Economic Update, March 22, 2024

Submitted by Bob Moreo

Summary: Although it says that “risks to achieving its employment and inflation goals are moving into better balance,” the Federal Reserve chose to hold interest rates steady at its meeting this week. “Policymakers still see three cuts this year,” Bloomberg reported, “but compared with December’s projections, more committee members now anticipate fewer cuts than that.” Among the takeaways from the meeting, according to U.S. News and World Report, the Fed “moved upward its forecast for economic growth this year from 1.4 percent to 2.1 percent.” Residential construction is on the rise, despite mortgage rates climbing towards seven percent. According to the National Association of Home Builders, “lack of existing inventory . . . continues to drive buyers to new home construction,” and builders are banking on interest rate cuts later this year to be good for business.

Tennessee’s labor market appears strong according to the latest data from the Bureau of Labor Statistics. Fewer Tennesseans left their jobs in January, and the state was one of three that saw its unemployment rate fall in February. TACIR partners with the Business and Economic Research Center at MTSU to maintain a Tracking Tennessee’s Economy dashboard, and center director Dr. Murat Arik says that in January 2024, Tennessee's leading economic indicators were primarily positive, with only state sales tax and weekly hours worked experiencing negative changes. On an annual basis, however, Tennessee's economy displayed positive trends across leading indicators and industry-specific data.

Federal Government Indicators and Reports:

Bureau of Economic Analysis

Thursday, U.S. International Transactions: “The U.S. current-account deficit . . . narrowed by $1.6 billion, or 0.8 percent, to $194.8 billion in the fourth quarter of 2023. . . . Exports of goods decreased $1.4 billion to $514.4 billion, reflecting decreases in automotive vehicles, parts, and engines . . . [and] consumer goods. . . . The decrease in exports of goods was partly offset by an increase in industrial supplies and materials, mostly petroleum and products. Imports of goods increased $4.4 billion to $779.4 billion, reflecting increases in capital goods, mainly computers and computer accessories, peripherals, and parts, and in industrial supplies and materials, mainly petroleum and products. The increase in imports was partly offset by a decrease in consumer goods, mostly toys and sporting goods.”

Bureau of Labor Statistics

Tuesday, State Job Openings and Labor Turnover: “Job openings rates increased in 6 states and decreased in 1 state on the last business day of January. . . . Hires rates increased in 3 states and decreased in 2 states. Total separations rates increased in 3 states and decreased in 2 states. Nationally, the job openings, hires, and total separations rates showed little or no change in January.” Tennessee showed a decrease in total separations of 25,000 from December to January—the most of any state. The number of quits decreased by 16,000, second-most of any state.

Friday, State Employment and Unemployment: “Unemployment rates were higher in February in 3 states, lower in 3 states, and stable in 44 states and the District of Columbia.” Tennessee was among the states with a rate decrease, along with Wisconsin (-0.2 percentage point each) and Massachusetts (-0.1 point). “Twenty-eight states had jobless rate increases from a year earlier, 3 states had decreases, and 19 states and the District had little change. The national unemployment rate increased by 0.2 percentage point to 3.9 percent and was 0.3 point higher than in February 2023. . . .

Over the year, nonfarm payroll employment increased in 25 states and was essentially unchanged in 25 states and the District."

Bureau of Transportation Statistics

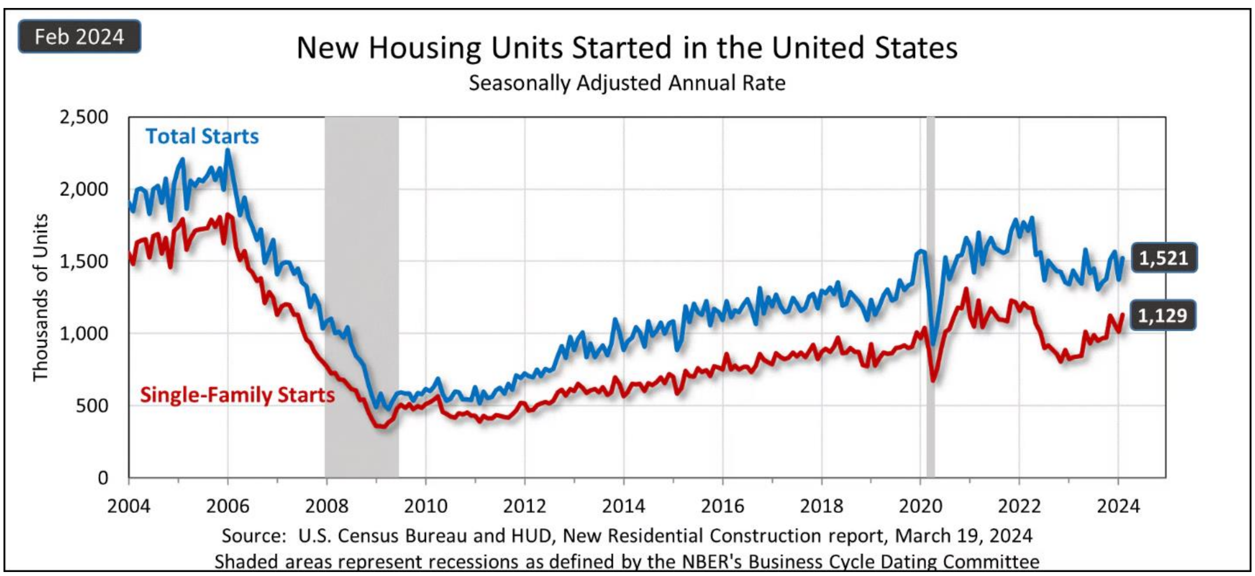
Wednesday, U.S. Airline Employment: "U.S. cargo airlines employed 254,608 workers in January 2024. Cargo carriers lost 1,787 employees in January. While other carriers gained employees, FedEx, the leading air cargo employer, decreased employment by 2,117 jobs based on revised 2023 data."

Census Bureau

Monday, U.S. Manufacturers Quarterly Financial Report: "U.S. manufacturing corporations' seasonally adjusted after-tax profits in the fourth quarter of 2023 totaled $194.8 billion, down $30.2 billion from the after-tax profits of $224.9 billion recorded in the third quarter of 2023, and down $35.8 billion from the after-tax profits of $230.6 billion recorded in the fourth quarter of 2022."

Monday, U.S. Retail Trade Quarterly Financial Report: "Seasonally adjusted after-tax profits of U.S. retail corporations with assets of $50 million and over totaled $48.3 billion, up $4.4 billion from the $44.0 billion recorded in the third quarter of 2023, and up $18.5 billion from the $29.8 billion recorded in the fourth quarter of 2022."

Tuesday, New Residential Construction: "Privately-owned housing units authorized by building permits in February were at a seasonally adjusted annual rate of 1,518,000. This is 1.9 percent above the revised January rate of 1,489,000 and is 2.4 percent above the February 2023 rate of 1,482,000. . . . Housing starts in February were at a seasonally adjusted annual rate of 1,521,000. This is 10.7 percent above the revised January estimate of 1,374,000 and is 5.9 percent above the February 2023 rate of 1,436,000. . . . Completions in February were at a seasonally adjusted annual rate of 1,729,000. This is 19.7 percent above the revised January estimate of 1,445,000 and is 9.6 percent above the February 2023 rate of 1,577,000."



Source: Census Bureau New Residential Construction Survey

Department of Labor

Thursday, Unemployment Insurance Weekly Claims: "In the week ending March 16, the advance figure for seasonally adjusted initial claims was 210,000, a decrease of 2,000 from the previous week's revised level. . . . The 4-week moving average was 211,250, an increase of 2,500 from the previous week's revised average. . . . The advance seasonally adjusted insured unemployment rate was 1.2 percent for the week ending March 9, unchanged from the previous week's unrevised rate."

Federal Reserve Board

Wednesday, Federal Open Market Committee Statement: "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."

Chair Powell's Press Conference: "In our Summary of Economic Projections [SEP], Committee participants generally expect GDP growth to slow from last year's pace, with a median projection of 2.1 percent this year and 2 percent over the next two years. Participants generally revised up their growth projections since December, reflecting the strength of incoming data, including data on labor supply. . . . The median unemployment rate projection in the SEP is 4.0 percent at the end of this year and 4.1 percent at the end of next year. . . . The median projection in the SEP for total [personal consumption expenditure] inflation falls to 2.4 percent this year, 2.2 percent next year, and 2 percent in 2026. . . . If the economy evolves as projected, the median participant projects that the appropriate level of the federal funds rate will be 4.6 percent at the end of this year, 3.9 percent at the end of 2025, and 3.1 percent at the end of 2026."

Other Economic Indicators and Forecasts:

The Conference Board

Tuesday, Global Economic Outlook: "The Conference Board raised its global real GDP forecasts for 2024 and 2025 again in March. We now project global growth of 3 percent for this year, up from 2.8 percent in our February forecast, and 3.1 percent in 2025, up from 2.9 percent last month. The growth dip we previously forecasted for this year has disappeared, and we now expect a more stable global GDP growth trend slightly above 3 percent for the next two years. . . . Downside risks to growth in most of the key constituencies of the global economy continue to diminish. The biggest source is still Europe and here in particular the Euro Area. . . . However, that is more than offset by improving growth expectations for the U.S., China, and India, which should have a positive impact on much of the rest of the world economy."

Thursday, Forecast for the U.S. Economy: "Various indicators of business activity, labor markets, sentiment, and inflation have generally been moving in a favorable direction. However, headwinds including rising consumer debt and elevated interest rates will weigh on economic growth. While we no longer forecast a recession in 2024, we do expect consumer spending growth to cool and for overall GDP growth to slow to under 1 percent over Q2 and Q3 2024. . . . We expect headline PCE inflation to hit the Fed's 2 percent target in Q3 2024. This expectation will trigger rate cuts starting in June 2024. We anticipate four 25 bp cuts this year (100bps in total) and an additional four 25 bp cuts in 2025 (100dps in total)."

Thursday, U.S. Leading Economic Index: "The Conference Board Leading Economic Index (LEI) for the U.S. increased by 0.1 percent in February 2024 to 102.8, following a 0.4 percent decline in January." It was the first monthly increase since February 2022. "Over the six-month period between

August 2023 and February 2024, the LEI contracted by 2.6 percent—a smaller decrease than the 3.8 percent decline over the previous six months."

S&P Global

Thursday, [Flash U.S. Composite PMI]: "The headline S&P Global Flash U.S. PMI Composite Output Index posted 52.2 in March, down slightly from the reading of 52.5 in February but still signaling a solid monthly improvement in business activity at U.S. companies. Output has now risen in each of the past 14 months. . . . The overall slowdown in the pace of output growth reflected a loss of momentum in the service sector, where activity rose at the weakest pace in three months. . . . More positive was a sharp and accelerated expansion of manufacturing output in March, with the rate of growth the fastest since May 2022 amid a further solid rise in new orders."

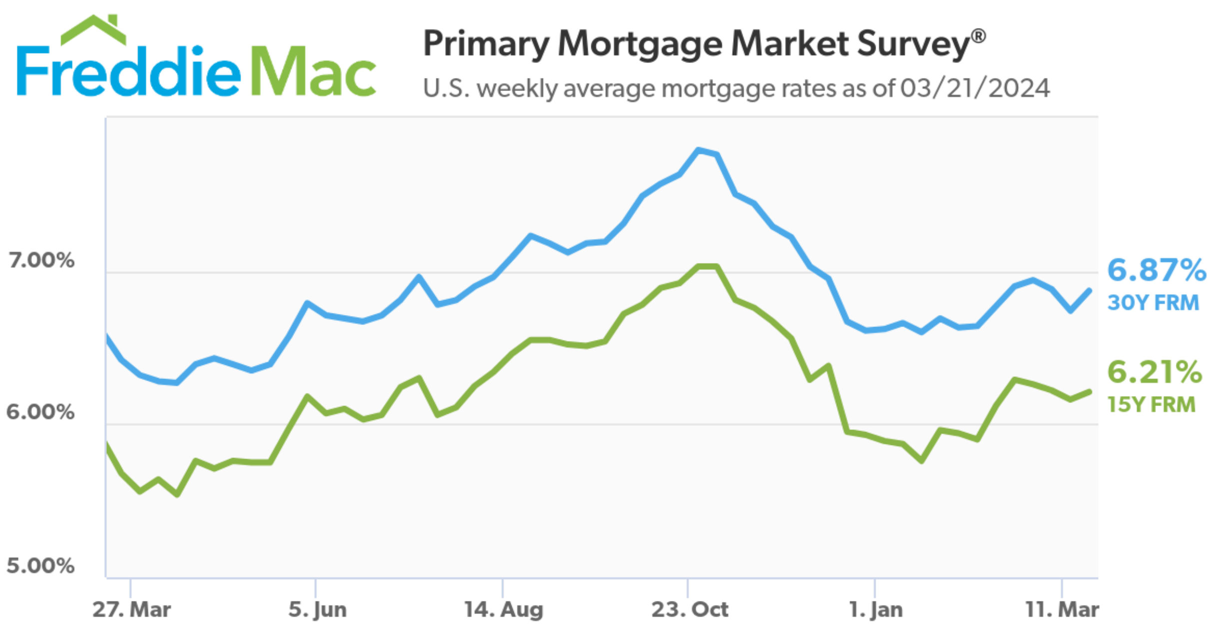
Mortgages and Housing Markets:

Fannie Mae

Tuesday, [Monthly Economic and Housing Outlook]: "The increase in mortgage rates in February has driven a modest downgrade to expectations for total home sales and mortgage originations in 2024. . . . The Economic and Strategic Research (ESR) Group now expects the 30-year fixed mortgage rate to end the year at 6.4 percent, up from the 5.9 percent predicted in last month's forecast. . . . [The] Group expects existing home sales will trend upwards in 2024 due in part to increased activity by households likely needing to move due to life events."

Freddie Mac

Thursday, [Primary Mortgage Market Survey]: "The 30-year FRM averaged 6.87 percent as of March 21, 2024, up from last week when it averaged 6.74 percent. A year ago at this time, the 30-year FRM averaged 6.42 percent."



Mortgage Bankers Association

Wednesday, Weekly Mortgage Applications: "Mortgage applications decreased 1.6 percent from one week earlier, according to data from the . . . week ending March 15, 2024. . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($766,550 or less) increased to 6.97 percent from 6.84 percent."

National Association of Home Builders

Monday, Housing Market Index: "Builder confidence in the market for newly built single-family homes climbed three points to 51 in March. . . . This is the highest level since July 2023 and marks the fourth consecutive monthly gain for the index. It is also the first time that the sentiment level has surpassed the breakeven point of 50 since last July."

National Association of Realtors

Thursday, Existing Home Sales: "Existing-home sales surged 9.5 percent in February to a seasonally adjusted annual rate of 4.38 million, the largest monthly increase since February 2023. Sales declined 3.3 percent from the previous year. . . . The median existing-home sales price elevated 5.7 percent from February 2023 to $384,500—the eighth consecutive month of year-over-year price gains. . . . The inventory of unsold existing homes increased 5.9 percent from one month ago to 1.07 million at the end of February, or the equivalent of 2.9 months' supply at the current monthly sales pace."