Economic Update, July 7, 2023

Submitted by Bob Moreo

Summary: Data released this week contained several indications of a slowing economy. The US trade deficit narrowed in May, Reuters reported on Thursday, "as higher borrowing costs slow domestic demand." Imports of industrial supplies and materials, "which include crude oil, as well as food," declined sharply, while exports fell to a lesser extent. Echoing this sentiment, Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, said, "The health of the US manufacturing sector took a sharp turn for the worse in June, adding to concerns over the economy potentially slipping into recession in the second half of the year. Leading the darkening picture was a severe drop in demand for goods, with new orders slumping at a rate among the steepest since the global financial crisis of 2009. Companies report that customers have become increasingly reticent to spend amid the rising cost of living, higher interest rates, growing concerns about the economic outlook and a switch in spending to services." On the other hand, June's employment report from ADP showed that private sector firms added 497,000 jobs last month, "far exceeding economists' expectations for 228,000 jobs and ADP's May total of 267,000 hires," according to CNN Business. And the minutes published this week from the Federal Reserve Board's June 13-14 meeting revealed that, according to the Associated Press, "policymakers who had favored a rate hike last month felt that 'there were few clear signs that inflation was on a path to return' to the Fed's 2 percent objective anytime soon . . . [and] a majority of officials signaled that they expect to raise rates twice more this year."

Federal Government Indicators and Reports:

Bureau of Economic Analysis

Thursday, International Trade: "The [US] goods and services deficit was $69.0 billion in May, down $5.5 billion from $74.4 billion in April, revised. May exports were $247.1 billion, $2.1 billion less than April exports. May imports were $316.1 billion, $7.5 billion less than April imports."

Bureau of Labor Statistics

Thursday, Job Openings and Labor Turnover Survey: "The number of job openings decreased to 9.8 million on the last business day of May. . . . Over the month, the number of hires and total separations were little changed at 6.2 million and 5.9 million, respectively. Within separations, quits (4.0 million) increased, while layoffs and discharges (1.6 million) changed little."

Friday, Employment Situation: "Total nonfarm payroll employment increased by 209,000 in June, and the unemployment rate changed little at 3.6 percent. . . . Employment continued to trend up in government, health care, social assistance, and construction. . . . Nonfarm employment has grown by an average of 278,000 per month over the first 6 months of 2023, lower than the average of 399,000 per month in 2022."

Census Bureau

Monday, Construction Spending: "Construction spending during May 2023 was estimated at a seasonally adjusted annual rate of $1,925.6 billion, 0.9 percent above the revised April estimate of $1,909.0 billion. The May figure is 2.4 percent above the May 2022 estimate of $1,880.9 billion. During the first five months of this year, construction spending amounted to $740.8 billion, 2.9 percent above the $719.6 billion for the same period in 2022."

Wednesday, Manufacturers' Shipments, Inventories, and Orders (Full Report): "New orders for manufactured goods in May, up five of the last six months, increased $1.6 billion or 0.3 percent to

$578.0 billion. . . . Shipments, up following three consecutive monthly decreases, increased $1.6 billion or 0.3 percent to $572.6 billion. . . . Unfilled orders, up five of the last six months, increased $10.5 billion or 0.8 percent to $1,301.9 billion."

Department of Labor

Thursday, Unemployment Insurance Weekly Claims: "In the week ending July 1, the advance figure for seasonally adjusted initial claims was 248,000, an increase of 12,000 from the previous week's revised level." In Tennessee, the advance figure for initial claims (unadjusted) in the week ending July 1 was 3,635, an increase of 1,468 from the previous week.

Federal Reserve Board

Wednesday, Minutes of the Federal Open Market Committee June 13–14, 2023: "In consideration of the significant cumulative tightening in the stance of monetary policy and the lags with which policy affects economic activity and inflation, almost all participants judged it appropriate or acceptable to maintain the target range for the federal funds rate at 5 to 5¼ percent at this meeting. . . . All participants continued to anticipate that, with inflation still well above the Committee's 2 percent goal and the labor market remaining very tight, maintaining a restrictive stance for monetary policy would be appropriate to achieve the Committee's objectives. Almost all participants noted that in their economic projections that they judged that additional increases in the target federal funds rate during 2023 would be appropriate."

Federal Reserve Bank of Atlanta

Thursday, GDP Now: "The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2023 is 2.1 percent on July 6, up from 1.9 percent on July 3."

Economic Indicators and Confidence:

PMI by S&P Global

Monday, S&P Global US Manufacturing PMI: "The seasonally adjusted S&P Global US Manufacturing Purchasing Managers' Index posted 46.3 in June, down from 48.4 in May. The index therefore signaled the steepest decline in operating conditions in 2023 so far, as the recent downturn intensified. Manufacturing performance has deteriorated in seven of the last eight months. Underpinning the latest PMI reading was a marked contraction in new orders in June. The decrease was the steepest of the year so far and the second-fastest in over three years. Firms commonly attributed the decline to suppressed demand due to inflationary pressure and higher interest rates."

Thursday, S&P Global US Sector PMI: "Five out of seven US sectors registered an upturn in business activity during June, down from six in May. . . . Technology was the best-performing sector (index at 55.3), with business activity continuing to expand at a strong pace despite the rate of growth slowing from May's 14-month peak. Consumer Services also outperformed in June as a sustained recovery in travel and tourism contributed to another marked increase in business activity. . . . Meanwhile, production volumes decreased in the Basic Materials and Consumer Goods sectors. The latter registered its fastest pace of contraction since January."

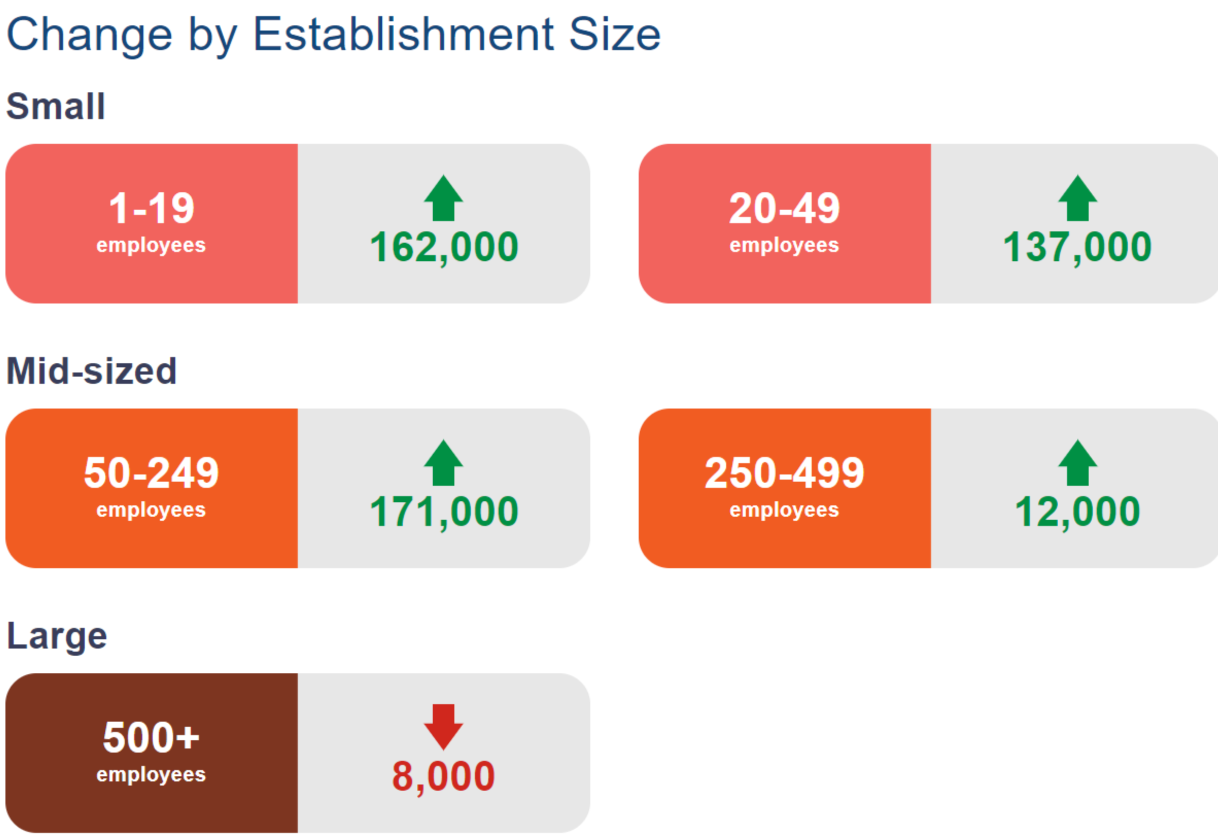
Thursday, S&P Global US Services PMI: "At 54.4 in June, the seasonally adjusted final S&P Global US Services PMI Business Activity Index fell slightly from 54.9 in May. Nonetheless, the latest data indicated a solid rise in business activity that was the second-fastest in just over a year. Companies noted that strong client demand and a sustained uptick in new business supported the latest expansion.

New orders at service providers increased for the fourth successive month in June. The rate of growth eased fractionally from May's 13-month high but remained sharp overall."

Employment and Businesses:

ADP

Wednesday, National Employment Report: "Private sector employment increased by 497,000 jobs in June and annual pay was up 6.4 percent year-over-year. . . . Job creation surged in June, led by consumer-facing services. Leisure and hospitality, trade and transportation, and education and health services showed strong gains. Still, the market was fragmented, with manufacturing, information, and finance showing declines." Small businesses in particular showed significant job gains. (See figure below.)



Source: https://adpemploymentreport.com/.

Challenger, Gray, & Christmas

Thursday, Job Cuts Report: "US-based employers announced 40,709 cuts in June, down 49 percent from the 80,089 cuts announced in May [but] up 25 percent from the 32,517 announced in the same month one year prior. . . . Despite the drop, June's total marks the sixth time this year when cuts were higher than the corresponding month a year earlier."

Paychex | IHS Markit

Wednesday, Small Business Employment Watch: "At 99.21, the national jobs index decreased 0.24 percent in June. Overall, employment growth slowed 0.51 percent during the second quarter of

2023 after increasing in the first three months of 2023. The index remains a full point higher than the year leading up to the pandemic. . . . Hourly earnings growth moderated further to 4.02 percent, while one-month annualized hourly earnings growth is now below three percent (2.99 percent) for the first time since 2020. . . . With the strongest one-month (0.36 percent) and 12-month (1.37 percent) change rates among states, Tennessee has improved to third among states at 100.50 in June."

Mortgages and Housing Markets:

Fannie Mae

Friday, Home Purchase Sentiment Index: "The Fannie Mae Home Purchase Sentiment Index remained mostly flat in June, increasing by only 0.4 points to 66.0, as difficult supply and affordability conditions continue to weigh on the housing market. While most of the HPSI's six components were little changed month over month, survey respondents did report that homebuying conditions improved slightly in June compared to May. Even so, a significant majority of consumers continue to report that it's a 'bad time to buy' a home, as they have since mid-2021."

Freddie Mac

Thursday, Primary Mortgage Market Survey: "'Mortgage rates continued their upward trajectory again this week, rising to the highest rate this year so far,' said Sam Khater, Freddie Mac's Chief Economist. 'This upward trend is being driven by a resilient economy, persistent inflation and a more hawkish tone from the Federal Reserve. These high rates combined with low inventory continue to price many potential homebuyers out of the market.' 30-year fixed-rate mortgage averaged 6.81 percent as of July 6, 2023, up from last week when it averaged 6.71 percent. A year ago at this time, the 30-year FRM averaged 5.30 percent."

Mortgage Bankers Association

Wednesday, Weekly Mortgage Applications: "Mortgage applications decreased 4.4 percent from one week earlier, according to data from the Mortgage Bankers Association's (MBA) Weekly Mortgage Applications Survey for the week ending June 30, 2023. . . . 'As mortgage-Treasury spreads remained wide, the 30-year fixed rate increased to 6.85 percent, the highest rate since the end of May,' said Joel Kan, MBA's Vice President and Deputy Chief Economist."