U.S. Economic Comment

- Business confidence: holding up well (so far)
- Consumer sentiment: apparent influence from Covid acceleration
- Federal budget deficit: not surprising, but striking nevertheless

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Business and Consumer Attitudes

"Recovery is a confidence game"

--Thomas Barkin, Federal Reserve Bank of Richmond

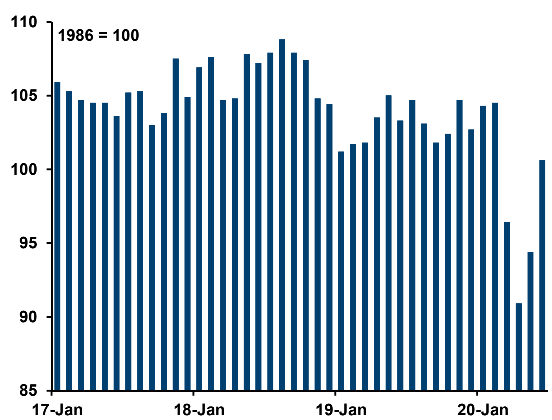
The above comment from Fed President Thomas Barkin served as a reminder that measures of attitudes and sentiment are likely to provide good insights into prospects for climbing out of the recession. In that regard, the Federal Reserve Banks of Richmond and Atlanta have recently joined with Duke University in conducting a survey of chief financial officers originated by the Fuqua School of Business at Duke. Results from the quarterly survey conducted from June 15 to 26 were encouraging, as executives rated prospects for their companies at 70 (scale of 1 to 100), up from 60 in Q1 and comparable to the average in the prior three years. Prospects for the overall economy were scored at 60, up from 51 in the first quarter but lagging the elevated average of 67 in the prior three years.

Perhaps a more useful survey at this time is the one published by the National Federation of Independent Business, which focuses on small enterprises (the Fed/Fuqua survey covers a broad array of businesses). Small businesses seem more vulnerable in the current environment, with observers concerned about the survival of many small enterprises. However, executives seem to be less concerned than commentators, as the optimism index moved noticeably higher in June and was close to the low portion of the range from the past three years, which was high by historical standards (chart).

While executives were generally optimistic, the report also suggested an element of caution. Plans for capital spending were subdued, with the diffusion index totaling only 22 percent (share planning to increase spending less the share not planning to increase), up from the low of 18 percent in April but shy of the average of 28 percent for 2019. Similarly, the share of respondents indicating that now is a good time to expand remained light at 13 percent (up from three percent in April but well below the average of 25 percent from last year).

These surveys, while interesting and helpful, were conducted during June and thus responses might not reflect much influence from the acceleration in the spread of the coronavirus. The pickup in new Covid cases started in mid-June, but the acceleration did not become a major news story until late June or early July. The moods of the executives in the two business surveys were probably influenced more by favorable economic data for May and June than by the latest news on the virus.

Small Business Optimism Index



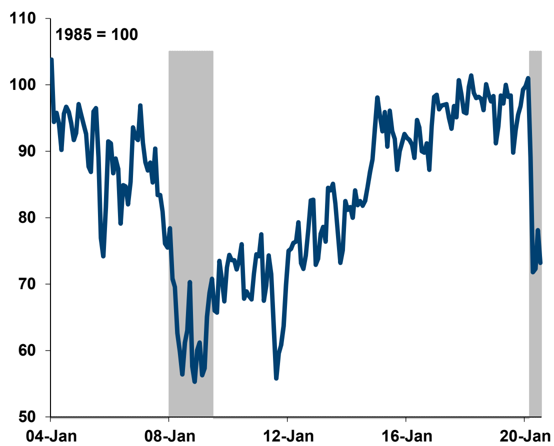
Source: National Federation of Independent Business via Haver Analytics

The latest survey of consumers conducted by the University of Michigan Survey Research Center does not have this timing flaw; it was conducted in the first part of July, when the spread of the coronavirus was the lead story on most news broadcasts. The pickup in Covid cases apparently had an influence on moods, as the headline index fell 6.3 percent and moved close to the lows in April and May (chart, left).

The report was especially disappointing because it raised doubts about the sustainability of what appeared to be a solid recovery in consumer spending. The latest report on retail sales showed a jump in June that followed a surge in May and left total spending close to pre-virus levels (chart, right). If concern about the virus deepens, individuals could retreat again and dampen economic growth.

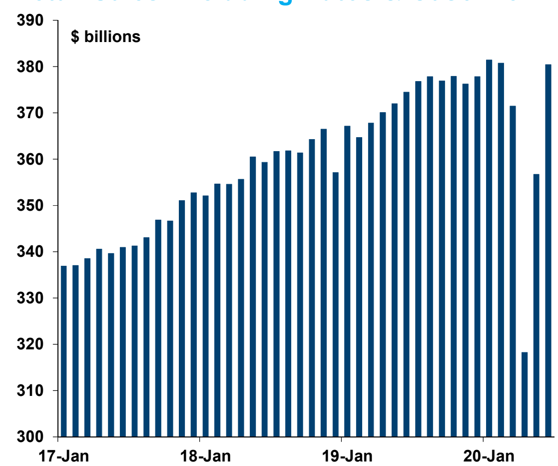
We do not want to tilt too far in the pessimistic direction. While consumer attitudes have clearly softened in the past several months, the Michigan index is still within the range of observations seen during the recent expansion, and it is comfortably above the lows seen during the financial crisis. Indeed, the current level of the index is more than 25 percent above the quarterly low seen in 2008-Q4.

Consumer Sentiment*



The shaded areas indicate periods of recession in the United States.
Source: University of Michigan Survey Research Center and National Bureau of Economic Research via Haver Analytics

Retail Sales Excluding Autos & Gasoline

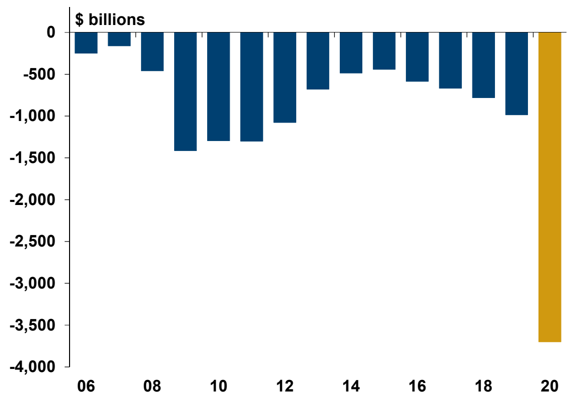


Source: U.S. Census Bureau via Haver Analytics

Federal Budget

The Treasury Department this week released budget results for the month of June. The report was uneventful in that it was close to expectations, but those expectations involved a deficit that was unimaginable a short time ago. The deficit for June totaled $864 billion, an amount not materially different than the deficit of $984 billion for all of fiscal year 2019 – and the size of the deficit last year was viewed as troubling by many observers. The latest monthly tally left the deficit in the first nine months of the current fiscal year at $2,744 billion. The budget deficit has a strong seasonal element, which involves further widening in the final fiscal quarter. That normal seasonal movement, along with the effects of an underemployed economy and the residual influence of fiscal stimulus, will leave a gargantuan deficit for FY2020. The Congressional Budget Office currently expects a shortfall of $3.7 trillion (chart, next page left), an estimate that might be boosted by additional economic support now under discussion in Congress.

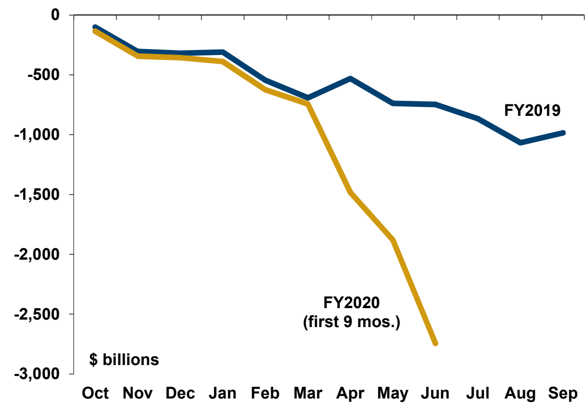
Federal Budget Deficit*



Fiscal-year basis. The reading for FY2020 is a projection by the Congressional Budget Office.

Source: U.S Treasury Department via Haver Analytics; Congressional Budget Office

Cumulative Budget Deficit



Source: U.S. Treasury Department via Haver Analytics

The striking results, of course, reflect the influence of the four acts of Congress designed to limit the economic damage from the Coronavirus. As shown in the chart above right, the budget deficit through March showed modest slippage from results in the prior year, but the bottom fell out in the past three months. Notable changes include:

- A drop of 40 percent in federal revenues in the past three months, reflecting a slower economy, the postponement of filing dates for federal obligations (which will be recouped in July, the new filing deadline; see below), and various temporary tax breaks for businesses, such as the suspension of aviation excise taxes, delayed due dates for other excise taxes, and more generous provisions for operating loss carrybacks.

- Recorded outlays by the Small Business Administration totaled *$537 billion* compared with *$170 million* in the prior year, reflecting the anticipated forgiveness of loans under the Paycheck Protection Program.

- Unemployment compensation jumped to $364 billion from $28 billion in the same period last year, heavily influenced by the additional payment of $600 per week.

- Recovery rebate checks sent to households totaled $279 billion.

- Aid to state and local governments totaled $149 billion.

- Support for aviation workers totaled $23 billion.

- The Treasury Department advanced $11 billion to the Federal Reserve to support credit programs.

The Bright Side

The budget totals will be troubling to anyone concerned about federal deficits and debt, but they have represented a heavy dose of fiscal stimulus to a slow economy. Indeed, measured as a share of the GDP, support in this instance has been more than double that provided during the financial crisis.

The support was not able to prevent a marked downturn in March and April, but it seemed to put the economy back on a growth track in May. Job growth in both May and June was strong, and retail sales (at least for now) have rebounded to a level close to pre-virus totals (see chart on p. 2). This rapid rebound in consumer spending probably would not have occurred were it not for the recovery rebate checks and the additional $600 per week in unemployment compensation. This support kept the household sector financially whole in the aggregate. Indeed, the combination of wage income and federal support in April and May was far above levels in place before the virus, which provided the wherewithal to spending actively once lockdown restrictions were eased.

The Dark Side

The federal government issued a large amount of debt during the financial crisis, and it made no effort to reverse or temper the burdens in subsequent years. The Treasury Department is now issuing another massive round of debt to fund its fiscal stimulus, which will most likely leave the country in an uncomfortable financial position in the years ahead. The Congressional Budget Office estimates that debt held by the public will total approximately 108 percent of GDP by the end of fiscal year 2021. Not long ago (early 2000s, before the financial crisis), that share was approximately 40 percent.

Currently, the Treasury Department has experienced little difficulty in funding its deficit and rolling over maturing securities. However, the environment might not be as friendly in the future, and a more challenging financial environment will leave interest rates higher than they would be otherwise, which would crowd out private expenditures and slow the potential growth of the economy. Debt burdens are not cost-free.

Tax Payback

The drop of 40 percent in federal revenues in the April/June quarter no doubt was influenced by the slowdown in the economy, but the postponement of filing deadlines from April 15 and June 15 to July 15 had a strong influence as well. Final payments for 2019 obligations (ordinarily due in April) and estimated quarterly payments for 2020 taxes (due in June) are now flowing into the Treasury. Available data through July 16 suggest an inflow of corporate and individual taxes of approximately $300 billion, a hefty total for July (the inflow in the same period in July 2019 was approximately $130 billion, leaving a boost from postponement of $170 billion). Flows will probably remain firm over the balance of the month, partly because of processing lags at the Treasury Department and partly because of late payments by individuals. Results from the prior two years suggest additional inflows of perhaps $200 billion in the second half of the month.

If the additional July inflow of $370 billion had been made in the April/June quarter as normally scheduled, federal revenues for the quarter would have been approximately flat. This is a disappointing performance relative to growth of 6.4 percent in the first half of the fiscal year, but understandable given the slowdown in the economy.

Next Comment

We will take a short vacation next week (a boring one because of Covid). We will publish the next Economic Comment on July 31.

Review

Week of July 13, 2020	Actual	Consensus	Comments
Federal Budget (June)	**$864.1 Billion Deficit**	**$863.0 Billion Deficit**	Federal receipts in June fell 27.9% from the same month last year, with much of the drop reflecting the postponement of quarterly filing deadlines for individuals and corporations. The drop in revenues was joined by a jump in government spending, fueled this month by the Paycheck Protection Program of the Small Business Administration. The deterioration in the budget situation in the past few months left the deficit in the first nine months of FY2020 at $2.74 trillion versus $747 billion in the same period in FY2019.
CPI (June)	**0.6% Total, 0.2% Core**	**0.5% Total, 0.1% Core**	A jump of 5.1% in energy prices led the advance in the CPI in June. Food prices increased 0.6%, exhibiting upward pressure for the third consecutive month. The increase in the core component largely was the result of a partial unwinding of pronounced discounting in areas affected by the coronavirus (airfares, hotel fees, apparel prices). The changes left the year-over-year increase in the headline index at 0.6%, up from 0.1% in May but far below the 2.5% in January. The year-over-year change in the core index totaled 1.2%, the same as in May, but down from 2.4% in February.
Industrial Production (June)	**5.4%**	**4.3%**	Industrial production rose firmly in June after a gain of 1.4% in the prior month. The combined changes recouped approximately 35% of the ground lost because of the pandemic. Utility output contributed to the increase in the headline measure in June with an increase of 4.2%, but the change was largely the result of warmer-than-normal temperatures which heightened demand for cooling services. The manufacturing sector played a larger role with an increase of 7.2%. Advances in the past two months have offset approximately 45% of the deterioration associated with the coronavirus. The mining sector continued to struggle in June, with the drop of 2.9% representing the fifth consecutive decline.
Retail Sales (June)	**7.5% Total, 7.3% Ex-Autos**	**5.0% Total, 5.0% Ex-Autos**	The combined performance of retail activity in the past two months offset most of the swoon related to the coronavirus. Indeed, the level of activity in June was only 0.8% below the average for January and February and was above most readings from last year. It is tempting to conclude that retail activity has returned to normal, but the report also showed that households were spending differently than they were before the pandemic. For example, sales at food stores and through online vendors remained well above pre-virus levels. In the other direction, activity at restaurants was still paltry, and sales at department stores were shy of previous averages, as were sales at stores specializing in either clothing, furniture, or electronics.

Review Continued

Week of July 13, 2020	Actual	Consensus	Comments
Housing Starts (June)	**1.186 Million (17.3%)**	**1.190 Million (22.2%)**	Single-family and multi-family starts contributed about equally to the overall advance in housing starts in June, with single-family starts rising 17.2% and multi increasing 17.6%. The increase in June was firm, but with little recovery in May after the March/April tumble, starts were still noticeably shy of pre-virus totals. Single family starts have recouped approximately 45% of the ground lost because of the pandemic and were 17.8% below the January/February average of 1.011 million, annual rate Multi-family starts have regained about 30% of the drop and were 38.8% below the January/February average of 0.581 million, annual rate.
Consumer Sentiment (July)	**73.2 (-4.9 Index Pts.)**	**79.0 (+0.9 Index Pts.)**	The drop in the University of Michigan consumer sentiment index offset most of the improvement in June and pushed the measure close to the readings in April and May. Apparently, the acceleration in the spread of Covid-19 generated concern among individuals and outweighed the influence of favorable developments in the economy and stock market. Although the index is back in line with the lows in April and May, the current level of the index is still comfortably above readings during the financial crisis. The headline touched a monthly low of 55.3 in November 2008 and the average value for 2008-Q4 totaled 57.7.

Source: U.S. Treasury Department (Federal Budget); Bureau of Labor Statistics (CPI); Federal Reserve Board (Industrial Production); U.S. Census Bureau (Retail Sales, Housing Starts); University of Michigan Survey Research Center (Consumer Sentiment); Consensus forecasts are from Bloomberg

Preview

Week of July 20, 2020	Projected	Comments
Existing Home Sales (June) (Wednesday)	**4.80 Million (+22.8%)**	A surge in pending home sales and a pickup in mortgage applications suggest that sales of existing homes will regain a sizeable portion of the ground lost in the prior three months. The level of sales in May was 30% below the January/February average; the projection, if realized, would recoup more than 50% of that deterioration.
Leading Indicators (June) (Thursday)	**2.1%**	A sizeable positive contribution from initial claims for unemployment insurance, along with good support from an increase in the factory workweek and an advance in stock prices, should lead to another jump in the index of leading economic indicators (following the increase of 2.8% in May). The index, however, would still be 10% below the pre-virus peak in January.
New Home Sales (June) (Wednesday)	**0.700 Million (+3.6%)**	With interest rates low and lockdown restrictions eased in most parts of the country during June, sales of new homes should add to the increase of 16.6% in May. The expected increase would leave sales 6.4% below the pre-virus average in January and February.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

July/August 2020

Monday 13

FEDERAL BUDGET

	2020	2019
Apr	-$738.0B	$160.3B
May	-$398.8B	-$207.8B
June	-$864.1B	-$8.5B

Tuesday 14

NFIB SMALL BUSINESS OPTIMISM INDEX

Apr	90.9
May	94.4
June	100.6

CPI

	Total	Core
Apr	-0.8%	-0.4%
May	-0.1%	-0.1%
June	0.6%	0.2%

Wednesday 15

IMPORT/EXPORT PRICES

	Non-petrol Imports	Nonagri. Exports
Apr	-0.5%	-3.5%
May	0.2%	0.5%
June	0.3%	1.4%

EMPIRE MFG

May	-48.5
June	-0.2
July	17.2

IP & CAP-U

	IP	Cap.Util.
Apr	-12.7%	64.2%
May	1.4%	65.1%
June	5.4%	68.6%

BEIGE BOOK

"Economic activity increased in almost all Districts, but remained well below where it was prior to the COVID-19 pandemic."

Thursday 16

UNEMPLOYMENT CLAIMS

	Initial	Continuing (Millions)
June 20	1.482	18.760
June 27	1.408	17.760
July 04	1.310	17.338
July 11	1.300	N/A

RETAIL SALES

	Total	Ex.Autos
Apr	-14.7%	-15.2%
May	18.2%	12.1%
June	7.5%	7.3%

PHILLY FED INDEX

May	-43.1
June	27.5
July	24.1

BUSINESS INVENTORIES

	Inventories	Sales
Mar	-0.3%	-5.2%
Apr	-1.4%	-14.4%
May	-2.3%	8.4%

NAHB HOUSING INDEX

May	37
June	58
July	72

TIC DATA

	Total	Net L-T
Mar	$352.0B	-$112.4B
Apr	$121.7B	-$130.8B
May	-$4.5B	$127.0B

Friday 17

HOUSING STARTS

Apr	0.934 million
May	1.011 million
June	1.186 million

CONSUMER SENTIMENT

May	72.3
June	78.1
July	73.2

Monday 20

Tuesday 21

CHICAGO FED NATIONAL ACTIVITY INDEX (8:30)

	Monthly	3-Mo. Avg.
Apr	-17.89	-7.50
May	2.61	-6.65
June	--	--

Wednesday 22

FHFA HOME PRICE INDEX (9:00)

Mar	0.1%
Apr	0.2%
May	--

EXISTING HOME SALES (10:00)

Apr	4.33 million
May	3.91 million
June	**4.80 million**

Thursday 23

INITIAL CLAIMS (8:30)

LEADING INDICATORS (10:00)

Apr	-6.1%
May	2.8%
June	**2.1%**

Friday 24

NEW HOME SALES (10:00)

Apr	0.580 million
May	0.676 million
June	**0.700 million**

Monday 27

DURABLE GOODS ORDERS

Tuesday 28

S&P CORELOGIC CASE-SHILLER HOME PRICE INDEX

CONSUMER CONFIDENCE

FOMC MEETING

Wednesday 29

U.S. INTERNATIONAL TRADE IN GOODS

ADVANCE INVENTORIES

PENDING HOME SALES

FOMC ANNOUNCEMENT

Thursday 30

INITIAL CLAIMS

GDP

Friday 31

PERSONAL INCOME, CONSUMPTION, PRICES

EMPLOYMENT COST INDEX

CHICAGO PMI

REVISED CONSUMER SENTIMENT

Monday 3

ISM MFG INDEX

CONSTRUCTION SPEND.

NEW VEHICLE SALES

Tuesday 4

FACTORY ORDERS

Wednesday 5

ADP EMPLOYMENT REPORT

TRADE BALANCE

ISM NON-MFG INDEX

Thursday 6

INITIAL CLAIMS

Friday 7

EMPLOYMENT REPORT

WHOLESALE TRADE

CONSUMER CREDIT

Forecasts in Bold.

Treasury Financing

July/August 2020

Monday	Tuesday	Wednesday	Thursday	Friday
13	14	15	16	17
AUCTION RESULTS: Rate Cover 13-week bills 0.145% 2.68 26-week bills 0.145% 3.17	**AUCTION RESULTS:** Rate Cover 42-day CMB 0.120% 3.25 119-day CMB 0.145% 3.21 52-week bills 0.155% 3.14 **ANNOUNCE:** $35 billion 4-week bills for auction on July 16 $35 billion 8-week bills for auction on July 16 $25 billion 105-day CMBs for auction on July 15 $30 billion 154-day CMBs for auction on July 15 **SETTLE:** $40 billion 4-week bills $40 billion 8-week bills $25 billion 105-day CMBs $30 billion 154-day CMBs	**AUCTION RESULTS:** Rate Cover 105-day CMB 0.130% 3.95 154-day CMB 0.145% 3.40 **SETTLE:** $46 billion 3-year notes $29 billion 10-year notes $19 billion 30-year bonds	**AUCTION RESULTS:** Rate Cover 4-week bills 0.105% 3.49 8-week bills 0.110% 3.22 **ANNOUNCE:** $105 billion 13-,26-week bills for auction on July 20 $17 billion 20-year bonds for auction on July 22 $14 billion 10-year TIPS for auction on July 23 $30 billion 42-day CMBs for auction on July 21 $30 billion 119-day CMBs for auction on July 21 $20 billion 273-day CMBs for auction on July 21 **SETTLE:** $105 billion 13-,26-week bills $34 billion 52-week bills $35 billion 42-day CMBs $35 billion 119-day CMBs	
20	21	22	23	24
AUCTION: $105 billion 13-,26-week bills	**AUCTION:** $30 billion 42-day CMBs $30 billion 119-day CMBs $20 billion 273-day CMBs **ANNOUNCE:** $35 billion* 4-week bills for auction on July 23 $35 billion* 8-week bills for auction on July 23 **SETTLE:** $35 billion 4-week bills $35 billion 8-week bills $25 billion 105-day CMBs $30 billion 154-day CMBs	**AUCTION:** $17 billion 20-year bonds	**AUCTION:** $35 billion* 4-week bills $35 billion* 8-week bills $14 billion 10-year TIPS **ANNOUNCE:** $105 billion* 13-,26-week bills for auction on July 27 $24 billion* 2-year FRNs for auction on July 28 $48 billion* 2-year notes for auction on July 27 $49 billion* 5-year notes for auction on July 27 $44 billion* 7-year notes for auction on July 28 **SETTLE:** $105 billion 13-,26-week bills $30 billion 42-day CMBs $30 billion 119-day CMBs $20 billion 273-day CMBs	
27	28	29	30	31
AUCTION: $105 billion* 13-,26-week bills $48 billion* 2-year notes $49 billion* 5-year notes	**AUCTION:** $24 billion* 2-year FRNs $44 billion* 7-year notes **ANNOUNCE:** $35 billion* 4-week bills for auction on July 30 $35 billion* 8-week bills for auction on July 30 **SETTLE:** $35 billion* 4-week bills $35 billion* 8-week bills		**AUCTION:** $35 billion* 4-week bills $35 billion* 8-week bills **ANNOUNCE:** $105 billion* 13-,26-week bills for auction on August 3 **SETTLE:** $105 billion* 13-,26-week bills	**SETTLE:** $17 billion 20-year bonds $14 billion 10-year TIPS $24 billion* 2-year FRNs $48 billion* 2-year notes $49 billion* 5-year notes $44 billion* 7-year notes
3	4	5	6	7
AUCTION: $105 billion* 13-,26-week bills	**ANNOUNCE:** $35 billion* 4-week bills for auction on August 6 $35 billion* 8-week bills for auction on August 6 **SETTLE:** $35 billion* 4-week bills $35 billion* 8-week bills	**ANNOUNCE:** $48 billion* 3-year notes for auction on August 11 $35 billion* 10-year notes for auction on August 12 $25 billion* 30-year bonds for auction on August 13	**AUCTION:** $35 billion* 4-week bills $35 billion* 8-week bills **ANNOUNCE:** $105 billion* 13-,26-week bills for auction on August 10 $34 billion* 52-week bills for auction on August 11 **SETTLE:** $105 billion* 13-,26-week bills	

**Estimate*