



## U.S. Labor Market Remains a Headwind; Economic Capacity to Remain Constrained



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*Note: This edition of U.S. Economic Monitor is accompanied by the release of the 2H20 Asset Allocator's Guide. As a reminder, monthly report commentary is abbreviated at the end of Q2 and Q4 when the Asset Allocator's Guide is updated. The 2H20 Asset Allocator's Guide will be released on July 10, 2020.*

### U.S. Labor Market Could Delay the Economic Recovery

The U.S. labor market faces a long road to recovery. In June, Fed Chair Powell said he expected the unemployment rate to fall to 9.3% at the end of 2020 and 6.5% at the end of 2021. Chairman Powell laid out his assumption millions of people will not get to go back to their old job or there may not be a job in their industry for a long time.

Contrasting U.S. unemployment (11.1%) vs Euro area unemployment (7.4%) highlights the U.S. issue. Unlike European nations, which have been able to keep employees connected to employers via government subsidies for short-time work programs (e.g. retain employees but reduce working hours and state subsidizes a portion of employee pay), the U.S. unemployment is surging. The lower Euro area unemployment is likely artificial, but it signals potentially deep issues as the U.S. economy recovers. European employees should theoretically be easier to get back to work. In contrast, U.S. employees are dispersed in the wind. Some took jobs elsewhere, while others moved to different industries. This puts the U.S. at a structural disadvantage, because employees will take their labor skills with them.

► **Labor Market Data:** The average U.S. workweek increased 0.2 hours in May, but average hourly earnings decreased \$0.31 (**Figure 1**). U.S. unemployment by duration shifted dramatically over the past year. As a sign of the unprecedented unemployment surge, 65% of the U.S. unemployment population has been unemployed for 5-14 weeks, which compares to 31% a year ago (**Figure 5**). If the 5-14 week group continues to move along the duration scale, the U.S. labor market and economy will face headwinds. The amount of continued jobless claims decreased 2.9M in June, but the number is still historically high (**Figure 6**).

### U.S. Consumer Reliant on Wage Support

U.S. total personal income is +7% y/y, but the headline number is misleading. The personal income surge is tied to transfer receipts (e.g. unemployment benefits) surging +67.5% y/y, while wages are down -5.4% y/y (**Figure 14**). The U.S. personal savings rate sits at 23.2% vs the 10-year average of 7.8% (**Figure 15**). However, it remains unclear whether the increased savings is involuntary due to lockdowns or precautionary due to uncertain economic times ahead. Involuntary means consumer spending will rebound, which will lower the need for policy stimulus. Precautionary savings will require more stimulus measures to support the economic recovery. Policymakers face a difficult calculation in judging the personal savings rate and how much stimulus to provide.

### Housing Faces A Future Supply Crunch

There are lots of moving pieces in the U.S. housing market. Existing home sales fell to 3.9M in June due to lockdowns and homeowners pulling their homes off the market (**Figure 19**). May buildings permits decreased -9.1% y/y (**Figure 25**), while May housing starts fell -294k y/y (**Figure 26**). Separately, weekly mortgage applications were strong in May and June as mortgage rates sit near historic lows. Stepping back, we see supply (e.g. existing home sales, building permits, housing starts) contracting and demand (e.g. mortgage applications) growing. NAHB homebuilder sentiment was 58 at the end of June (**Figure 28**). A reading above 50 indicates a positive outlook. The May 29 *Friday Strategist* discusses a tactical housing trade to take advantage of a potential supply crunch.

### Business Activity Shows Depth of Contraction

U.S. business activity remains muted. Capacity utilization was below 65% at the end of May vs above 75% historically (**Figure 31**). New orders and shipments are falling, while inventories are rising (**Figures 32 & 33**). June U.S. rail traffic increased 16.1% m/m (**Figure 34**). M/M growth in economically sensitive carloads, such as chemicals, ores / metals, vehicles and parts, and intermodal, remain down materially y/y but suggest the economy is trying to restart. However, the leading economic index remains down (**Figure 35**), as does the NFIB small business optimism index (**Figure 38**). The U.S. recovery remains highly vulnerable to a second infection wave. Unfortunately, calculating the probability of a second wave is near impossible. As a result, financial markets will likely remain volatile.

#### Table of Contents

##### Monthly Recap

- 1 Monthly Insights
- 2 Outlook Views
- 3 Key Economic Indicators
- 4 Map of Global PMIs
- 5 U.S. Economic Calendar

##### Labor Markets

- 6 Industry Payroll & Unemployment

##### Consumer Activity

- 7 Retail & Auto Sales
- 8 Personal Finances & Consumption

##### Housing

- 9 Current State
- 10 Outlook / Builder Sentiment

##### Business Activity

- 11 Output & Capacity
- 12 Survey Data

##### Inflation

- 13 Consumers & Producers



**U.S. Economic Outlook:** The goal of this report is to simplify economic trends by focusing on the key drivers. See below for a summary of our outlook on several key economic indicators for the next 12 months. Up / down arrows indicate a positive (▲) or negative (▼) change in view since the prior monthly report.

● Negative Outlook (Neg)    ● Neutral (N)    ● Positive Outlook (Pos)

U.S. Economics	Outlook				Key Drivers of Current Outlook	Rationale
	Chg	Neg	N	Pos		
<b>Consumers</b>						
Labor Market		●	●	●	Rising Jobless Claims	Initial jobless claims reach 40M since mid-March; It will take longer than expected to re-absorb the lost jobs
Consumer Spending		●	●	●	Shutdown Orders; Unemployment	Consumer reliant on wage support; Uncertain if savings rate surge will translate to increased spending
Housing Market	▲	●	●	●	Low Mortgage Rates	Shutdown orders = Big sales decline; Supply/demand imbalance likely to support home prices; First time buyer benefits from low rates
<b>Businesses</b>						
Manufacturing		●	●	●	Industrial Production; Capacity	Capacity utilization near lows of 2008 financial crisis; Concerns about delays in utilization coming back online
Business Conditions		●	●	●	LEI; Small Business Optimism	Business survey data rose slightly in May, but remains vulnerable to a second infection wave; Success of reopening will be key
<b>Inflation</b>						
CPI		●	●	●	Oil Price Decline; Fed Stimulus	Market inflation expectations jumped in June, but we believe the deflationary environment will remain through 2020
PPI		●	●	●	Supply Chain Restart	Companies will incur excess costs to restart supply chain (e.g. testing, setup, etc.); Ability to pass on costs = Potential PPI increase

*Labor Market* includes Job's Created, Unemployment Claims, Average Weekly Hours, Wage Inflation, Productivity.

*Consumer Spending* includes Consumer Confidence, Retail Sales, Auto Sales.

*Housing Market* includes Housing Starts, New Building Permits, Housing Prices.

*Business Conditions* includes Business Confidence, Capital Spending.

*Manufacturing* includes U.S. ISM Manufacturing, New Orders, Productivity.

*Consumer Price Index (CPI)* measures the average change in prices over time that consumers pay for a basket of goods and services.

*Producer Price Index (PPI)* measures the average change in prices received by domestic producers for their output.



Average workweek rebounded in May, but average hourly earnings dropped. Weak wage growth is a headwind for U.S. consumers. Continued jobless claims decline ~3M in June, but overall remain elevated. High unemployment is likely to keep wage growth down.

Figure 1: Summary of Key U.S. Economic Indicators

Category	Economic Indicator	Report Date	Latest Report	1-Month Trend	6-Month Trend	10-Year Historical Percentile			Commentary		
						Current	Current (●) & 1-Month Change (-)				
						0%	50%	100%			
<b>Employment</b>	Nonfarm Payrolls	6/30	+4,800k	▲ 2,101k	▲ 4,616k	100%	-20,787k		● +4,800k		
	Unemployment Rate	6/30	11.1%	▼ 2.2%	▲ 7.6%	68%	3.5%		● 14.7%	+40 million displaced workers	
	Average Workweek	5/29	38	▲ 0.2	▼ 1.1	12%	38	●		39	
	Average Hourly Earnings	5/29	\$29.72	▼ \$0.31	▲ \$1.35	96%	\$23		●		\$30
	Initial Jobless Claims	6/30	+1,504k	▼ 962k	▲ 1,278k	27%	+0.2m		●		+5.0m
	Continued Jobless Claims	6/30	+19,100k	▼ 2,935k	▲ 17,364k	86%	+1.7m		●		+22.0m
<b>Consumer</b>	Personal Income	5/29	\$20B	▼ \$0.9B	▲ \$0.9B	89%	\$13B		●		\$21B
	Personal Spending	5/29	\$13B	▲ \$1.0B	▼ \$1.7B	63%	\$10B		●		\$15B
	Consumer Confidence Index	6/30	98.1	▲ 12.2	▼ 30.1	59%	41		●		138
	Michigan Confidence Index	6/30	78.1	▲ 5.8	▼ 21.2	49%	56		●		101
<i>Consumer sentiment will continue to be driven by COVID-19 case counts and the risk of longer shutdowns.</i>											
<b>Housing</b>	New Home Sales	5/29	+676k	▲ 96k	▼ 55k	81%	+0.3m		●		+0.8m
	Housing Starts	5/29	+974k	▲ 40k	▼ 613k	42%	+0.5m		●		+1.6m
	Building Permits	5/29	+1,216k	▲ 150k	▼ 241k	68%	+0.5m		●		+1.5m
	Monthly Supply (# of months)	5/29	4.6mos	▲ 0.7	▲ 1.6	18%	3mos		●		12mos
<b>Manufacturing</b>	Industrial Production (m/m%)	5/29	1.4%	▲ 13.9%	▲ 1.7%	99%	-13%		●		1.5%
	ISM Manufacturing PMI	6/30	52.6	▲ 9.5	▲ 4.8	58%	42		●		61
	Capacity Utilization	5/29	65%	▲ 0.8%	▼ 12.4%	5%	64%		●		80%
	Durable Goods (New Orders)	5/29	\$187B	▲ \$21B	▼ \$57B	19%	\$166B		●		\$277B
<b>Inflation (y/y%)</b>	CPI	5/29	0.10%	▼ 0.2%	▼ 2.2%	7%	-0.2%		●		3.9%
	Core CPI	5/29	1.20%	▼ 0.2%	▼ 1.1%	48%	0.1%		●		2.4%
	PPI	5/29	-0.84%	▲ 0.3%	▼ 2.2%	10%	-1.4%		●		4.5%
	Core PPI	5/29	0.34%	▼ 0.3%	▼ 0.9%	6%	0.2%		●		3.0%
	PCE	5/29	0.55%	▼ 0.0%	▼ 1.0%	15%	0.1%		●		3.1%
	Core PCE	5/29	1.02%	▼ 0.0%	▼ 0.5%	10%	0.9%		●		2.1%
	GDP Price Index	3/31	1.70%	▲ 0.1%	▲ 0.1%	55%	0.6%		●		2.6%
<b>U.S. GDP (y/y%)</b>	Real GDP	3/31	0.30%	▼ 2.0%	▼ 2.0%	0%	0.3%		●		4.0%

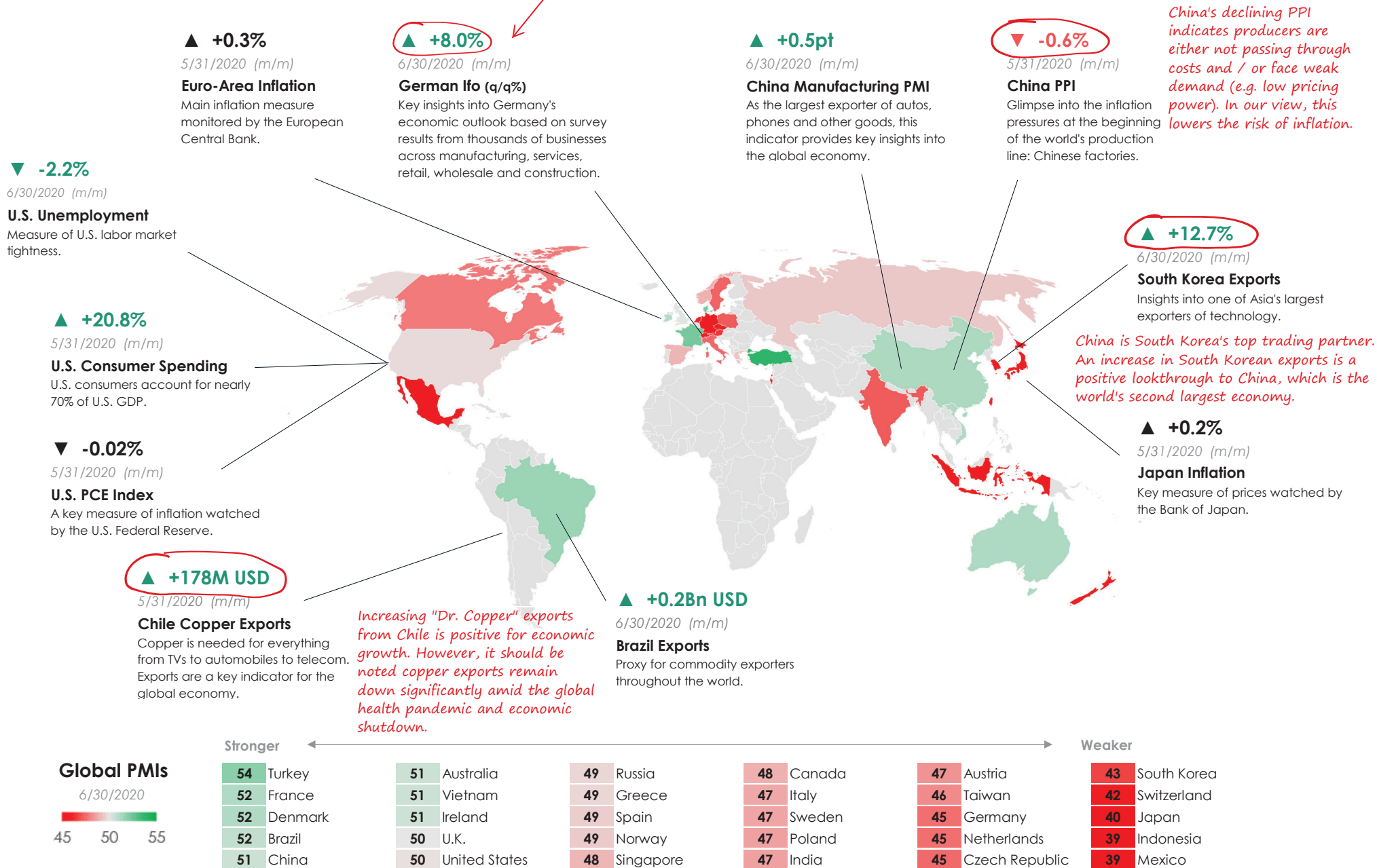
Inflationary pressures remain in check. In our view, the deflationary environment will continue through 2020 despite government stimulus. We believe weak demand will be the primary low inflation driver. The risk to this view is supply comes back online relatively quickly.

Source: MarketDesk Research, Federal Reserve, NBER, Institute for Supply Management, University of Michigan, DOL, U.S. Census



*Germany is an export engine tied to global economic growth. Improving German Ifo is positive from a business sentiment indicator. As with most economic indicators right now, it should be noted German Ifo remains weak compared to earlier this year.*

Figure 2: Map of Global PMIs and Key Economic Data



Source: MarketDesk Research, U.S. Census Bureau, Central Bank of Chile, Eurostat, Ministry of Internal Affairs & Communications Japan, CEIC



Figure 3: U.S. Economic Calendar

**July 2020**

Key Releases

Monday	Tuesday	Wednesday	Thursday	Friday
		1	2	3
6	7	8 Consumer Credit	9 Sales of Merchant Wholesalers Wholesale Inventories	10 Core PPI PPI
13 Federal Budget Balance	14 Core CPI	15 Empire State Index Export Price Index Import Price Index Industrial Production Manufacturing Production	16 NAHB, Housing Market Index Philadelphia Fed Index Retail Sales	17 Housing Starts
20	21	22 Existing Home Sales	23 Composite Index Leading Index	24 New Home Sales
27 Dallas Fed Index	28 Consumer Confidence Index Richmond Fed Index S&P 20-City Home Price Index	29 Pending Home Sales	30	31 Core PCE Employment Cost Index Michigan Consumer Sentiment PCE Personal Income

Source: MarketDesk Research

**Figure 4: Payroll Activity by U.S. Industry (m/m in 000s)**

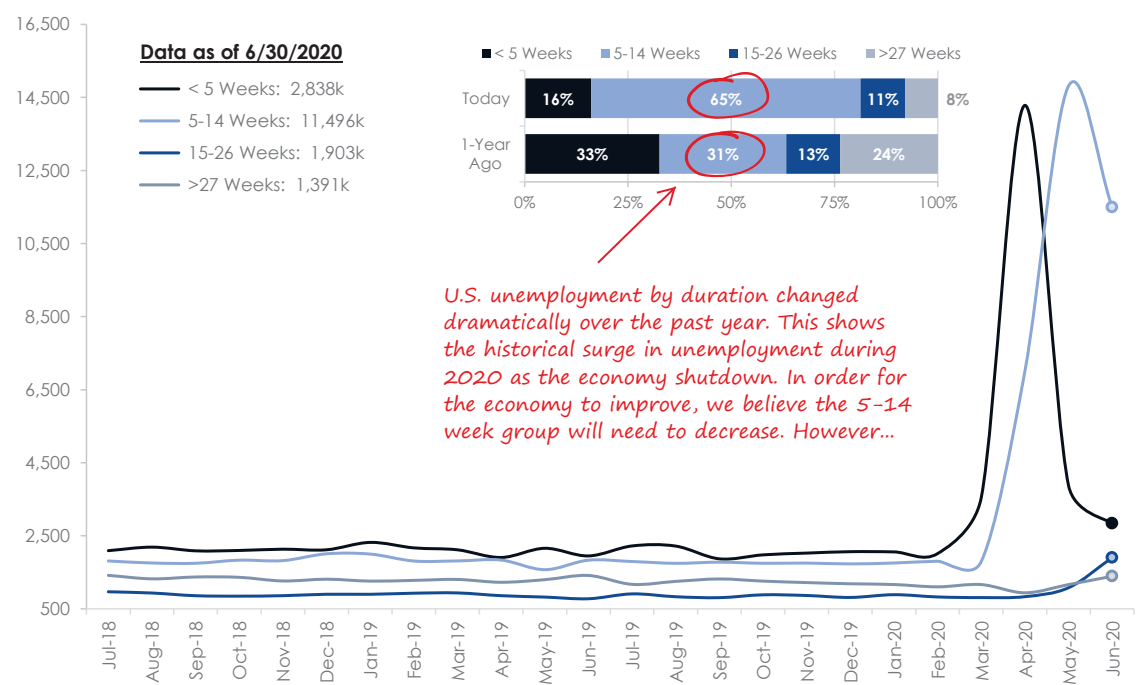
Breakdown of 1-month change in employment across industries.

Industry	10-Year Historical Range			
	Current	Current (●) & 1-Month Change (-)		
		0%	50%	100%
<b>Total Nonfarm Payroll</b>	<b>0%</b>	-1373k		+540k
<b>Goods</b>				
Mining/Logging	39%	-23k		+15k
Construction	0%	-65k		+86k
Manufacturing	0%	-46k		+58k
<b>Services</b>				
Wholesale Trade	19%	-19k		+20k
Retail Trade	0%	-85k		+76k
Transportation	29%	-33k		+47k
Utilities	48%	-7k		+8k
Information	41%	-42k		+45k
Financial	0%	-18k		+30k
Professional	0%	-94k		+94k
Education	0%	-44k		+39k
Health Care	0%	-135k		+75k
Leisure/Hospitality	0%	-743k		+91k
Other	0%	-91k		+25k
<b>Gov't</b>				
Federal	37%	-223k		+432k
State	0%	-37k		+34k
Local	52%	-96k		+90k

Source: MarketDesk Research, U.S. Bureau of Labor Statistics

**Figure 5: U.S. Unemployment by Duration (weeks)**

Breaking down the U.S. unemployment population by length of time over the past 24 months.

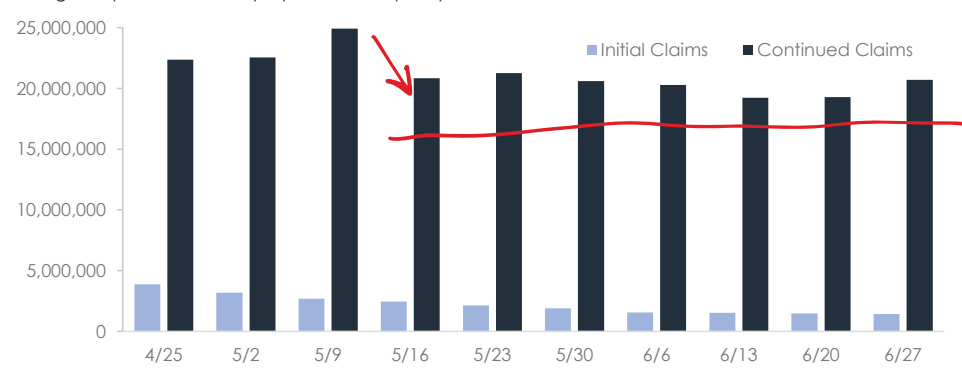


U.S. unemployment by duration changed dramatically over the past year. This shows the historical surge in unemployment during 2020 as the economy shutdown. In order for the economy to improve, we believe the 5-14 week group will need to decrease. However...

Source: MarketDesk Research, U.S. Bureau of Labor Statistics

**Figure 6: Unemployment – Initial & Continued Claims**

Rolling comparison of unemployment data split by initial and continued claims.



Source: MarketDesk Research, U.S. Bureau of Labor Statistics

... continued jobless claims flatlined in June after trending down in May. This is a concerning trend. Not all of those workers will be reabsorbed, and not all jobs will return.

**Figure 7: U.S. Misery Index**

The U.S. Misery Index adds the seasonally adjusted unemployment rate to the annual inflation rate.



Source: MarketDesk Research, St. Louis Federal Reserve Bank



# Consumer Activity

## Retail & Auto Sales

Retail sales are improving in shutdown friendly purchase categories (e.g. home furnishings and recreational products). Despite the positive growth in clothing and restaurants in June, we believe those categories will struggle in the near term as retail store traffic remains low and restaurant capacity is capped to accommodate social distancing.

**Figure 8: Retail Sales by Industry**

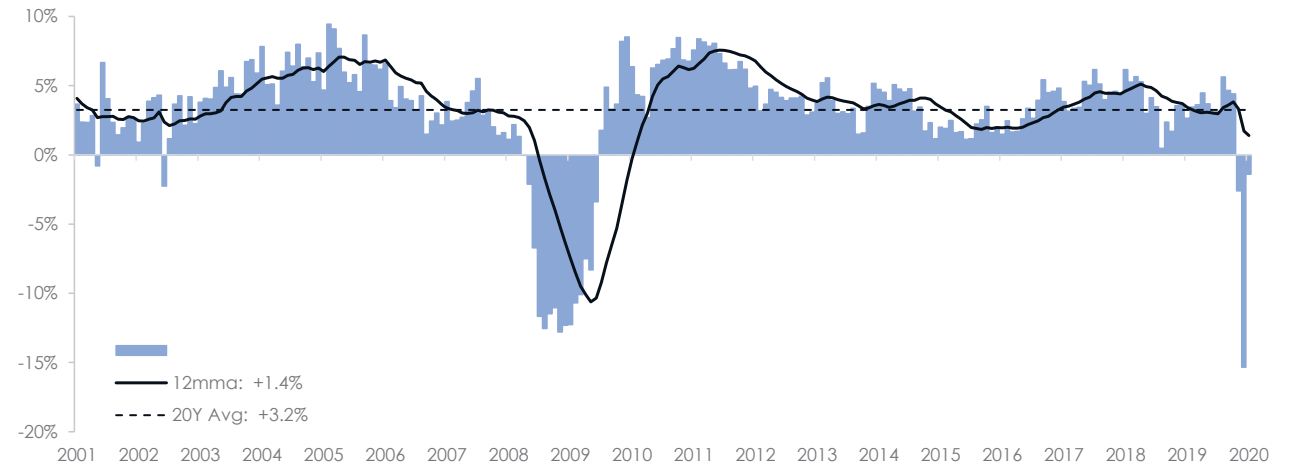
A monthly gauge of retail activity across industries. Investors closely follow retail sales as a leading indicator for U.S. economic health.

Industry Sales	m/m%	y/y%	LTM Trend
Clothing	▲ 188.0%	▼ 63%	↔
Home Furnishings	▲ 89.7%	▼ 22%	↔
Sporting Goods	▲ 88.2%	▲ 5%	↔
Electronics & Appliances	▲ 50.5%	▼ 30%	↔
Auto & Auto Parts	▲ 44.1%	▼ 4%	↔
Restaurants	▲ 29.1%	▼ 39%	↔
Total Retail Sales	▲ 17.7%	▼ 6%	↔
Gas Stations	▲ 12.8%	▼ 31%	↔
Building Materials	▲ 10.9%	▲ 16%	↔
Grocery Stores	▲ 1.3%	▲ 14%	↔
Pharmacies	▲ 0.4%	▼ 10%	↔

Source: MarketDesk Research, U.S. Census Bureau

**Figure 9: Retail Sales excluding Food (y/y%)**

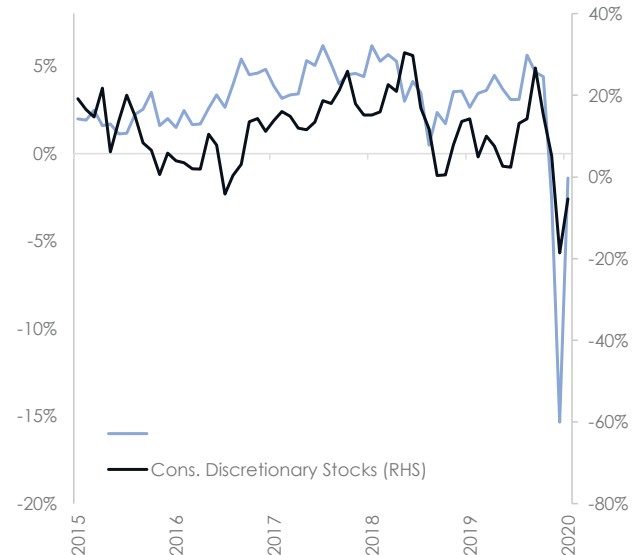
Retail sales are a key consumer growth indicator. To smooth the analysis, we remove food (historically a more volatile segment of retail sales).



Source: MarketDesk Research, St. Louis Federal Reserve

**Figure 10: Retail Sales vs Cons Discretionary Stocks (y/y%)**

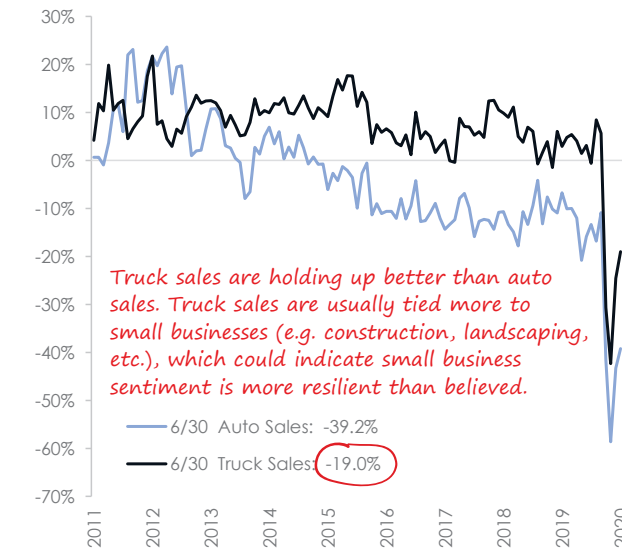
Retail sales tend to lead performance of consumer discretionary stocks by 1-month, which can offer a glimpse into future sector returns.



Source: MarketDesk Research, U.S. Census Bureau

**Figure 11: Auto & Truck Sales (y/y%)**

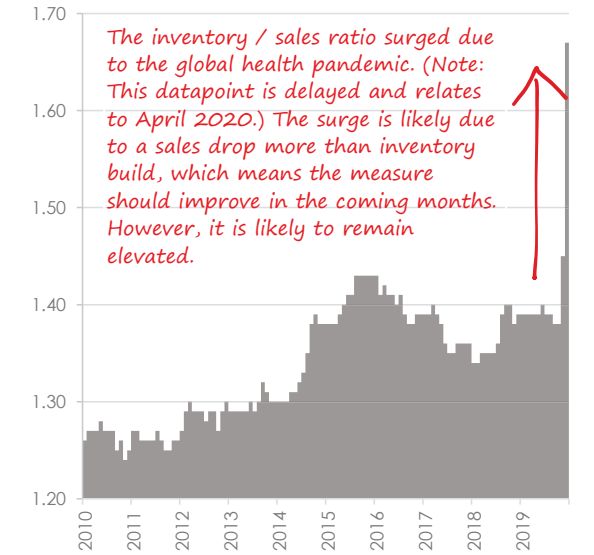
Automotive sales are closely followed by economists and investors because the industry represents ~3% of U.S. GDP.



Source: MarketDesk Research, U.S. Bureau of Economic Analysis

**Figure 12: U.S. Inventory to Sales Ratio**

This ratio measures inventory against sales. An increasing ratio may indicate declining sales or increasing inventory costs.



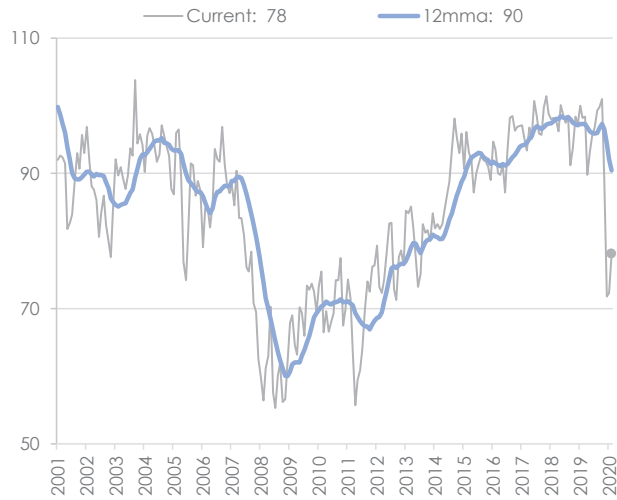
Source: MarketDesk Research, St. Louis Federal Reserve

# Consumer Activity

## Personal Finances & Consumption

**Figure 13: University of Michigan Consumer Sentiment Index**

This survey asks consumers questions about their financial standing and views on both the current and future economy.

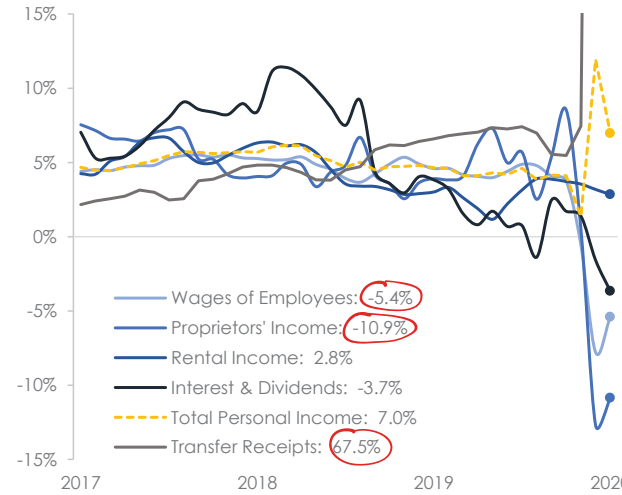


Source: MarketDesk Research, University of Michigan

Total personal income is up 7% y/y. However, that number is misleading due to transfer receipts (e.g. unemployment benefits) are up 67.5% y/y. Wages and proprietors' income are down -5.4% and -10.9%, respectively. The \$600 increase in unemployment benefits, which ends at the end of July, has been important to supplementing personal income. There are discussions of extending the unemployment benefit, but nothing is definitive yet.

**Figure 14: Personal Income by Type (y/y%)**

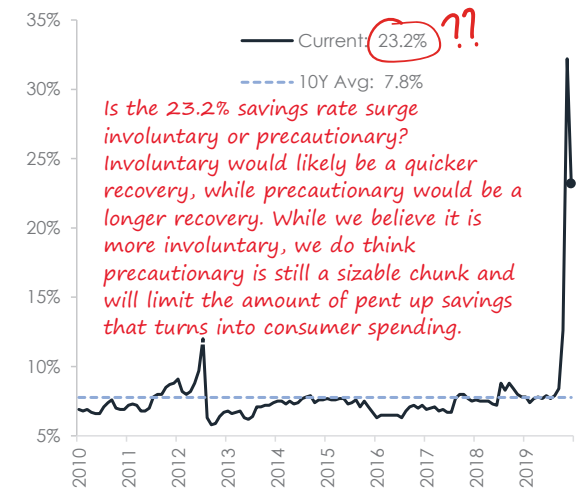
Personal income includes compensation from a number of sources and is a key input into the financial health of U.S. consumers.



Source: MarketDesk Research, U.S. Bureau of Economic Analysis

**Figure 15: Personal Savings Rate (% of Income)**

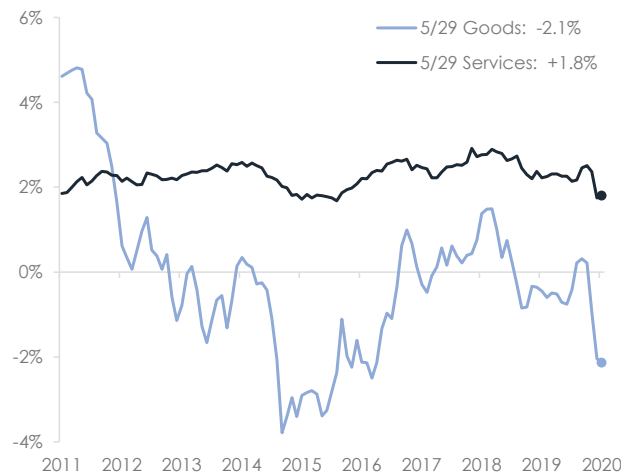
The ratio of personal savings to disposable personal income. The Personal Savings Rate reflects future consumer sentiment.



Source: MarketDesk Research, U.S. Bureau of Economic Analysis

**Figure 16: PCE Index on Goods & Services (y/y%)**

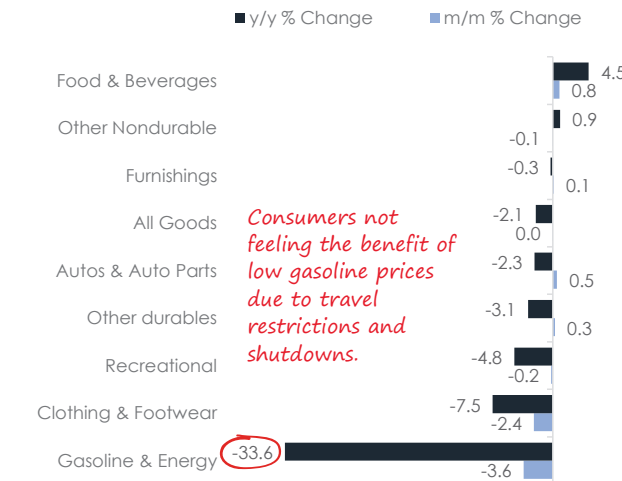
Personal Consumption Expenditures Index reflects changes in the prices of U.S. goods and services. It is the Fed's preferred inflation measure.



Source: MarketDesk Research, U.S. Bureau of Economic Analysis

**Figure 17: Real PCE by Type of Goods**

The analysis below highlights the PCE of consumer goods, which is used to track price movements in various goods and products.

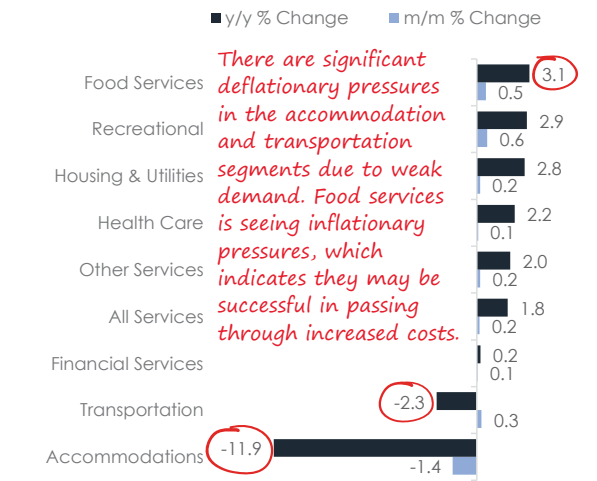


Source: MarketDesk Research, U.S. Bureau of Economic Analysis

Consumers not feeling the benefit of low gasoline prices due to travel restrictions and shutdowns.

**Figure 18: Real PCE by Type of Services**

The analysis below highlights the PCE of consumer services, which is used to track price movements in various services.



Source: MarketDesk Research, U.S. Bureau of Economic Analysis

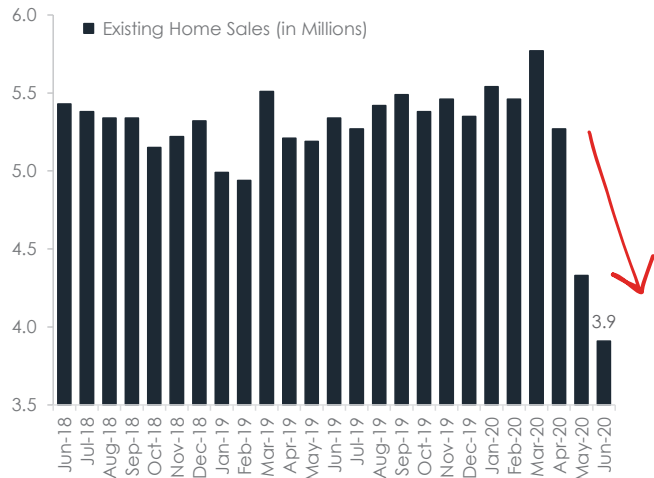
There are significant deflationary pressures in the accommodation and transportation segments due to weak demand. Food services is seeing inflationary pressures, which indicates they may be successful in passing through increased costs.



Existing home sales plunged in June 2020. We view this as more of a lagging indicator, given that these contracts were likely signed in April / May during shutdowns.

**Figure 19: Existing Home Sales**

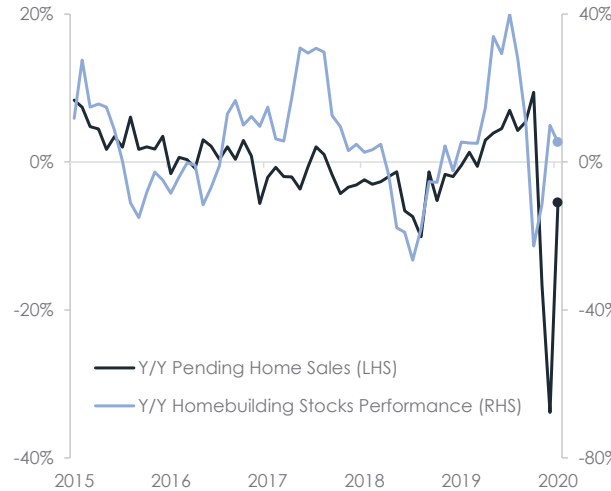
Existing home sales data measures sales of existing single-family homes, condos and co-ops within the U.S.



Source: MarketDesk Research, National Association of Realtors

**Figure 20: Pending Home Sales vs Homebuilding Stocks**

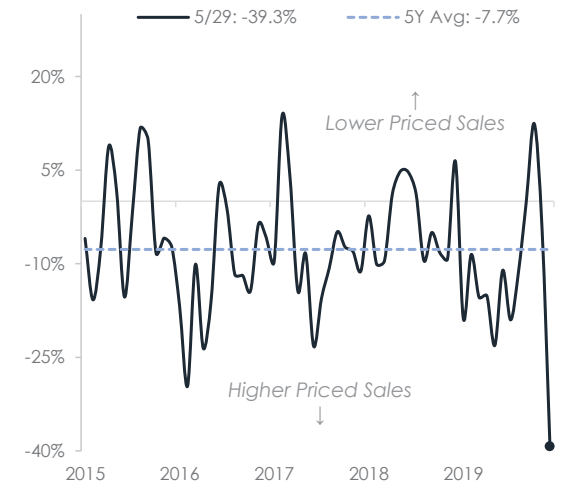
Homebuilding stock prices tend to lead actual home sales. Monitoring the Y/Y change in both can identify near-term changes.



Source: MarketDesk Research, National Association of Realtors

**Figure 21: New vs Existing Home Sales (y/y%)**

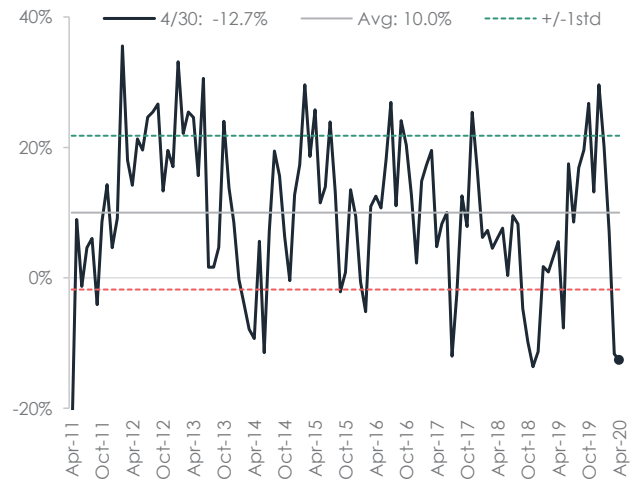
New homes tend to be more expensive than existing homes. Relative y/y sales growth highlights sentiment shifts.



Source: MarketDesk Research, National Association of Realtors

**Figure 22: New Home Sales (y/y%)**

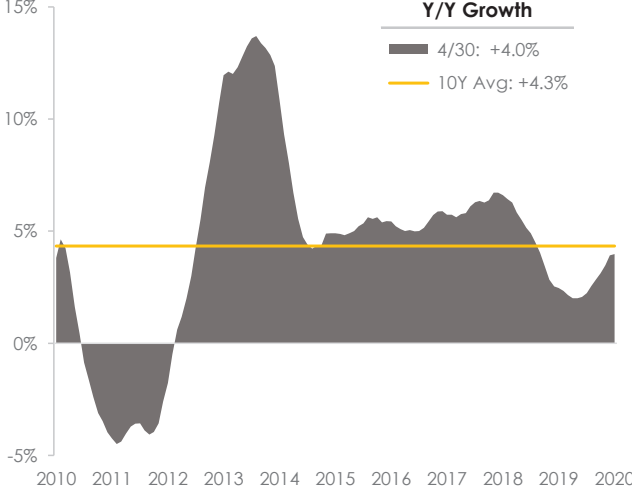
New home sales are a lagging indicator, but are still studied for broader economic clues due to the impact of income and interest rates.



Source: MarketDesk Research, U.S. Dept. of Housing & Urban Development  
**Note:** Home Prices are delayed by 2 months.

**Figure 23: S&P/Case Shiller 20-City Home Price Index**

The index tracks U.S. home prices across 20 major cities and is an indicator of how the broader economy is performing.



Source: MarketDesk Research, National Association of Realtors  
**Note:** Home Prices are delayed by 2 months.

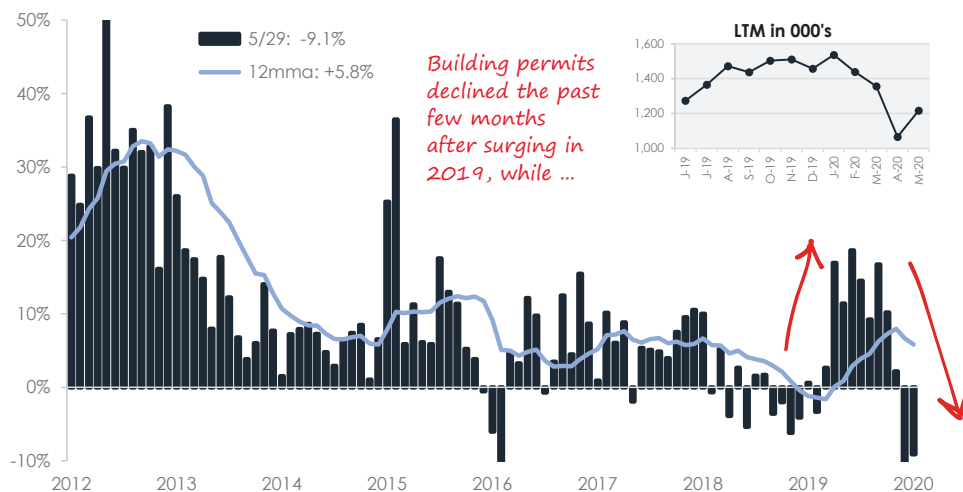
**Figure 24: Home Prices by City**

City	m/m%	y/y%	% Change 2008 Peak
Minneapolis	▲ 1.9%	+6.4%	+47%
Cleveland	▲ 1.6%	+6.0%	+24%
Seattle	▲ 1.4%	+7.3%	+69%
Phoenix	▲ 1.4%	+8.8%	+67%
Boston	▲ 1.3%	+4.3%	+50%
San Diego	▲ 1.2%	+5.8%	+79%
Charlotte	▲ 1.2%	+5.6%	+40%
Chicago	▲ 1.1%	+1.4%	+6%
Atlanta	▲ 0.8%	+4.5%	+40%
Los Angeles	▲ 0.7%	+4.1%	+73%
Dallas	▲ 0.7%	+2.8%	+69%
San Francisco	▲ 0.7%	+2.8%	+112%
Miami	▲ 0.6%	+3.9%	+53%
Portland	▲ 0.6%	+4.3%	+55%
New York	▲ 0.4%	+2.5%	+12%

Source: MarketDesk Research, National Association of Realtors  
**Note:** Home Prices are delayed by 2 months.

**Figure 25: Building Permits (y/y%)**

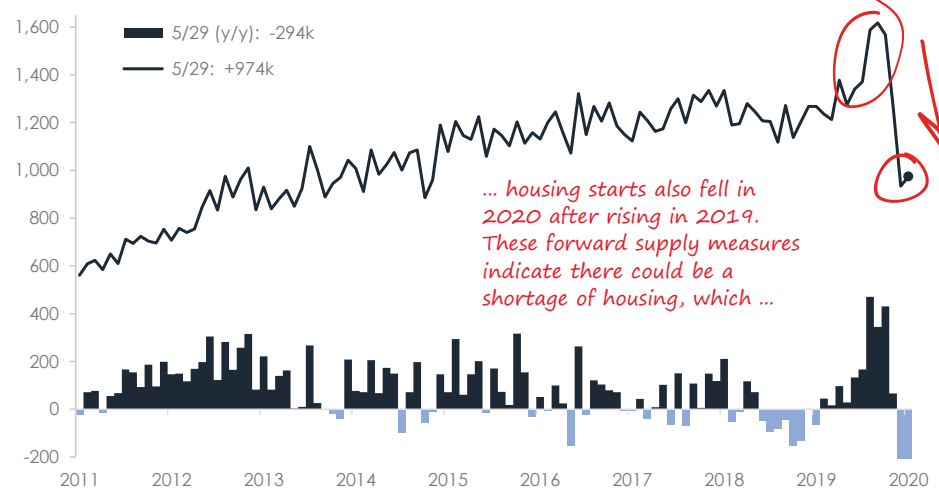
The monthly building permit report is seen as a leading indicator, providing a major hint as to the health of the construction industry and broader U.S. economic health. The chart below tracks the y/y growth of permits.



Source: MarketDesk Research, U.S. Dept. of Housing & Urban Development

**Figure 26: Housing Starts (in 000s)**

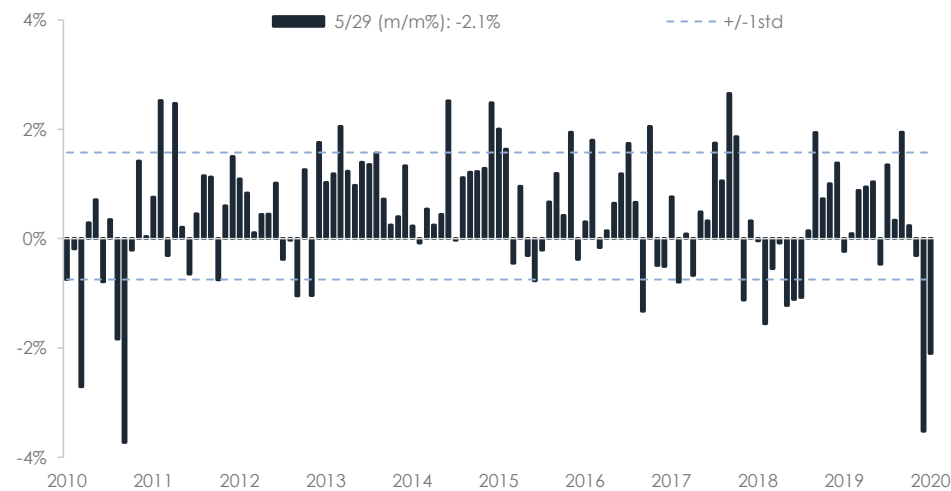
Housing Starts (new residential construction) is another early indicator of U.S. economic health due to its effect on related industries, such as banking, raw materials, employment, real estate, and manufacturing.



Source: MarketDesk Research, U.S. Department of Housing & Urban Development

**Figure 27: Construction Spending (m/m%)**

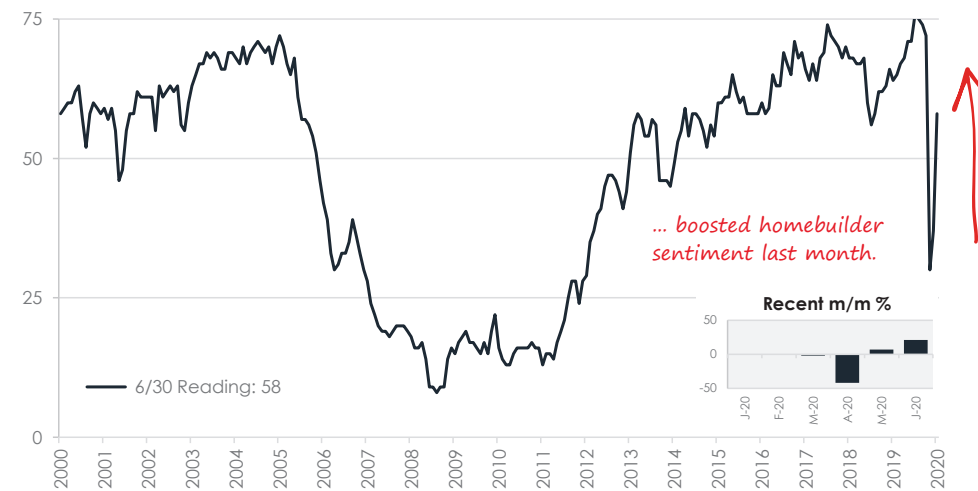
This indicator highlights growth in various construction-related expenses including labor, building materials, and engineering work across private residential, infrastructure and public improvements.



Source: MarketDesk Research, U.S. Department of Housing & Urban Development

**Figure 28: NAHB Homebuilder Sentiment**

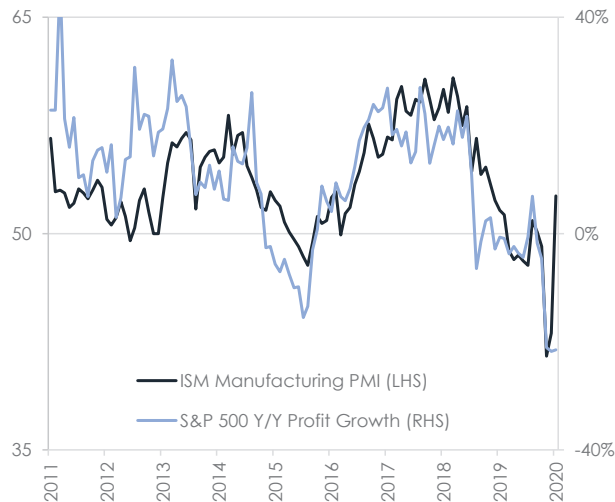
The NAHB Housing Market Index is a gauge of builder opinion on the relative level of current and future single-family home sales. Readings >50 (<50) indicates a positive (negative) outlook on home sales.



Source: MarketDesk Research, National Association of Home Builders

**Figure 29: ISM Manufacturing PMI vs S&P 500 Profit Growth**

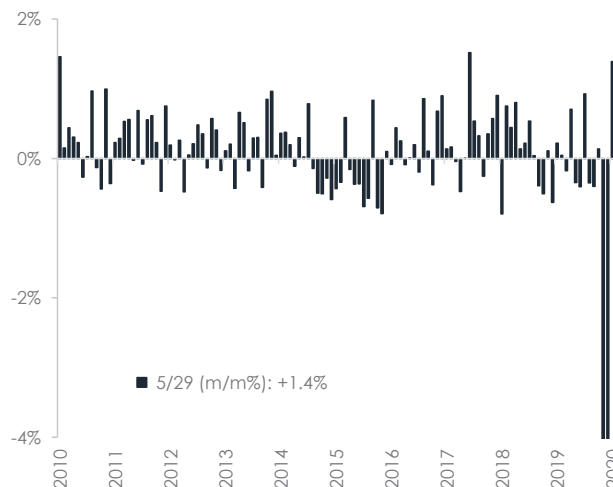
The ISM Manufacturing PMI monitors changes in production levels from month to month. Readings of >50 (<50) signal expansion (contraction).



Source: MarketDesk Research, Institute of Supply Management

**Figure 30: Industrial Production Index (m/m%)**

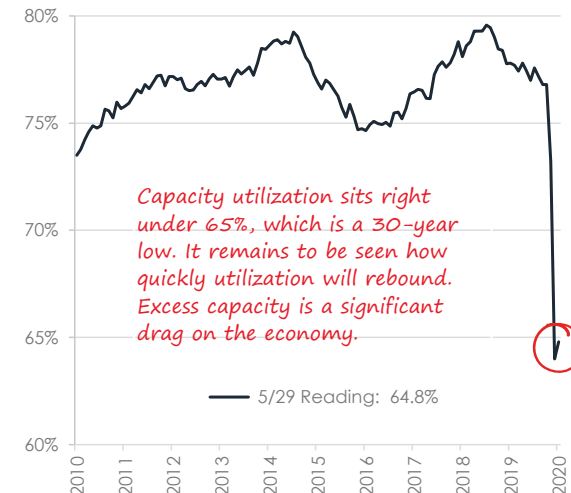
The IPI measures the real economic output across the manufacturing, mining, electric and gas industries.



Source: MarketDesk Research, Federal Reserve

**Figure 31: Capacity Utilization Rate**

A key indicator of "slack" in the economy. The CU measures the proportion of potential economic output that is actually realized.



Source: MarketDesk Research, Federal Reserve

**Figure 32: Manufacturing Overview – U.S. Total**

Below provides a leading (new orders), coincident (shipments), and lagging (inventories) indicator for the manufacturing sector.

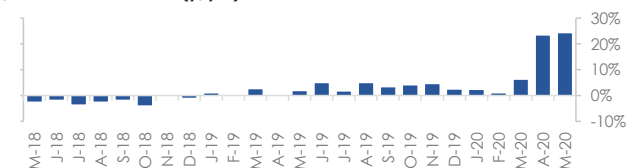
5/29 Total New Orders (y/y%) – Latest: ▼ -19%



5/29 Total Shipments (y/y%) – Latest: ▼ -20%



5/29 Total Inventories (y/y%) – Latest: ▲ +24%



Source: MarketDesk Research, U.S. Census Bureau

**Figure 33: Manufacturing Overview – U.S. Durables**

Durable goods include products that have a long life cycle (e.g. cars, appliances) and are largely considered "needs" instead of "wants".

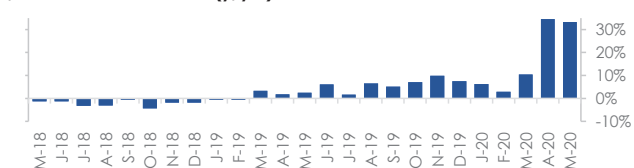
5/29 Durable New Orders (y/y%) – Latest: ▼ -22%



5/29 Durable Shipments (y/y%) – Latest: ▼ -23%



5/29 Durable Inventories (y/y%) – Latest: ▲ +33%



Source: MarketDesk Research, U.S. Census Bureau

**Figure 34: U.S. Rail Traffic**

Railroads link the U.S. economy, moving goods around the country. Below highlights traffic trends by carload type.

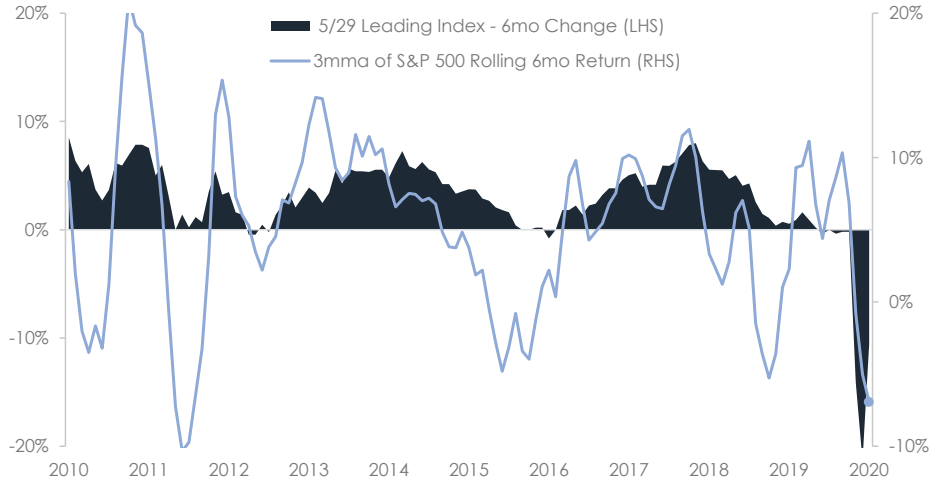
Traffic Type	This Month	m/m%	y/y%
<b>Total Carloads</b>	<b>201,502</b>	<b>12.0</b>	<b>-22.9</b>
Chemicals	29,319	9.8	-11.8
Coal	50,961	10.4	-35.2
Farm/Food	15,327	14.0	-1.5
Forest Products	8,831	7.0	-13.0
Grain	19,303	-9.1	-7.9
Ores/Metals	15,077	19.3	-37.0
Vehicles & Parts	13,392	102.0	-27.1
Minerals/Products	29,393	7.5	-22.2
Petroleum	10,156	15.8	-21.5
Other	9,743	10.8	-1.2
<b>Total Intermodal</b>	<b>257,947</b>	<b>19.6</b>	<b>-5.1</b>
<b>Total Traffic</b>	<b>459,449</b>	<b>16.1</b>	<b>-13.8</b>

Source: MarketDesk Research, Assoc. of American Railroads

*U.S. rail traffic increased m/m in June, but remains down materially y/y. From a positive viewpoint, economically sensitive carloads, such as chemicals, ores / metals, vehicles and parts, and intermodal, all rebounded significantly. The economic engine is trying to restart.*

**Figure 35: Leading Economic Index**

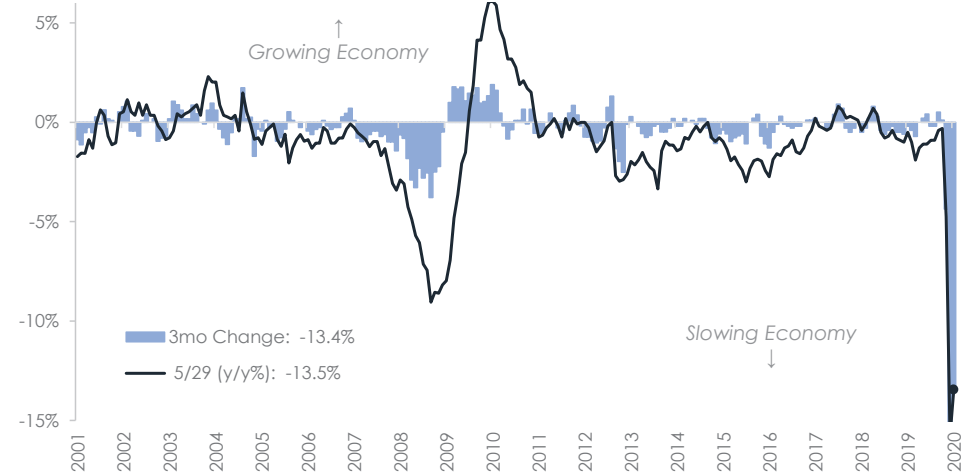
The LEI is a composite of several indicators used to predict economic growth. Inputs include: avg weekly hours, initial unemployment claims, new orders, building permits, monetary supply, and interest rate spreads.



Source: MarketDesk Research, U.S. Conference Board

**Figure 36: Ratio of the Coincident Index to the Lagging Index (y/y%)**

Coincident indicators provide a real-time pulse of the economy. Lagging indicators are seen as confirming a pattern in progress. A negative (positive) y/y% in the ratio indicates a slowing (growing) economy.



Source: MarketDesk Research, U.S. Conference Board

**Figure 37: Philly Fed Business Outlook**

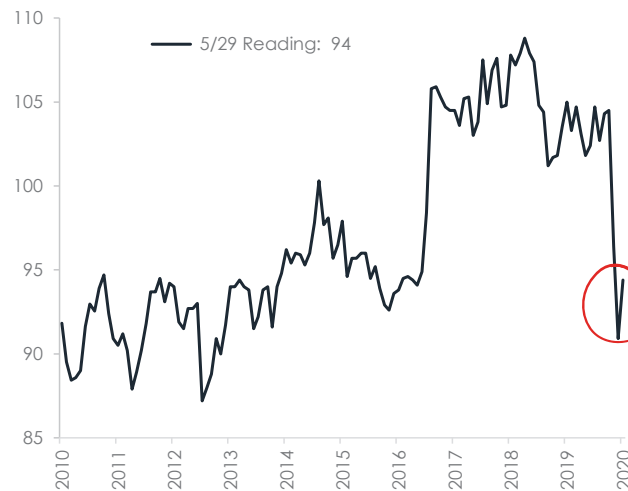
A Fed survey of businesses in the Philadelphia region. Readings of >0 (<0) signal expansion (contraction).



Source: MarketDesk Research, Philadelphia Federal Reserve

**Figure 38: NFIB Small Business Optimism Index**

Small businesses make up ~50% of the U.S. workforce. This index provides a pulse on small business owners' outlook.



Source: MarketDesk Research, NFIB

NFIB small business optimism rebounded in May, but remains down YTD. It should be noted this is a sentiment indicator, which makes it vulnerable to extreme optimism / pessimism swings.

**Figure 39: NFIB Small Business Optimism Components**

The analysis below looks at the underlying components of the NFIB Small Business Optimism Index.

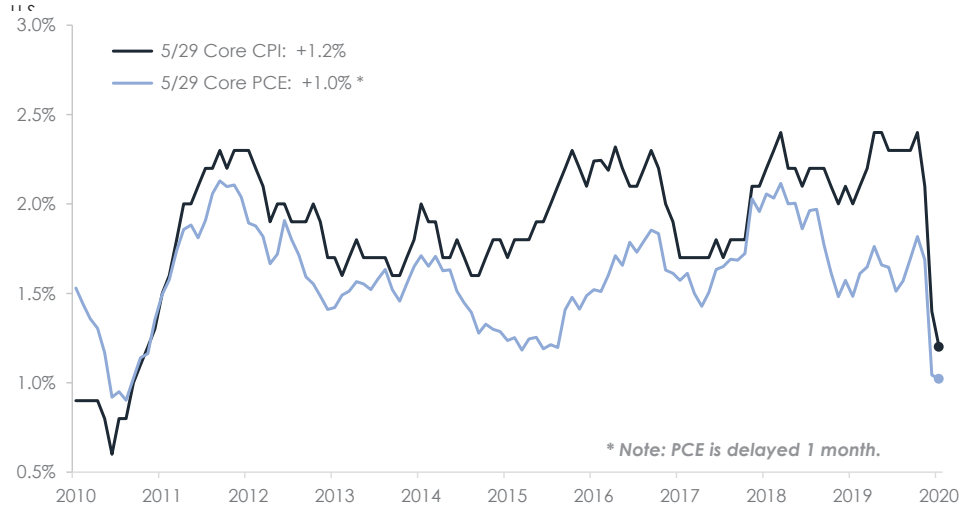
Index Component	Latest Reading	m/m%
<b>Optimism Index</b>		
Plans to increase Employment	8%	7%
Plans to Make Capital Outlays	20%	2%
Plans to Increase Inventories	2%	6%
Expect Economy to Improve	34%	5%
Expect Real Sales Higher	-24%	18%
Current Inventory	-5%	2%
Current Job Openings	23%	-1%
Expected Credit Conditions	-4%	2%
Now a Good Time to Expand	5%	2%
Earnings Trends	-26%	-6%

As of 5/31/2020

Source: MarketDesk Research, NFIB

**Figure 40: Core CPI vs Core PCE (y/y%)**

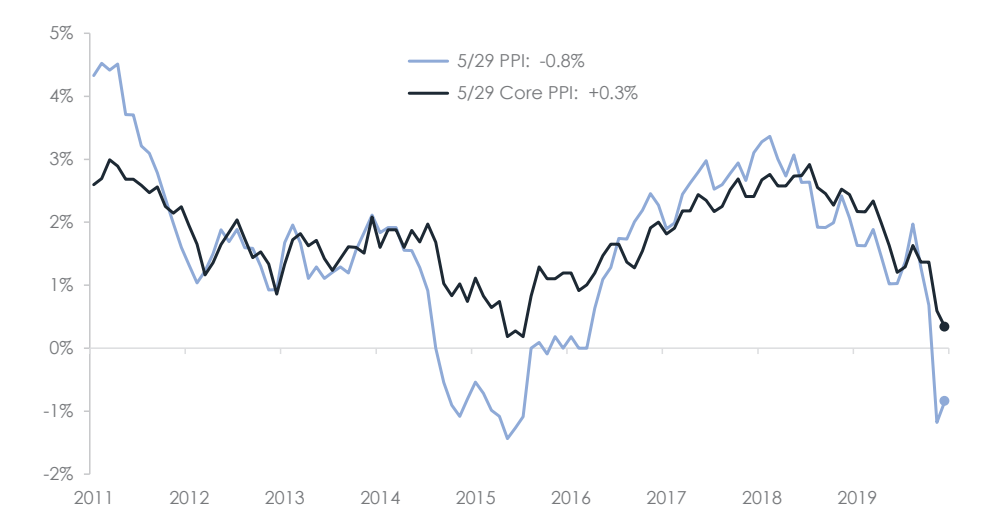
Core CPI measures the average change in prices over time that consumers pay for a basket of goods and services. Core PCE is similar but represents the prices of goods and services purchased by consumers in the U.S.



Source: MarketDesk Research, U.S. Bureau of Labor Statistics

**Figure 41: Producer Price Index (y/y%)**

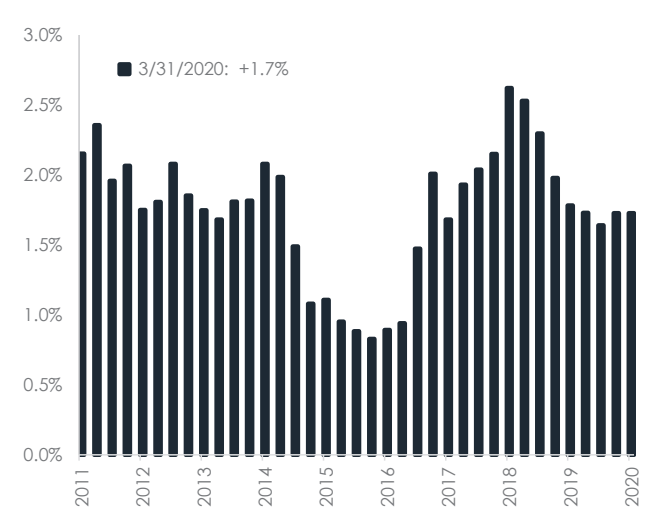
The PPI measures the average change in prices received by domestic producers for their output. Producers must react to increases in their cost of goods sold, making PPI an early indicator of inflation.



Source: MarketDesk Research, U.S. Bureau of Labor Statistics

**Figure 42: GDP Price Index (y/y%)**

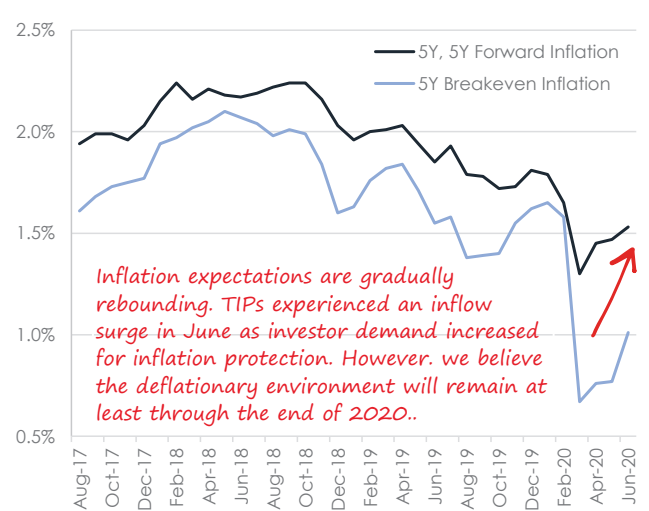
This index is a measure of inflation in the prices of the goods and services produced in the U.S. (it excludes the prices of imports).



Source: MarketDesk Research, U.S. Federal Reserve.

**Figure 43: Federal Reserve's Inflation Expectations**

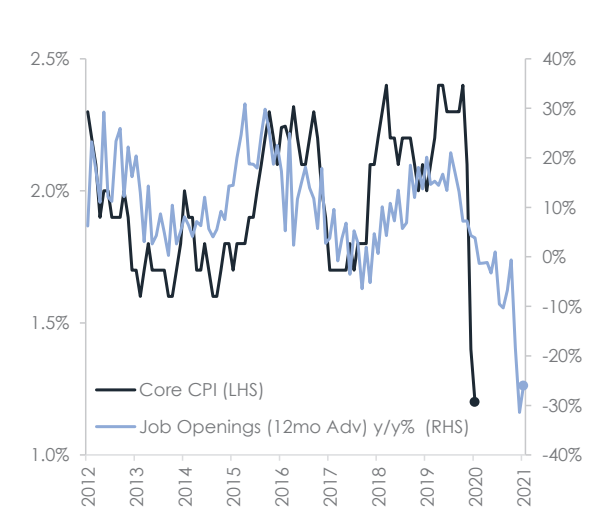
5Y, 5Y Forward measures avg expected inflation over the 5Y period that begins 5Y from today. The 5Y Breakeven = U.S. 5Y Trsy - U.S. 5Y TIPs.



Source: MarketDesk Research, St. Louis Federal Reserve

**Figure 44: Job Openings Leading Future CPI**

The y/y% in Job Openings has historically led CPI by 12 months. We graph this below to highlight potential future CPI.



Source: MarketDesk Research, U.S. Bureau of Labor Statistics

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