

## A Healing Economy

It's going to take years for the US economy to fully heal from the economic disaster brought about by COVID-19 and the government-mandated shutdowns which continue to limit economic activity across the country. When we talk about a full recovery, we don't simply mean getting real GDP back where it was in late 2019; a full recovery comes when the unemployment rate gets back below 4.0%, and we don't see that happening until at least late 2023.

Yet last week's key reports on the economy clearly show we're recovering. The ISM Manufacturing and Service indices, autos sales, and the employment report all beat expectations. The Manufacturing index came in at 54.2, while the sub-indices for new orders and production both exceeded 60.0 for the first time since 2018. The ISM Services index hit a robust 58.1 for July, the highest reading so far this year, including back in January and February when the economy was doing quite well. The new orders sub-index for services hit 67.7, the highest on record (dating back to 1997).

Meanwhile, consumers felt healthy enough to keep increasing auto purchases. Cars and light trucks were sold at a 14.5 million annual rate in July, the highest since February, when sales were 16.8 million annualized. To put this in perspective, auto sales bottomed at an 8.7 million annual rate in April, so this is one sector which is very nearly healed.

Of course, the big news for the week came with Friday's employment report, which showed payrolls expanding faster than anticipated while the unemployment rate declined further. Nonfarm payrolls rose 1.763 million, while civilian employment, an alternative measure of jobs that includes small-business start-ups, increased 1.350 million. Combined with jobs gains in May

and June, these figures show that we've recovered roughly 40% of the jobs lost in the carnage of March and April.

The best news was that both average hourly earnings and the total number of hours worked rose in July, with earnings up 0.2% and hours up 1.0%. Recently, these two figures have moved in opposite directions. At first, layoffs tilted toward lower paid workers, which meant average earnings for the remaining workforce were rising while total hours worked fell. Then, as hours rebounded and (disproportionately) lower-paid workers were rehired, the pattern reversed. Now they're rising at the same time.

In addition, recent declines in unemployment claims signal that the improvement in the labor market is continuing. Initial jobless claims came in at 1.186 million in the latest week, 249,000 fewer than the prior week and the lowest level since March. Continuing claims for regular benefits fell 844,000 to 16.1 million, the lowest since April.

It's still early – the initial report on real GDP growth in the third quarter won't be released until October 29 – but plugging all these reports, as well as earlier ones, into our models suggests growth at a 15.0% annual rate.

But along with faster growth, we're also going to see higher inflation. Broad measures of the money supply are growing rapidly, while the Federal Reserve remains committed to keeping short-term rates low as far as the eye can see. The Fed doesn't think we'll hit its 2.0% inflation target until at least 2023. We think inflation will get there, and beyond, before the calendar closes on 2021.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-11 / 7:30 am	PPI – Jun	+0.3%	<b>+0.3%</b>		-0.2%
7:30 am	“Core” PPI – Jun	+0.1%	<b>+0.1%</b>		-0.3%
8-12 / 7:30 am	CPI – Jun	+0.3%	<b>+0.3%</b>		+0.6%
7:30 am	“Core” CPI – Jun	+0.2%	<b>+0.2%</b>		+0.2%
8-13 / 7:30 am	Initial Claims Aug 8	1.100 Mil	<b>1.170 Mil</b>		1.186 Mil
7:30 am	Import Prices – Jul	+0.5%	<b>+1.0%</b>		+1.4%
7:30 am	Export Prices – Jul	+0.4%	<b>+0.6%</b>		+1.4%
8-14 / 7:30 am	Retail Sales – Jul	+1.9%	<b>+1.8%</b>		+7.5%
7:30 am	Retail Sales Ex-Auto – Jul	+1.3%	<b>+1.6%</b>		+7.3%
7:30 am	Q2 Non-Farm Productivity	+1.5%	<b>+1.0%</b>		-0.9%
7:30 am	Q2 Unit Labor Costs	+5.7%	<b>+6.2%</b>		+5.1%
8:15 am	Industrial Production – Jul	+3.0%	<b>+2.4%</b>		+5.4%
8:15 am	Capacity Utilization – Jul	70.3%	<b>70.3%</b>		68.6%
9:00 am	Business Inventories – Jun	-1.1%	<b>-1.1%</b>		-2.3%