

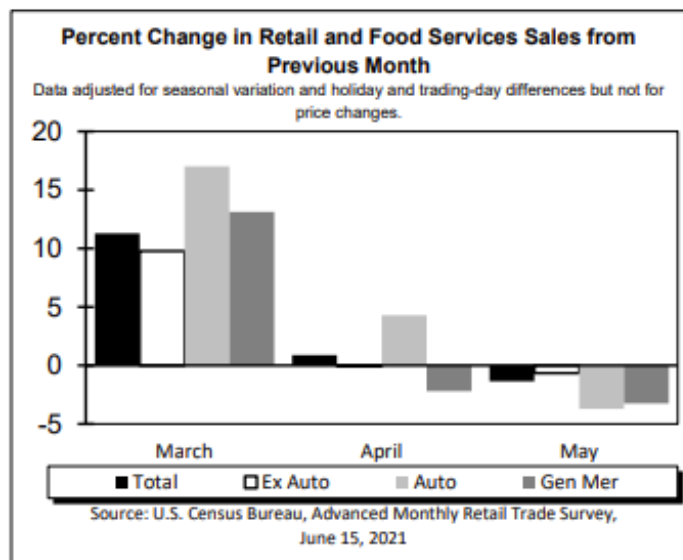
Economic Update, June 18, 2021
Submitted by Kevin Vanzant

Summary: This week's economic indicators showed a growing economy, but one that is experiencing significant growing pains, as consumer demand continues to outstrip supply in many sectors of the economy. Retail sales in May fell more than forecast, but second-quarter consumer spending on merchandise is still poised for a solid advance as retail sales in the three months through May [increased](#) at a 57% annualized rate. Factory output in May was up 0.8%, more than expected, while business inventories for the month of April declined. A gauge in producer prices paid rose for May at its fastest annual clip in nearly 11 years, and export and import prices increased in May more than expected as well, all indicating rising inflation pressures in the economy. A Federal Reserve Bank of New York's Survey of Consumer Expectations also measured an uptick in inflation expectations to 4%, a new high for the series that has been running since 2013. In a statement released Wednesday, Federal Reserve officials announced that they would be continuing many of their current monetary policies, but signaled they expect to raise interest rates by late 2023, sooner than they had anticipated in March. In an interview Friday morning, St. Louis Federal Reserve President James Bullard [struck](#) a more hawkish tone, saying that he could see the initial interest rate increase happening in late 2022 while acknowledging that inflation had run hotter than the Federal Reserve had expected. US applications for home mortgages rose last week following three consecutive weeks of declines, and initial jobless claims disappointed, rising to 412,000 in the week ending on June 12 compared with the previous week's 375,000, although the data indicates that the gains in jobless claims were heavily centered in Pennsylvania and California.

Federal Government Indicators and Reports:

Census Bureau

Tuesday, [Retail Sales](#): "Advance estimates of US retail and food services sales for May 2021 . . . were \$620.2 billion, a decrease of 1.3% from the previous month, but 28.1% above May 2020. . . Retail trade sales were down 1.7% from April 2021, but up 24.4% above last year."



Tuesday, [Business Inventories](#): "The combined value of distributive trade sales and manufacturers' shipments for April . . . was estimated at \$1,621.1 billion, up 0.6% from March 2021 and

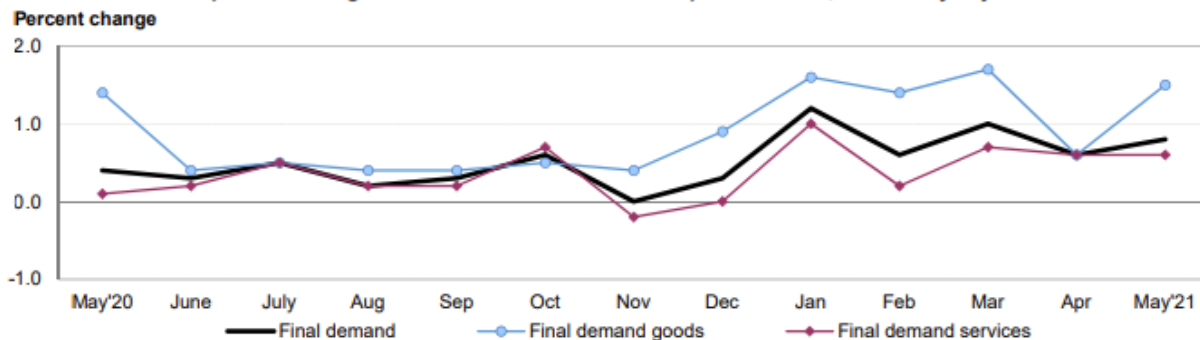
was up 40.0% from April 2020. . . Inventories Manufacturers' and trade inventories for April . . . were estimated at an end-of-month level of \$2,024.0 billion, down 0.2% from March 2021, but were up 1.3% from April 2020. . . Inventories/Sales Ratio The total business inventories/sales ratio based on seasonally adjusted data at the end of April was 1.25. The April 2020 ratio was 1.73."



Bureau of Labor Statistics

Tuesday, [Producer Price Indexes](#): "The Producer Price Index for final demand increased 0.8% in May. . . Final demand prices rose 0.6% in April and 1.0% in March. On an unadjusted basis, the final demand index advanced 6.6% for the 12 months ended in May, the largest increase since 12-month data were first calculated in November 2010."

Chart 1. One-month percent changes in selected PPI final demand price indexes, seasonally adjusted

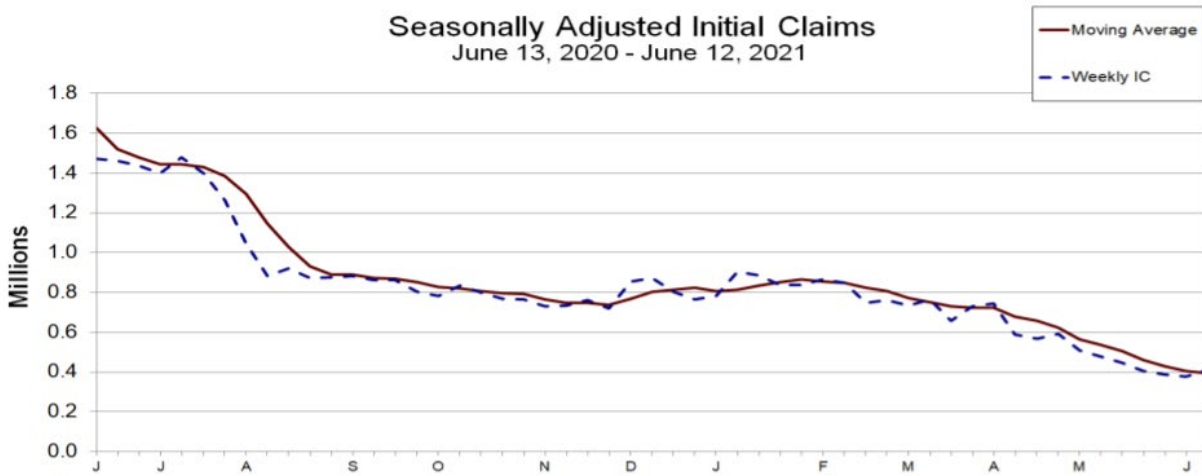


Wednesday, [Import and Export Price Indexes](#): "Prices for US imports increased 1.1% in May, after a 0.8-percent advance the previous month . . . Higher prices for fuel and nonfuel imports contributed to both the May and April rises. US export prices increased 2.2% in May following a 1.1-percent advance in April. . . In May, higher prices for nonagricultural and agricultural exports both contributed to the overall advance [in export prices]. The price index for US exports rose 17.4% from

May 2020 to May 2021, the largest over-the-year increase in the series, which was first published in September 1983.”

Department of Labor

Thursday, [Initial Jobless Claims](#): “In the week ending June 12, the advance figure for seasonally adjusted initial claims was 412,000, an increase of 37,000 from the previous week's revised level. . . The 4-week moving average was 395,000, a decrease of 8,000 from the previous week's revised average. This is the lowest level for this average since March 14, 2020 when it was 225,500. . . The advance seasonally adjusted insured unemployment rate was 2.5% for the week ending June 5, unchanged from the previous week's unrevised rate.”



Federal Reserve

Tuesday, [Industrial Production](#): “Total industrial production increased 0.8% in May. Manufacturing production advanced 0.9%, reflecting, in part, a large gain in motor vehicle assemblies; factory output excluding motor vehicles and parts increased 0.5%. . . In May, at 99.9% of its 2017 average, total industrial production was 16.3% higher than it was a year earlier but 1.4% lower than its pre-pandemic (February 2020) level. Capacity utilization for the industrial sector rose 0.6 percentage point in May to 75.2%, a rate that is 4.4 percentage points below its long-run (1972–2020) average.”

Federal Open Market Committee

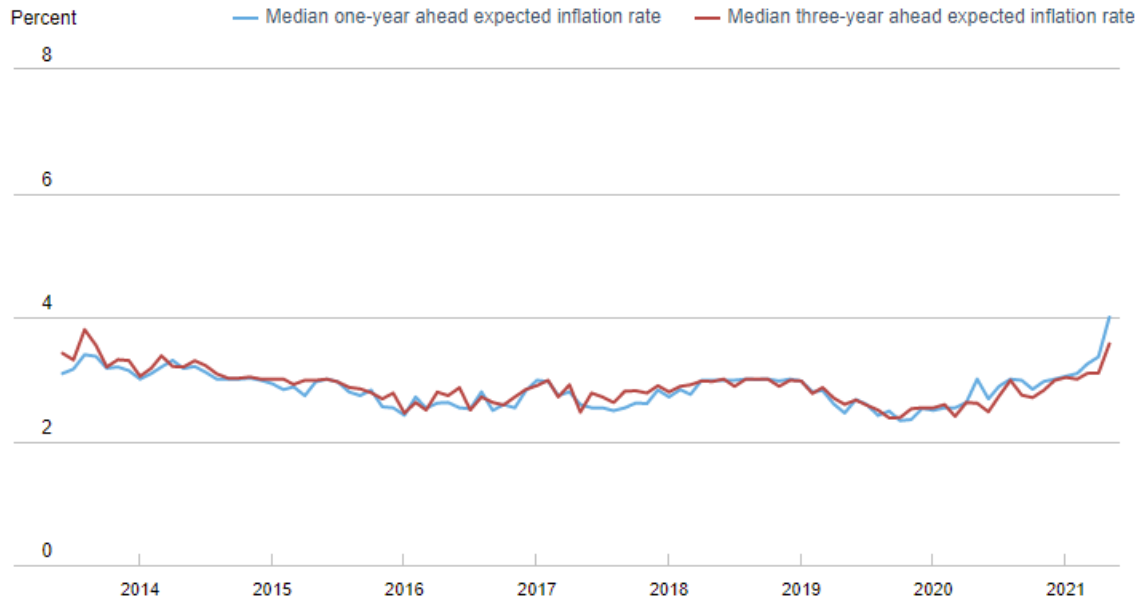
Wednesday, [FOMC Statement](#): “The Committee expects to maintain an accommodative stance of monetary policy . . . The Committee decided to keep the target range for the federal funds rate at 0 to 1/4% and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time. In addition, the Federal Reserve will continue to increase its holdings of Treasury securities by at least \$80 billion per month and of agency mortgage-backed securities by at least \$40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals.”

Federal Reserve Bank of New York

Monday, [Consumer Inflation Expectations](#): “The May 2021 Survey of Consumer Expectations . . . shows that households' expectations about year-ahead inflation, home price and rent price changes, earnings, income, and spending growth all increased in May. Medium-term inflation expectation grew more modestly, while inflation uncertainty increased sharply at both horizons. Labor market

expectations improved, with unemployment and the probability of losing one's job both reaching series lows, while earning expectations and the probability of finding a job increased sharply.”

Inflation Expectations



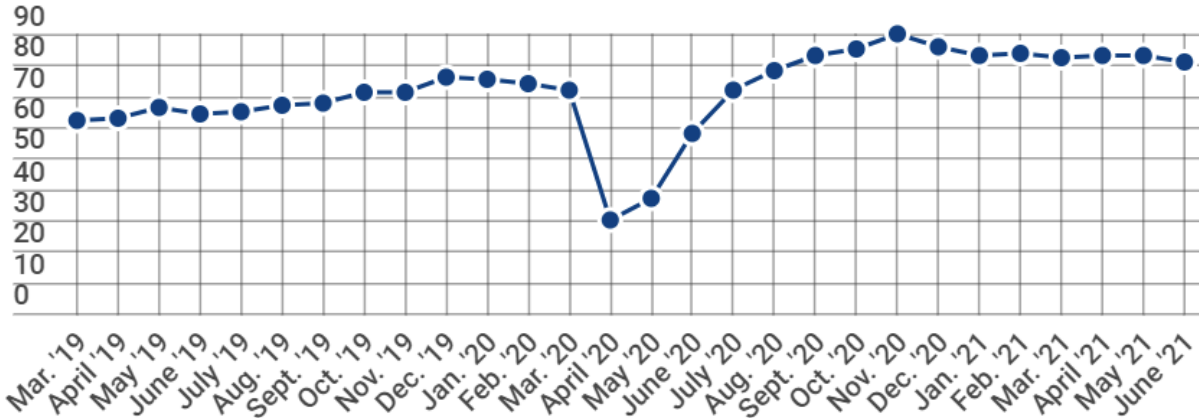
Mortgages and Housing Markets:

National Association of Homebuilders

Tuesday, [Housing Market Index](#): “Rising material prices and supply chain shortages resulted in builder confidence dipping to its lowest level since August 2020. The . . . Housing Market Index (HMI) . . . shows that builder confidence in the market for newly built single-family homes fell two points to 81 in June. Despite the monthly decline, the reading above 80 is still a signal of strong demand in a housing market lacking inventory. . . ‘Higher costs and declining availability for softwood lumber and other building materials pushed down builder sentiment in June,’ said NAHB Chairman Chuck Fowke. ‘These

higher costs have moved some new homes beyond the budget of prospective buyers, which has slowed the strong pace of home building.”

Housing Market Index

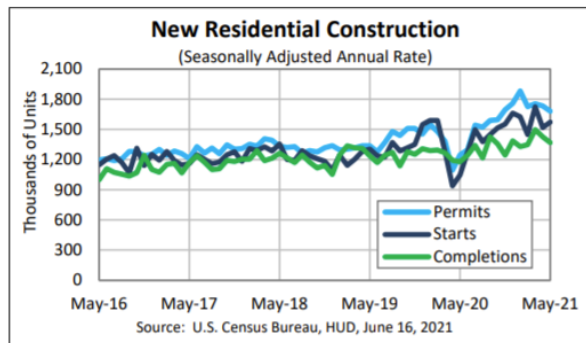


Source: [NAHB](#)

Census Bureau

Wednesday, [New Residential Construction](#): “Privately-owned housing units authorized by building permits in May were at a seasonally adjusted annual rate of 1,681,000. This is 3.0% below the revised April rate of 1,733,000 but is 34.9% above the May 2020 rate of 1,246,000. . . Privately-owned housing starts in May were at a seasonally adjusted annual rate of 1,572,000. This is 3.6% above the revised April estimate of 1,517,000 and is 50.3% above the May 2020 rate of 1,046,000. . . Privately-owned housing completions in May were at a seasonally adjusted annual rate of 1,368,000. This is 4.1% below the revised April estimate of 1,426,000 but is 16.1% above the May 2020 rate of 1,178,000.”

NEW RESIDENTIAL CONSTRUCTION MAY 2021	
Building Permits:	1,681,000
Housing Starts:	1,572,000
Housing Completions:	1,368,000
Next Release: July 20, 2021	
Seasonally Adjusted Annual Rate (SAAR)	
Source: U.S. Census Bureau, HUD, June 16, 2021	



Mortgage Bankers Association

Wednesday, [Mortgage Applications](#): “Mortgage applications increased 4.2% from one week earlier . . . for the week ending June 11, 2021. . . The Refinance Index increased 6% from the previous week and was 22% lower than the same week one year ago. The seasonally adjusted Purchase Index increased 2% from one week earlier. . . “Mortgage applications bounced back after three weeks of declines, increasing over 4% last week. Both purchase and refinance applications were up, including a 5.5% gain in refinances. The jump in refinances was the result of the 30-year fixed rate falling for the third straight week to 3.11% . . .” said Joel Kan, MBA's Associate Vice President of Economic and Industry

Forecasting. "Purchase activity also rebounded, even as supply constraints continue to slow the housing market."