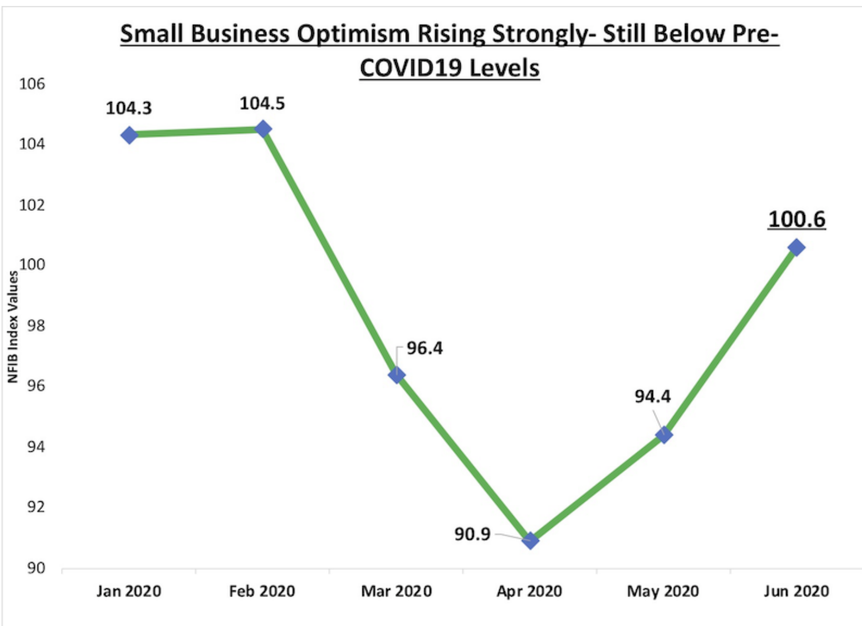
Data Show Economy Heated Up in June

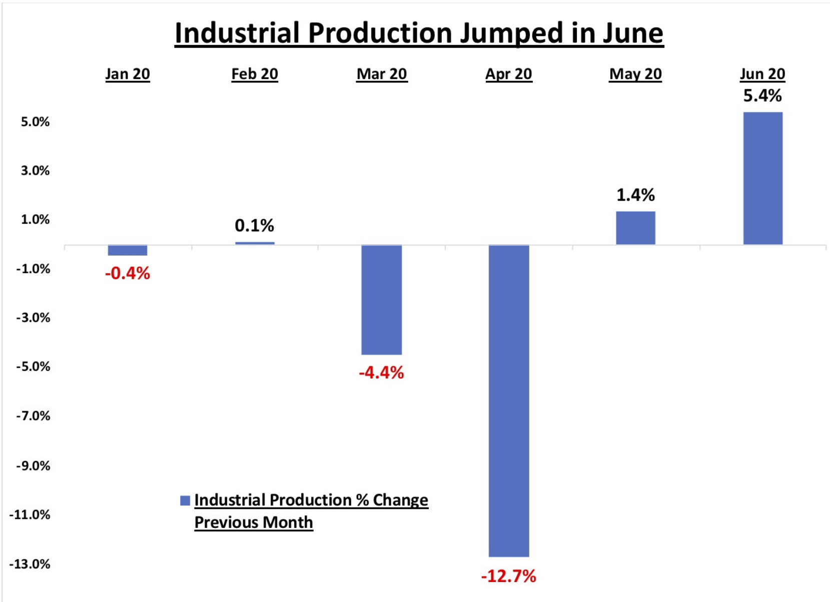
The resurgence of COVID-19 will likely slow the nascent economic recovery. However, the data we have for June, when we had increasing economic reopening, continues to show the economy was heating up.

Yesterday, the Bureau of Labor Statistics reported that inflation ticked up 0.6% in June. Usually that would be a large increase and cause for concern about potential inflation. However, inflation had fallen the previous three months. That was causing concerns about deflation, which is as equally troublesome as inflation. A rebound in prices is a sign of an improving economy in the current context.

Also yesterday, the National Federation of Independent Businesses (NFIB) released their measure of small business optimism for June. It increased more than in May and has rebounded substantially since April, when it bottomed out. It is still below where it was before COVID-19, but in much better shape than just a few months ago. The strong report was broad based as most of the sub-indexes showed improvement.



Lastly, today the Federal Reserve put out data on industrial production (IP) for June. IP increased 5.4% from May. This is a strong showing. It was the second straight month of increase. However, total IP is still almost 11% below its February peak. Of note, auto and auto parts manufacturing rose 105% in June.



The consistent strong economic data for June tells us that when we finally fully put the virus behind us, the economy is poised for a strong recovery. If the economy was gaining strength when reopenings were in early stages, it stands to reason a fuller reopening will further strengthen growth. However, the longer the virus persists, and forces delayed reopenings, the more economic problems it may cause. The financial sector and loan defaults will be important to watch in the coming weeks.

–Curtis Dubay, Senior Economist, U.S. Chamber of Commerce