U.S. Economic Comment

- Hints of economic improvement

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Green Shoots

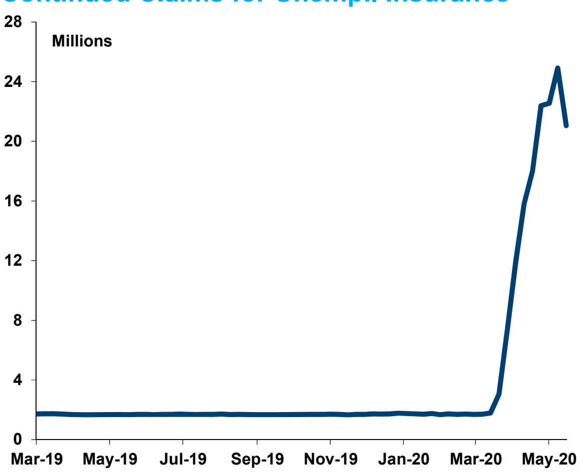
Most of the recent economic reports for the United States have remained decidedly weak, but at the same time, hints of improvement can be found if one looks hard. The improvement will do little to alter the outlook for economic growth in the second quarter – that will be dreadful at approximately -40 percent. However, recent developments suggest that the economy could resume growth in the third quarter.

We were heartened by the latest weekly report on claims for unemployment insurance, which showed a decline in the number of individuals receiving unemployment benefits (typically called continued unemployment claims or insured unemployment). This series surged when the coronavirus started to bite in mid-March, but the rate of advance began to slow in early May and the latest week showed a drop of more than three million (chart, left).

Many observers, certainly the popular press, have been focusing on initial claims for unemployment insurance, and these figures, although easing in the past eight weeks, remain at levels that are shocking by historical standards. Continued claims, though, might be a better indicator at this time because they show the net effect of both sides of labor market movement: those losing jobs and those finding new work or being recalled to their previous job. (Continued claims also could decline because individuals exhaust their benefits, but that is probably not an important factor at this time.)

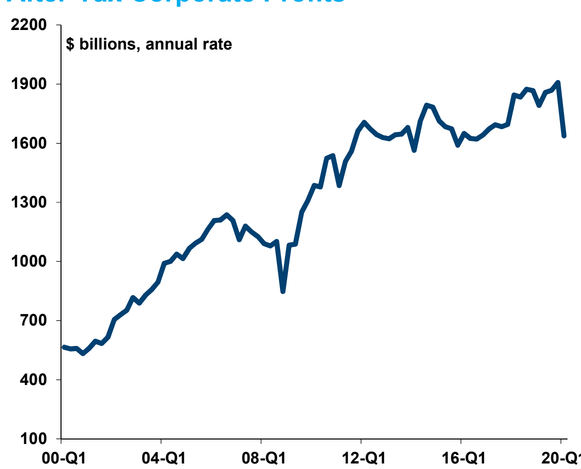
With the economy now beginning to reopen, it is important to get a sense of worker recalls. The drop in the number of individuals receiving benefits at a time when the flow of initial claims remains heavy suggests that many individuals are being recalled to their jobs. The number of recipients is still elevated, but the drop of more than three million in the latest report is significant. Workers are being recalled.

Continued Claims for Unempl. Insurance



Source: U.S. Department of Labor via Haver Analytics

After-Tax Corporate Profits



Source: Bureau of Economic Analysis via Haver Analytics

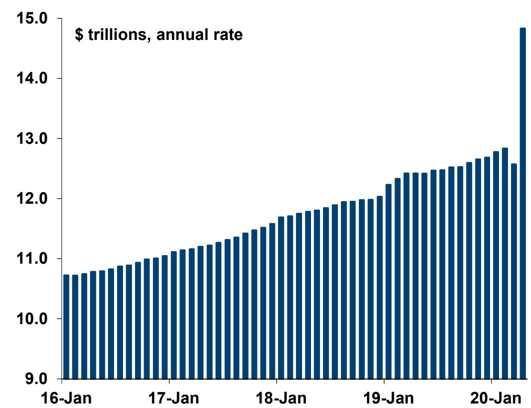
The latest reports on GDP and personal income contained interesting nuggets suggesting that stress in the household sector might be less intense than implied by mass layoffs. The revised GDP report for the first quarter included detail on national income, with results showing that the initial impact of the virus was absorbed primarily by the corporate sector. That is, nominal gross domestic income fell at an annual rate of 2.7 percent, with this decline driven by a plunge of 45.9 percent (annual rate) in after-tax corporate profits (chart; page 1, right). Employee compensation rose at an annual rate of 0.4 percent, far from robust but not a disaster.

(Gross domestic income is a measure akin to gross domestic product. It should be equal to GDP because incomes earned in producing output should be equal to the value of that output. However, because the two measures are derived from different data sources, there is always a statistical discrepancy. The discrepancy in Q1 left a difference of slightly less than one percentage point between the annual growth rates of nominal gross domestic product and income: -3.5 percent for GDP and -2.7 percent for GDI.)

Of course, the virus only started to take hold in the closing weeks of the first quarter, and the effect on employment and wages was more intense in April and will undoubtedly hurt in May and June. Still, the financial impact on households might not be overwhelming. The latest monthly report on personal income showed a surge of 10.5 percent (not annualized) in total personal income. Many components of personal income were weak (wages and salaries off 8.0 percent, proprietors' income down 12.2 percent, and investment income off 1.5 percent). However, these declines were easily offset by a surge of 89.6 percent in so-called transfer payments, which are payments received by individuals without providing services in return.

Normally, shifts in transfer payments are dominated by changes in outlays for Social Security, Medicare & Medicaid, and veterans' benefits, but in April they surged because of expanded unemployment benefits and the rebate payments from the Treasury Department (the $1,200 checks). The support payments, at least for April, kept many households on solid financial ground, as the sum of wages and transfer payments was far larger than the norm (chart).

Personal Income*



** The sum of the wages and salaries and personal current transfer receipts components of personal income.*

Source: Bureau of Economic Analysis via Haver Analytics

The significance of the surge in income should not be pushed too far because the hefty transfer payments in April are not likely to be sustained. The rebate checks presumably represent one-time payments, and the Treasury Department will soon finish the distribution of these payments. The enhanced unemployment benefits also are temporary, scheduled to end in July. Still, for the time being, the household sector in the aggregate is not severely strained. If the economy continues to reopen and the recall of workers accelerates, the financial damage to individuals might not be pronounced.

We have been mildly (and pleasantly) surprised at recent readings on consumer attitudes. Both the confidence index published by the Conference Board and the sentiment index of the University of Michigan Survey Research Center have dropped noticeably from pre-virus levels, but they remain well above lows seen in prior recessions. In addition, each measure in May regained a bit of the ground lost in March and April (chart, next page). Such a performance in the face of disastrous employment results is curious. We suspect that the support provided by the federal government has played a role.

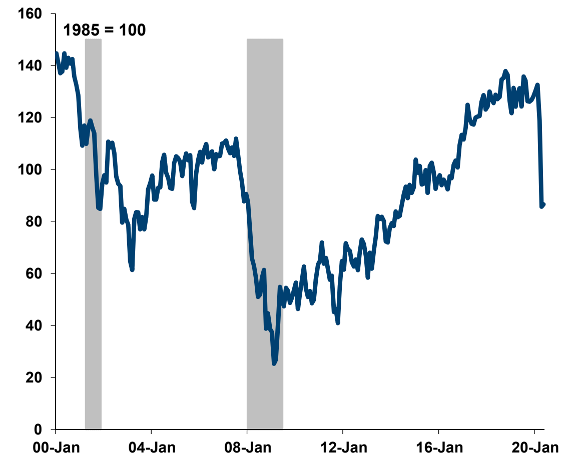
Declines interest rates and stock prices immediately after the data on Friday suggested that most market participants focused on the spending portion of the report on income and consumption, which showed a pronounced decline (off 13.2 percent in real terms), which sets the stage for a dismal showing for consumer spending in the Q2 GDP report (off perhaps 50 percent at an annual rate). However, given the income results, the drop in spending most likely reflected sheltering restrictions rather than financial constraints. As restrictions ease, spending should pick up.

We believe that many observers also are misreading recent reports on order flows in the manufacturing sector. The headline figures appear troubling, as bookings for durable goods fell 16.6 percent in March and 17.2 percent in April. Orders for nondurable goods were down 5.5 percent in March (latest available; figures for April will be published on June 3). However, digging into the detail of the reports shows a less-than-dire situation.

The decline in orders for durable goods in the past two months has been heavily influenced by a dismal performance in the commercial aircraft sector. This area is volatile in normal times, but it is especially weak at this time because of issues at Boeing and because of a possibly extended period of soft demand for air travel. This sector has recorded negative order flows (i.e. net cancellations) in both March and April. Orders for ships and boats, another volatile area, also showed downside noise in March. Other areas have eased, but the retreat has not been pronounced. Orders for durable goods excluding the transportation category fell 1.7 percent in March and 7.4 percent in April. These changes have pushed bookings well below their pre-virus levels, but they are still within the range of the past several years and far above levels seen during the previous recession and early years of the recovery (chart, below left).

In the nondurable area, the drop of 5.5 percent in March was the result of a decline in the petroleum and coal category, which was probably driven by lower prices of oil-related products. Excluding the petroleum and coal category, nondurable orders rose 0.7 percent and have been steady in the past year or so (chart, below right). We suspect that nondurable booking fell noticeably in April, reflecting additional softness in oil prices and some influence of the virus, but we look for the softness to resemble that for durable goods rather than the desperate conditions suggested by labor market data.

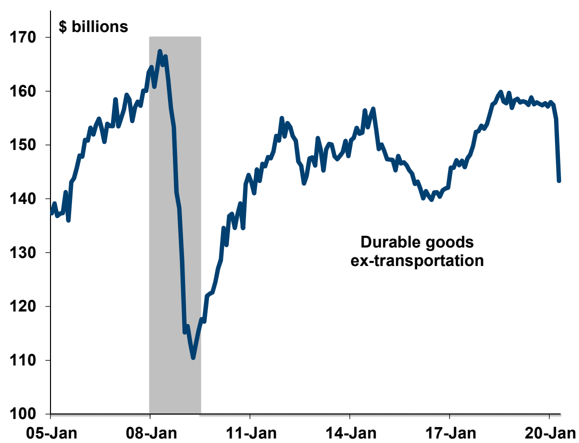
Consumer Confidence*



* *The shaded areas indicate periods of recession in the United States.*

Source: The Conference Board and National Bureau of Economic Research via Haver Analytics

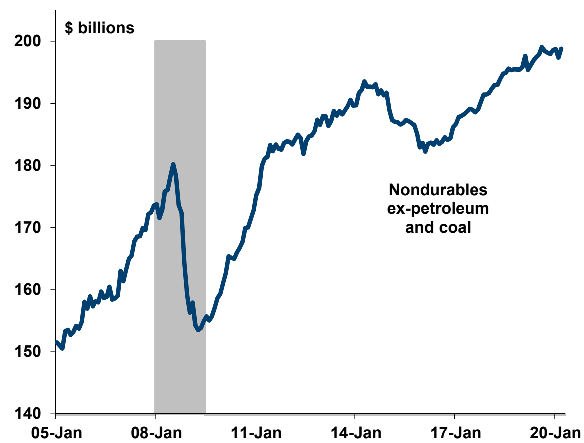
Manufacturers' New Orders*



* *The shaded areas indicate periods of recession in the United States.*

Source: U.S. Census Bureau and National Bureau of Economic Research via Haver Analytics

Manufacturers' New Orders*



* *The shaded areas indicate periods of recession in the United States.*

Source: U.S. Census Bureau and National Bureau of Economic Research via Haver Analytics

Review

Week of May 25, 2020	Actual	Consensus	Comments
Consumer Confidence (May)	**86.6 (+0.9 Index Pt.)**	**87.0 (+0.1 Index Pt.)**	While the Conference Board's index of consumer confidence is off noticeably from its pre-virus levels, the uptick in May kept the measure well above readings during the financial crisis (a trough of 25.3 in February 2009) and other periods of weakness. Individuals seem to believe that economic weakness is temporary, as the expectations component has deteriorated only modestly in the past few months, falling 10.4% since February versus a drop of 58.0% in the expectations component.
New Home Sales (April)	**0.623 Million (+0.6%)**	**0.480 Million (-23.4%)**	Sales of new homes went against the grain of essentially all other economic reports by advancing in April. The level of activity trailed the average of 685,000 for last year (and 705,000 in the second half of 2019), but it compared favorably with the average of 615,000 for 2017-18. While activity in the market for new homes was well maintained in April, the overall housing market still felt the effects of the coronavirus. Sales of existing homes fell noticeably in both March and April, which has left total home sales (new and existing combined) down 23.5% since February.
Revised GDP (2020-Q1)	**-5.0% (-0.2 Pct. Pt. Revision)**	**-4.8% (Unrevised)**	The modest downward revision to GDP was largely the result of a pronounced shift in inventory investment. The initial estimate showed that inventory investment subtracted 0.5 percentage point from GDP growth, but the revised estimate showed a drag of 1.4 percentage points. Residential construction also contributed noticeably to the downward revision, now showing growth of 18.5% rather than 21.0%. Consumer spending and business fixed investment were slightly better than previously believed (i.e. less negative).
Durable Goods Orders (April)	**-17.2%**	**-19.0%**	Much of the softness in new orders for durable goods occurred in the transportation sector, with dreadful results in the volatile commercial aircraft sector leading the retreat. Orders for motor vehicles also fell sharply. Excluding the transportation category, bookings are down, but declines of 1.7% in March and 7.4% in April have not matched the double-digit drops seen in many other economic reports. New orders for capital goods other than aircraft merit special attention because of the insights they provide for capital spending, and here too, results have been soft but not dire. Bookings slipped 1.1% in March and 5.8% in April, but the level of orders remained within the range of the past five years and well above readings during the financial crisis and the early stages of the latest recovery.

Review Continued

Week of May 25, 2020	Actual	Consensus	Comments
U.S. International Trade in Goods (April)	**-$69.7 Billion ($4.7 Billion Wider Deficit)**	**-$65.0 Billion ($0.6 Billion Wider Deficit)**	The coronavirus seems to have hit the trade sector hard, as both exports and imports fell sharply in April (off 25.2% and 14.3%, respectively). Not only were the changes large, but they also were broadly based, as all six major categories on both sides of the trade ledger declined (food, industrial supplies, capital goods, motor vehicles, consumer goods, and other). The shifts were larger on the export side, which left a noticeable widening in the monthly trade deficit ($69.7 billion in April versus an average of $63.3 billion for the first quarter). The widening suggests a negative contribution from net exports to GDP growth in the second quarter.
Personal Income, Consumption, Core Prices (April)	**10.5%, -13.6%, -0.4%**	**-5.9%, -12.8%, -0.3%**	Several components of personal income were decidedly weak in April: wages and salaries fell 8.0% and proprietors' income declined 12.2%. However, these soft spots were overwhelmed by so-called transfer payments, which represent government support to individuals. Normally, this category is driven by outlays for Social Security, Medicare & Medicaid, and veterans' benefits, but in April it surged because of expanded unemployment benefits and the rebate payments from the Treasury Department (the $1,200 checks). The support payments, at least for April, kept many households on solid financial ground. Although income was firm in April, stay-at-home restrictions led to a stunning decline in consumer spending. Lower energy prices and weak economic environment led to soft readings on the price indexes for personal consumption expenditures.
Revised Consumer Sentiment (May)	**72.3 (-1.4 Index Pts. Revision)**	**74.0 (0.3 Index Pt. Revision)**	The downward revision in consumer sentiment, although deviating from the market consensus, was not especially surprising in light of disruptions caused by the coronavirus and associated lockdowns. The final reading for May is down substantially from the pre-virus reading of 101.0 in February (and the cyclical peak of 101.4 in March 2018), but it is well above the low of 55.3 during the financial crisis.

Sources The Conference Board (Consumer Confidence); U.S. Census Bureau (New Home Sales, Durable Goods Orders, U.S. International Trade in Goods); Bureau of Economic Analysis (Revised GDP, Personal Income, Consumption, Core Prices); University of Michigan Survey Research Center (Revised Consumer Sentiment); Consensus forecasts are from Bloomberg

Preview

Week of June 1, 2020	Projected	Comments
ISM Manufacturing Index (May) (Monday)	**44.0% (+2.5 Pct. Pts.)**	Initial steps to reopen the economy are likely to lead to upward wiggles in the three key components (new orders, production, employment) that were at or near record lows in April. The supplier delivery component could provide a partial offset, as repairs to disrupted supply chains might lead to a drop from the elevated level in the prior month.
Construction Spending (April) (Monday)	**-15.0%**	Construction activity was little affected by the coronavirus in March (up 0.9%), but weak housing starts in April suggest that residential building fell sharply. Business-related and government-sponsored construction also are likely to soften because of virus-related restrictions.
ISM Nonmanufacturing Index (May) (Wednesday)	**44.0% (+2.2 Pct. Pts.)**	Like its manufacturing counterpart, the ISM nonmanufacturing index should improve slightly in response to an easing in lockdown restrictions.
Factory Orders (April) (Wednesday)	**-12.0%**	The already reported decline of 17.2% in durable goods orders is likely to account for most of the decline in total factory orders, but the nondurable component also are likely to contribute with an expected drop of 7.0%. Much of the softness in the nondurable sector is likely to occur in the petroleum and coal category, with lower prices having an influence. However, orders of nondurable goods ex-petroleum are likely to show some influence from the coronavirus after posting steady bookings in the prior two months.
Trade Balance (April) (Thursday)	**-$49.0 Billion ($4.6 Billion Wider Deficit)**	The already reported deterioration in goods trade accounts for most of the expected widening in the total trade deficit. Within the service components of trade, both exports and imports of trade and transportation are likely to decline, with the offsetting effects leaving the surplus in services little changed.
Revised Nonfarm Productivity (2020-Q1) (Thursday)	**-2.4% (0.1 Pct. Pt. Upward Revision)**	As in the GDP report, the growth of output in the productivity report is likely to be nudged downward, but hours worked will probably be revised downward as well, leaving a slight upward revision to productivity growth. Despite the expected upward adjustment, the productivity performance in Q1 was still poor.
Nonfarm Payrolls (May) (Friday)	**-9,000,000**	A decline in the number of individuals receiving unemployment benefits during the survey week suggests that many individuals have been recalled to their jobs, but still-elevated initial claims for unemployment insurance implies that layoffs are dominating. The weak employment results will undoubtedly drive the unemployment rate higher. More accurate classification of individuals also might boost the unemployment rate (fewer furloughed individuals classified as employed but not at work).

Source: Forecasts provided by Daiwa Capital Markets America

Daiwa Capital Markets

Economic Indicators

May/June 2020

Monday	Tuesday	Wednesday	Thursday	Friday
25	26	27	28	29
MEMORIAL DAY	**CHICAGO FED NATIONAL ACTIVITY INDEX** Monthly 3-Mo. Avg. Feb 0.05 -0.12 Mar -4.97 -1.69 Apr -16.74 -7.22 **FHFA HOME PRICE INDEX** Jan 0.5% Feb 0.8% Mar 0.1% **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** SA NSA Jan 0.4% 0.0% Feb 0.5% 0.5% Mar 0.5% 1.1% **CONFERENCE BOARD CONSUMER CONFIDENCE** Mar 118.8 Apr 86.9 May 86.6 **NEW HOME SALES** Feb 0.741 million Mar 0.619 million Apr 0.623 million	**MAY BEIGE BOOK** "Economic activity declined in all Districts -- falling sharply in most reflecting disruptions associated with the COVID-19 pandemic."	**UNEMPLOYMENT CLAIMS** Initial Continuing (Millions) May 02 3.176 22.548 May 09 2.687 24.912 May 16 2.446 21.052 May 23 2.123 N/A **REVISED GDP** GDP Chained Price 19-Q4 2.1% 1.3% 20-Q1(a) -4.8% 1.3% 20-Q1(p) -5.0% 1.4% **DURABLE GOODS ORDERS** Feb 2.0% Mar -16.6% Apr -17.2% **PENDING HOMES SALES** Feb 2.3% Mar -20.8% Apr -21.8%	**U.S. INTERNATIONAL TRADE IN GOODS** Feb -$58.9 billion Mar -$65.0 billion Apr -$69.7 billion **ADVANCE INVENTORIES REPORT** Wholesale Retail Feb -0.7% -0.3% Mar -1.0% 1.2% Apr 0.4% -3.6% **PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** Inc. Cons. Core Feb 0.5% 0.2% 0.2% Mar -2.2% -6.9% 0.0% Apr 10.5% -13.6% -0.4% **CHICAGO PURCHASING MANAGERS' INDEX** Index Prices Mar 47.8 56.7 Apr 35.4 48.4 May 32.3 53.8 **REVISED CONSUMER SENTIMENT** Mar 89.1 Apr 71.8 May 72.3
1	2	3	4	5
ISM INDEX (10:00) Index Prices Mar 49.1 37.4 Apr 41.5 35.3 **May 44.0 40.0** **CONSTRUCTION SPEND. (10:00)** Feb -2.5% Mar 0.9% **Apr -15.0%**	**VEHICLE SALES** Mar 11.4 million Apr 8.6 million **May 10.8 million**	**ADP EMPLOYMENT REPORT (8:15)** Private Payrolls Mar -149,000 Apr -20,236,000 May -- **ISM NON-MFG INDEX (10:00)** Index Prices Mar 52.5 50.0 Apr 41.8 55.1 **May 44.0 55.0** **FACTORY ORDERS (10:00)** Feb 0.2% Mar -11.0% **Apr -12.0%**	**INITIAL CLAIMS (8:30)** **TRADE BALANCE (8:30)** Feb -$39.8 billion Mar -$44.4 billion **Apr -$49.0 billion** **REVISED PRODUCTIVITY & COSTS (8:30)** Productivity Unit Labor Costs 19-Q4 1.2% 0.9% 20-Q1(p) -2.5% 4.8% **20-Q1(r) -2.4% 5.0%**	**EMPLOYMENT REPORT (8:30)** Payrolls Un. Rate Mar -881,000 4.4% Apr -20,537,000 14.7% **May -9,000,000 19.0%** **CONSUMER CREDIT (3:00)** Feb $19.9 billion Mar -$12.0 billion Apr --
8	9	10	11	12
	NFIB SMALL BUSINESS OPTIMISM INDEX **JOLTS DATA** **WHOLESALE TRADE** **FOMC MEETING**	**CPI** **FEDERAL BUDGET** **FOMC DECISION**	**INITIAL CLAIMS** **PPI**	**IMPORT/EXPORT PRICES** **CONSUMER SENTIMENT**
15	16	17	18	19
EMPIRE MFG. INDEX **TIC DATA**	**RETAIL SALES** **IP & CAP-U** **BUSINESS INVENTORIES** **NAHB HOUSING INDEX**	**HOUSING STARTS**	**INITIAL CLAIMS** **PHILLY FED INDEX** **LEADING INDICATORS**	**CURRENT ACCOUNT**

Forecasts in Bold. (a) = advance (1st estimate of GDP); (p) = preliminary (2nd estimate of GDP); (r) = revised

Treasury Financing

May/June 2020

Monday	Tuesday	Wednesday	Thursday	Friday
25	26	27	28	29
MEMORIAL DAY	**AUCTION RESULTS:** Rate Cover 13-week bills 0.130% 2.88 26-week bills 0.160% 3.00 42-day CMB 0.120% 2.83 2-year notes 0.178% 2.68 **ANNOUNCE:** $80 billion 4-week bills for auction on May 28 $70 billion 8-week bills for auction on May 28 $40 billion 105-day CMBs for auction on May 27 $40 billion 154-day CMBs for auction on May 28 **SETTLE:** $80 billion 4-week bills $70 billion 8-week bills $40 billion 105-day CMBs $40 billion 154-day CMBs	**AUCTION RESULTS:** Margin Cover 2-year FRN 0.098% 3.12 Rate Cover 105-day CMB 0.165% 3.06 119-day CMB 0.170% 2.75 273-day CMB 0.180% 3.17 5-year notes 0.334% 2.28	**AUCTION RESULTS:** Rate Cover 4-week bills 0.130% 2.55 8-week bills 0.135% 2.87 154-day CMB 0.170% 3.16 7-year notes 0.553% 2.55 **ANNOUNCE:** $117 billion 13-,26-week bills for auction on June 1 $65 billion 42-day CMBs for auction on June 2 $40 billion 119-day CMBs for auction on June 2 **SETTLE:** $117 billion 13-,26-week bills $65 billion 42-day CMBs $40 billion 119-day CMBs $25 billion 273-day CMBs	**SETTLE:** $12 billion 10-year TIPS $20 billion 2-year FRNs
1	2	3	4	5
AUCTION: $117 billion 13-,26-week bills **SETTLE:** $44 billion 2-year notes $45 billion 5-year notes $38 billion 7-year notes $20 billion 20-year bonds	**AUCTION:** $65 billion 42-day CMBs $40 billion 119-day CMBs **ANNOUNCE:** $80 billion* 4-week bills for auction on June 4 $70 billion* 8-week bills for auction on June 4 **SETTLE:** $80 billion 4-week bills $70 billion 8-week bills $40 billion 105-day CMBs $40 billion 154-day CMBs		**AUCTION:** $80 billion* 4-week bills $70 billion* 8-week bills **ANNOUNCE:** $117 billion* 13-,26-week bills for auction on June 8 $44 billion* 3-year notes for auction on June 8 $29 billion* 10-year notes for auction on June 9 $19 billion* 30-year bonds for auction on June 11 **SETTLE:** $117 billion 13-,26-week bills $65 billion 42-day CMBs $40 billion 119-day CMBs	
8	9	10	11	12
AUCTION: $117 billion* 13-,26-week bills $44 billion* 3-year notes	**AUCTION:** $29 billion* 10-year notes **ANNOUNCE:** $80 billion* 4-week bills for auction on June 11 $70 billion* 8-week bills for auction on June 11 **SETTLE:** $80 billion* 4-week bills $70 billion* 8-week bills		**AUCTION:** $80 billion* 4-week bills $70 billion* 8-week bills $19 billion* 30-year bonds **ANNOUNCE:** $117 billion* 13-,26-week bills for auction on June 15 $34 billion* 52-week bills for auction on June 16 $17 billion* 20-year bonds for auction on June 17 $15 billion* 5-year TIPS for auction on June 18 **SETTLE:** $117 billion* 13-,26-week bills	
15	16	17	18	19
AUCTION: $117 billion* 13-,26-week bills **SETTLE:** $44 billion* 3-year notes $29 billion* 10-year notes $19 billion* 30-year bonds	**AUCTION:** $34 billion* 52-week bills **ANNOUNCE:** $80 billion* 4-week bills for auction on June 18 $70 billion* 8-week bills for auction on June 18 **SETTLE:** $80 billion* 4-week bills $70 billion* 8-week bills	**AUCTION:** $17 billion* 20-year bonds	**AUCTION:** $80 billion* 4-week bills $70 billion* 8-week bills $15 billion* 5-year TIPS **ANNOUNCE:** $117 billion* 13-,26-week bills for auction on June 22 $20 billion* 2-year FRNS for auction on June 24 $46 billion* 2-year notes for auction on June 23 $47 billion* 5-year notes for auction on June 24 $41 billion* 7-year notes for auction on July 25	**SETTLE:** $117 billion* 13-,26-week bills $34 billion* 52-week bills

*Estimate