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MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE – August 24, 2020– SHARE

The Housing Market Has Emerged as a Bright Spot in the U.S. Economy

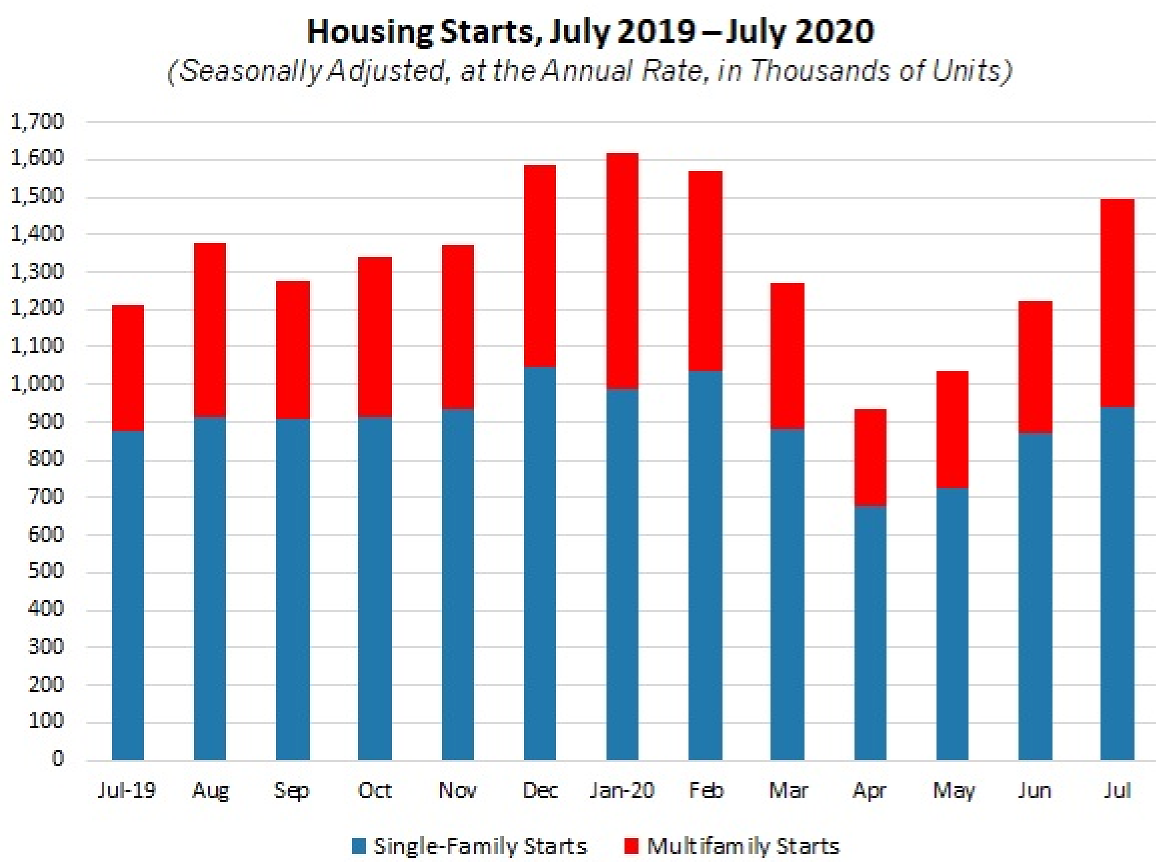
The Weekly Toplines

- The housing market has emerged as a bright spot in the U.S. economy in recent months. After plummeting dramatically in April to the slowest pace since February 2015, it has been buoyed by low mortgage rates.
  - New residential construction soared 22.6% from 1,220,000 units at the annual rate in June to 1,496,000 units in July, a five-month high. Single-family housing starts increased for the third straight month from 869,000 units to 940,000 units, the highest reading since February.
  - Housing permits—a proxy of future activity—also rose sharply, up 18.8% from an annualized 1,258,000 units in June to 1,495,000 units in July, the best rate since January.
  - Existing home sales jumped 24.7% from 4.70 million units at the annual rate in June to 5.86 million units in July. Single-family and condominium and co-op sales soared 23.9% and 31.8%, respectively.
  - Over the past 12 months, existing home sales have risen 8.7%, up from 5.39 million units in July 2019. Single-family sales went up 9.8% year-over-year. At the same time, condo/co-op sales were flat with the pace seen one year ago.
  - The average 30-year fixed-rate mortgage rate was 2.99% last week, remaining below 3% for the fourth straight week. It reached an all-time low of 2.88% for the week of Aug. 6.
- Manufacturers continued to expand, building on the rebounds seen since the spring months. However, signs of decelerating growth also emerged in some markets in August.
  - The IHS Markit Flash U.S. Manufacturing PMI continued to show signs of recovery in August. It notched the best reading since January 2019, with

the headline index rising from 50.9 in July to 53.6 in August, led by strength across the board.

- Regional surveys from the New York and Philadelphia Federal Reserve Banks each reported slower expansions in activity in August. However, respondents remained upbeat about the next six months.
- The IHS Markit Flash Eurozone Manufacturing PMI expanded very modestly for the second straight month, easing slightly in August from July's pace. Sales and production were up solidly in Germany and—outside the European Union—in the United Kingdom. However, manufacturing activity weakened in France.

- Initial unemployment claims rose to 1,106,000 for the week ending Aug. 15. Claims had been at 971,000 for the week ending Aug. 8, falling below 1 million for the first time since mid-March. Meanwhile, continuing claims dropped from 15,480,000 for the week ending Aug. 1 to 14,844,000 for the week ending Aug. 8. As such, 10.2% of the workforce was receiving unemployment insurance in the latest data, down from 10.6% in the previous report.
- Michigan created the most net new manufacturing jobs in July, adding 9,400 workers. Despite gains over the past three months, manufacturing employment figures continue to experience sizable declines due to COVID-19.



Economic Indicators

Last Week's Indicators:

This Week's Indicators:

(Summaries Appear Below)

Monday, August 17
NAHB Housing Market Index
New York Fed Manufacturing Survey

Tuesday, August 18
Housing Starts and Permits

Wednesday, August 19
None

Thursday, August 20
Conference Board Leading Indicators
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, August 21
Existing Home Sales
IHS Markit Flash U.S. Manufacturing PMI
State Employment Report

Monday, August 24
Chicago Fed National Activity Index

Tuesday, August 25
Conference Board Consumer Confidence
New Home Sales
Richmond Fed Manufacturing Survey

Wednesday, August 26
Durable Goods Orders and Shipments

Thursday, August 27
Gross Domestic Product (Revision)
Kansas City Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, August 28
International Trade in Goods (Preliminary)
Personal Consumption Expenditures Deflator
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision)

Deeper Dive

- **Conference Board Leading Indicators:** The Leading Economic Index rose 1.4% in July, building on the 3.1% and 3.0% increases in May and June, respectively, as the U.S. economy continues to bounce back from sharp pullbacks in the spring due to the COVID-19 pandemic. Even with recent gains, the LEI remains 6.8% lower in July than in January, representing a still-sizable decline in activity over the past six months. In the latest data, improvements in the average workweek for production workers, building permits, initial unemployment claims, the interest rate spread and the stock market boosted the LEI. New manufacturing orders components provided mixed results, essentially providing a neutral contribution in July. Consumer confidence and lending conditions pulled the headline index slightly lower.

  Meanwhile, the Coincident Economic Index also rebounded for the third consecutive month, up 1.2% in July. All components rose in July, including industrial production, manufacturing and trade sales, nonfarm payrolls and personal income less transfer payments. Manufacturing production rose 3.4% in July, rebounding for the third straight month, but output in the sector has fallen 7.7% year-over-year.

- **Existing Home Sales**: The National Association of Realtors said that existing home sales jumped 24.7% in July, extending the 20.2% gain seen in June. Existing homes increased from 4.70 million units at the annual rate in June to 5.86 million units in July. More importantly, the latest data suggest that the market has completely bounced back after dropping to 3.91 million units in May, the slowest pace since October 2010. Every region of the country saw increases in existing home sales, with historically low mortgage rates helping to buoy increased sales.

  In July, single-family and condominium and co-op sales soared 23.9% and 31.8%, respectively. Over the past 12 months, existing home sales have risen 8.7%, up from 5.39 million units in July 2019. Single-family sales went up 9.8% year-over-year. At the same time, condo/co-op sales were flat with the pace seen one year ago.

  With the pickup in activity, inventories narrowed, down from 3.9 months of supply in June to 3.1 months in July. That was just shy of the 3.0 months of supply seen in February. The median sales price for existing homes has increased 8.5% year-over-year, up to $304,100 in July.

- **Housing Starts and Permits**: New residential construction soared 22.6% in July, extending the 11.1% and 17.5% increases in May and June, respectively, with housing starts rising from 1,220,000 units at the annual rate in June to 1,496,000 units in July, a five-month high. On a year-over-year basis, housing starts have risen 23.4%, up from 1,212,000 units in July 2019, with single-family and multifamily activity up 7.4% and 65.0% over the past 12 months, respectively. Overall, the housing market has emerged as a bright spot in the U.S. economy in recent months after plummeting dramatically in April to the slowest pace since February 2015, buoyed by low mortgage rates.

  The largest gains in housing starts in the latest data came from the multifamily segment, which can often be highly volatile from month to month, jumping from 351,000 in June to 556,000 units in July, the fastest pace since January. The average over the past 12 months has been 439,000 units. More importantly, single-family housing starts increased for the third straight month from 869,000 units to 940,000 units, the best reading since February.

  Meanwhile, housing permits rose sharply, up 18.8% from an annualized 1,258,000 units in June to 1,495,000 units in July, the best rate since January. Since permits are a proxy of future activity, the data continue to point to stronger growth in the housing market over the coming months. For their part, builders also feel more upbeat in their expectations for single-family sales over the next six months, with sentiment matching an all-time high in August (see below).

  Single-family permits increased from 840,000 units in June to a robust 983,000 in July, a five-month high, and multifamily permitting rose from 418,000 units to 512,000 units, the strongest pace since January. The latter tends to be more volatile from month to month, making the increase in single-family permits more important from a trend perspective. On a year-over-year basis, housing permits rose 9.4% from the 1,366,000 units in July 2019, with single-family permits up 15.5% and multifamily activity little changed over the past 12 months.

- **IHS Markit Flash U.S. Manufacturing PMI:** The manufacturing sector in the United States continued to show signs of recovery in August. It notched the best reading since January 2019, bouncing back from springtime declines that were the worst since the Great Recession. The headline index increased from 50.9 in July to 53.6 in August, led by strength across the board. New orders and output accelerated solidly, also at the best paces in 19 months. Hiring and exports both returned to positive growth in August. Manufacturers were also upbeat about continued increases in production, with the index for future output jumping to 63.9 in August, a reading not seen since April 2019.

  The IHS Markit Flash Eurozone Manufacturing PMI edged down from 51.8 in July, the fastest rate since December 2018, to 51.7 in August. More importantly, the manufacturing economy in the Eurozone expanded very modestly for the second straight month. This ends 17 consecutive months of contraction, including the sharp declines seen in the spring due to COVID-19. In August, the pace of orders and exports both accelerated, with production rising to the best reading since April 2018. New orders decelerated slightly but expanded at a decent rate. However, hiring fell for the 14th straight month, albeit at a slower pace. The index for future output rose to a pace not seen since July 2018, highlighting optimism about production growth over the coming six months.

  Meanwhile, the country-by-country data were mixed. In Germany, manufacturers reported their second straight monthly expansion, with activity growing at the fastest rate in 23 months. Robust new orders and output growth accounted for this boost in activity. Analysts noted a similar story outside the European Union, with the United Kingdom's manufacturing sector expanding at its best rate since February 2018, buoyed by the strongest production growth since September 2013. Yet, manufacturing activity pulled back in France on declining sales and hiring and slowing output, ending two months of expansion.

- **NAHB Housing Market Index:** The National Association of Home Builders and Wells Fargo reported that confidence in August matched the all-time high recorded in December 1998, as sentiment continued to rebound from the COVID-19 pandemic. The Housing Market Index rose from 72 in July to 78 in August. More importantly, it represented a major turnaround, with the HMI dropping to 30 in April, which registered the lowest reading since June 2012. HMI data exceeding 50 suggest that more builders feel positive in their outlook than negative. NAHB Chief Economist Robert Dietz noted that the renewed housing market has been fueled by historically low mortgage rates despite rising construction costs and high unemployment rates.

  The HMI improved in every region of the country, and the index for single-family home sales over the next six months has increased from 75 to 78, the highest level since February. That suggests builders feel very upbeat about increased sales moving forward.

- **New York Fed Manufacturing Survey:** Manufacturing activity expanded in the New York Federal Reserve Bank's district for the second straight month but slowed in August. The composite index of general business activity decreased from 17.2 in July to 3.7 in August, with new orders falling slightly after rebounding in July and shipments growth easing. In August, 32.8% of respondents said orders had increased, down from 39.9% in July, and the percentage of manufacturers in the region suggesting sales had declined rose from 26.0% to 34.6%. At the same time, the labor market data provided mixed results. Hiring rose modestly, but the average employee workweek declined further. Inventories also continued to deteriorate in August, with reduced stockpiles for the fifth consecutive month.

  Meanwhile, manufacturers in the Empire State Manufacturing Survey remain positive about stronger activity over the next six months, but with less optimism than in the previous two surveys. The forward-looking composite index has pulled back from 56.5 in June, the highest reading since October 2009, to 38.4 in July, to 34.3 in August. More than half expect new orders and shipments to rise moving forward, with 31.9% and 22.7% anticipating more employment and capital spending, respectively.

- **Philadelphia Fed Manufacturing Survey:** Manufacturing activity expanded for the third straight month in August, albeit at a slower pace than in July, as the sector continues to rebound after struggling mightily in the spring due to the COVID-19 pandemic. The composite index declined from 24.1 in July to 17.2 in August, with growth in new orders, shipments, employment and the average employee workweek each decelerating somewhat. Roughly 34% of respondents said sales had risen in August, down from 46.7% who said the same thing in July, with 50.9% suggesting that orders were flat for the month. Inventories contracted again, but at a much slower pace.

  At the same time, manufacturers in the district remained very positive in their outlook, with business leaders expecting the sector to continue rebounding in the coming months. The forward-looking composite index rose from 36.0 in July to 38.8 in August, and 62.1% of respondents anticipate orders to rise over the next six months, with just 7.1% predicting declines. In addition, 37.8% and 32.8% see higher employment and capital spending, respectively, over the next six months.

- **State Employment Report:** Michigan created the most net new manufacturing jobs in July, adding 9,400 workers. Other states with notable employment growth for the month included Missouri (up 8,200), Wisconsin (up 5,200), Tennessee (up 5,100), California (up 3,700) and Alabama (up 3,600). Despite gains over the past three months, manufacturing employment figures continue to experience sizable declines due to COVID-19. Since February, the states with the largest job decreases in the sector included California (down 95,300), Michigan (down 64,000), New York (down 47,200), Ohio (down 44,800), Texas (down 42,700) and North Carolina (down 40,800).

The national unemployment rate declined from 11.1% in June to 10.2% in July, and the unemployment rate fell in 30 states in the latest data. Massachusetts had the highest unemployment in the country at 16.1%, followed by New York (15.9%), Nevada (14%), New Jersey (13.8%) and Pennsylvania (13.7%). At the other end of the spectrum, the lowest unemployment rates in the United States in July occurred in Utah (4.5%), Nebraska (4.8%), Idaho (5%), Kentucky (5.7%), South Dakota (6.3%), Montana (6.4%), Iowa (6.6%) and North Dakota (6.6%).

- **Weekly Initial Unemployment Claims:** Initial unemployment claims rose to 1,106,000 for the week ending Aug. 15. Claims had been at 971,000 for the week ending Aug. 8, falling below 1 million for the first time since mid-March. Despite the uptick, initial claims have decelerated overall since peaking at 6,867,000 for the week ending March 28. However, they remain highly elevated, illustrating continuing pain in the labor market. To put the current numbers in perspective, initial claims peaked during the Great Recession at 665,000 for the week ending March 28, 2009.

  Meanwhile, continuing claims dropped from 15,480,000 for the week ending Aug. 1 to 14,844,000 for the week ending Aug. 8. As such, 10.2% of the workforce was receiving unemployment insurance in the latest data, down from 10.6% in the previous report.

Take Action

- If you have not already done so, please take a moment to complete the latest NAM Manufacturers' Outlook Survey. This 22-question survey will help us gauge how manufacturing sentiment has changed since the second-quarter survey. The current survey includes special questions on third-quarter manufacturing activity, the prospects of returning to prepandemic levels of output and company experiences with COVID-19 legislative efforts. To complete the survey, click here. Responses are due by Friday, Aug. 28, at 5:00 p.m. EDT. As always, all responses are anonymous.

Upcoming Webinar

"State of the Industry: The Impact of COVID-19 on Manufacturing, August Update"
Tuesday, Aug. 25
1:00 p.m. – 2:00 p.m. EDT
Click here to register.

Panelists:

- Graham Immerman, Vice President of Marketing, MachineMetrics (moderator)
- Chad Moutray, Chief Economist, NAM

- Jerry Foster, Chief Technology Officer, Plex Systems, Inc.
- Lou Zhang, Chief Data Scientist, MachineMetrics

The COVID-19 pandemic has caused widespread concern and economic hardship for consumers, businesses and communities around the world. The situation is fast moving, with widespread impacts. One thing is for certain—it has and will continue to have global economic and financial ramifications that will be felt throughout the manufacturing industry. So, how has COVID-19 affected the near-term global manufacturing supply chain today? How will it be affected moving forward? How do we reshape and rebuild an industry that is both more sustainable and resilient for the future? This webinar will focus on how economic trends have changed since the previous one in June.

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