

Economic Update, June 25, 2021
Submitted by Bob Moreo

Summary: Comments early this week from Federal Reserve officials expressed a belief that current signs of higher inflation are temporary, driven by a few factors expected to ease as the economy reopens. [\(Reuters\)](#) Investors seemed reassured that the [Federal Reserve isn't going to raise interest rates](#) too soon in response to inflation fears; the Nasdaq reached all-time highs [Tuesday](#) and [Wednesday](#), with the S&P 500 following suit on [Thursday](#). Core PCE inflation for May measured 3.4% higher than a year ago, which [CNN reported](#) is “the highest level since April 1992,” while noting its growth “slowed in May, rising 0.5%, down from 0.7% in April and slightly below what economists had expected.”

Thursday’s advance report on durable goods manufacturing revealed a major boost in May for nondefense aircraft orders. Boeing announced orders in May from [Lufthansa](#), [Alaska Airlines](#), and [SMBC Aviation Capital](#), and sources quoted by [CNBC](#) and [Forbes](#) suggest United Airlines will announce a deal before the end of June to buy 100 or more Boeing jets. [CNBC.com reported](#) that the 2.3% increase in total durable goods orders was “slightly below the 2.6% estimate but still the biggest gain since July 2020.”

TACIR’s partners at the Business and Economic Research Center at MTSU recently updated our [“Tracking Tennessee’s Economy”](#) dashboard with data from April 2021, which shows “mostly promising signs of continued recovery as the impact of COVID-19 wanes in Tennessee.” They point to increased sales tax collections, “which underlines growth in consumption to bolster Tennessee’s economy.”

Federal Government Indicators and Reports:

Bureau of Economic Analysis

Tuesday, [Personal Income by State](#): “State personal income increased 59.7% at an annual rate in the first quarter of 2021 after decreasing 3.9% in the fourth quarter of 2020. . . . Transfer receipts increased \$2.3 trillion for the nation in the first quarter of 2021, accounting for almost all the growth in personal income [and] reflected new government pandemic relief payments. . . . For the nation, earnings increased 6.1% in the first quarter of 2021 after increasing 11.5% in the fourth quarter.” Personal income in Tennessee increased at an adjusted annual rate of 74.3% in the first quarter, the 12th-best among all states. Net earnings increased 10.5%, led by the health care and social assistance, durable goods manufacturing, and retail trade sectors.

Wednesday, [US International Transactions and Current Account Balance](#): “The US current account deficit . . . widened by \$20.7 billion, or 11.8%, to \$195.7 billion in the first quarter of 2021 . . . [reflecting] an increased deficit on goods and a reduced surplus on primary income.”

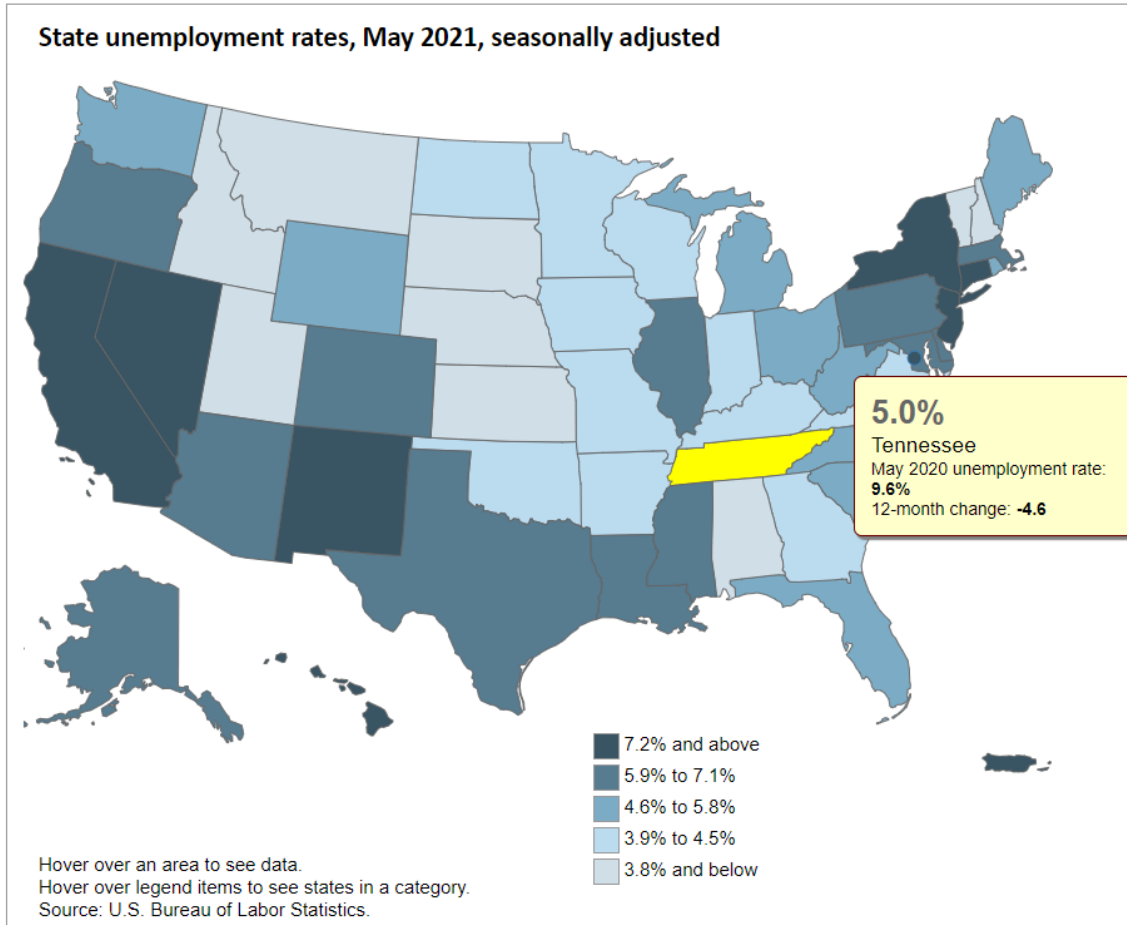
Thursday, [GDP and Corporate Profits](#): “Real gross domestic product (GDP) increased at an annual rate of 6.4% in the first quarter of 2021. . . . In the fourth quarter, real GDP increased 4.3%. . . . Real gross domestic income (GDI) increased 7.6% in the first quarter, compared with an increase of 19.4% in the fourth quarter. . . . [Corporate] profits from current production . . . increased \$55.2 billion in the first quarter, in contrast to a decrease of \$31.4 billion in the fourth quarter. . . . Profits of domestic financial corporations decreased \$6.4 billion in the first quarter, in contrast to an increase of \$17.5 billion in the fourth quarter. Profits of domestic nonfinancial corporations increased \$72.1 billion, in contrast to a decrease of \$48.2 billion.”

Friday, [Personal Income and Outlays](#): “Personal income decreased \$414.3 billion (2.0%) in May. . . . Disposable personal income (DPI) decreased \$436.3 billion (2.3%) and personal consumption expenditures (PCE) increased \$2.9 billion (less than 0.1%). . . . The PCE price index increased 0.4%. Excluding food and energy, the PCE price index increased 0.5%.”

Friday, [Gross Domestic Product by State](#): “Real gross domestic product (GDP) increased in all 50 states and the District of Columbia in the first quarter of 2021, as real GDP for the nation increased at an annual rate of 6.4%.” The rate of increase in Tennessee was 7.4%, 10th-best among all states. “Durable goods manufacturing increased 15.6% nationally and . . . was the leading contributor to the increases in 24 states [including Tennessee].”

Bureau of Labor Statistics

Wednesday, [State Employment and Unemployment](#): “Unemployment rates were lower in May in 21 states and the District of Columbia, higher in one state, and stable in 28 states. . . .”



The national unemployment rate declined by 0.3 percentage point over the month to 5.8% and was 7.5 points lower than in May 2020. Nonfarm payroll employment increased in 14 states, decreased in one state, and was essentially unchanged in 35 states and the District of Columbia.” The seasonally adjusted unemployment rate in Tennessee for May 2021 was 5.0%, essentially unchanged from rates of 5.1% in March and 5.0% in April.

Bureau of Transportation Statistics

Monday, [Air Travel Consumer Report](#): “Airlines scheduled and operated more flights in April 2021 than any month since the start of the pandemic in March 2020. The total number of flights operated in April 2021 have not rebounded to pre-pandemic levels but have increased significantly since the all-time monthly low of 180,151 flights in May 2020. Flights operated in April 2021 (471,375) were . . . 72% of the flights operated in April 2019 (652,533).”

Wednesday, [North American Transborder Freight](#): A total of \$107.4 billion worth of transborder freight moved between the US, Canada, and Mexico in April 2021, “up 84.7% compared to April 2020 . . . and up 2.7% compared to \$104.5 billion in April 2019.”

Census Bureau

Wednesday, [New Residential Sales](#): “Sales of new single-family houses in May 2021 were at a seasonally adjusted annual rate of 769,000. . . . This is 5.9% below the revised April rate of 817,000 but is 9.2% above the May 2020 estimate of 704,000. The median sales price of new houses sold in May 2021 was \$374,400. The average sales price was \$430,600. The seasonally-adjusted estimate of new houses for sale at the end of May was 330,000. This represents a supply of 5.1 months at the current sales rate.”

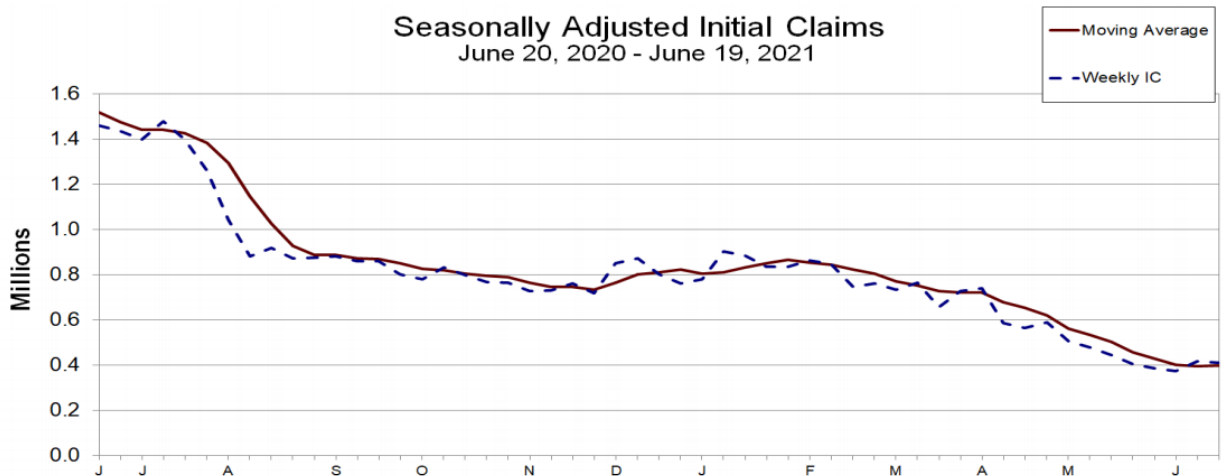
Thursday, [Advance Economic Indicators Report](#): “The international trade deficit was \$88.1 billion in May, up \$2.4 billion from \$85.7 billion in April. Exports of goods for May were \$144.3 billion, \$0.5 billion less than April exports. Imports of goods for May were \$232.4 billion, \$1.9 billion more than April imports. Wholesale inventories for May . . . were estimated at an end-of-month level of \$707.5 billion, up 1.1% from April 2021, and were up 7.8% from May 2020. . . . Retail inventories for May . . . were estimated at an end-of-month level of \$598.3 billion, down 0.8% from April 2021 and were up 0.3% from May 2020.”

Thursday, [Advance Report on Durable Goods Manufacturing](#): “New orders for manufactured durable goods in May increased \$5.7 billion or 2.3% to \$253.3 billion. . . . Transportation equipment, up following two consecutive monthly decreases, led the increase, \$5.2 billion or 7.6% to \$74.2 billion.” Within the transportation equipment category, new orders for nondefense aircraft and parts increased \$2.5 billion or 27.4% in May to \$11.6 billion.

“Shipments of manufactured durable goods in May, up two of the last three months, increased \$1.0 billion or 0.4% to \$248.3 billion. . . . Unfilled orders . . . increased \$9.5 billion or 0.8% to \$1,209.3 billion. . . . Inventories of manufactured durable goods . . . increased \$2.9 billion or 0.7% to \$445.3 billion.”

Department of Labor

Thursday, [Unemployment Insurance Weekly Claims Report](#): “In the week ending June 19, the advance figure for seasonally adjusted initial claims was 411,000, a decrease of 7,000 from the previous week's revised level. The previous week's level was revised up by 6,000 from 412,000 to 418,000.”



“The advance number for seasonally adjusted insured unemployment during the week ending June 12 was 3,390,000, a decrease of 144,000 from the previous week's revised level. This is the lowest level for insured unemployment since March 21, 2020, when it was 3,094,000. . . . The total number of continued weeks claimed for benefits in all programs for the week ending June 5 was 14,845,450, an increase of 3,756 from the previous week.”

The unadjusted advance figure for initial claims filed in Tennessee the week ending June 19 was 4,736, a decrease of 1,613 from the previous week. This comes after Tennessee saw the 4th-largest decrease in initial claims for the week ending June 12 with 1,746 fewer than the week before. The unadjusted advance number for insured unemployment in Tennessee during the week ending June 12 was 51,533, a decrease of 2,941 from the week prior. In the week ending June 5 there were also 47,555 continued Pandemic Unemployment Assistance claims (3,885 fewer than the week before) and 51,181 Pandemic Emergency Unemployment Compensation continued claims (down 338 from the previous week).

Federal Reserve Board

Tuesday, [Testimony, House Select Subcommittee on the Coronavirus Crisis](#): Fed Chair Jerome Powell told members of Congress on Tuesday that “indicators of economic activity and employment have continued to strengthen” since his last appearance in March, and that “household spending is rising at a rapid pace . . . the housing sector is strong, and business investment is increasing at a solid pace.” He also said, “job gains should pick up in coming months as vaccinations rise, easing some of the pandemic-related factors currently weighing them down.” Although “inflation has increased notably in recent months,” Powell expects it to “drop back toward our longer-run goal” as “transitory supply effects abate.” Regarding those transitory effects, [The Wall Street Journal quoted Powell](#) as saying, “if you look behind the headline and look at the categories where these prices are really going up, you’ll see that it tends to be areas that are directly affected by the reopening. . . . That’s something that we’ll go through over a period. It will then be over. And it should not leave much of a mark on the ongoing inflation process.”

Federal Reserve Bank of Atlanta

Friday, [GDPNow](#): “The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2021 is 8.3% on June 25, down from 9.7% on June 24. After this morning’s releases from the Bureau of Economic Analysis, the nowcast of second-quarter real gross private domestic investment growth decreased from 13.1% to 6.8%.”

Federal Reserve Bank of Chicago

Monday, [Chicago Fed National Activity Index](#): “Led by improvements in production-related indicators, the [index] increased to +0.29 in May from –0.09 in April,” which “points to a pickup in economic growth.”

Wednesday, [National Financial Conditions Index](#): Indicating “steady financial conditions,” the “NFCI was unchanged at –0.71 in the week ending June 18. . . . Negative values have been historically associated with looser-than-average financial conditions.”

Economic Indicators and Confidence:

IHS Markit

Wednesday, [Flash US Composite PMI](#): The composite index “posted 63.9 in June, down from 68.7 in May, but nonetheless signaling a historically elevated rate of expansion in output across the private sector. Moderations in activity growth were seen in both the manufacturing and service sectors,

with goods producers hampered in particular by significant supplier delays and both sectors reporting difficulties finding staff. . . . Business confidence ticked higher in June, as firms remained broadly upbeat regarding the outlook for output over the coming 12 months.

“The . . . Services PMI Business Activity Index registered 64.8 in June, down from May’s series record of 70.4. . . . Although slower than that seen in May, the rate of growth was among the quickest in the series history and was linked to robust demand conditions. . . . June data signaled the greatest improvement in operating conditions among goods producers on record, as highlighted by the Flash US Manufacturing PMI posting 62.6, up from 62.1 in May.”

IHS Markit Chief Business Economist Chris Williamson said, “While both output growth and inflows of new orders have come off their peaks in both manufacturing and services, this is as much due to capacity constraints limiting firms’ abilities to cope with demand rather than any cooling of the economy.”

Wednesday, [Flash Eurozone PMI](#): “Eurozone business activity grew at the fastest rate for 15 years in June as the economy reopened further from virus-fighting restrictions and vaccine progress boosted confidence. Prices charged for goods and services rose at an unprecedented rate, however, as demand continued to outstrip supply. Despite firms taking on extra staff at the sharpest rate for almost three years, June saw a record rise in backlogs of work, a further near-record lengthening of supply chains and the increasingly widespread depletion of warehouse inventories. The headline IHS Markit Eurozone Composite PMI increased from 57.1 in May to 59.2 in June, its highest since June 2006.”

University of Michigan

Friday, [Index of Consumer Sentiment](#): The final Index of Consumer Sentiment number for June 2021 was 85.5, up 3.1% from May’s reading of 82.9 but down from June’s preliminary 86.4 figure. (See [this report from Reuters](#) for the preliminary number.) Surveys of Consumers chief economist Richard Curtin noted, “all of the June gain was among households with incomes above \$100,000, and mainly in the way they judged future economic prospects.” Curtin said consumers’ inflations expectations eased, and that “consumers also believed that the price surges will mostly be temporary. Declines in unemployment rate in the year ahead were expected by 56% of consumers, the largest proportion ever recorded in the history of the surveys.”

Employment and Businesses:

American Staffing Association

Monday, [Staffing Index Monthly Report](#): “Following two weeks of holiday-related declines, staffing employment for June 7–13 rebounded (+2.0%) from the prior week, . . . [marking] a 2021 high for the index, which reached a rounded value of 97. Staffing jobs . . . remain on par with the average levels seen for the comparative weeks in 2018 and 2019.”

Mortgages and Housing Markets:

Freddie Mac

Thursday, [Primary Mortgage Market Survey](#): The interest rate for a “30-year fixed-rate mortgage averaged 3.02% with an average 0.7 point for the week ending June 24, 2021, up from last week when it averaged 2.93%. A year ago, at this time, the 30-year FRM averaged 3.13%.” Sam Khater, Freddie Mac’s Chief Economist, said, “As the economy progresses and inflation remains elevated, we expect that rates will continue to gradually rise in the second half of the year.”



Primary Mortgage Market Survey®

U.S. weekly average mortgage rates as of 06/24/2021



Mortgage Bankers Association

Tuesday, [Forbearance and Call Volume Survey](#): “The total number of loans now in forbearance decreased by 11 basis points from 4.04% of servicers' portfolio volume in the prior week to 3.93% as of June 13, 2021. According to MBA's estimate, 2 million homeowners are in forbearance plans.” Mike Fratantoni, MBA's Senior Vice President and Chief Economist, said, “we should continue to see the share in forbearance decline. The improving job market and strong housing market are providing support for those who do exit.”

Wednesday, [Weekly Mortgage Applications Survey](#): “Mortgage applications increased 2.1% from one week earlier, according to data . . . for the week ending June 18, 2021. . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances (\$548,250 or less) increased to 3.18% from 3.11%.” Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting, said, “Mortgage rates increased last week, with the 30-year fixed rate rising to 3.18% - the highest level in a month. Despite the jump in rates, refinances increased for the second consecutive week.”

National Association of Realtors

Tuesday, [Existing-Home Sales](#): “Existing-home sales decreased for a fourth straight month in May . . . [down] 0.9% from April to a seasonally-adjusted annual rate of 5.80 million in May. . . . The median existing-home price for all housing types in May was \$350,300, up 23.6% from May 2020 (\$283,500), . . . [marking] 111 straight months of year-over-year gains since March 2012. Total housing inventory at the end of May amounted to 1.23 million units, up 7.0% from April's inventory and down 20.6% from one year ago.” Lawrence Yun, NAR's chief economist, said, “lack of inventory continues to be the overwhelming factor holding back home sales, but falling affordability is simply squeezing some first-time buyers out of the market.”