Comerica Economic Weekly



Robert A. Dye, Ph.D.

Daniel Sanabria

@Comerica Econ

June 25, 2021

The U.S. economy is still far from normal as the after-effects of social mitigation policy and the last two rounds of fiscal stimulus work through the system.

Nominal personal income fell by 2.0 percent in May after a 13.1 percent decline in April. The volatility in personal income this spring has been due to the timing and magnitude of recent fiscal stimulus. Transfer payments is the income category that stimulus checks fall into and they fell by 11.7 percent in April. About half of personal income comes from wages and salaries. They posted their third consecutive strong monthly gain, driven by re-openings and re-employment, up 0.8 percent in May. After accounting for inflation and taxes, real disposable personal income fell by 2.8 percent in May, after a 15.1 percent decline in April. Real consumer spending fell by 0.4 percent in May, held down by a contraction in durable goods spending, largely due to lack of inventory at automobile dealers. The personal saving rate eased to a still-high 12.4 percent, well above the pre-pandemic 7-8 percent range. The PCE Price Index gained 0.4 percent for the month and was up by a hot 3.9 percent over the previous year. The core PCE Price index was up by 0.5 percent in May, and 3.4 percent over the previous year. Even though growth in consumer spending has been soft so far in Q2, the surge in consumer spending in March still elevates the Q2 spending numbers, supporting Q2 GDP.

New orders for durable manufactured goods increased by 2.3 percent in May after slipping by 0.8 percent in April. May orders were boosted by civilian aircraft. Core new orders (for nondefense capital goods excluding aircraft) slipped by 0.1 percent in May. Total inventories for manufactured durable goods increased for the fourth consecutive month in May, showing that the sector as a whole is inching toward normalcy.

Initial claims for unemployment insurance fell by

7,000 for the week ending June 19, after increasing the week before. Initial claims are at 411,000, still roughly double their pre-COVID level. Continuing claims fell by 144,000 for the week ending June 12 to hit 3,390,000. The total number of claims for all unemployment benefits programs gained 3,756 for the week ending June 5 to hit 14,845,450.

Sales of new homes fell in May for the second straight month, declining 5.9 percent to a 769,000 unit annual rate. This was the lowest sales rate since May 2020. The months' supply of new homes increased to 5.1 months' worth, the highest inventory since May 2020. The median sale price of a new house increased in May to \$374,400, up 18.1 percent over the previous 12-month period, not accounting for size or quality differences.

Existing homes sales fell for the fourth consecutive month in May, down 0.9 percent, to a 5,800,000 unit annual rate. The months' supply of existing homes for sale has increased to 2.5 months as of May, still well below a normalish 4-5 months' worth of inventory. According to the National Association of Realtors, the median sale price of an existing home was up 23.6 percent in May over the previous 12-month period, not accounting for size or quality differences.

The Biden Administration has announced an agreement in principle with a bipartisan group of senators for a \$1 trillion infrastructure plan. This makes passage more likely but does not guarantee it. The final contours of the plan remain to be seen. There is no deal beyond spending for physical infrastructure.

The IHS Markit Flash Eurozone PMI increased at its fastest rate in 15 years in June as pandemic induced restrictions on business and travel were reduced. This is very positive for global economic growth but it may also contribute to global supply chain stress in the near term.

Fed Funds Rate

Fed Funds Rate (Effective): After FOMC Meeting of 7/27-7/28

We expect the Federal Reserve to keep the fed funds rate range unchanged near zero at the next Federal Open Market Committee meeting over July 27/28.

The Week Ahead

April Case-Shiller U.S. National Home Price Index (6/29, Tuesday)

The March Case-Shiller U.S. National Home Price Index increased by 13.2 percent year-over-year. <u>Up</u> in April to a 15.0 percent gain over the previous 12 months. Consensus: n/a

(Analysis Continued on Page 2)

To receive our publications via email, use the following link: <u>Comerica Economics Publications</u>. For questions, contact us at ComericaEcon@comerica.com/archives are available at http://www.comerica.com/insights. Follow us on Twitter: @Comerica Econ.

The articles and opinions in this publication are for general information only, are subject to change, and are not intended to provide specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only, and such information does not necessarily reflect the thoughts and opinions of Comerica or its management team. We are not offering or soliciting any transaction based on this information. We suggest that you consult your attorney, accountant or tax or financial advisor with regard to your situation. Although information has been obtained from sources we believe to be reliable, neither the authors nor Comerica guarantee its accuracy, and such information may be incomplete or condensed. Neither the authors nor Comerica shall be liable for any typographical errors or incorrect data obtained from reliable sources or factual information.

Comerica Economic Weekly



The Week Ahead, Continued

June Auto Sales (7/1, Thursday)

May auto sales decreased to a 17.0 million unit annual rate. <u>Up</u> to a 17.1 million unit rate in June. The semiconductor shortage continues to weigh on auto production. Consensus: 17.1 million unit rate

June ISM Manufacturing Index (7/1, Thursday)

The ISM Manufacturing Index increased to 61.2 in May. <u>Down</u> to 61.0 in June. Supply chain constraints continue to weigh on some goods manufacturing. Consensus: 61.0

May International Trade Gap (7/2, Friday)

The U.S. trade gap narrowed in April to -\$68.9 billion. <u>Widening</u> to -\$71.3 billion in May. The trade gap for goods widened for the month. Consensus: -\$70.7 billion.

June Nonfarm Payrolls (7/2, Friday)

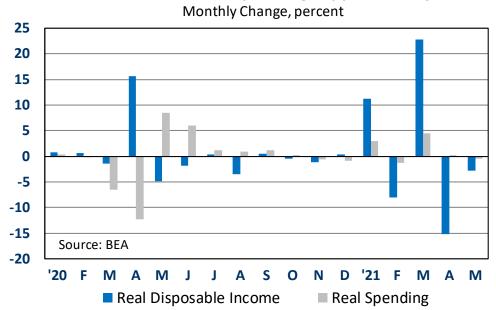
May nonfarm payrolls increased by 559k. Up by 600k in June. Consensus: 690k

June Unemployment Rate (7/2, Friday)

The unemployment rate decreased to 5.8 percent in May. <u>Down</u> to 5.7 percent in June. Consensus: 5.7 percent

Chart of the Week

Real Income and Spending Dipped in May



To receive our publications via email, use the following link: Comerica Economics Publications. For questions, contact us at Comerica Econ@comerica.com

Archives are available at http://www.comerica.com/insights. Follow us on Twitter: @Comerica Econ.

The articles and opinions in this publication are for general information only, are subject to change, and are not intended to provide specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only, and such information does not necessarily reflect the thoughts and opinions of Comerica or its management team. We are not offering or soliciting any transaction based on this information. We suggest that you consult your attorney, accountant or tax or financial advisor with regard to your situation. Although information has been obtained from sources we believe to be reliable, neither the authors nor Comerica guarantee its accuracy, and such information may be incomplete or condensed. Neither the authors nor Comerica shall be liable for any typographical errors or incorrect data obtained from reliable sources or factual information.