

Economic Update, August 8, 2020  
Submitted by Bob Moreo

Summary: Several reports indicate businesses have rebounded from low points in March and April, but economic activity remains below pre-pandemic levels. New unemployment claims were down from last week. Nonfarm payrolls increased in July, beating expectations but below increases in May and June. However, commenting to Reuters on the increase and whether it implies economic conditions have significantly improved, Seema Shah, Chief Strategist at Principal Global Investors in London, [said](#) “No—it simply suggests the labor market was static in July, showing no signs of renewed weakness that the increase in COVID-19 cases had threatened.” The ADP employment report for July “was well below the 1 million expected from economists surveyed by Dow Jones,” [as reported by CNBC](#). And while the housing market has been considered a bright spot in the broader sluggish economy, decreased construction spending figures for the month of June raised a few eyebrows this week, as the rate of total spending decreased for the fourth straight month—with spending on new single-family homebuilding driving the decline.

**Federal Government Indicators and Reports:**

Bureau of Economic Analysis

Wednesday, [U.S. International Trade in Goods and Services](#): The goods and services trade deficit “was \$50.7 billion in June, down \$4.1 billion from \$54.8 billion in May, revised. . . . Year-to-date, the goods and services deficit decreased \$23.1 billion, or 7.8 percent, from the same period in 2019.”

Bureau of Labor Statistics

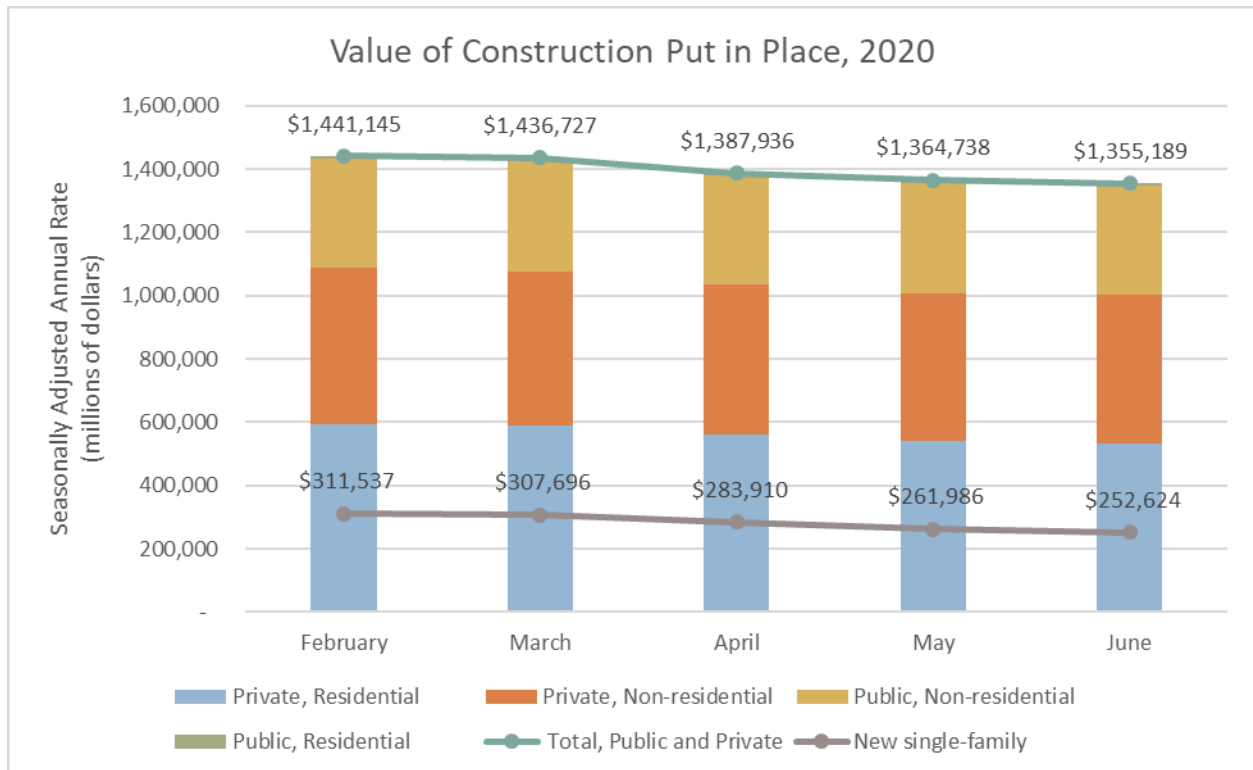
Friday, [Employment Situation](#): “Total nonfarm payroll employment rose by 1.8 million in July, and the unemployment rate fell to 10.2 percent. . . . Notable job gains occurred in leisure and hospitality, government, retail trade, professional and business services, other services, and health care. . . . The number of unemployed persons who were on temporary layoff decreased by 1.3 million in July to 9.2 million, about half its April level. . . . Among the unemployed . . . the number of persons jobless 15 to 26 weeks rose by 4.6 million to 6.5 million.” The July increase in nonfarm payroll employment was less than increases in June (4.8 million) and May (2.7 million). Total nonfarm employment remains below February levels (down 12.9 million or 8.4 percent).

Bureau of Transportation Statistics

Thursday, [Airline Employment](#): “U.S. airlines employed 699,683 workers in the middle of June 2020, 2,446 more than in mid-May 2020 and 53,602 fewer than in March 2020. The June 2020 numbers consist of 508,688 full-time and 111,075 part-time workers.”

Census Bureau

Monday, [Monthly Construction Spending](#): “Construction spending during June 2020 was estimated at a seasonally adjusted annual rate of \$1,355.2 billion, 0.7 percent below the revised May estimate of \$1,364.7 billion. The June figure is 0.1 percent above the June 2019 estimate of \$1,354.1 billion. During the first six months of this year, construction spending amounted to \$667.9 billion, 5.0 percent above the \$636.0 billion for the same period in 2019. . . . Residential construction was at a seasonally adjusted annual rate of \$534.2 billion in June, 1.5 percent below the revised May estimate of \$542.1 billion.”



Source: Table 1. Value of Construction Put in Place in the United States, Seasonally Adjusted Annual Rate; chart by author.

Tuesday, [Manufacturers' Shipments, Inventories, and Orders](#): "New orders for manufactured goods in June, up two consecutive months, increased \$25.5 billion or 6.2 percent to \$437.2 billion, . . . [following] a 7.7 percent May increase. Shipments, also up two consecutive months, increased \$40.7 billion or 9.8 percent to \$457.3 billion. This followed a 3.0 percent May increase."

Friday, [Wholesale Trade](#): "June 2020 sales of merchant wholesalers . . . were \$457.3 billion, up 8.8 percent from the revised May level, but were down 8.5 percent from the revised June 2019 level. . . . Total inventories . . . were \$633.3 billion at the end of June, down 1.4 percent from the revised May level . . . [and] down 5.6 percent from the revised June 2019 level. . . . The June inventories/sales ratio . . . was 1.38."

#### Department of Labor

Thursday, [Initial Unemployment Claims](#): "In the week ending August 1, the advance figure for seasonally adjusted initial claims was 1,186,000, a decrease of 249,000 from the previous week's revised level. . . . The 4-week moving average was 1,337,750, a decrease of 31,000 from the previous week's revised average. . . . The advance seasonally adjusted insured unemployment rate was 11.0 percent for the week ending July 25, a decrease of 0.6 percentage point from the previous week's unrevised rate." In Tennessee, there were 11,690 new claims in the week ending August 1 (not seasonally adjusted), 8,401 fewer than the week before.

#### Federal Reserve Bank of Chicago

Wednesday, [National Financial Conditions Index](#): The latest index points to looser financial conditions in the week ending July 31. "The NFCI edged down to -0.47 in the week ending July 31. . . . 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.”

### **Economic Indicators and Confidence:**

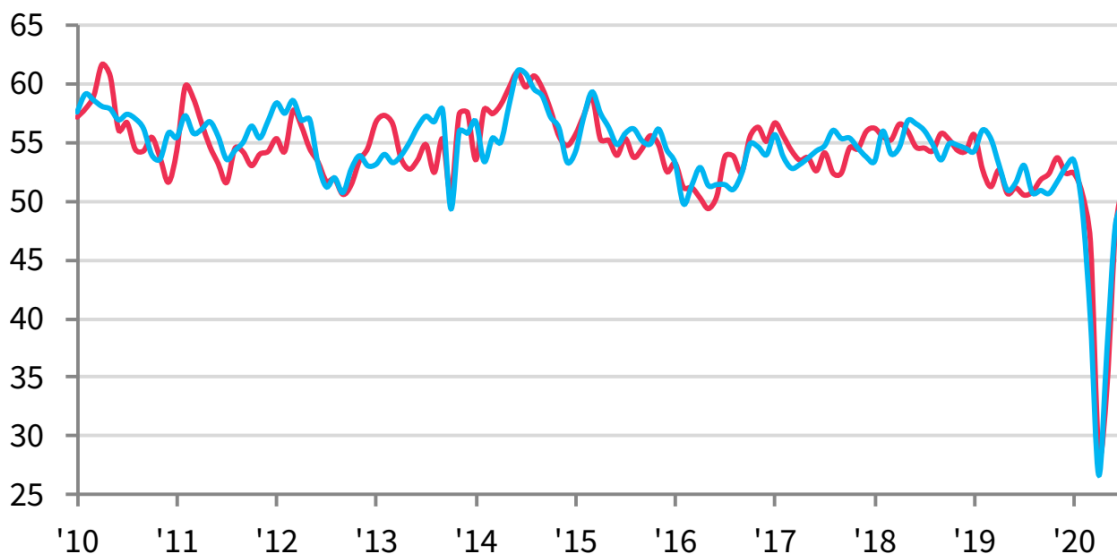
IHS Markit

Wednesday, [US Services PMI Business Activity](#): “The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 50.0 at the start of the third quarter, up from 47.9 in June and improving on the ‘flash’ estimate of 49.6, to signal a stabilization in service sector business activity. The latest data brought to an end a five-month sequence of contraction, with the Business Activity index rising for a third successive month from April’s record low (26.7). Although some firms remained closed or noted weak client demand and disrupted working practices due to the pandemic, others stated that the resumption of business had boosted output. . . . [B]usiness confidence improved in July to the strongest since March 2019 . . . buoyed by hopes of a relaxation in lockdown measures and a return to pre-pandemic business practices over the next 12 months. That said, the degree of confidence was below the series average, as some remained concerned about the longevity of the pandemic.”

Wednesday, [U.S. Composite PMI](#): “Private sector output increased for the first time since the start of the year in July, largely driven by an expansion in manufacturing production. The IHS Markit Composite PMI Output Index posted 50.3 at the start of the third quarter, up from 47.9 in June.” According to comments by Chris Williamson, Chief Business Economist at IHS Markit, “businesses have on balance become more optimistic about recovery in the year ahead and took on extra staff to ensure capacity is sufficient to meet future growth. However, whether this optimism can be sustained and result in faster growth will of course depend on infection rates falling.”

### **Manufacturing Output Index** **Services Business Activity Index**

sa, >50 = growth since previous month



Source: IHS Markit.

Wednesday, [US Sector PMI Indices](#): “July data signaled growth in four of the seven broad categories of activity, with the mixed picture reflecting the uneven impact of the coronavirus 2019

(COVID-19) pandemic on different industry sectors. Once again, the strongest rate of expansion was seen in healthcare activity, which includes both service provision and the manufacturing supply chain. Beyond healthcare, the recovery in private sector output was led by consumer goods production, followed closely by basic materials. . . . Business activity was broadly unchanged across the industrials category, while technology firms indicated a modest decline. . . . Finally, consumer services was unsurprisingly the weakest performing area of the private sector economy in July, reflecting challenges with reopening business operations.”

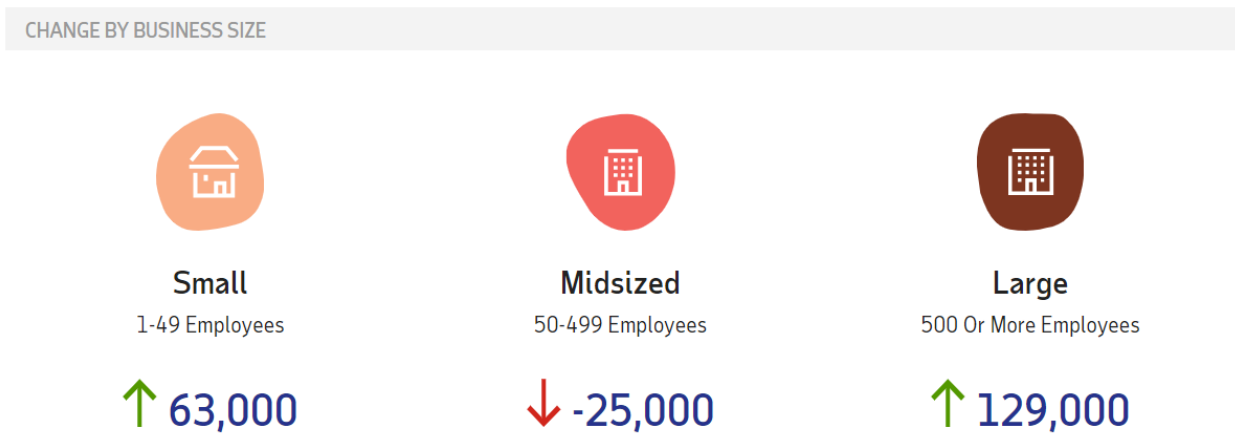
Investor’s Business Daily

Tuesday, [Economic Optimism Index](#): “After hitting a coronavirus crisis low at the start of July, the six-month economic outlook index rose 2.5 points to 39.8, still well below the 50 neutral level. The overall IBD/TIPP Economic Optimism Index rose to 46.8, up 2.8 points from July’s crisis low, but marked the fifth straight month of outright pessimism.”

**Employment and Businesses:**

ADP

Wednesday, [National Employment Report](#): According to ADP payroll data, “private sector employment increased by 167,000 jobs from June to July. . . . ‘The labor market recovery slowed in the month of July,’ said Ahu Yildirmaz, vice president and co-head of the ADP Research Institute. ‘We have seen the slowdown impact businesses across all sizes and sectors.’”



Institute for Supply Management

Monday, [Manufacturing PMI Report](#): “Economic activity in the manufacturing sector grew in July, with the overall economy notching a third consecutive month of growth, say the nation’s supply executives.” According to Timothy R. Fiore, Chair of the ISM Manufacturing Business Survey Committee, “the July PMI registered 54.2 percent, up 1.6 percentage points from the June reading of 52.6 percent. This figure indicates expansion in the overall economy for the third month in a row after a contraction in April. . . . The growth cycle continues for the second straight month after three prior months of COVID-19 disruptions. Demand and consumption continued to drive expansion growth, with inputs remaining at parity with supply and demand. Among the six biggest industry sectors, Food, Beverage & Tobacco Products remains the best-performing industry sector.”

Wednesday, [Services PMI Report](#): “Economic activity in the Services sector (formerly non-manufacturing sector) grew in July for the second month in a row.” According to Anthony Nieves, Chair

of the ISM Services Business Survey Committee, “the Services PMI registered 58.1 percent, 1 percentage point higher than the June reading of 57.1 percent. This reading represents growth in the services sector for the second straight month after contraction in April and May.”

Paychex | IHS Markit

Tuesday, [Small Business Employment Watch](#): July’s report “shows that employment growth moderated as new COVID-19 hot spots emerged in the South and West regions of the U.S. The national jobs index slipped 0.24 percent in July to 94.59. Hourly earnings growth also slowed slightly to 3.29 percent last month, but increasing hours worked, spurred by the shifting workforce composition, drove weekly earnings growth up to 4.14 percent. . . . ‘The jobs index fell slightly in July as a number of states were forced to backtrack on early reopenings,’ said James Diffley, chief regional economist at IHS Markit.” Martin Mucci, Paychex president and CEO, added, “We’re closely monitoring the status of the next expected stimulus bill for additional relief measures that may be necessary for many small businesses in the months ahead.”

### **Mortgages and Housing Markets:**

Freddie Mac

Thursday, [Primary Mortgage Market Survey](#): This week’s survey showed “that the 30-year fixed-rate mortgage (FRM) averaged 2.88 percent, the lowest rate in the survey’s history dating back to 1971.” Sam Khater, Freddie Mac’s Chief Economist, said, “We expect rates to stay low and continue to propel the purchase market forward. However, the main barrier to rising demand remains the lack of inventory, especially for entry-level homes.”

Mortgage Bankers Association

Wednesday, [Weekly Mortgage Applications Survey](#): For the week ending July 31, 2020, “mortgage applications decreased 5.1 percent from one week earlier. . . . ‘MBA’s forecast calls for [interest] rates to remain at these low levels, which will continue to spur strong refinance activity and offer homeowners relief in the form of lower monthly mortgage payments during these uncertain economic times,’ said Joel Kan, MBA’s Associate Vice President of Economic and Industry Forecasting. ‘Purchase applications also fell slightly, but were still 20 percent higher than a year ago and have now risen year-over-year for 11 straight weeks.’”