Economic Update, February 2, 2024
Submitted by Bob Moreo

Summary: According to The Conference Board, consumer confidence rose to a two-year high in January. The increase "likely reflected slower inflation, anticipation of lower interest rates ahead, and generally favorable employment conditions as companies continue to hoard labor," said Dana Peterson, chief economist at The Conference Board. Consumers surveyed by the University of Michigan agree. "Consumer sentiment surged in January from a month earlier by the most since 2005," Bloomberg reported, "as retreating inflation helped bolster views about the economy and household finances." The Federal Reserve held rates steady when it met this week. According to NPR, Fed chairman Jerome Powell told reporters, "interest rates are unlikely to go any higher, and that he and his colleagues are beginning to contemplate cutting rates."

Tennessee is one of the leading states for small business jobs according to the Paychex Small Business Employment Watch, but nationwide jobs numbers were mixed in January. The U.S. Bureau of Labor Statistics reported little change in the number of job openings, which have been falling steadily since March 2022. The bureau did, however, report a strong gain of 353,000 jobs in January. ADP, on the other hand, reported an increase of only 107,000 private-sector jobs, "below the Dow Jones estimate for 150,000," and analysts at Challenger, Gray & Christmas reported a sharp rise in job cuts coupled with the lowest number of hiring announcements for any January on record.

Federal Government Indicators and Reports:

Bureau of Labor Statistics

Tuesday, Job Openings and Labor Turnover Survey: "Over the month, the number of hires and total separations were little changed at 5.6 million and 5.4 million, respectively. . . . On the last business day of December, the number of job openings changed little at 9.0 million; this measure is down from a series high of 12.0 million in March 2022. Over the month, the rate was unchanged at 5.4 percent."

Wednesday, Employment Cost Index: "Compensation costs for civilian workers increased 0.9 percent, seasonally adjusted, for the 3-month period ending in December 2023. . . . Wages and salaries increased 0.9 percent and benefit costs increased 0.7 percent from September 2023. . . . Compensation costs for private industry workers increased 4.1 percent over the year. In December 2022, the increase was 5.1 percent."

Thursday, Productivity and Costs: "Nonfarm business sector labor productivity increased 3.2 percent in the fourth quarter of 2023. . . . From the same quarter a year ago, nonfarm business sector labor productivity increased 2.7 percent."

Friday, Employment Situation: "Total nonfarm payroll employment rose by 353,000 in January, and the unemployment rate remained at 3.7 percent. . . . Payroll employment increased by an average of 255,000 per month in 2023."

Census Bureau

Tuesday, Housing Vacancies and Homeownership: "National vacancy rates in the fourth quarter 2023 were 6.6 percent for rental housing and 0.9 percent for homeowner housing. The rental vacancy rate was higher than the rate in the fourth quarter 2022 (5.8 percent) and virtually the same as the rate in the third quarter 2023 (6.6 percent). The homeowner vacancy rate of 0.9 percent was not statistically different than the rate in the fourth quarter 2022 (0.8 percent) and not statistically different from the rate in the third quarter 2023 (0.8 percent). The homeownership rate of 65.7 percent was not statistically different from the rate in the fourth quarter 2022 (65.9 percent) and not statistically different from the rate in the third quarter 2023 (66.0 percent)."

Thursday, Construction Spending: "Construction spending during December 2023 was estimated at a seasonally adjusted annual rate of $2,096.0 billion, 0.9 percent above the revised November estimate of $2,078.3 billion. The December figure is 13.9 percent above the December 2022 estimate of $1,840.9 billion. The value of construction in 2023 was $1,978.7 billion, 7.0 percent above the $1,848.7 billion spent in 2022."

Friday, Manufacturers' Shipments, Inventories, & Orders: "New orders for manufactured goods in December, up four of the last five months, increased $1.2 billion or 0.2 percent to $594.3 billion. . . . Inventories, up six consecutive months, increased $1.0 billion or 0.1 percent to $857.7 billion." Excluding transportation, new orders increased 0.4 percent in December.

Department of Labor

Thursday, Unemployment Insurance Weekly Claims: "In the week ending January 27, the advance figure for seasonally adjusted initial claims was 224,000, an increase of 9,000 from the previous week's revised level. . . . The 4-week moving average was 207,750, an increase of 5,250 from the previous week's revised average."

Federal Reserve Board

Wednesday, Federal Open Market Committee: "Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have moderated since early last year but remain strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated. . . . The Committee judges that the risks to achieving its employment and inflation goals are moving into better balance. The economic outlook is uncertain, and the Committee remains highly attentive to inflation risks. In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent. . . . The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent."

The FOMC unanimously reaffirmed its Statement on Longer-Run Goals and Monetary Policy Strategy.

Economic Indicators and Confidence:

The Conference Board

Tuesday, Consumer Confidence Survey: "The Conference Board Consumer Confidence Index rose in January to 114.8, up from a revised 108.0 in December. The reading was the highest since December 2021 and marked the third straight monthly increase. The Present Situation Index. . . surged to 161.3 from 147.2 last month. The Expectations Index. . . improved to 83.8 in January, up from a revised reading of 81.9 in December."

Institute for Supply Management

Thursday, Manufacturing Purchasing Managers' Index (PMI): "Economic activity in the manufacturing sector contracted in January for the 15th consecutive month following one month of 'unchanged' status and 28 months of growth prior to that. . . . The Manufacturing PMI registered 49.1 percent in January, up 2 percentage points from the seasonally adjusted 47.1 percent recorded in December. The overall economy continued in expansion for the 45th month after one month of contraction in April 2020."

S&P Global

Thursday, U.S. Manufacturing PMI: "The seasonally adjusted S&P Global U.S. Manufacturing Purchasing Managers' Index (PMI) posted 50.7 in January, up from 47.9 in December and slightly higher than the earlier released 'flash' estimate of 50.3. The latest upturn ended a two-month sequence of decline, and signaled the strongest improvement in operating conditions since September 2022."

Thursday, Global Manufacturing PMI: "After contracting for seven successive months, production volumes edged higher for the first time since May 2023 as new order intakes fell at the slowest rate in the current 19-month downturn in demand. The year-ahead outlook also brightened, with business confidence rising to its highest level since April last year. Emphasizing the sense of stabilization, the J.P.Morgan Global Manufacturing PMI . . . posted 50.0 in January, a level consistent with no change in operating conditions over the month. This halted a 16-month sequence below the neutral 50.0 mark."

University of Michigan

Friday, Index of Consumer Sentiment: "Consumer sentiment soared 13 percent in January to reach its highest level since July 2021—continuing the sharp increase seen in December—primarily on the basis of an improving outlook over inflation and personal incomes. . . . Over the last two months, sentiment has climbed a cumulative 29 percent, the largest two-month increase since 1991 as the First Gulf War and a recession ended. Sentiment has now risen nearly 60 percent above the all-time low measured in June 2022 and is now 7 percent shy of the historical average reading since 1978."

Employment:

ADP

Wednesday, National Employment Report: "Private sector employment increased by 107,000 jobs in January and annual pay was up 5.2 percent year-over-year. . . . The hiring slowdown of 2023 spilled into January, and pressure on wages continues to ease."

Challenger, Gray, & Christmas

Thursday, Job Cuts Report: "U.S.-based employers announced 82,307 cuts in January, a 136 percent increase from the 34,817 cuts announced one month prior. It is down 20 percent from the 102,943 cuts announced in the same month in 2023. . . . Financial companies announced the most job cuts in January with 23,238. . . . The Technology sector followed with 15,806. . . . U.S. employers announced plans to hire 5,376 workers in January, the lowest January total on record. It is up 78 percent from the 3,022 announced hiring plans in December, which was the lowest monthly total on record."

Paychex | IHS Markit

Tuesday, Small Business Employment Watch: "January marks the 34th consecutive month of job growth for U.S. small businesses. Wage growth for workers continues to stabilize in the new year with hourly earnings growth remaining essentially unchanged since November at 3.47 percent. . . . Leading the South, Tennessee (102.19), Texas (102.06), and Virginia (102.01) are all reporting index levels above 102 in January."

Mortgages and Housing Markets:

Freddie Mac

Thursday, Primary Mortgage Market Survey: "'Although affordability continues to impact homeownership, the combination of a solid economy, strong demographics and lower mortgage rates are setting the stage for a more robust housing market,' said Sam Khater, Freddie Mac's chief economist. Khater elaborated, 'Mortgage rates have been stable for nearly two months, but with continued deceleration in inflation we expect rates to decline further.' . . . The 30-year fixed-rate mortgages (FRM) averaged 6.63 percent as of February 1, 2024, down from last week when it averaged 6.69 percent. A year ago at this time, the 30-year FRM averaged 6.09 percent."

Mortgage Bankers Association

Wednesday, Weekly Mortgage Applications: "The Market Composite Index, a measure of mortgage loan application volume, decreased 7.2 percent on a seasonally adjusted basis from one week earlier. . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($726,200 or less) remained unchanged at 6.78 percent."

S&P CoreLogic

Tuesday, Case-Shiller National Home Price Index: Home prices "reported a 5.1 percent annual gain in November, up from a 4.7 percent rise in the previous month. . . . For the first time since January 2023, the U.S. National Index and 20-City Composite posted 0.2 percent month-over-month decreases in November, while the 10-City Composite posted a 0.1 percent decrease."