Economic highlights from the week ending on August 14, 2020

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Expanded pandemic-related unemployment benefits lapsed two weeks ago and Congress has yet to pass another round of fiscal relief. Although lawmakers remain divided on the details, we believe pressure to reach a compromise will intensify in the second half of this month and we believe a deal is forthcoming. In the most recent week, initial jobless claims increased by 963,000, a decline from the prior week level of more than a million. The level of continuing unemployment claims (where the data is lagged by one week) remained very high in the week of August 1st at about 15.5 million but was down from the prior week level of nearly 16.1 million. Although continuing jobless claims have declined from the peak of nearly 25 million in early May, they remain well above the 2019 average of 1.7 million.

Retail sales were softer than expected in July, up just 1.2% in the month versus expectations of 2.1%, following an 8.4% increase in June. Excluding autos and gas, retail sales were up 1.5% in July, which was better than expected. Spending at electronics and appliance stores jumped nearly 23% in July, perhaps reflecting increased demand for equipment as many children prepare for remote learning in the fall. Spending on clothing, restaurants, health & personal care, and online retail also increased in July. On a year-over-year basis, retail sales were up 2.7% in July, an improvement from 2.1% in June. Looking ahead, we believe additional fiscal support will be necessary to support consumer spending as the labor market is likely to remain weak through the back half of the year.

Earlier this week, the Federal Reserve announced it will reduce the rates it charges cities and states seeking short-term loans through its Municipal Liquidity Facility. The Fed will reduce the interest-rate spread on tax-exempt notes by 50 basis points, and it will also reduce the amount by which the interest rate for taxable notes is adjusted relative to tax-exempt notes. So far, participation in this lending facility has been muted but we view this adjustment as further evidence that the Fed is prepared to support the municipal securities market, should it come under pressure. Overall, the Fed continues to be quite dovish and remains committed to supporting the smooth functioning of the financial markets, which we believe will be reflected in the minutes from the Fed's July policy meeting when they are released next week.

Next Week

Empire State Manufacturing, Housing Market Index, Housing Starts, FOMC Minutes, Philly Fed, Leading Indicators, Existing Home Sales