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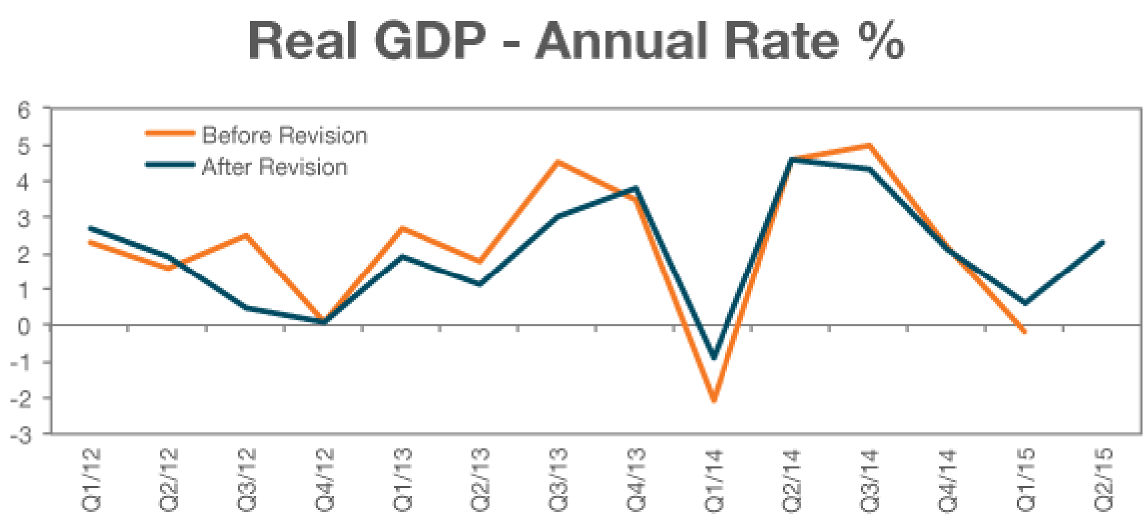

The U.S. economy expanded at a 2.3 percent annualized pace in the second quarter, and revisions to the first quarter replaced the small contraction with 0.6 percent growth, putting the first half of the year roughly in line with expectations. Average GDP growth for the past three years was revised to 2.0 percent from 2.2 percent previously, reinforcing concerns about the slow pace of trend growth and productivity. Growth in the second quarter was boosted by consumer spending, up 2.9 percent and adding 2 percentage points to GDP. Cheaper gasoline in late 2014 and early this year, along with a strengthening labor market, encouraged consumers to loosen their spending and dip into their bank accounts, pushing the saving rate down to 4.8 percent from 5.2 percent in the first quarter.

Business spending had its worst performance since the third quarter of 2012, with a -0.6 percent decline, as businesses continued to adjust to low energy prices and the stronger dollar, but we are seeing some signs business investment is poised to pick up. Durable goods orders jumped 3.4 percent in June from May, when orders had fallen 2.1 percent. The gain was the best result since March but largely reflected a surge in demand for commercial aircraft, with the Paris Air Show lifting aircraft sales. Capital goods orders of nondefense excluding aircraft increased by 0.9 percent in June, following two months of declines. Total shipments increased by only 0.1 percent in June, and capital goods shipments of nondefense excluding aircrafts declined 0.1 percent.

Meanwhile, the Dallas and Richmond Federal Reserve surveys both showed improvement, and manufacturers expressed optimism about future business conditions, giving hope for a stronger second half of the year. Granted, the Dallas Federal Reserve’s production index remained in negative territory as it has been all year, but rose for a second month in a row, suggesting further moderation in the decline in manufacturing output. A similar pattern was seen in the indexes for capacity utilization, shipments and general business activity. The Richmond survey showed shipments and new orders picked up, and order backlogs also strengthened.

Consumers, however, faced some headwinds. The Employment Cost Index increased by only 0.2 percent in the second quarter, significantly below consensus expectations. On a year-over-year basis, total compensation increased by 2.0 percent, down from 2.6 percent in the first quarter. This, along with the uncertainty and volatility in the financial markets earlier this month prompted by the global economy, particularly the situation in Greece and China, likely dampened consumer sentiment and short-term confidence, according to the University of Michigan consumer sentiment and the Conference Board consumer confidence surveys, which both took a hit, but remain at high levels.

The overall economic data, along with the 1.8 percent quarter-over-quarter annualized increase in the core PCE deflator, is consistent with the Federal Open Market Committee’s view that economic activity is “expanding moderately” and preparing for an increase in rates. The Federal Reserve’s housing market assessment was slightly more upbeat citing “additional” improvement, and the committee noted it would need to see only “some” further improvement in the labor market before raising the federal funds rate, lowering the bar slightly. The Federal Reserve’s assessment left the door open for a possible hike in interest rates in September, as long as the data between now and then are strong enough to warrant the move.

We will continue to look for rebounds in manufacturing activity with the latest ISM Purchasing Managers’ Index later this morning and factory orders tomorrow. Autos have been a steady source of strength this year; June sales capped the strongest quarter since 2005, and we look for continued strength in July’s results. A big focus this week will be on the July jobs numbers, which may influence the Federal Reserve’s liftoff timing. Other reports out this week include construction spending, international trade, personal income and spending and consumer credit.

Mary D'Ascoli
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P.S. *Many thanks to Mary D’Ascoli of Toyota Motor North America for compiling this week’s Monday Economic Report.*

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, July 27
Dallas Fed Manufacturing Survey
Durable Goods Orders and Shipments

This Week's Indicators:

Monday, August 3
Construction Spending
ISM Purchasing Managers’ Index
Personal Income and Spending
Vehicle Sales

Tuesday, July 28
Conference Board Consumer Confidence
Richmond Fed Manufacturing Survey

Wednesday, July 29
FOMC Monetary Policy Statement

Thursday, July 30
Gross Domestic Product (Second Quarter 2015)

Friday, July 31
Employment Cost Index
University of Michigan Consumer Sentiment

Tuesday, August 4
Factory Orders and Shipments

Wednesday, August 5
ADP National Employment Report
International Trade Report

Thursday, August 6
None

Friday, August 7
BLS National Employment Report
Consumer Credit Report

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Questions or comments?

Contact Chief Economist Chad Moutray at cmoutray@nam.org.