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MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE – November 2, 2020– SHARE

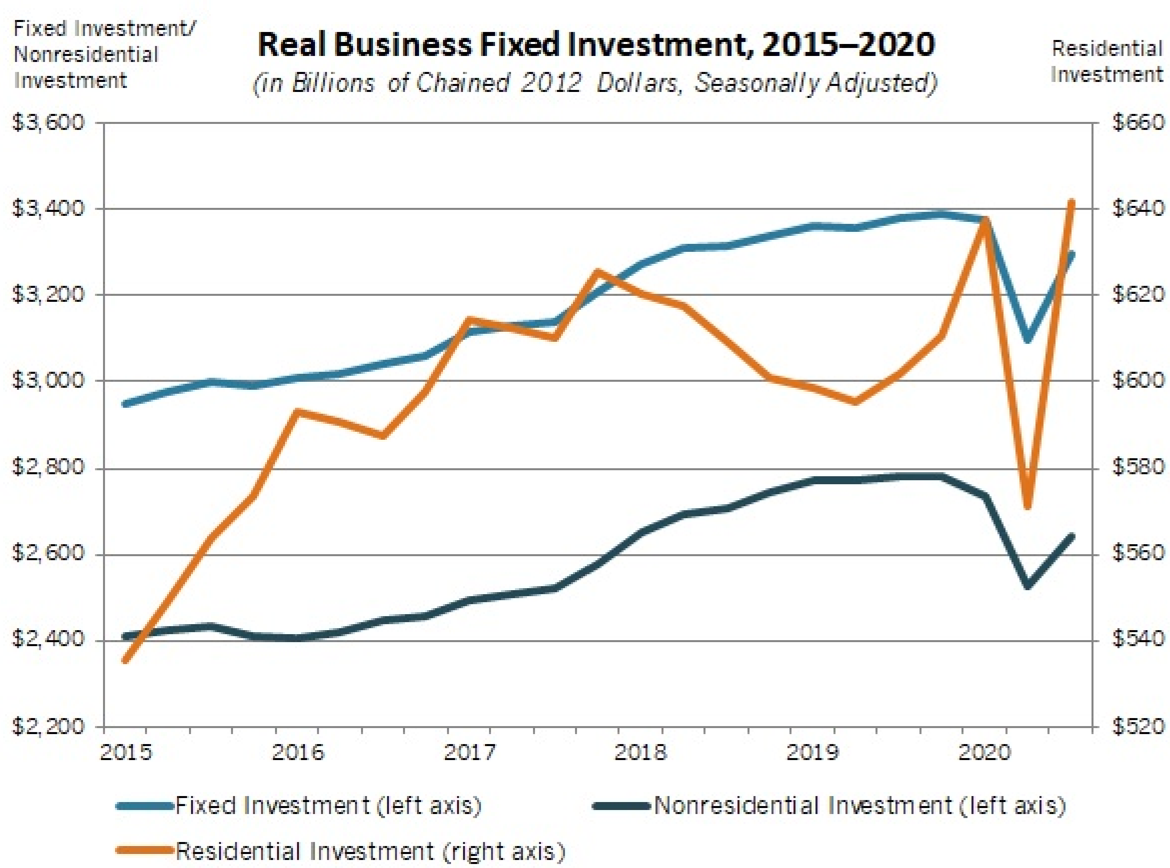
Real GDP Jumped 33.1% at Annual Rate in Q3, Still Down 3.5% Year to Date

The Weekly Toplines

- The U.S. economy bounced back strongly, jumping 33.1% at the annual rate in the third quarter, the largest increase in the history of the series, which dates to 1947. This follows the steepest decline in history in the second quarter, contracting 31.4% at the annual rate. Despite soaring in the third quarter, real GDP remained down 3.5% year to date.
- Moving forward, real GDP is expected to rise an annualized 3.0% in the fourth quarter, but uncertainties continue to exist in the marketplace, which could challenge that outlook. Overall, the U.S. economy is predicted to shrink 3.3% in 2020, with 4.0% growth forecasted for 2021.
- Personal consumption expenditures rose 1.4% in September, increasing strongly for the fifth straight month. Durable goods spending jumped 3.0% and 1.5% in September, respectively. Still, spending remains subdued (particularly for services), with the saving rate continuing to be highly elevated at 14.3% in September. Personal spending has fallen 0.6% year-over-year, pulled lower by consumers spending 4.6% less on services than one year earlier.
- Consumer confidence readings provided mixed results, with the Conference Board's measure easing slightly and the University of Michigan's headline index rising to the best reading since March. Americans' assessments of the labor market have improved, but worries about COVID-19 and the election remain top-of-mind for consumers.
- Initial unemployment claims totaled 751,000 for the week ending Oct. 24, down from 791,000 for the week ending Oct. 17. At the same time, continuing claims declined from 8,465,000 for the week ending Oct. 10 to 7,756,000 for the week ending Oct. 17, consistent with 5.3% of the workforce.
- Meanwhile, manufacturing data have been mostly solid. New orders for durable goods rose 1.9% in September, with the sector continuing to bounce back from steep declines in the spring. Core capital goods spending rose 1.0% in September to the highest level in six years. New durable goods orders

remained down 1.9% year-over-year, but with transportation equipment excluded, orders have risen 1.7% over the past 12 months.

- Regional manufacturing surveys from the Dallas and Richmond Federal Reserve Banks were also encouraging, with respondents upbeat in their outlook.
- In advance statistics, the goods trade deficit pulled back from an all-time high. Goods exports rose to the best reading since March, with goods imports off slightly.
- New single-family home sales declined 3.5% in September, the first monthly decrease since April, but sales have jumped 32.1% year-over-year, buoyed by historically low mortgage rates but suffering from very low inventories of homes for sale.
- Despite higher costs in recent months, the core PCE deflator has increased 1.5% over the past 12 months, and the Federal Reserve continues to be more worried about economic growth than inflation.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

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(Summaries Appear Below)

This Week's Indicators:

Monday, November 2
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®

Monday, October 26
Chicago Fed National Activity Index
Dallas Fed Manufacturing Survey
New Home Sales

Tuesday, October 27
Conference Board Consumer Confidence
Durable Goods Orders and Shipments
Richmond Fed Manufacturing Survey

Wednesday, October 28
Business Employment Dynamics
International Trade in Goods (Preliminary)

Thursday, October 29
Gross Domestic Product
Weekly Initial Unemployment Claims

Friday, October 30
Employment Cost Index
Personal Consumption Expenditures Deflator
Personal Income and SpendingUniversity of Michigan Consumer Sentiment (Revision)

Tuesday, November 3
Factory Orders and Shipments

Wednesday, November 4
ADP National Employment Report
International Trade Report

Thursday, November 5
FOMC Monetary Policy Statement
Productivity and Costs
Weekly Initial Unemployment Claims

Friday, November 6
BLS National Employment Report

Deeper Dive

- **Business Employment Dynamics:** Manufacturing experienced a net decrease of 54,000 jobs in the first quarter of 2020, falling for the third time in four quarters. Manufacturers had gross job gains of 364,000 in the first quarter, with 330,000 from expanding establishments and 34,000 from new establishments. At the same time, gross job losses amounted to 418,000 in the first quarter, with 372,000 from contracting establishments and 46,000 from closing establishments.

  In addition, there were 5,000 manufacturing start-ups in the first quarter, or a rate of 1.6% of all establishments in the sector. Those new establishments (or "births") employed 21,000 workers in the first quarter, down from 24,000 in the fourth quarter. The pace of manufacturing start-ups has been relatively flat for about a decade, and notably, entrepreneurship in the sector (as well as economy-wide) has slowed from the rates in the 1990s and early 2000s.

- **Chicago Fed National Activity Index:** The Chicago Federal Reserve Bank's National Activity Index slowed from 1.11 in August to 0.27 in September, but the data remained positive for the fifth straight month. Readings above zero are consistent with the U.S. economy expanding above its historical trend. The three-month moving average also eased, down from 3.22 in August to 1.33 in September, and this report continues to provide some encouragement that the nation is beyond the worst of the recession, even as challenges persist and overall growth is decelerating.

For its part, manufacturing production declined 0.3% in September, falling for the first time since April. Despite progress since the spring, output in the sector remained 6.4% below the pre-pandemic pace in February. As a result, production-related indicators subtracted 0.24 from September's NAI. In contrast, positive contributions occurred for employment-related (+0.35), personal consumption and housing (+0.09) and sales, orders and inventories (+0.07) indicators. Indeed, manufacturers added 66,000 workers in September, and the unemployment rate fell to 7.9%. The housing market also remains a bright spot.

- **Conference Board Consumer Confidence:** According to the Conference Board, consumer confidence dipped from 101.3 in September to 100.9 in October. Americans felt more upbeat about current economic conditions, but they expressed less optimism in the outlook for the coming months. Respondents had improved assessments of the labor market, with the percentage of respondents feeling jobs were "plentiful" increasing from 23.6% to 26.5%. At the same time, those saying jobs were "hard to get" inched down from 20.3% to 19.9%. In addition, the percentage of respondents suggesting that business conditions were "good" edged down from 17.6% to 17.5%, while the percentage feeling that conditions were "bad" decreased from 37.0% to 33.9%.

  Yet, the outlook weakened somewhat. The percentage of consumers anticipating better business conditions over the next six months declined from 36.7% to 36.3%, with those predicting a worsening of conditions rising from 15.8% to 17.0%. At the same time, the percentage of respondents expecting more jobs in the next six months ticked up from 32.9% to 33.2%, but with those expecting fewer jobs increasing from 16.1% to 20.2%.

- **Dallas Fed Manufacturing Survey:** The Dallas Federal Reserve reported that manufacturing activity expanded at the fastest pace in two years, with the composite index of general business activity rising from 13.6 in September to 19.8 in October. The sector continues to rebound from very sharp declines in the spring, with new orders, production and capacity utilization rising at the best readings since August 2018. At the same time, employment and capital spending growth slowed in October. In addition, raw material costs accelerated at the highest rate since November 2018.

  Encouragingly, manufacturers in the district felt optimistic in their outlook for the next six months, with the forward-looking composite index of business conditions up slightly from 28.0 in September to 28.4 in October, the best reading in two years. Nearly 59% of respondents expect production to rise over the coming months, with just 11.5% seeing declines. While roughly half see no changes, 36.5% and 33.5% anticipate increased hiring and capital spending over the next six months, respectively.

- **Durable Goods Orders and Shipments**: New orders for durable goods rose 1.9% in September, building on the 0.4% gain in August and rising for the fifth straight month. Overall, the durable goods manufacturing sector has bounced back soundly following steep declines in March and April due to the COVID-19 pandemic. Excluding transportation equipment, new durable goods orders increased 0.8% in September. In addition, nondefense capital goods excluding aircraft—a proxy for capital spending in the U.S. economy—rose 1.0% from $68.02 billion in August to $68.72 billion in September, the highest level in six years.

  Since April's low, new durable goods orders have come back strongly but remain down 1.9% year-over-year in September 2019. With transportation equipment excluded, new orders have increased 1.7% year-over-year. Core capital goods orders have risen 4.3% over the past 12 months—a significant rebound from the 7.3% year-over-year decline in April. In September, new orders rose for computers and electronic products, fabricated metal products, motor vehicles and parts, primary metals and other durable goods, but sales declined for defense aircraft and parts, electrical equipment and machinery. Nondefense aircraft and parts orders were positive for just the fourth time year to date.

  Meanwhile, shipments of durable goods increased 0.3% in September, bouncing back from a 0.3% decline in August. With transportation equipment excluded, durable goods shipments rose 0.2%. Over the past 12 months, durable goods shipments have fallen 0.6%, and excluding transportation, shipments have increased 0.3% year-over-year. In addition, core capital goods shipments have risen 2.5% since September 2019, a nice turnaround after falling 8.1% year-over-year in April.

- **Employment Cost Index**: Private manufacturing wages and salaries rose 0.6% in the third quarter, the same pace as in the second quarter. That translated into 2.7% growth over the past 12 months, easing for the third straight report from 3.2% in the fourth quarter of 2019, which was the fastest since the first quarter of 2002. For all private-sector employees, wages and salaries increased 0.5% in the third quarter, up from 0.4% in the second quarter, also with 2.7% growth year-over-year.

  Benefits costs for manufacturing employees increased 0.2% in the third quarter, the slowest pace in two years. On a year-over-year basis, benefits have risen a modest 1.4%. Overall, total manufacturing compensation increased 0.4% for the quarter, or 2.3% year-over-year.

- **Gross Domestic Product**: The U.S. economy bounced back strongly, jumping 33.1% at the annual rate in the third quarter, the largest increase in the history of the series, which dates to 1947. This follows the steepest decline in history in the second quarter, contracting 31.4% at the annual rate. This suggests that economic activity has rebounded strongly through the summer and fall after being sharply curtailed by stay-at-home orders, business closures and unprecedented operational disruptions in the spring due to COVID-19. Despite soaring in the third quarter, real GDP remained down 3.5% year to date.

Moving forward, real GDP is expected to rise an annualized 3.0% in the fourth quarter, but uncertainties continue to exist in the marketplace, which could challenge that outlook. Overall, the U.S. economy is predicted to shrink 3.3% in 2020, with 4.0% growth forecasted for 2021.

Breaking down the details in this report:

- **Personal consumption expenditures** jumped by an annualized 45.4% in the third quarter, bouncing back from the 10.8% decline in the second quarter and contributing 25.27% to the increase in real GDP for the third quarter. Durable and nondurable goods spending soared 82.2% and 28.8%, respectively. Service-sector spending also increased robustly, up 38.4% in the third quarter following decreases of 9.8% and 41.8% in the first and second quarters, respectively.
- **Business investment** also rose strongly, soaring 83.0% at the annual rate in the third quarter following declines in the previous three quarters. Nonresidential and residential fixed investment rose 20.3% and 59.3% in the third quarter, respectively. Spending was solid for business equipment and intellectual property products, and the housing market remains a bright spot. However, investments in equipment declined for the fourth straight quarter. Overall, business fixed investment added 4.96% to top-line GDP growth in the third quarter, with spending on inventories contributing another 6.62%.
- **Net exports** subtracted 3.09% from top-line growth in the third quarter, the first negative contribution since the first quarter of 2019. Trade activity bounced back strongly, with exports and imports rising 59.7% and 91.1% at annual rates, respectively. Yet, imports have recovered faster than exports. Real goods exports have declined 9.8% year to date, with real goods imports off 1.8% over that time frame.
- **Government spending** subtracted 0.68% from real GDP growth in the third quarter. Federal government spending fell 6.2% at the annual rate in the third quarter, pulling back sharply after jumping 16.4% in the second quarter on increased transfer payments. At the same time, state and local government spending dropped 3.3% in the third quarter, extending the 5.4% decline in the second quarter and highlighting economic challenges.

- **International Trade in Goods (Preliminary):** In advance statistics, the goods trade deficit pulled back from an all-time high, down from $83.11 billion in August to $79.37 billion in September. Goods exports increased from $118.75 billion to $121.99 billion, the best reading since March, and goods imports declined slightly, down from $201.86 billion to $201.37 billion. Each has bounced back following steep declines in the spring due to the COVID-19 pandemic and global recession.

Strength in capital goods and foods, feeds and beverages led the increase in goods exports in September. At the same time, declines in imports for consumer goods and industrial supplies were enough to offset sizable increases for automotive vehicles and capital goods for the month. Final data will be released Nov. 4, which will also include the service-sector trade surplus.

- **New Home Sales**: New single-family home sales declined 3.5% from 994,000 units in August to 959,000 units in September, the first monthly decrease since April. Sales fell in every region of the country except the West in September. Despite pulling back in the latest data, the housing market remains strong overall, buoyed by historically low mortgage rates. Over the past 12 months, new single-family home sales have jumped 32.1%, up from 726,000 units in September 2019 and with robust gains in each region of the country except the Northeast.

  Inventories of new homes for sale ticked up from 3.4 months of supply in August—a record low—to 3.6 months in September. Yet, inventories remain very low overall. For instance, there were 5.3 months of supply on the market one year ago. The median sales price registered $326,800 in September, up 3.5% year-over-year.

- **Personal Consumption Expenditures Deflator**: The PCE deflator increased 0.2% in September, slowing from the gains of 0.3% in July and August but rising for the fifth straight month. After experiencing sharp deflationary pressures in March and April at the beginning of the COVID-19 pandemic, the latest data suggest that costs have stabilized since then. Overall, the PCE deflator has risen 1.4% year-over-year, and core inflation, which excludes food and energy costs, has increased 1.5% over the past 12 months. Energy prices rose 0.7% in September, but food costs dropped for the third consecutive month, down 0.3%. On a year-over-year basis, energy prices have fallen 8.1%, with food prices up 3.9%.

  Despite higher costs in recent months, the core PCE deflator has remained below 2% for 21 straight months. More than anything, the Federal Reserve remains more worried about economic growth than inflation, as seen in the extraordinary measures taken over the past few months to help prop up the economy and to address credit and liquidity concerns in financial markets.

- **Personal Income and Spending**: Personal consumption expenditures rose 1.4% in September, increasing strongly for the fifth straight month. Durable goods spending jumped 3.0% and 1.5% in September, respectively. Those were great numbers, but it is important to put them in perspective, as spending remains subdued (particularly for services) since the spring due to COVID-19. The saving rate continued to be highly elevated at 14.3% in September, down from 14.8% in August. While that was better than the all-time high of 33.6% in April, the saving rate averaged 7.5% in 2019, suggesting some lingering cautiousness in purchasing despite progress in the economy since the depths of the pandemic.

Over the past 12 months, personal spending has fallen 0.6% since September 2019, improving from the decline of 16.3% year-over-year in April. Consumers spent 4.6% less on services in September than one year earlier, but encouragingly, durable and nondurable goods spending rose 14.8% and 4.7% year-over-year, respectively.

Meanwhile, personal income increased 0.9% in September, rebounding somewhat after falling 2.5% in August. The data have been influenced heavily by transfer payments over the past few months. Unemployment insurance has soared from $27.8 billion in February to $1.40 trillion in June, but it declined from $631.4 billion in August to $364.8 billion in September. In addition, government assistance checks were largely responsible for the 12.2% increase in personal income in April. Overall, personal income has risen 6.2% since September 2019.

Wages and salaries rose 0.8% in September, with 0.5% growth over the past 12 months. Manufacturing wages and salaries changed little, up from $886.0 billion in August to $886.8 billion in September but down 1.9% year-over-year from $903.6 billion in September 2019.

- **Richmond Fed Manufacturing Survey:** Manufacturing activity in the Richmond Federal Reserve Bank's district expanded at the fastest pace on record in October, in a survey dating to 1993, with the sector continuing to bounce back from the lowest reading in the survey's history in April. The composite index of general business activity increased from 21 in September to 29 in October, rising for the fourth straight month. Capacity utilization increased at the best rate since April 2010, with new orders and shipments accelerating at paces not seen since November 2017 and September 2018, respectively. Employment and capital spending growth were also solid, even with the latter slowing somewhat in the latest data. Inventories declined for the month. Meanwhile, the forward-looking indicators remained encouraging despite some slippage from the previous survey, suggesting that manufacturers in the region expect continued growth in activity over the next six months.

  Raw material costs increased from 1.91% at the annual rate in September to 1.97% in October, the strongest pace since February. In addition, respondents anticipate an annualized 1.83% increase in costs six months from now, down from 2.16% in the prior survey.

- **University of Michigan Consumer Sentiment (Revision):** Consumer confidence rose to the highest point since March, up from 80.4 in September to 81.8 in October, according to final data from the University of Michigan and Thomson Reuters. The headline index was originally estimated to be 81.2 in October. Americans felt more upbeat in their outlook for the future, but their assessment of current conditions has slipped somewhat. The release notes lingering worries about COVID-19 and election uncertainties as top concerns for consumers.

While the headline index increased to a seven-month high, consumer confidence remains well below the levels before the pandemic. The Index of Consumer Sentiment reached a nearly two-year high in February at 101.0, before plummeting to 71.8 in April, the lowest level since December 2011.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 751,000 for the week ending Oct. 24, down from 791,000 for the week ending Oct. 17. Initial claims have averaged 787,750 over the past four weeks, with significant progress since peaking at 6,867,000 for the week ending March 28. Yet, initial claims remain elevated, illustrating continuing pain in the labor market. For comparison purposes, initial claims peaked during the Great Recession at 665,000 for the week ending March 28, 2009.

  Meanwhile, continuing claims declined from 8,465,000 for the week ending Oct. 10 to 7,756,000 for the week ending Oct. 17. This was consistent with 5.3% of the workforce, down from 5.8% in the previous report. Nonetheless, 22,654,453 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Oct. 10, down from 23,070,180 for the week ending Oct. 3.