

# Economic Landscape

August 2020

## MANUFACTURING

- Manufacturing activity continued to recover in July as the ISM PMI rose 1.6 percentage points to 54.2%. New orders, new export orders, and production all grew at a pace faster than the prior month. Supplier deliveries suggest continued easing of supply chain disruptions. The Employment Index continued to contract, but at a slower pace.
- Industrial production increased by 3.0% in July following a 5.7% gain in June. Factory output rose 3.4% in July driven by improvement in motor vehicle and parts production. Utilities output increased 3.3% reflecting gains in electric utilities driven by strong demand for air conditioning. Mining production advanced 0.8%, the first monthly increase since January. The capacity utilization rate improved by 2.1 percentage points to 70.6%, a rate 9.2 percentage points below the 1972-2019 average, but is 6.4 percentage points above the recent low set in April.

## LABOR MARKETS

- The U.S. economy added 1.76 million jobs in July, slightly above expectations, with notable gains in leisure and hospitality (+592,000); retail trade (+258,000); professional and business services (+170,000); health care (+149,000); social assistance (+66,000); and manufacturing (+26,000). Net revisions to employment levels for May and June account for an additional 17,000 jobs above what was previously reported. The official unemployment rate declined from 11.1% in June to 10.2% for July.

## PRICES

- July marked the second month in a row that CPI rose 0.6%. Food prices were 0.4% lower in July, the first decline since April 2019. Energy prices increased 2.5% for the month led by a 5.6% rise in gasoline prices. Excluding food and energy, core consumer prices advanced by 0.6% with prices rising for new and used vehicles, apparel, medical services, airfare, and shelter. Year over year, headline CPI increased by 1.0% and core CPI is up 1.6%.
- The Producer Price Index rose more than expected, up 0.6% in July. Service prices increased 0.5%, while goods prices advanced 0.8% predominantly on a surge in energy prices. U.S. import prices rose 0.7% for the month with a 6.9% gain in import fuel prices and a 0.2% rise in nonfuel imports. U.S. export prices increased 0.8% in July, as agricultural prices rose 1.5% while nonagricultural export prices advanced 0.7%.

## SALES

- Retail sales gained 1.2% in July, less than expected due to a 1.2% decline in auto sector sales. Gas station sales increased 6.2% for the month, and sales excluding both auto and gas rose a solid 1.5% in July. Sales were also higher at electronics and appliance stores (+22.9%); health and personal care stores (+3.6%); clothing stores (+5.7%); grocery stores (0.4%); nonstore retailers (+0.7%); and restaurants and bars (+5.0%). Retail sales have increased by 2.7% since July 2019.

## RECOVERY ROAD

*U.S. economic conditions continued to improve in July, but as anticipated, the pace has slowed. Consumer spending has boosted headline retail sales back above pre-pandemic highs, but consumption has largely favored goods over services. Service sector recovery will continue to lag while occupancy restrictions and other social distancing measures remain necessary to curb the spread of the virus. The strong rebound in prices represents a return toward normality after the cataclysmic declines of the spring, but a sustained acceleration in inflation is unlikely. Expect economic progress along the road to recovery to remain gradual – and occasionally uneven - until the virus is under control.*