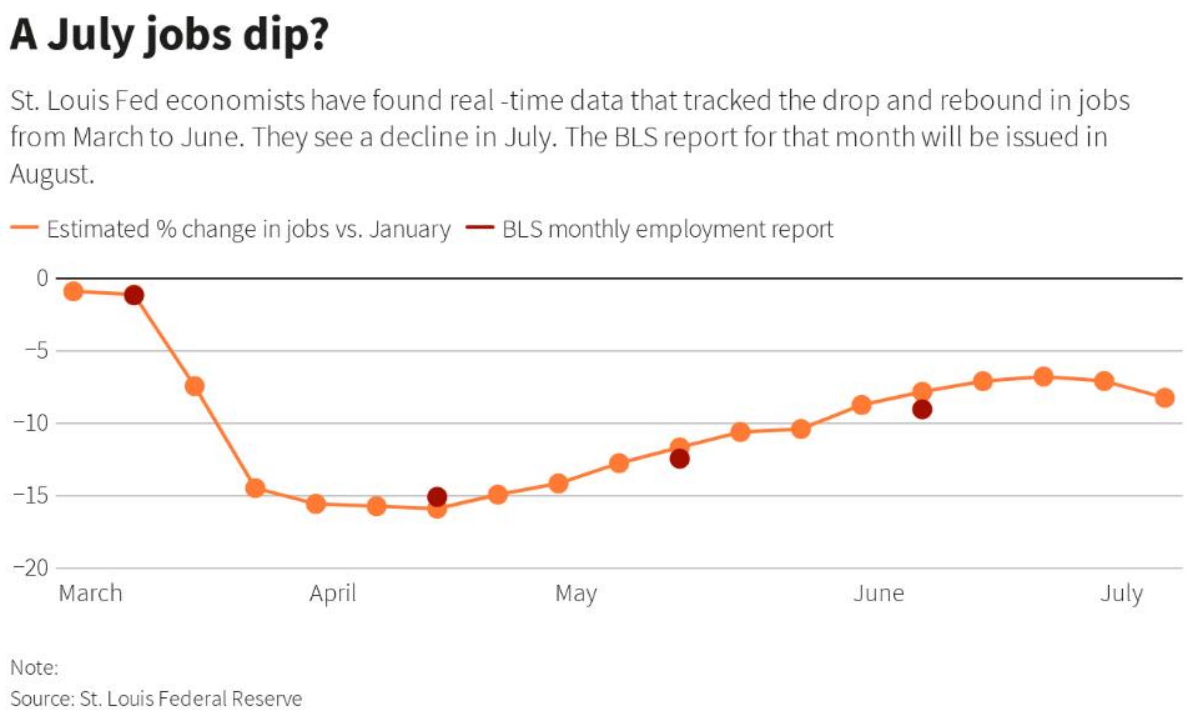
Economic Update, July 24, 2020
Submitted by Bob Moreo

Summary: Similar to last week, the data from late May and June are largely positive; the lingering concern is whether the economy will regress as COVID-19 cases continue to surge. On Wednesday, The Conference Board reported its Leading Economic Index increased in June but warned that "a resurgence of new COVID-19 cases across much of the nation . . . suggests that the U.S. economy will remain in recession territory in the near term." Data from purchasing managers showed signs that, while firms are recovering from the initial shock of the pandemic, demand going forward is slowing amid uncertainty about potential shutdowns. Thursday's report from the Department of Labor showed initial unemployment claims ticked up slightly last week, and Reuters reported there are "hints emerging that the quick job gains of May and June may be fading, according to high frequency data and analysis from companies, forecasters, and government analysts" (see figure below). Low mortgage rates and pent-up demand from the spring are driving a recovery in home sales.



Federal Government Indicators and Reports:

Bureau of Economic Analysis

Thursday, Direct Investment by Country and Industry, 2019: "U.S. direct investment abroad . . . increased $158.6 billion to $5.96 trillion at the end of 2019 from $5.80 trillion at the end of 2018. . . . The increase reflected a $95.7 billion increase in the position in Europe, primarily in the United Kingdom and the Netherlands. . . . The foreign direct investment in the United States position increased $331.2 billion to $4.46 trillion at the end of 2019 from $4.13 trillion at the end of 2018. The increase mainly reflected a $157.3 billion increase in the position from Asia and Pacific, primarily Japan."

Bureau of Transportation Statistics

Wednesday, North American Freight Data: Total transborder freight moved by all modes of transportation between the U.S. and other North American countries (Canada and Mexico) was valued at $56.1 billion in May 2020, down 48.9% compared to May 2019 and the lowest total amount since May 2009. May's freight value was down 3.5% from April and down 43.3% from March.

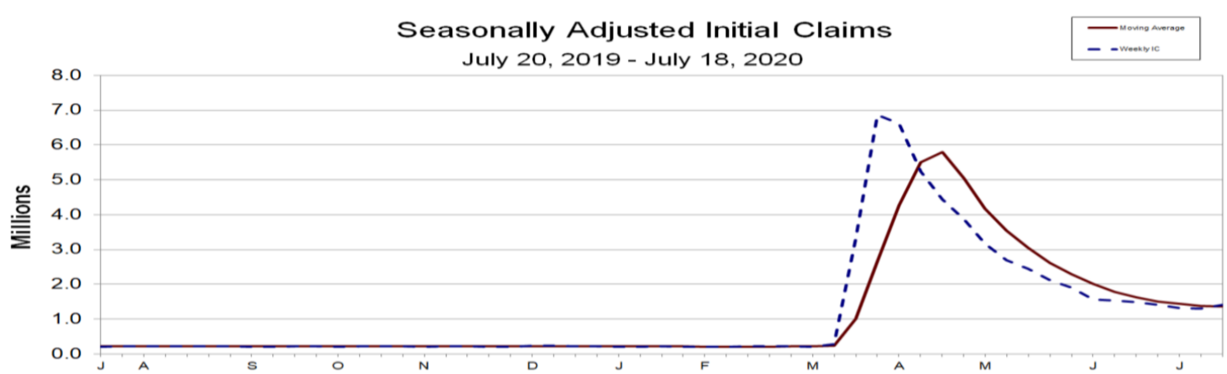
Thursday, Preliminary U.S. Airline Cargo: "U.S. airlines carried 4.7% more domestic cargo by weight in May 2020 than in May 2019, the largest annual gain since July 2019 while the 8.4% decline in international cargo was the smallest annual loss since February. . . . May 2020 would be the first month since December 2019 that U.S. airlines carried more total cargo than they did during the same month of the previous year."

Census Bureau

Friday, New Residential Sales: "Sales of new single-family houses in June 2020 were at a seasonally adjusted annual rate of 776,000. . . . This is 13.8 percent above the revised May rate of 682,000 and is 6.9 percent above the June 2019 estimate of 726,000. The median sales price of new houses sold in June 2020 was $329,200. The average sales price was $384,700."

Department of Labor

Thursday, Unemployment Weekly Claims: "In the week ending July 18, the advance figure for seasonally adjusted initial claims was 1,416,000, an increase of 109,000 from the previous week's revised level. . . . The 4-week moving average was 1,360,250, a decrease of 16,500 from the previous week's revised average. . . . The advance seasonally adjusted insured unemployment rate was 11.1 percent for the week ending July 11, a decrease of 0.7 percentage point from the previous week's revised rate." In Tennessee, the advance number of initial claims (not seasonally adjusted) filed the week ending July 18 was 25,794, an increase of 3,734 from the prior week.



Federal Reserve Bank of Chicago

Tuesday, National Activity Index: "Led by improvements in production- and employment-related indicators, the Chicago Fed National Activity Index (CFNAI) increased to +4.11 in June from +3.50 in May. Three of the four broad categories of indicators used to construct the index made positive contributions in June, and two of the four categories increased from May. The index's three-month moving average, CFNAI-MA3, moved up to –3.49 in June from –6.36 in May."

Wednesday, National Financial Conditions: Indicating looser financial conditions, the Chicago Fed's National Financial Conditions Index (NFCI) "was –0.47 in the week ending July 17, down from an unrevised –0.43."

Economic Indicators and Confidence:

The Conference Board

Wednesday, U.S. Leading Economic Index: The index for the U.S. "increased 2.0 percent in June to 102.0 following a 3.2 percent increase in May and a 6.3 percent decrease in April. 'The June increase in the LEI reflects improvements brought about by the incremental reopening of the economy, with labor market conditions and stock prices in particular contributing positively,' said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. 'However, broader financial conditions and the consumers' outlook on business conditions still point to a weak economic outlook. Together with a resurgence of new COVID-19 cases across much of the nation, the LEI suggests that the US economy will remain in recession territory in the near term.'"

IHS Markit

Friday, Flash US Composite PMI: "Adjusted for seasonal factors, the IHS Markit Flash U.S. Composite PMI Output Index posted 50.0 in July, up from 47.9 at the end of the second quarter, signaling a stabilization in private sector output . . . [indicating] an end to the five-month sequence of decline that began in February. . . . Chris Williamson, Chief Business Economist at IHS Markit, said, 'While the stabilization of business activity in July is welcome news, the lack of growth is a disappointment. Moreover, a renewed acceleration in the rate of loss of new business raises concerns that demand is faltering. Many companies, notably in consumer-facing areas of the service sector, linked falling sales to re-imposed lockdowns. Firms' costs have meanwhile spiraled higher, surging at the steepest rate for seven years in the service sector, in part due to the additional burdens of safeguarding against the coronavirus.'" The Services Index registered 49.6 in July, up from 47.9 in June, while the Manufacturing Index came in at 51.3, up from 49.8 in June.

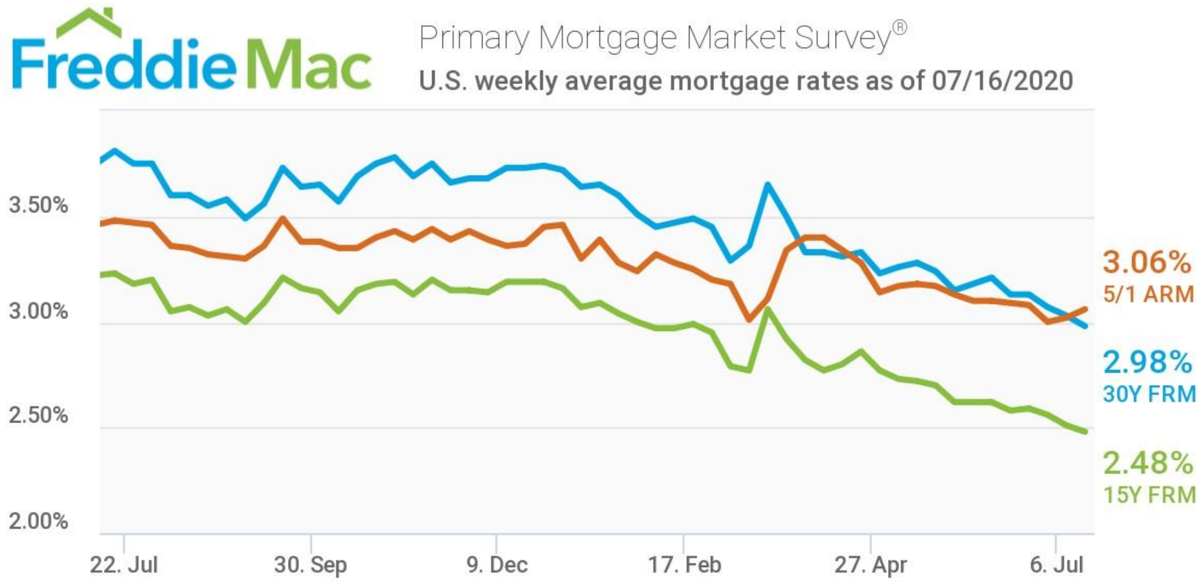
S&P Dow Jones

Tuesday, Consumer Credit Default Indices: The composite S&P/Experian Consumer Credit Default Index improved by 12 basis points in June to 0.66%. "The bank card default rate fell 17 basis points to 4.23%. The auto loan default rate dropped 16 basis points to 0.40%, and the first mortgage default rate fell 11 basis points to 0.41%."

<u>Mortgages and Housing Markets:</u>

Freddie Mac

Thursday, Primary Mortgage Market Survey: "30-year fixed-rate mortgage averaged 3.01 percent . . . for the week ending July 23, 2020, up slightly from 2.98 percent. A year ago at this time, the 30-year FRM averaged 3.75 percent." According to Sam Khater, Freddie Mac's Chief Economist, "demand will continue on the back of near record low mortgage rates. . . . However, the most recent consumer spending data has been pointing to slow growth since mid-June. The concern is that the pause in economic activity will cause unemployment to remain elevated which will lead to longer-term labor market distress."



Mortgage Bankers Association

Monday, Forbearance and Call Volume Survey: "The total number of loans now in forbearance decreased by 38 basis points from 8.18% of servicers' portfolio volume in the prior week to 7.80% as of July 12, 2020. According to MBA's estimate, 3.9 million homeowners are in forbearance plans. . . . 'The share of loans in forbearance dropped to its lowest level in over two months, driven by an increase in the pace of exits as more homeowners have been able to get back to work,' said Mike Fratantoni, MBA's Senior Vice President and Chief Economist. . . . 'The pace of new forbearance requests remains quite low compared to earlier in the crisis, but we are watching carefully for any increases due to either the pick-up in COVID-19 cases or the cessation of enhanced unemployment insurance benefits at the end of this month.'"

Wednesday, Weekly Mortgage Applications Survey: "The Market Composite Index . . . increased 4.1 percent on a seasonally adjusted basis from one week earlier. . . . The Refinance Index increased 5 percent from the previous week and was 122 percent higher than the same week one year ago." According to Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting, "There continues to be strong homebuyer demand this summer, as home shoppers have returned to the market in many states. Purchase activity increased again last week and was up 19 percent compared to last year - the ninth straight week of year-over-year increases."

National Association of Realtors

Wednesday, Existing Home Sales: "Existing-home sales rebounded at a record pace in June, showing strong signs of a market turnaround after three straight months of sales declines caused by the ongoing pandemic. . . . Total existing-home sales . . . jumped 20.7% from May to a seasonally-adjusted annual rate of 4.72 million in June. Sales overall, however, dipped year-over-year, down 11.3% from a year ago (5.32 million in June 2019). 'The sales recovery is strong, as buyers were eager to purchase homes and properties that they had been eyeing during the shutdown,' said Lawrence Yun, NAR's chief economist. 'This revitalization looks to be sustainable for many months ahead as long as mortgage rates remain low and job gains continue.'"