



MORNING BRIEFING

August 17, 2020

Comparing the Great Virus Crisis & the Great Financial Crisis

Check out the accompanying [chart collection](#).

(1) A tale of two calamities: Lehman and the pandemic. (2) Global measures of production and exports show similar recessions during GFC and GVC. (3) U-shaped recovery back then. (4) V-shaped recoveries for PMIs and leading indicators now. (5) US forward revenues and earnings bottoming. Mixed picture overseas. (6) Much more and much faster monetary and fiscal stimulus this time. (7) Comparative credit crunches. (8) Inflation remains subdued around the world, giving policymakers room to stimulate, for now. (9) Movie review: "Summerland" (+ +).

Global Economy: Pain Relief. It's been a world of pain since the World Health Organization (WHO) declared the global pandemic on March 11. However, there are mounting signs that the worst is over for the global economy. The economic pain during the Great Virus Crisis (GVC) has been similar in scale to that during the Great Financial Crisis (GFC). The question is whether the recovery this time will be faster or slower than before. Consider the following:

(1) *Global exports & global production.* The most calamitous event that exacerbated the GFC was the collapse of Lehman on September 15, 2008. The results were a global credit crunch and a severe recession. Similarly, the WHO declaration on March 11 of this year precipitated the GVC as governments around the world locked down their economies to slow the spread of the virus. The result was a severe recession, as evidenced by freefalls in world production and in the volume of world exports, which are highly correlated ([Fig. 1](#)). The growth rate of the latter fell more steeply because it tends to be more volatile than that of the former ([Fig. 2](#)).

In both episodes, global production peaked before the calamities occurred. During the GFC, it peaked at a then-record high during February 2008 and fell 2.0% through August 2008. It then plunged 10.8% through February 2009. During the GVC, it peaked at a record high during December 2019 and dropped 12.8% through April of this year.

Similarly, during the GFC, the volume of world exports peaked at a record high during January 2008 and fell 1.0% through August 2008. It then fell 20.0% through January 2009. During the

GVC, exports peaked at a record high during October 2018 and decreased 2.9% through February of this year. Since then through May, the volume of world exports is down 17.1%.

The weakness prior to Lehman was attributable to the worsening subprime mortgage crisis. The weakness prior to the WHO pandemic announcement was attributable to President Trump's trade wars.

So far during the GVC, both world production and exports seem to have bottomed during May, according to the available data compiled by CPB Netherlands Bureau for Economic Policy. If so, the drop in both lasted just three months, from March to May. During the GFC post-Lehman, they dropped for seven months, from September 2008 through March 2009.

During the GFC, there was a U-shaped recovery in both that started at the beginning of 2009. The recoveries in world production and exports took 21 and 22 months, respectively, to return to their respective record highs that preceded the GFC. A similar pattern, which seems plausible to Debbie and me, suggests that the full recovery from the GVC will take until late 2022, as noted above.

(2) *Global PMIs and leading indicators.* Then again, the rebound in global PMIs has been quite impressive from May through July ([Fig. 3](#)). The global composite PMI has rebounded from a record low of 26.2 during April to 50.8 during July. We don't have access to comparable data during the GFC. However, the rebounds in the US M-PMI and NM-PMI have been much faster in recent months than they were in 2009 ([Fig. 4](#) and [Fig. 5](#)). The same can be said about China's M-PMI and NM-PMI, as we will discuss tomorrow.

On the other hand, we do have OECD data series for leading indicators around the world, starting during mid-1961. The composite index for the 36 members of the OECD plunged from 99.5 at the beginning of the year to a new record low of 93.3 during April. It rebounded sharply to 98.0 during July ([Fig. 6](#)). Similar patterns can be seen in the OECD's leading indicators for the US, Europe, Japan, as well as the BRICs (Brazil, China, India, and Russia) ([Fig. 7](#)).

(3) *US & world revenues & earnings.* The most remarkable difference so far between the GVC and the GFC is that the virus crisis didn't see S&P 500 forward revenues or S&P 500 forward earnings fall as hard or for as long as they did during the financial crisis. Indeed, both metrics seem to have bottomed during the May 28 week and started to recover already ([Fig. 8](#) and [Fig. 9](#)). Forward revenues is up 3.3% since then through the August 6 week, and forward earnings

is up 8.4%. Analysts' consensus estimates for S&P 500 revenues and earnings for this year and next year are also showing signs of bottoming.

The same can be said about the weekly forward revenues and forward earnings of the Emerging Markets MSCI stock price index ([Fig. 10](#) and [Fig. 11](#)). If they indeed are bottoming, then their downturns have been slightly less severe during the GVC than the GFC. On the other hand, there are no signs of bottoms yet in the forward revenues or forward earnings of the Developed World ex-US MSCI stock price indexes.

(4) *Global response of monetary & fiscal authorities.* The responses of the three major central banks—i.e., the Fed, the European Central Bank (ECB), and the Bank of Japan (BOJ)—to the GVC so far have been similar to their responses to the GFC nearly 12 years ago. Their combined balance sheets initially jumped 64.5% over the 14-week period after Lehman hit the fan through the week of December 19, 2008 ([Fig. 12](#)). This time, their combined balance sheets jumped 43.6% from the WHO's pandemic declaration through the start of August. During the GFC, however, the Fed provided most of the initial monetary stimulus; this time, both the ECB and BOJ also have expanded their balance sheets significantly ([Fig. 13](#)).

In the US, government social benefits provided much more and much faster government support to households during the GVC—support that more than offset households' drop in wages and salaries—than benefits did during the GFC ([Fig. 14](#)). That explains the remarkable rebound in retail sales to a record high during July ([Fig. 15](#)). In contrast, retail sales after the GFC took 29 months to recover to their level of August 2008, just before the Lehman meltdown.

(5) *Labor market.* The most obvious difference between the GFC and the GVC so far has been in the labor market. The recent “lockdown recession” has cost far more people their jobs much faster than jobs have been lost ever before, especially in services-producing industries. Payroll employment plunged 22.2 million from February through April ([Fig. 16](#)). In comparison, payrolls fell 7.5 million over the 18 months from August 2008 through February 2010. It took another 45 months through November 2013 for payrolls to return to the August 2008 level.

Although payroll employment rebounded 9.3 million from April through July, it remains 12.9 million below the February 2020 level. It is very unlikely to get back to that level this year. It might do so next year if an effective vaccine or a cure for COVID-19 is discovered.

During the GFC, the unemployment rate rose from 6.1% during August 2008 to peak at 10.0% during October 2009 ([Fig. 17](#)). During the current virus crisis, it soared from 3.5% during February 2020 to peak at 14.7% during April. It was back down to 10.2% during July.

(6) *Big differences*. The GFC was to a large extent a typical business-cycle downturn. It was preceded by an economic boom that was led by speculative excesses, particularly in the housing industry. When that bubble burst, a credit crunch worsened the resulting recession, with real GDP falling 4.0% from Q4-2007 through Q2-2009. The Dating Committee of the National Bureau of Economic Research (NBER) ruled that it lasted 18 months, from December 2007 through June 2009.

The GVC is unique. In many ways, it's like a major natural disaster that hit the entire world economy. Initially, it did trigger a credit crunch, but the world's major central banks stopped that from happening by pouring liquidity into global financial markets.

The NBER's Dating Committee has already determined that the US economy peaked during February of this year. Indeed, real GDP dropped 10.6% from Q4-2019 through Q2-2020. Numerous economic indicators bottomed during April. That would make it a two-month recession. A recession that short is unprecedented, but that's because there is no precedent for a recession caused by government-mandated lockdowns around the world to slow the spread of the virus.

Global Inflation: Still Missing in Action. Recessions depress economic demand relative to supply, which tends to put downward pressure on inflation. Typically during recessions, there's lots more chatter about the possibility of deflation than reflation. But that's not always so. The 1970s were exceptional in that two oil price shocks both caused recessions *and* boosted inflation. Back then, the chatter was about "stagflation." By the early 2000s, Fed officials were fretting publicly about deflation, as most famously expressed by then-Fed Governor Ben Bernanke in a November 21, 2002 [speech](#) titled "Deflation: Making Sure 'It' Doesn't Happen Here."

The Fed has officially targeted a 2.0% inflation rate since January 2012, and ever since then, the Fed has failed most of the time to get inflation that high—despite ultra-easy monetary policies that started during the GFC and continue to this very day. But surely now that the GVC has caused the Fed and the other major central banks to adopt even more ultra-easy monetary policies, inflation must make a comeback. Or not: Let's not forget what Benjamin Franklin once

observed: “Nothing is certain except for death and taxes.” And both are inherently deflationary! Nevertheless, there is more chatter now about reflation than deflation.

Prior to the GVC, I argued that Détente (a.k.a. globalization), (technological) Disruption, Demography, and Debt were inherently deflationary. The “4-Ds” still are, though the escalating Cold War between the US and China is a threat to globalization. However, the other three forces remain powerfully deflationary, in my opinion.

In any case, for now, inflation remains subdued. Consider the following:

(1) *OECD CPI inflation*. The CPI among the 36 members nations of the OECD was just 1.1% y/y during June ([Fig. 18](#)). Excluding food and energy, it was 1.6%. This core rate has been fluctuating in a relatively tight range between 1.1% and 2.4% since the start of 2009.

(2) *US CPI inflation rates*. In the US, the CPI inflation rate remained well under 2.0% during July, coming in at 1.0% for the headline measure and 1.6% for the core measure. As we noted last week, rent of shelter has a disproportionately large weight of 33.0% in the CPI ([Fig. 19](#)). It rose 2.4% during July, the lowest since November 2013, and most likely will fall slightly below zero, as it did during the GFC. It includes tenant rent (up 3.1% y/y, the lowest since May 2014) and owner-occupied rent (up 2.8%, the lowest since May 2015) as well as lodging away from home (down 13.4%, near May’s record low) ([Fig. 20](#)).

(3) *Other CPI inflation rates*. Here is a sampling of July CPI headline and core inflation rates in major economies around the world: Eurozone (0.4%, 1.2%), Germany (0.0, 0.7), France (0.9, 1.5), Italy (0.9, 2.1), Spain (-0.7, 0.8), Japan (0.1, 0.2, June), China (2.7, 0.5), South Korea (0.3, 0.4), and Mexico (3.6, 3.9) ([Fig. 21](#)).

Movie. “Summerland” (+ +) ([link](#)) is a feel-good summertime movie about an Englishwoman, Alice Lamb (played by Gemma Arterton), who lives alone in a rural cottage with a spectacular view of the English Channel and the Cliffs of Dover. During World War II, young children were evacuated from London to the English countryside to live with families who volunteered to take them in for the duration of the war. Alice is surprised when a young lad shows up at her door. Initially, she responds to the apparent mistake by arranging to have him sent to another family. But she changes her mind, and the result is summertime magic.

CALENDARS

US: **Mon:** Empire State Manufacturing Index 15, NAHB Housing Market Index 73, Net Capital Flows. **Tues:** Housing Starts & Building Permits 1.237mu/1.313mu, API Crude Oil Inventories, Brainard. (DailyFX estimates)

Global: **Mon:** RBA Meeting Minutes, Beermann. **Tues:** Japan Machinery Orders -17.6% y/y, Guindos. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 0.7% for its sixth gain in seven weeks and posted its first record high since 2/19. The index ranked 36th of the 49 global stock markets we follow in a week when 38/49 countries rose in US dollar terms, and the AC World ex-US index gained 1.7% as only one region declined. The US MSCI index was out of a correction for a seventh week after slipping back the week before that for the first time in five weeks. It's now just 0.1% below its record high on Wednesday. EM Eastern Europe was the best-performing region last week, with a gain of 4.4%, followed by EMEA (3.3%), EAFE (2.4), and EMU (1.9). BRIC (-0.1) was the biggest underperformer, followed by EM Asia (0.0), and EM Latin America (0.5). Sri Lanka was the best-performing country last week, with a gain of 8.9%, followed by Rissa (5.0), Mexico (4.7), the Philippines (4.5), and Japan (4.3). Among the 25 countries that underperformed the AC World ex-US MSCI last week, Argentina fared the worst, with a decline of 4.0%, followed by New Zealand (-2.5), Malaysia (-1.2), and Israel (-1.0). The US MSCI's ytd ranking dropped one place to 8/49 as its ytd gain improved to 5.6% from 4.9% a week earlier. It's way ahead of the 5.3% ytd decline for the AC World ex-US. EM Asia is the best regional performer ytd with a gain of 6.0%, followed by BRIC (0.5). The worst-performing regions ytd: EM Latin America (-30.9), EM Eastern Europe (-18.7), EMEA (-17.2), EAFE (-6.7), and EMU (-6.7). The best country performers ytd: Denmark (20.8), China (12.5), Taiwan (12.0), and New Zealand (7.5). The worst-performing countries so far in 2020: Colombia (-44.4), Greece (-34.8), Brazil (-34.5), and Turkey (-30.4).

S&P 1500/500/400/600 Performance ([link](#)): The stock market moved broadly higher last week, with all three market cap indexes and 22 of their 33 sectors advancing. The SMidCaps were up for a fifth straight week. SmallCap rose 0.7% for the week, slightly ahead of the 0.6% gains for LargeCap and MidCap. LargeCap has been out of a bear market for 18 weeks, and out of a correction for seven straight weeks. LargeCap is now 0.4% below its 2/19 record high.

MidCap was out of a correction for a second week and improved to 7.4% below its record high on 1/16. SmallCap was out of a bear market for a second week, but remained in a correction as it improved to 16.4% below its 8/29/18 record. The 22 sectors that rose last week was down from 32 rising a week earlier. Only MidCap Consumer Discretionary ended the week at a record high, but 14 sectors are now out of a correction. SmallCap Energy was the best performer last week with a gain of 4.4%, ahead of MidCap Energy (4.2), LargeCap Industrials (3.1), SmallCap Consumer Discretionary (2.7), and MidCap Consumer Discretionary (2.4). SmallCap Communication Services was the biggest underperformer last week with a drop of 2.5%, followed by LargeCap Utilities (-2.1), MidCap Utilities (-2.0), MidCap Health Care (-1.9), and LargeCap Real Estate (-1.8). LargeCap is the only index positive for the year so far, with a gain of 4.4%, ahead of MidCap (-5.5) and SmallCap (-10.1). Thirteen of the 33 sectors are now positive so far in 2020, with the best performers led by LargeCap Information Technology (24.2), LargeCap Consumer Discretionary (20.2), MidCap Health Care (13.7), MidCap Consumer Staples (8.9), and SmallCap Communication Services (8.7). The biggest laggards of 2020 to date: SmallCap Energy (-46.7), MidCap Energy (-37.5), LargeCap Energy (-37.1), SmallCap Financials (-25.8), and MidCap Real Estate (-25.2).

S&P 500 Sectors and Industries Performance ([link](#)): Eight of the 11 S&P 500 sectors rose last week, and six outperformed the composite index's 0.6% gain. That compares to a 2.5% gain for the S&P 500 a week earlier, when all 11 sectors rose and five outperformed the index. Industrials' 3.1% gain made it the best performer for the week, ahead of Energy (2.3%), Consumer Discretionary (1.6), Materials (1.5), Financials (1.3), and Consumer Staples (0.9). Utilities was the week's biggest underperformer with a decline of 2.1%, followed by Real Estate (-1.8), Communication Services (-0.3), Information Technology (0.1), and Health Care (0.3). The S&P 500 is now up 4.4% so far in 2020, with four sectors ahead of the index and six in positive territory. The leading sectors ytd: Information Technology (24.2), Consumer Discretionary (20.2), Communication Services (8.4), and Health Care (4.6). The laggards of 2020 so far: Energy (-37.1), Financials (-18.4), Real Estate (-7.5), Utilities (-6.9), Industrials (-4.8), Consumer Staples (1.5), and Materials (2.1).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 2.0% for its 12th gain in the past 16 weeks. It's now down 20.8% from its recent high on 1/6, and still in a severe bear market at 29.9% below its cyclical high on 10/3/18. Natural Gas was the best performer last week, with a gain of 10.1%, followed by Corn (8.9%), Kansas Wheat (4.3), and Lean Hogs (4.0). Silver was the biggest decliner for the week, with a drop of 4.8%, followed by Gold (-3.9), Cocoa (-3.4), and Zinc (-1.5). Eight of the 24 commodities that we follow are higher so far in

2020: Silver (46.5), Gold (28.0), Natural Gas (14.0), Zinc (3.7), and Copper (3.2). The worst performers ytd: GasOil (-38.2), Heating Oil (-37.7), Brent Crude (-31.3), Crude Oil (-30.7), and Unleaded Gasoline (-29.7).

S&P 500 Technical Indicators ([link](#)): The S&P 500 rose 0.6% last week, but was mixed relative to both its short-term, 50-day moving average (50-dma) and its long-term, 200-day moving average (200-dma). It was above its 50-dma for an 18th week after seven weeks below, and above its 200-dma for the 11th time in 12 weeks. It had been below its 200-dma for 13 weeks through late May, matching its prior streak that ended during February 2019. The index's 50-dma relative to its 200-dma improved for a 13th week after 12 declines and was in a Golden Cross (with 50-dmas higher than 200-dmas) for a sixth week after 15 weeks in a Death Cross. Before the 2020 meltdown, it had last been in a Death Cross for 13 straight weeks ending in March 2019. The index's 50-dma improved last week to 4.2% above its 200-dma from 3.6% above in the prior week. It had been 9.9% below in mid-May, which was the worst reading since May 2009. During late February, the 50-dma had been 7.6% above its 200-dma, which was the highest since May 2012. The S&P 500's 50-dma rose for a 13th week after declining for 12 straight weeks. However, the price index edged down to 5.5% above its rising 50-dma from 5.6% above its rising 50-dma a week earlier. The early June reading of 11.7% above its 50-dma had been the highest since May 2009, when it peaked at a record high of 14.0%. That compares to 27.7% below on 3/23—its lowest reading since it was 29.7% below on Black Monday, 10/19/87. The 200-dma rose for a 13th week as well. It had been rising for 39 weeks through early March. The index was above its 200-dma for a seventh week after falling below the week before that for the first time in five weeks. It had been above for 38 weeks through mid-February. It ended the week 9.9% above its rising 200-dma, compared to 9.5% above a week earlier. That's up from 26.6% below on 3/23—the lowest reading since March 2009 and down from a 24-month high of 11.2% in mid-February. That compares to a seven-year high of 13.5% above the index's rising 200-dma during January 2018 and 14.5% below on 12/24/18, which was then the lowest since April 2009. At its worst levels of the Great Financial Crisis, the S&P 500 index was 25.5% below its 50-dma (on 10/10/08) and 39.6% below its 200-dma (11/20/08).

S&P 500 Sectors Technical Indicators ([link](#)): Ten of the 11 S&P 500 sectors traded above their 50-dmas last week, unchanged from a week earlier and leaving Energy as the only sector trading below its 50-dma. That compares to all 11 sectors above in the three weeks around the start of June. Seven sectors traded above their 200-dmas, down from nine a week earlier, as Real Estate and Utilities moved below and joined two other long-term laggards: Energy and

Financials. That compares to just one sector (Health Care) above its 200-dma in early April. Six sectors are now in the Golden Cross club (50-dmas higher than 200-dmas), up from five a week earlier as Consumer Staples entered the club for the first time since late March. Sectors still in a Death Cross: Energy, Financials, Industrials, Real Estate, and Utilities. At the prior low during February 2019, just two sectors (Real Estate and Utilities) were in the club. Energy has not been in a Golden Cross for 93 straight weeks, and its 50-dma fell for a third week after briefly rising the week before that. Seven sectors have a rising 50-dma, down from ten a week earlier; Financials, Real Estate, and Utilities turned down in the latest week. In early June, the 50-dma had been rising for all 11 sectors for three straight weeks. That's a big improvement from the beginning of May, when all 11 had falling 50-dmas for ten straight weeks. Six sectors have rising 200-dmas, unchanged from a week earlier. Sectors with rising 200-dmas: Communication Services, Consumer Discretionary, Consumer Staples, Health Care, Materials, and Tech. Financials' 200-dma was down for a 24th week, so long for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Retail Sales ([link](#)): Retail sales rose in July for the third month to a new record high, though last month's gain was disappointing. Sales advanced 1.2% after increases of 8.4% in June and a record 18.3% in May, which followed a record 14.7% freefall in April. Core retail sales—which excludes autos, gasoline, building materials, and food services—advanced 1.4% last month, and 18.7% during the three months ending July, also to a new record high; these sales had plunged a record 12.4% in April. Adjusted for inflation, we estimate headline sales rebounded 27.7% during the three months through July to a new record high, following a two-month slide of 19.6%, while core retail sales leaped a total 16.7% the past three months after an 11.0% shortfall in April. However, July gains slowed considerably, edging up 0.6% and 0.8%, respectively. Last month, eight of the 13 nominal retail sales categories were in the plus column, four were negative, while furniture store sales were flat after a 143.4% surge during the two months through June. Here's a snapshot of the performances in the 12 remaining components for July and the two months ending June: i) spearheading the gains were electronic & appliance stores (22.9% & 71.5%), miscellaneous store retailers (6.2 & 45.7), gasoline service stations (6.2 & 28.7), clothing stores (5.7 & 456.8), food service & drinking places (5.0 & 66.3), and health & personal care (3.6 & 10.2); ii) showing meager gains were nonstore (0.7 & 5.4) and food & beverage (0.2 & 0.7) retailers; iii) posting the largest declines were sporting goods, hobby, musical instrument & book stores (-5.0 & 126.6), building

materials (-2.9 & 13.7), and motor vehicle dealers (-1.2 & 61.7); and iv) dipping slightly was general merchandise stores (-0.2 & 8.3).

Consumer Sentiment Index ([link](#)): Consumer confidence remained in the doldrums in mid-August, not far from April's eight-year low. According to the report, "[t]he overall confidence in economic policies fell to the lowest level since Trump first entered office. The policy gridlock has acted to increase uncertainty and heightened the need for precautionary funds to offset lapses in economic relief programs and to hedge against fears about the persistence and spread of the coronavirus as the school year gets underway." The Consumer Sentiment Index (CSI) ticked up from 72.5 to 72.8 this month—though was only 1.0 point above April's pandemic low of 71.8. It had shown signs of life in May and June, climbing 6.3 points over the period to 78.1, but the short burst of enthusiasm fizzled as outbreaks of coronavirus cases in some states, along with reinstatement of some government restrictions, caused consumer sentiment to retreat. The present situation (to 82.5 from 82.8) component was little changed in mid-August, though was up 8.2 points from its pandemic low of 74.3 in June, while the expectations (66.5 from 65.9) component recorded only a small uptick after returning to its virus low in July.

Business Sales & Inventories ([link](#)): Nominal business sales continued to recover from COVID-19-related declines in June, as the economy began to reopen; real sales—reported with a lag—rose after a two-month slide. Nominal sales expanded 8.4% in June, nearly matching May's record 8.5% surge in May, following a record two-month fall of 18.9%. Real sales rebounded a record 7.6% in May, following a record 14.6% slide during the two months through April. Nominal and real sales are within 5.1% and 8.2% of their respective peaks posted in January and February. Real sales of retailers more than recouped all of their pandemic-related decline—soaring a record 17.2% in May to a new record high! Meanwhile, real wholesale and manufacturing sales posted increases of 4.1% and 1.8%, respectively, in May, leaving them 11.0% and 13.4% below February levels. June's nominal inventories-to-sales ratio sank to 1.37 after shooting up from 1.38 in February to 1.67 in April; the real inventories-to-sales ratio for May dropped to 1.52 after soaring to a record high of 1.66 in April from 1.43 in February.

Productivity & Unit Labor Costs ([link](#)): Nonfarm productivity expanded at its fastest pace in 11 years during Q2, but don't let the headline number fool you. Meanwhile, manufacturing productivity collapsed as COVID-19 shut factories down. Nonfarm productivity advanced 7.3% (saar) last quarter, the most since Q2-2009, as output (-38.9%, saar) contracted at a slower

pace than hours worked (-43.0)—with both recording the largest declines in series history, going back to 1947. Meanwhile, unit labor costs spiked 12.2% (saar) last quarter (the most since Q1-2014), as hourly compensation accelerated at a record pace of 20.4% (saar), though was partially offset by the large productivity gain during the quarter. In the meantime, manufacturers experienced an unprecedented 15.5% freefall in productivity last quarter, with output (-47.0%, saar) plummeting at a considerably faster rate than hours worked (-37.3). Unit labor costs soared a record 31.1% (saar), as productivity (-15.5%, saar) fell at a record pace, while hourly comp accelerated 10.7% (saar). Over the past four quarters, nonfarm productivity increased 2.2% y/y during Q2, with output and hours worked falling 11.8% and 13.7%, respectively; unit labor costs climbed 5.7% y/y. The same drill for manufacturing shows productivity contracting 4.1% y/y, with output and hours worked down 15.8% and 12.2%, respectively, and unit labor costs rising 9.4%.

Industrial Production ([link](#)): Industrial output improved in July for the third straight month, though remains considerably below February's pre-crisis level. Output recovered 3.0% in July and 9.9% in the three months through July after plummeting a record 16.6% the prior two months, leaving it 8.3% below February's level. Meanwhile, the move up in manufacturing was more impressive, rebounding 15.2% during the three months ending July after a two-month drop of 20.1%. By market group, there were lots of plus signs over the past three months. Business equipment output rebounded 25.8% during the three months through July after a two-month plunge of 29.5%—driven by a 218.1% surge in transit equipment output, which had plummeted 65.6% and 26.3% in April and March, respectively. Production of industrial equipment climbed 13.3% over the three-month period after sliding 22.9% during the two months ending April. Meanwhile, output of information processing equipment rose barely budged in July, ticking up 0.4% after rebounding a downwardly revised 5.7% (vs 7.4) in June; output had contracted 7.8% during the three months through May. In the meantime, consumer goods production jumped 18.2% during the three months ending July (to within 2.5% of pre-pandemic levels), led by a 95.7% jump in durable goods production—which was driven by a 352.9% surge in automotive products. The movement in nondurable goods output was much less dramatic, rising 5.8% during the three months ending July after a two-month setback of 7.5%.

Capacity Utilization ([link](#)): The headline capacity utilization rate advanced for the third month to 70.6% in July after sinking from 76.9% in February to a record low of 64.2% in April; it was at a cyclical high of 79.6% during November 2018. July's rate was 9.2ppts below its long-run (1972–2019) average but 6.4ppts above its low in April. Manufacturing's capacity utilization

rate rebounded to 69.2% in July, 9.2ppts higher than its trough in April and 5.5ppts above its recession trough of June 2009. The utilities' capacity utilization rate moved up to 75.2% last month after sliding from 73.5% in February to 71.7% in May; the report notes that the operating rate for mining rose to 73.5% in July; however, "a downward revision to crude oil extraction in May left the utilization rates for mining in May, June, and July lower than any previous rates in the history of the series (since 1967)."

Import Prices ([link](#)): Import prices continued to rebound in July, along with petroleum prices—which had triggered the biggest yearly decline in headline import prices since the end of 2015 in April. Import prices jumped 2.8% during the three months through July, after sliding 5.6% during the three months through April, with the drop in the yearly rate narrowing to -3.3% y/y from -6.8% in April—which was the steepest decline since the end of 2015. Petroleum prices surged 51.6% during the three months through July after a three-month slide of 55.1%, narrowing the yearly decline to -34.6% y/y from April's record low of -58.4%. Meanwhile, nonpetroleum prices rose 0.6% during the three months ending July, following a two-month decline of 0.7%; the yearly rate move slightly above zero (0.3% y/y)—narrowing from April's -1.1%. The rate for capital goods imports (0.3% y/y) was in positive territory for the first time since August 2018. Meanwhile, the rate for industrial supplies & materials (-14.1% y/y) narrowed from April's -26.5%—which was the lowest reading since November 2015. Rates for consumer goods ex autos (-0.2% y/y) and auto prices (0.7) remained near zero, while the rate for food prices fell 1.3% y/y, narrowing from -4.4% in April. The US is importing deflation from its Asian trading partners, with import prices for goods from China (-0.5% y/y) and the NICs (-2.1) falling but both at slower paces of decline; Japan's rate remains around zero. Meanwhile, there's no sign of inflation in EU (0.2) import prices.

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