

**JULY 2020**

## **“Recovery is a confidence game”**

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# **ECONOMIC OUTLOOK**

Welcome to the inaugural IPC Monthly Economic Report. We hope you find a regular update on the economic outlook useful. We'd love to hear how you use this research and what else you would like to see from IPC. Please call or email me with your thoughts and feedback.

The first-half of the year has come to a close and with it one of the most volatile periods in our economic history. The trough for economic data was April, with May and June data suggesting the economy was on the mend. It was looking like the steepest and quickest recession was also going to be the shortest. However, the rise in COVID-19 cases in late June and early July is dampening consumer sentiment, which not only degrades the outlook for consumer spending but will also likely curtail business investment as companies undoubtedly wait to make investment in a more certain economic environment.

It is easy to feel trepidation given the tremendous uncertainties that linger as we move into the second half of the year. We are likely to see an uneven recovery over the next six months as the economy tries to push itself out of recession and COVID-19 tries to keep us locked into one.

The recovery in certain sectors of the economy has been brisk. Retail sales plummeted in March and April, falling nearly 22 percent from the February levels. Retail sales shot up 18.2 percent in May and 7.5 percent in June. Surprisingly, retail sales are now 1.1 percent higher than a year ago. While the consumer retrenched quickly in April, they have come back just as quickly.

Much of the gain in consumer spending has been supported by massive fiscal stimulus. Government transfer payments made up 30.6 percent of all personal income in April and 26.4 percent in May. For the last few years, government transfers have averaged roughly 17 percent of all consumer income. The Congressional Budget Office (CBO) estimates that debt held by the public will total approximately 108

percent of GDP by the end of the 2021 fiscal year. In the early 2000s, that figure hovered around 40 percent. CBO estimates a deficit of \$3.7 trillion dollars in 2020, an estimate that will go higher with additional stimulus currently being debated on Capitol Hill.

The increase in government spending has brought short-term relief. Retail sales grew while personal savings were at historic levels. The personal savings rate — what I like to call “the not spending rate” because it is what is left over after consumers make all of their purchase decisions — has shot up. It was an off-the-chart 32.2 percent in April. Prior to that, the highest level ever recorded was 17.3 percent in May 1975. The savings rate had averaged under 8 percent prior to the pandemic.

The fiscal support and ballooning debt will come at some cost in the future, but that future date is uncertain. It can leave interest rates higher than they might have been, which crowds out private expenditures and slows the economy. Or the Federal Reserve might decide to allow inflation rates to trend higher in order to lower the debt burden. Debt burdens are not cost-free.

After an abysmal April, the labor market has had two solid months of growth. Both May and June each set a record gain in nonfarm payrolls.

Nationally we’ve recovered about one-third of the jobs lost during March and April. In some sectors of the economy, we’ve seen greater job recovery. The unemployment rate has declined somewhat but remains elevated. This is likely to be true for some time, and I expect a lengthy recovery for the labor market.

The production side of the economy has also recovered from the pandemic lows but not quite at the rate of the consumer market. Industrial production fell 16.6 percent in March and April. While it has risen 6.9 percent in May and June, it remains down 10.8 percent from a year ago.

On a normal summer day, some of you might be enjoying a roller coaster ride at your favorite theme park. As the carriage makes its way up to the first big drop of the ride, you feel the clank of each click upward. With every lurch forward, you feel as if the coaster might fall rapidly back down the hill it just ascended if the latch doesn’t catch the next rung up. But slowly you make it to the top. This is the best analogy of the current economic environment. We’re moving higher and coming off the bottoms — at least we think so. The path is slow and bumpy. And with each step forward, we feel like we might fall all the way back down to the bottom from where we’ve come. Now’s a good time to make sure that seatbelt is on tight.

**7.5%**

Retail sales shot up 7.5 percent in June after increasing 18.2 percent in May. Retail sales are now 1.1 percent higher than a year ago.

**\$3.7T**

The CBO estimates the federal budget deficit will be \$3.7 trillion in 2020, and it will likely go higher with additional stimulus currently being debated on Capitol Hill.

**1/3**

The economy has recovered one third of the jobs that were lost during March and April.

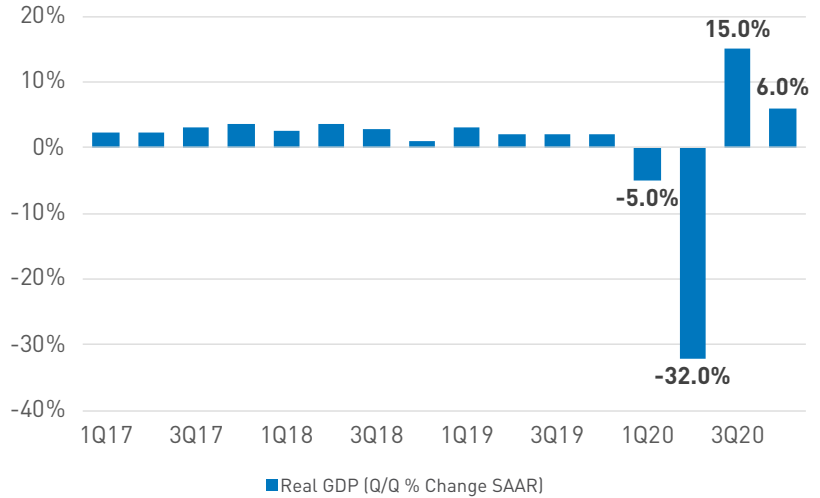
**6.9%**

The production side of the economy has risen 6.9 percent since April but remains down nearly 11 percent from a year ago.

# U.S. ECONOMY

## ECONOMIC GROWTH

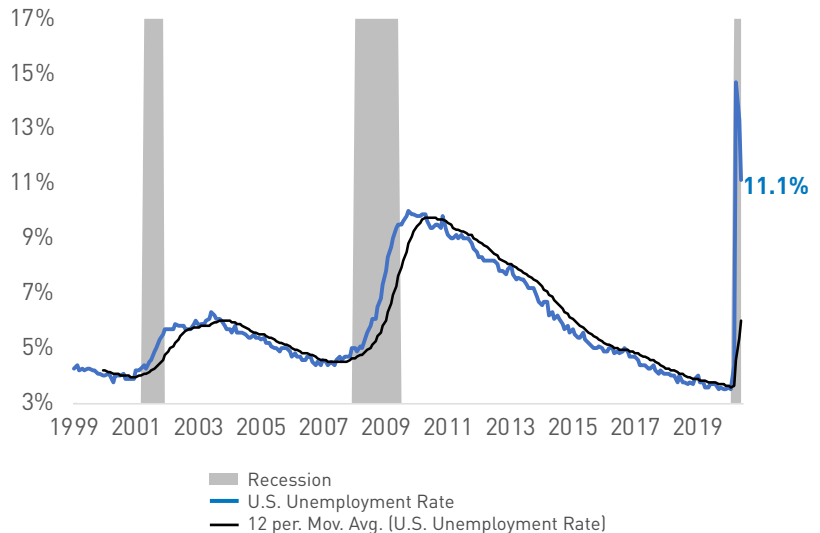
The U.S. economy shrank 5 percent in the first quarter. Consumer spending — just under 70 percent of the economy prior to the onset of the pandemic — fell 6.8 percent (annualized). We expect the U.S. economy fell nearly 35 percent in the second quarter. We'll see the first estimate for second quarter GDP on July 30. Before this, the worst quarterly decline since WWII was a decline of 10 percent in 1958.



	2020 ECONOMIC GROWTH (GDP % Change)	2021 ECONOMIC GROWTH (GDP % Change)	2020 EXCHANGE RATE (v. USD)	2021 EXCHANGE RATE (v. USD)
UNITED STATES	-6.10%	4%	N/A	N/A
CANADA	-6.80%	5.10%	1.41	1.36
MEXICO	-7.20%	2.30%	22.9	21.75
EURO AREA	-7.60%	5.30%	1.1	1.15

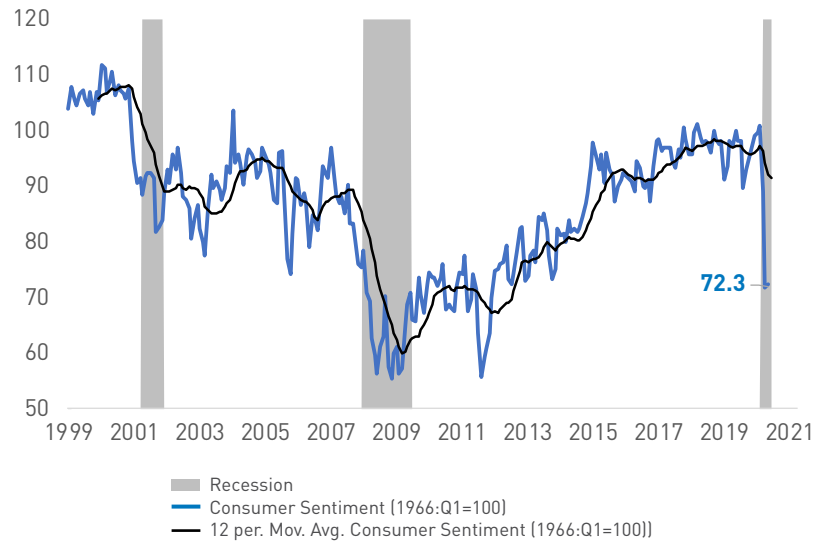
## EMPLOYMENT

June brought a second consecutive month of gains. Nonfarm payroll rose 4.8 million during the month, and the unemployment rate declined from 13.3 percent in May to 11.1 percent in June. The country has now regained about one-third of the jobs lost in March and April (collectively 22.2 million jobs). Job gains in June were strongest in leisure and hospitality (+2.1 million jobs) and retail (+739,000 jobs). Manufacturing added back 356,000 jobs and has now added back 45 percent of the jobs lost.



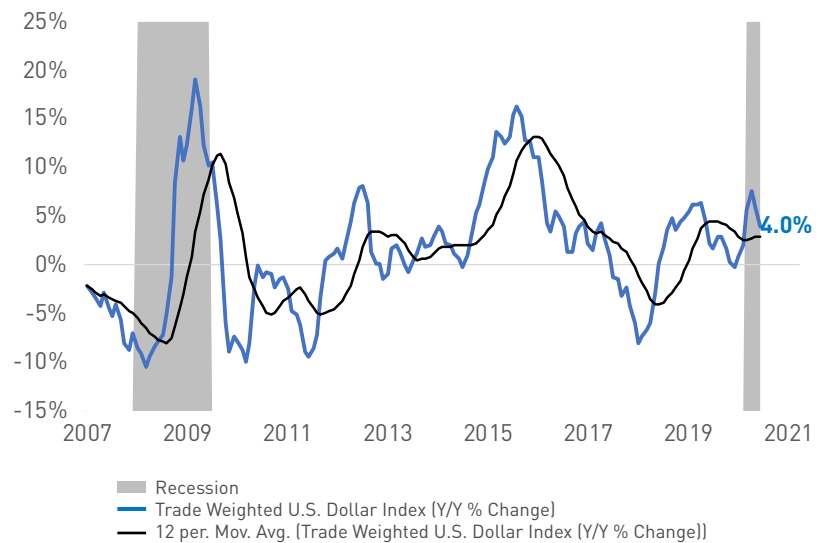
## SENTIMENT

Consumer sentiment moved higher for the month of June. The index increased 5.8 points, or roughly 8 percent. But it is also true that sentiment was strained in the back half of the month, edging down with reports of higher cases of COVID-19. This is brought into sharp focus when looking at results by region. The Sentiment Index rose by just 0.5 points among Southern U.S. residents during the month, and by only 3.3 points among Western U.S. residents. On the other hand, the Northeast saw a record increase of 19.1 points during the month. It appears COVID-19 is influencing consumer sentiment, which will, in turn, influence consumer spending.



## TRADE-WEIGHTED U.S. DOLLAR INDEX

The trade-weighted dollar index decreased 2.4 percent in June but remains about 4 percent higher than a year ago. The rising number of COVID-19 cases has likely slowed a flight to riskier assets and driven demand for the safety of the dollar, which, in turn, has put downward pressure on the dollar. Expect the dollar to continue to weaken through the back half of the year and into next year as the Federal Reserve maintains very accommodative monetary policy and real rates in the United States remain low.



# INDUSTRIAL PRODUCTION

Industrial production rose 5.4 percent in June, adding to a 1.4 percent gain in May. Industrial production has now recouped about 35 percent of the ground lost because of the pandemic. Manufacturing production rose 7.4 percent in June and has regained roughly 45 percent of the ground lost to COVID-19. Manufacturing levels are down about 11 percent from February levels.



## AUTOMOTIVE PRODUCTS

production saw the steepest decline due to the pandemic, falling nearly 78 percent. It increased 91.5 percent in June and has now recovered 69 percent of the ground lost. It remains down about 22 percent from a year ago and is roughly 20 percent below pre-pandemic levels.



## TRANSIT EQUIPMENT

saw production levels increase 64.5 percent in June — now down 48.4 percent from last year. Transit equipment has thus far regained 49.6 percent of the ground lost to the pandemic.



## INFORMATION PROCESSING AND RELATED EQUIPMENT

production increased 7.4 percent in June and is now down only 2 percent from levels of production just prior to the onset of the pandemic in the United States. The segment is actually up 3.2 percent from last year.



## INDUSTRIAL AND OTHER EQUIPMENT

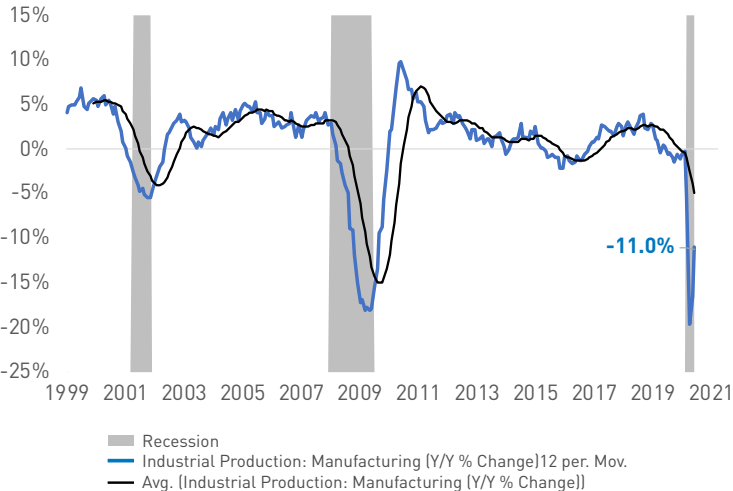
production increased 4.7 percent in June. It has now regained about 42 percent of the COVID-19–related decline. The segment is down 13.8 percent from last year.



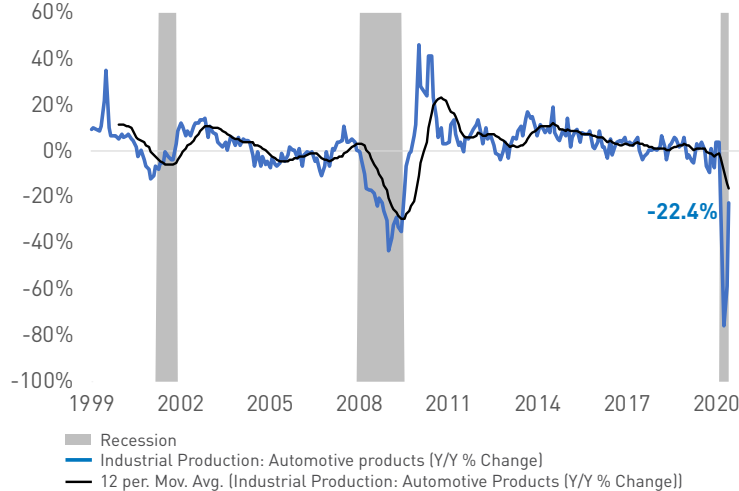
## DEFENSE AND SPACE EQUIPMENT

production increased 4.5 percent in June. It is down 2 percent from last year and 4.9 percent from pre-pandemic levels of production.

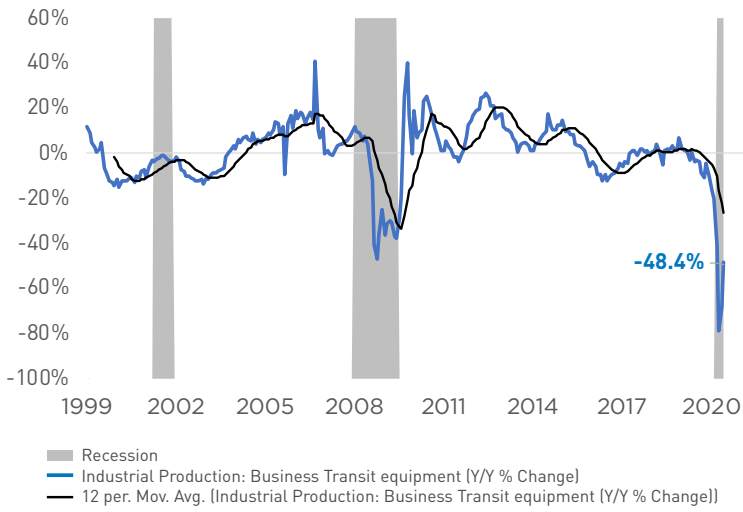
Manufacturing



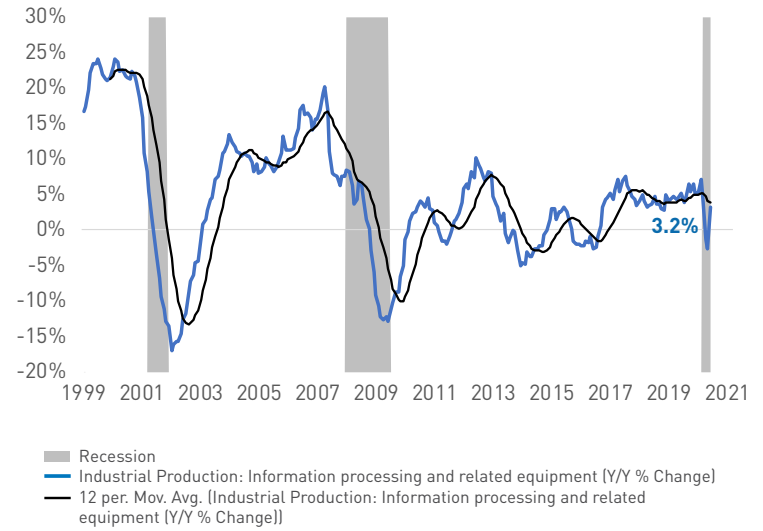
Automotive Products



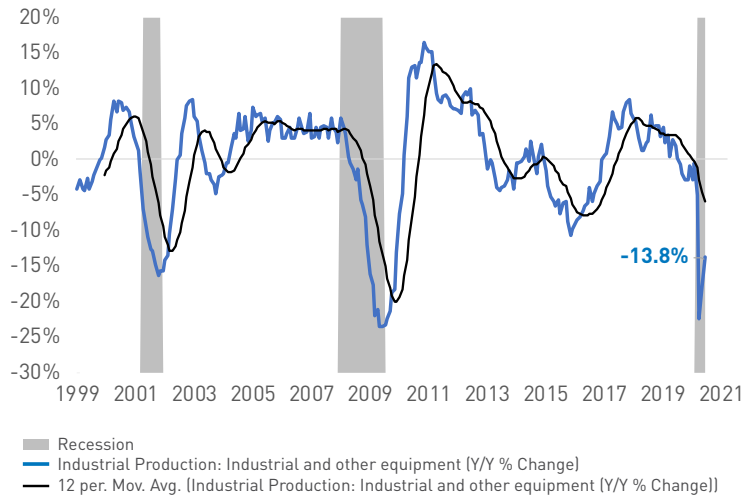
### Business Transit Equipment (Y/Y % Change)



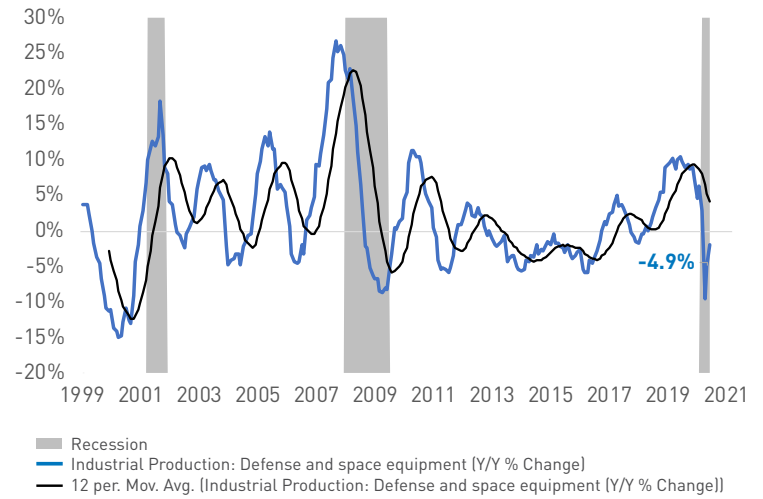
### Information Processing and Related Equipment (Y/Y % Change)



### Industrial and Other Equipment (Y/Y % Change)



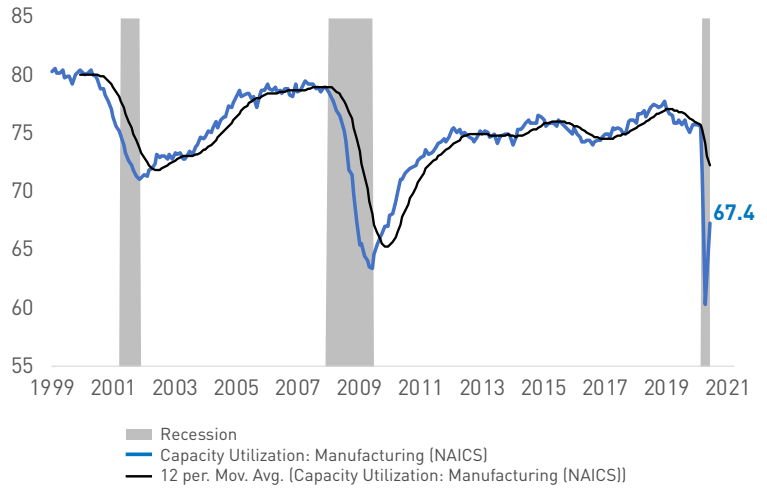
### Defense and Space Equipment (Y/Y % Change)



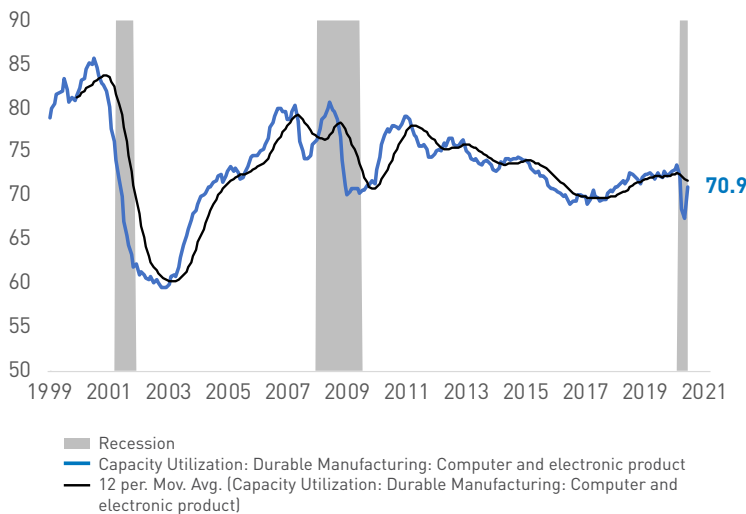
# CAPACITY UTILIZATION

Capacity utilization has bounced back from the lows of April and May, but it has yet to regain pre-pandemic levels. Manufacturing capacity utilization increased to 67.4 percent in June. This is roughly 11 percent below pre-pandemic levels. Manufacturing capacity has regained about 46 percent of the ground lost over the last few months. Computer and electronics products capacity utilization is down about 4 percent; electrical equipment, appliance and components capacity utilization is down 11 percent; motor vehicles and parts capacity utilization is down 24 percent; and aerospace and miscellaneous transportation equipment is down 17 percent.

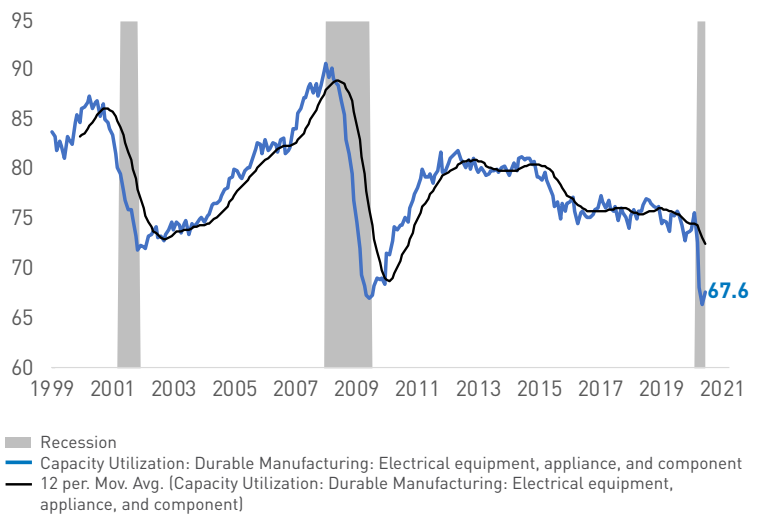
## Manufacturing (NAICS)



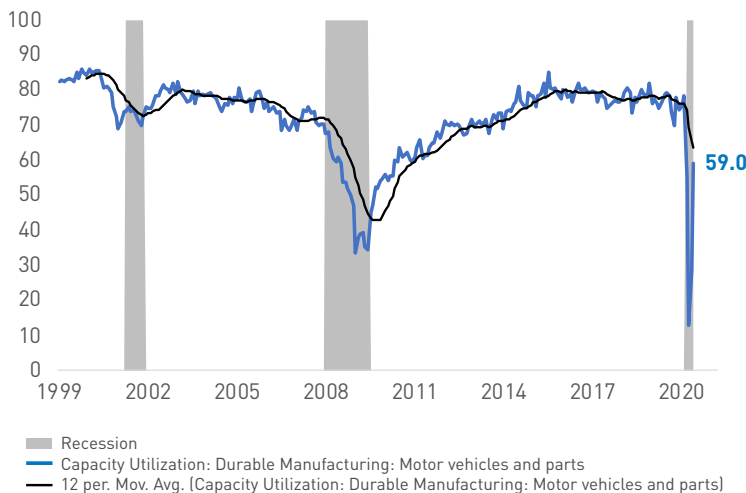
## Computer and Electronic Product



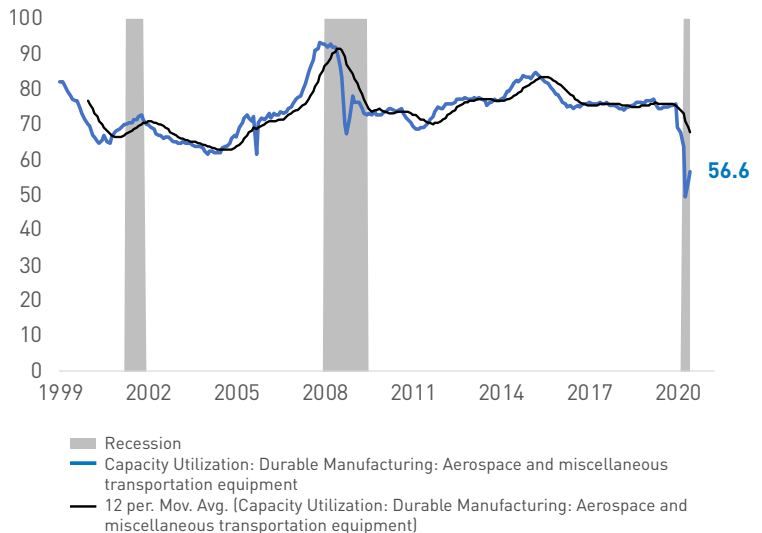
## Electrical Equipment, Appliance, and Component



## Motor Vehicles and Parts



## Aerospace and Miscellaneous Transportation Equipment



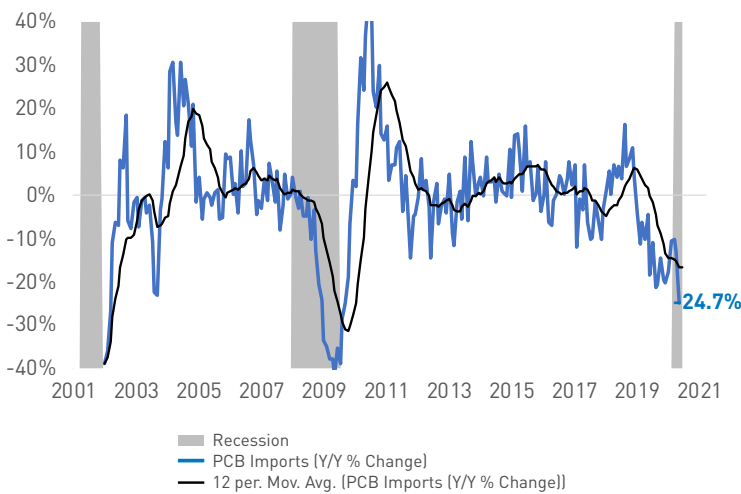
# PCB DEMAND AND INDUSTRY EMPLOYMENT

## PCB INDUSTRY

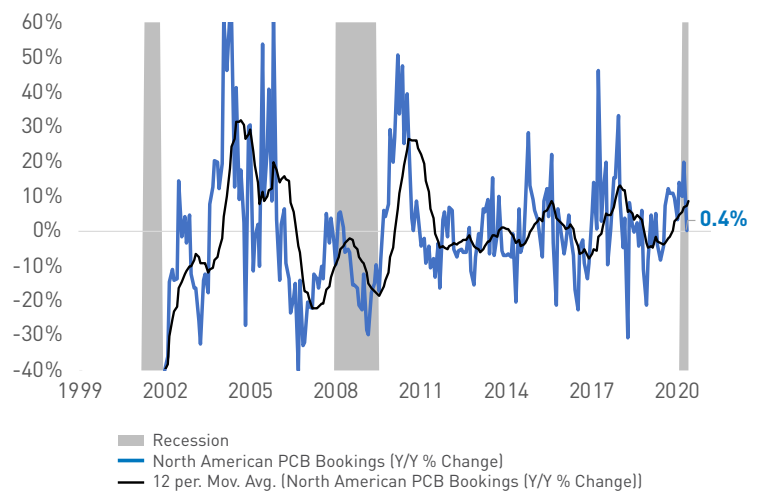
PCB imports fell 4.9 percent in May and are down nearly 25 percent from last year. This is the steepest year-over-year decline since the 2007-2009 recession. The weakness is likely driven by global supply chain disruptions early in the pandemic, followed by mandated shutdowns in the United States starting in March, which curtailed production and reduced demand for PCBs. However, it is worth remembering that PCB imports have been negative on a year-over-year basis since January 2019.

North American PCB bookings decreased 20 percent in May and are up 0.4 percent over the last year. North American PCB bookings saw a strong increase in March as supply chains in China temporarily shuttered. In the last month or two, growth has slowed as downstream demand has evaporated.

### PCB Imports (Y/Y % Change)



### North American PCB Bookings (Y/Y % Change)



## INDUSTRY EMPLOYMENT

The electronics manufacturing industry saw a steep decline in employment in April and May as companies closed or reduced production capacity. The industry cut employment by 40,700 jobs — roughly 2.7 percent of industry workforce. June brought a partial recovery as previously furloughed employees returned to work. Industry employment increased by 12,300 in June, nearly one-third of the total number of jobs shed in April and May.

### Industry Employment (Y/Y % Change)

