Retail inventories for July . . . were estimated at an end-of-month level of $603.2 billion, up 0.4 percent from June 2021, and were up 3.3 percent from July 2020."

Bureau of Economic Analysis

Friday, Personal Income and Outlays: "Personal income increased $225.9 billion, or 1.1 percent at a monthly rate, while consumer spending increased $42.2 billion, or 0.3 percent, in July. . . . The increase in personal income in July primarily reflected increases in government social benefits and compensation of employees." The increase in benefits reflected Child Tax Credit payments authorized by the American Rescue Plan, though this was partly offset by a decrease in unemployment insurance. As for outlays, "Consumer spending increased in July, reflecting an increase in services that was partly offset by a decrease in goods. The increase in services was led by food services and accommodations (notably, accommodations. . . . Within goods, the decrease was widespread across both durable and nondurable goods, led by motor vehicles and parts (notably, new light trucks."

Friday, Personal Consumption Expenditure Price Index: "The personal consumption expenditures (PCE) price index for July increased 4.2 percent from one year ago, reflecting increases in both goods and services. Energy prices increased 23.6 percent while food prices increased 2.4 percent. Excluding food and energy, the PCE price index for July increased 3.6 percent from one year ago. Compared to June 2021, the PCE price index increased 0.4 percent, reflecting increases in both goods and services. Energy prices increased 1.6 percent while food prices increased 0.6 percent. Excluding food and energy, the PCE price index increased 0.3 percent from June 2021 to July 2021."

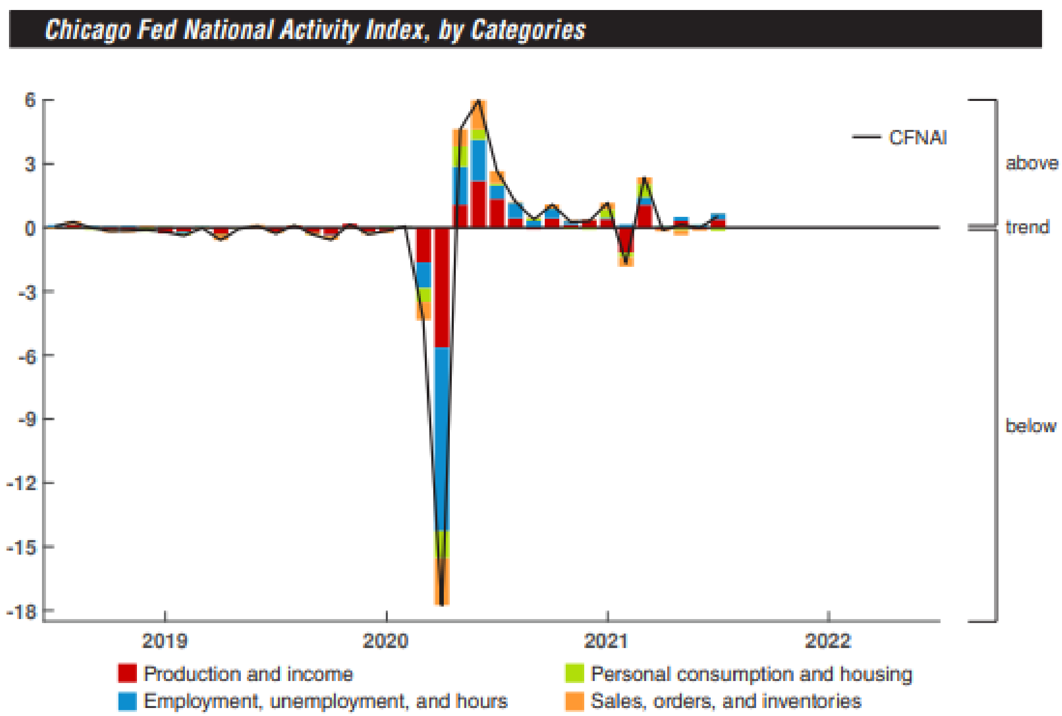


Department of Labor

Thursday, Initial Jobless Claims: "In the week ending August 21, the advance figure for seasonally adjusted initial claims was 353,000, an increase of 4,000 from the previous week's revised level. . . . The 4-week moving average was 366,500, a decrease of 11,500 from the previous week's revised average. This is the lowest level for this average since March 14, 2020 when it was 225,500."

Federal Reserve Bank of Chicago

Monday, National Activity Index: "Led by improvements in production-related indicators, the Chicago Fed National Activity Index (CFNAI) increased to +0.53 in July from –0.01 in June. Three of the four broad categories of indicators used to construct the index made positive contributions in July, and three categories improved from June." Positive values for the index are associated with above average growth and negative values with below average growth.



Economic Indicators and Confidence:

IHS Markit

Monday, Composite PMI: "Private sector companies across the U.S. signaled a further strong upturn in business activity during August, however, the pace of growth slowed to an eight-month low. Capacity pressures, material shortages and the spread of the Delta variant reportedly weighed on the output expansion. Adjusted for seasonal factors, the IHS Markit Flash U.S. Composite PMI Output Index posted 55.4 in August, down sharply from 59.9 in July. The rate of output growth slowed for the third month running from May's series high. The pace of expansion in business activity was also the slowest seen in 2021 so far as service providers and manufacturers reported greater constraints on capacity. Inflows of new business meanwhile also softened in August, rising at the slowest pace since December 2020, led by a marked cooling in growth of demand for services (notably in terms of exports, for which orders fell). Nonetheless, manufacturing firms reported a further marked increase in new order inflows, pointing to robust demand for goods."

Mortgages and Housing Markets:

National Association of Realtors

Monday, [Existing Home Sales](): "Existing-home sales rose in July, marking two consecutive months of increases. . . . Total existing-home sales . . . grew 2.0% from June to a seasonally adjusted annual rate of 5.99 million in July. Sales inched up year-over-year, increasing 1.5% from a year ago (5.90 million in July 2020). 'We see inventory beginning to tick up, which will lessen the intensity of multiple offers,' said Lawrence Yun, NAR's chief economist. 'Much of the home sales growth is still occurring in the upper-end markets, while the mid- to lower-tier areas aren't seeing as much growth because there are still too few starter homes available.' . . . 'Although we shouldn't expect to see home prices drop in the coming months, there is a chance that they will level off as inventory continues to gradually improve,' said Yun."

Census Bureau

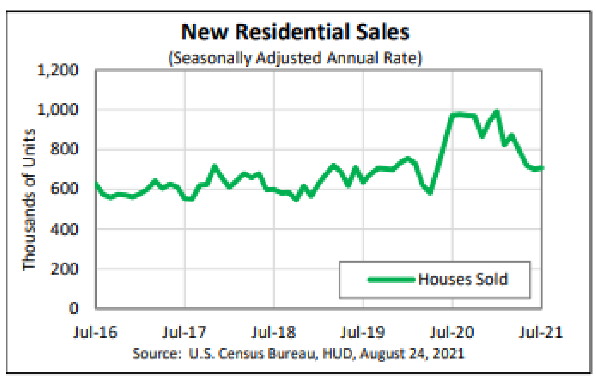
Tuesday, [New Residential Sales](): "Sales of new single-family houses in July 2021 were at a seasonally adjusted annual rate of 708,000. . . . This is 1.0 percent above the revised June rate of 701,000, but is 27.2 percent below the July 2020 estimate of 972,000. . . . The median sales price of new houses sold in July 2021 was $390,500. The average sales price was $446,000.

NEW RESIDENTIAL SALES JULY 2021

New Houses Sold[1]:	**708,000**
New Houses For Sale[2]:	**367,000**
Median Sales Price:	**$390,500**

Next Release: September 24, 2021

[1]Seasonally Adjusted Annual Rate (SAAR)
[2]Seasonally Adjusted
Source: U.S. Census Bureau, HUD, August 24, 2021



Mortgage Bankers Association

Wednesday, [Mortgage Applications](): "Mortgage applications increased 1.6 percent from one week earlier . . . for the week ending August 20, 2021. . . 'Treasury yields fell last week, as investors continue to anxiously monitor if the rise in COVID-19 cases in several states starts to dampen economic activity. Mortgage rates slightly declined as a result, with the 30-year fixed rate decreasing for the first time in three weeks. Lower rates led to an increase in refinance applications, with government loan applications jumping 10 percent to the highest level since May 2021,' said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting."