U.S. Economic Comment

- The housing market: recovering briskly
- Covid: hitting essentially all economies, although wide variation in degree

Michael Moran
Daiwa Capital Markets America
212-612-6392
michael.moran@us.daiwacm.com

Housing: In High Gear (At Least by Recent Standards)

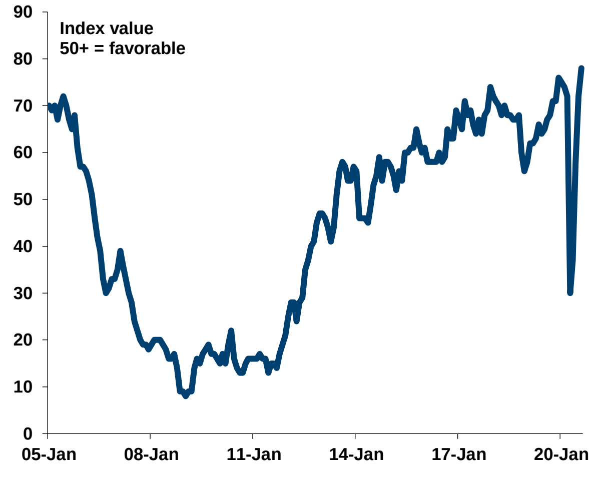
Most sectors of the U.S. economy are improving from the dismal performance in the second quarter. Although the pickup in some areas has been modest (travel, restaurant dining, entertainment), activity in some areas has been firm. Several categories in the retail sales report, for example, have moved above their pre-virus levels. Housing is another area that is recovering briskly.

The sentiment index published by the National Association of Home Builders suggests that conditions are firm, as this measure has increased for four consecutive months, with the latest observation exceeding the peak registered during the housing bubble in 2005 (chart, left). The latest reading matches the record set in 1996.

Home builders are optimistic about prospects, and they are acting on that optimism, as housing starts jumped almost 23 percent in July after a combined gain of more than 30 percent in May and June. The level of activity was still shy of the strong showings around the turn of the year, but it was above all other readings in the previous expansion (chart, right). Much of the increase in July occurred in the volatile multi-family sector, and the advance likely contained a dose of random volatility. However, single-family starts also were strong. They, too, were shy of totals around the turn of the year, but they were in the upper end of the range from the past several years.

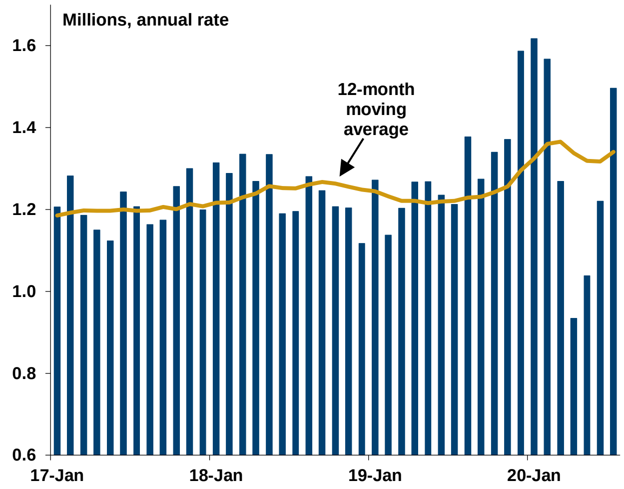
The optimism of builders and the strong pace of housing starts are being driven by brisk sales. Sales of new homes, which are the relevant metric for home builders, already moved above their pre-virus level in June, and they could well show a further advance in July (scheduled for release on August 25). Results

NAHB Housing Market Index



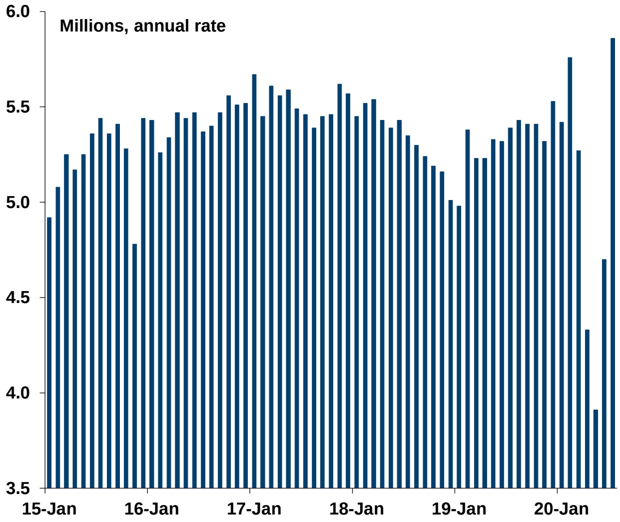
Source: National Association of Home Builders via Haver Analytics

Total Housing Starts



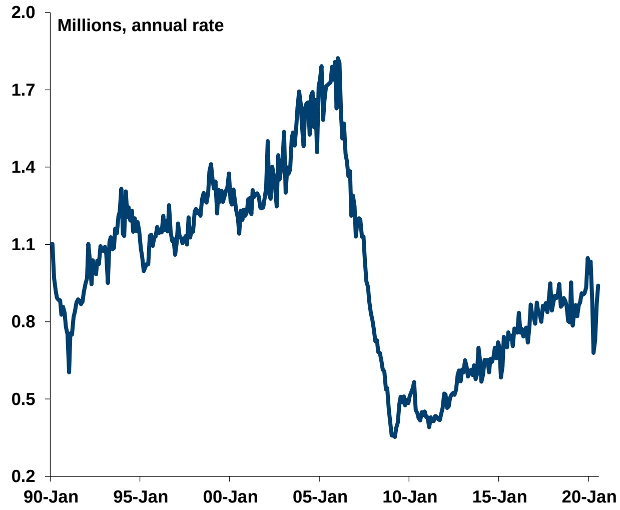
Source: U.S. Census Bureau via Haver Analytics

Existing Home Sales



Source: National Association of Realtors via Haver Analytics

Single Family Housing Starts



Source: U.S. Census Bureau via Haver Analytics

released today for existing home sales in July showed strong demand, with activity surging 24.7 percent after a jump of 20.2 percent in June. These gains pushed sales above the recent peak in February and above all readings from the prior expansion (chart, left).

We are impressed with recent developments in the housing market, and the support it offers the economy is certainly welcome. At the same time, the market is not the same as it was in years past – before the financial crisis. Sales of new and existing homes, for example, trail peaks seen in prior cycles even though the economy and population are now noticeably larger.

The difference between the current experience and the past is most apparent in single-family housing starts. Despite recent gains, single-family starts totaled less than one million units in July (annual rate), well shy of readings in excess of 1.5 million in most months from late 2003 to early 2006. Of course, this period involved a housing bubble and thus is not a good basis for comparison, but recent activity also is shy of readings in excess of 1.2 million in previous cyclical peaks (chart, right).

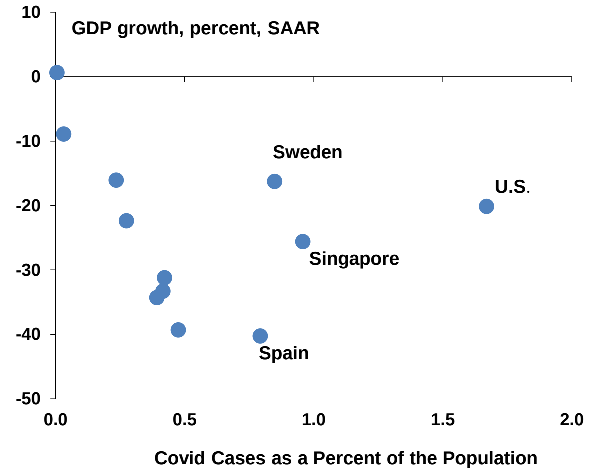
The experience during the financial crisis apparently is having a long-lasting effect on the housing market. Individuals who lost their homes through foreclosure are perhaps reluctant to enter the housing market, or they might not have the financial wherewithal to make a purchase. Similarly, mortgage lenders have tightened standards, and the heightened borrowing requirements are prohibiting some from obtaining the needed credit. Many observers also mention the burden of student debt, which is preventing young potential homebuyers from entering the market. Whatever the cause, the current market, while firm by recent standards, is shy of historical norms.

Covid-19 and GDP Growth Around the World

Several countries have not yet published GDP statistics for the second quarter; for those countries that have, results have been almost uniformly poor. China managed to bounce back from a sharp decline in the first quarter, but nearly all other major countries were in the negative column for Q2 and the first half of the year.

The coronavirus, of course, is the most important factor generating all the negative numbers, but we were struck by the loose relationship between the prevalence of the virus and the degree of softness in GDP growth. As shown in the table and chart, only small shares of the populations in numerous countries have contracted the virus (0.1 to 0.5 percent is common), but GDP growth has covered a wide swath (-40.3 percent to +0.6 percent in the first half). In addition, some countries showed wide spreads of the virus, but they did not register unusually sharp declines in economic activity.

GDP Growth in H1 and Covid-19 Cases*



** The countries and data in the chart are shown in the table below*

Sources: Johns Hopkins University and Medicine, World Population Review, various national statistical agencies via Haver Analytics, Daiwa Capital Markets America.

The United States was among the outlier nations, as it registered a dismal performance in containing the virus. The share of the U.S. population with Covid-19 (1.67 percent) exceeded even that of Brazil (1.63 percent), a nation that attracted headlines for its blasé attitude toward the virus and the mismanagement of containment efforts by authorities (Q2 figures for GDP in Brazil are not available at this time). Despite a poor performance by the U.S. in containing the virus, GDP was not notably weaker than that in most other nations. We suspect the economy was not commensurately weak partly because activity was firm before the outbreak and partly because Congress and the Federal Reserve responded forcefully with stimulative policies.

Sweden merits close attention because it imposed fewer lockdown restrictions than other nations did. It paid a price with an above-average spread of the virus, but it did not gain an advantage with a strong performance of the economy, as it still saw weak results in Q2. The breakdown of GDP by expenditure category for Sweden is not available at this time, but we would speculate that activity declined partly because of self-imposed restrictions by consumers or businesses and partly because of weak exports in response to slowdowns elsewhere.

Interestingly, many nations in Asia have not experienced widespread outbreaks of Covid-19. While Singapore stands out with a hefty incidence, the virus has been well contained in South Korea and Japan, and several other Asian nations have been barely affected (only 0.2 percent of the population in the Philippines has contracted the disease, and less than 0.1 percent in Taiwan and Thailand). Perhaps statistics in some of these countries are not being well maintained, and the virus might be more widespread than reported. Alternatively, the experience with SARS and less cultural resistance to masks may have made them more adept at preventing pandemics. Or, they simply might be lucky.

COVID vs GDP

	Covid Cases	GDP Growth		
		Q1	Q2	H1
	% of population	percent change, annual rate		
U.S.	1.67	-5.0	-32.9	-20.1
Mexico	0.42	-4.9	-53.2	-33.3
Germany	0.27	-7.8	-34.7	-22.4
France	0.39	-21.7	-44.8	-34.3
Italy	0.42	-19.8	-41.0	-31.2
Spain	0.79	-19.3	-55.8	-40.3
Sweden	0.85	0.5	-30.2	-16.3
U.K.	0.48	-8.5	-59.8	-39.3
Japan	0.24	-2.5	-27.8	-16.1
Singapore	0.96	-3.1	-42.9	-25.6
S. Korea	0.03	-5.0	-12.7	-8.9
China	0.01	-36.5	59.5	0.6

Sources: Johns Hopkins University and Medicine, World Population Review, various national statistical agencies via Haver Analytics, Daiwa Capital Markets America.

This brief review of recent developments does not offer much in the way of conclusions for dealing with the virus. The experience in China seems to suggest that aggressive lockdowns are the best way to deal with pandemics. However, this conclusion would hold only if the statistics for China are accurate (doubtful). In addition, an infected nation would need to catch the virus early and to have strong control over individual behavior. Absent such conditions, it is not clear if nations should restrain the economy to contain a pandemic or allow individuals to maintain normal activities while herd immunity develops. The best approach would depend on a host of factors, such as underlying momentum in the economy, the amount of fiscal and monetary space open to policymakers, and the degree of linkage to other nations affected by a virus.

Review

Week of August 17, 2020	Actual	Consensus	Comments
Housing Starts (July)	**1.496 Million (+22.6%)**	**1.245 Million (+5.0%)**	The surge in housing starts in July occurred from upward revised results in the prior two months, which left the level of starts close to the brisk average of 1.590 million from December through February and above all other readings in recent years. Most of the advance in July was the result of a 58.4 percent gain in multi-family activity, with the new level of starts representing the second strongest of the past several years. Single-family activity also was strong, with the number of newly started units jumping 8.2 percent to 940,000 units. The latest total was shy of the average of 1.023 million units from December through February, but it compared favorably with all other observations from the previous expansion.
Leading Indicators (July)	**1.4%**	**1.1%**	The increase in the leading indicator index marked the third consecutive advance, with the increases offsetting about half the combined declines from February through April. The measure would need to increase another 7.3% to return to its pre-virus peak in January. The increase in July was led by positive contributions from the length of the factory workweek, building permits, and unemployment claims, with ISM new orders and stock prices also providing support.
Existing Home Sales (July)	**5.86 Million (+24.7%)**	**5.40 Million (+14.4%)**	After a jump of 20.2% in June, the latest increase in sales of existing homes pushed activity above the pre-virus peak in February. The new reading was the best since December 2006, when the housing bubble associated with the financial crisis was deflating. The increase was broad-based geographically, with three of the four major regions on the country close to or above-pre-virus totals; only sales in the Northeast lagged results earlier in the year.

Source: U.S. Census Bureau (Housing Starts); The Conference Board (Leading Indicators); National Association of Realtors (Existing Home Sales); Consensus forecasts are from Bloomberg

Preview

Week of August 24, 2020	Projected	Comments
Consumer Confidence (August) (Tuesday)	**94.0 (+1.4 Index Pts.)**	Modest changes in the weekly measure of consumer attitudes published by Bloomberg, as well as the subdued change in the University of Michigan sentiment index for early August, suggest that the Conference Board's measure of consumer confidence will change only slightly. A new record reading in the stock market favors a small gain over a dip.
New Home Sales (July) (Tuesday)	**0.780 Million (+0.5%)**	Low interest rates are providing good support to the housing market, as shown by sharp increases in housing starts and existing home sales in July. Sales of new homes in June already moved above their pre-virus peak, but the vigor now apparent in the housing market could lead to another advance in July.
Durable Goods Orders (July) (Wednesday)	**5.0%**	Increases in employment and production in the manufacturing sector suggest that order flows are moving higher. The expected increase marks the third consecutive advance, and if realized, would reverse approximately two-thirds of the retreat in March and April.
Revised GDP (20-Q2) (Thursday)	**-32.0% (+0.9 Pct. Pt. Revision)**	Available data suggest modest adjustments to the various components of GDP (slightly firmer for consumer spending, business investment in structures, residential construction, and inventory investment; slightly softer for net exports and government spending), leaving an inconsequential upward revision to Q2 GDP.
Personal Income, Consumption, Core Price Index (July) (Friday)	**-0.5%, 2.0%, 0.3%**	The jump in employment in July (payrolls up 1.76 million) is likely to stir wage income, but transfer payments are likely to recede for the third consecutive month, and investment and rental income are likely to soften as well. On the spending side, a pickup in vehicle sales points to another strong gain in outlays for durable goods, and the report on retail sales suggests a firm advance in spending on nondurable goods. The core PCE price index is likely to post an above-average increase, reflecting the unwinding of discounts offered during the initial stages of the pandemic.
U.S. International Trade in Goods (July) (Friday)	**-$69.0 Billion ($2.0 Billion Narrower Deficit)**	Economic improvement around the world is likely to reinforce the increases in both imports and exports that emerged in June after poor showings from March through May. Exports are likely to show the larger change after lagging in June, which should lead to some narrowing in the monthly trade deficit.
Revised Consumer Sentiment (August) (Friday)	**73.0 (0.2 Pt. Upward Revision)**	A new record reading on major stock indexes could give an upward nudge to the preliminary estimate of consumer sentiment released two weeks ago.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

August/September 2020

Monday	Tuesday	Wednesday	Thursday	Friday
17	18	19	20	21
EMPIRE MFG June -0.2 July 17.2 Aug 3.7 **NAHB HOUSING INDEX** June 58 July 72 Aug 78 **TIC DATA** Total / Net L-T Apr $116.9B / -$134.9B May -$15.9B / $118.1B June -$67.9B / $113.0B	**HOUSING STARTS** May 1.038 million June 1.220 million July 1.496 million	**FOMC MINUTES**	**UNEMPLOYMENT CLAIMS** Initial / Continuing (Millions) July 25 1.435 / 16.090 Aug 01 1.191 / 15.480 Aug 08 0.971 / 14.844 Aug 15 1.106 / N/A **PHILLY FED INDEX** June 27.5 July 24.1 Aug 17.2 **LEADING INDICATORS** May 3.1% June 3.0% July 1.4%	**EXISTING HOME SALES** May 3.91 million June 4.70 million July 5.86 million
24	25	26	27	28
CHICAGO FED NATIONAL ACTIVITY INDEX (8:30) Monthly / 3-Mo. Avg. May 3.50 / -6.36 June 4.11 / -3.49 July -- / --	**FHFA HOME PRICE INDEX (9:00)** Apr 0.1% May -0.3% June -- **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00)** SA / NSA Apr 0.2% / 0.8% May 0.0% / 0.4% June -- / -- **CONFERENCE BOARD CONSUMER CONFIDENCE (10:00)** June 98.3 July 92.6 **Aug 94.0** **NEW HOME SALES (10:00)** May 0.682 million June 0.776 million **July 0.780 million**	**DURABLE GOODS ORDERS (8:30)** May 15.0% June 7.6% **July 5.0%**	**INITIAL CLAIMS (8:30)** **REVISED GDP (8:30)** GDP / Chained Price 20-Q1 -5.0% / 1.4% 20-Q2(a) -32.9% / -1.8% **20-Q2(p) -32.0% / -1.5%** **PENDING HOMES SALES (10:00)** May 44.3% June 16.6% Aug --	**PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX (8:30)** Inc. / Cons. / Core May -4.4% / 8.5% / 0.2% June -1.1% / 5.6% / 0.2% **July -0.5% / 2.0% / 0.3%** **U.S. INTERNATIONAL TRADE IN GOODS (8:30)** May -$75.4 billion June -$71.0 billion **July -$69.0 billion** **ADVANCE INVENTORIES REPORT (8:30)** Wholesale / Retail May -1.2% / -6.2% June -1.4% / -2.6% July -- / -- **CHICAGO PURCHASING MANAGERS' INDEX (9:45)** Index / Prices June 36.6 / 55.2 July 51.9 / 56.9 Aug -- / -- **REVISED CONSUMER SENTIMENT (10:00)** June 71.8 July 72.5 **Aug 73.0**
31	1	2	3	4
	ISM INDEX **CONSTRUCTION SPEND.** **VEHICLE SALES**	**ADP EMPLOYMENT REPORT** **FACTORY ORDERS** **BEIGE BOOK**	**INITIAL CLAIMS** **TRADE BALANCE** **REVISED PRODUCTIVITY & COSTS** **ISM NON-MFG-INDEX**	**EMPLOYMENT REPORT**
7	8	9	10	11
LABOR DAY	**NFIB SMALL BUSINESS OPTIMISM INDEX** **CONSUMER CREDIT**	**JOLTS DATA**	**INITIAL CLAIMS** **PPI** **WHOLESALE TRADE**	**CPI** **FEDERAL BUDGET**

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

Daiwa Capital Markets

Treasury Financing

August/September 2020

Monday	Tuesday	Wednesday	Thursday	Friday
17	18	19	20	21
AUCTION RESULTS: RateCover 13-week bills 0.105% 2.46 26-week bills 0.120% 2.87 **SETTLE:** $48 billion 3-year notes $38 billion 10-year notes $26 billion 30-year bonds	**AUCTION RESULTS:** RateCover 42-day CMB 0.090% 3.22 119-day CMB 0.110% 3.36 **ANNOUNCE:** $30 billion 4-week bills for auction on August 20 $35 billion 8-week bills for auction on August 20 $25 billion 105-day CMBs for auction on August 19 $30 billion 154-day CMBs for auction on August 19 **SETTLE:** $30 billion 4-week bills $35 billion 8-week bills $25 billion 105-day CMBs $30 billion 154-day CMBs	**AUCTION RESULTS:** RateCover 20-yr bonds 1.185% 2.26 105-day CMB 0.105% 3.36 154-day CMB 0.115% 3.39	**AUCTION RESULTS:** RateCover 4-week bills 0.080% 3.17 8-week bills 0.090% 2.99 30-yr TIPS -0.272% 2.25 **ANNOUNCE:** $105 billion 13-,26-week bills for auction on August 24 $22 billion 2-year FRNs for auction on August 26 $50 billion 2-year notes for auction on August 25 $51 billion 5-year notes for auction on August 26 $47 billion 7-year notes for auction on August 27 $30 billion 42-day CMBs for auction on August 25 $30 billion 119-day CMBs for auction on August 25 **SETTLE:** $105 billion 13-,26-week bills $30 billion 42-day CMBs $30 billion 119-day CMBs	
24	25	26	27	28
AUCTION: $105 billion 13-,26-week bills	**AUCTION:** $50 billion 2-year notes $30 billion 42-day CMBs $30 billion 119-day CMBs **ANNOUNCE:** $30 billion* 4-week bills for auction on August 27 $35 billion* 8-week bills for auction on August 27 **SETTLE:** $30 billion 4-week bills $35 billion 8-week bills $25 billion 105-day CMBs $30 billion 154-day CMBs	**AUCTION:** $22 billion 2-year FRNs $51 billion 5-year notes	**AUCTION:** $30 billion* 4-week bills $35 billion* 8-week bills $47 billion 7-year notes **ANNOUNCE:** $105 billion* 13-,26-week bills for auction on August 31 **SETTLE:** $105 billion 13-,26-week bills $30 billion 42-day CMBs $30 billion 119-day CMBs	**SETTLE:** $22 billion 2-year FRNs
31	1	2	3	4
AUCTION: $105 billion* 13-,26-week bills **SETTLE:** $25 billion 20-year bonds $7 billion 30-year TIPS $50 billion 2-year notes $51 billion 5-year notes $47 billion 7-year notes	**ANNOUNCE:** $30 billion* 4-week bills for auction on September 3 $35 billion* 8-week bills for auction on September 3 **SETTLE:** $30 billion* 4-week bills $35 billion* 8-week bills		**AUCTION:** $30 billion* 4-week bills $35 billion* 8-week bills **ANNOUNCE:** $105 billion* 13-,26-week bills for auction on September 8 $34 billion* 52-week bills for auction on September 8 $50 billion* 3-year notes for auction on September 8 $35 billion* 10-year notes for auction on September 9 $23 billion* 30-year bonds for auction on September 10 **SETTLE:** $105 billion* 13-,26-week bills	
7	8	9	10	11
LABOR DAY	**AUCTION:** $105 billion* 13-,26-week bills $34 billion* 52-week bills $50 billion* 3-year notes announce: $30 billion* 4-week bills for auction on September 10 $35 billion* 8-week bills for auction on September 10 **SETTLE:** $30 billion* 4-week bills $35 billion* 8-week bills	**AUCTION:** $35 billion* 10-year notes	**AUCTION:** $30 billion* 4-week bills $35 billion* 8-week bills $23 billion* 30-year bonds **ANNOUNCE:** $105 billion* 13-,26-week bills for auction on September 14 $22 billion* 20-year bonds for auction on September 15 $12 billion* 10-year TIPS for auction on September 17 **SETTLE:** $105 billion* 13-,26-week bills $34 billion* 52-week bills	

**Estimate*