

Economic Update, October 2, 2020  
Submitted by Dave Keiser

Summary: I think it's safe to say that 2020 has been a year like no other. Real gross domestic product dropped in every state between the first and second quarter, and Tennessee had the third-sharpest drop with -40.4 percent. However, we've now made it through the third quarter and the unemployment rate continues to decrease (down to 7.9 percent), mortgage rates are low (2.88 for a 30-year loan), forbearances are down, construction spending is increasing, manufacturing is up, and consumer confidence jumped in September. With that said, we still have one more quarter to go and other indicators are mixed. Job cuts in September went up, we imported more than we exported and if you have done some kitchen table budgeting, you'll know that when personal consumption is increasing while personal and disposable income are going down, you're going to have to adjust your budget.

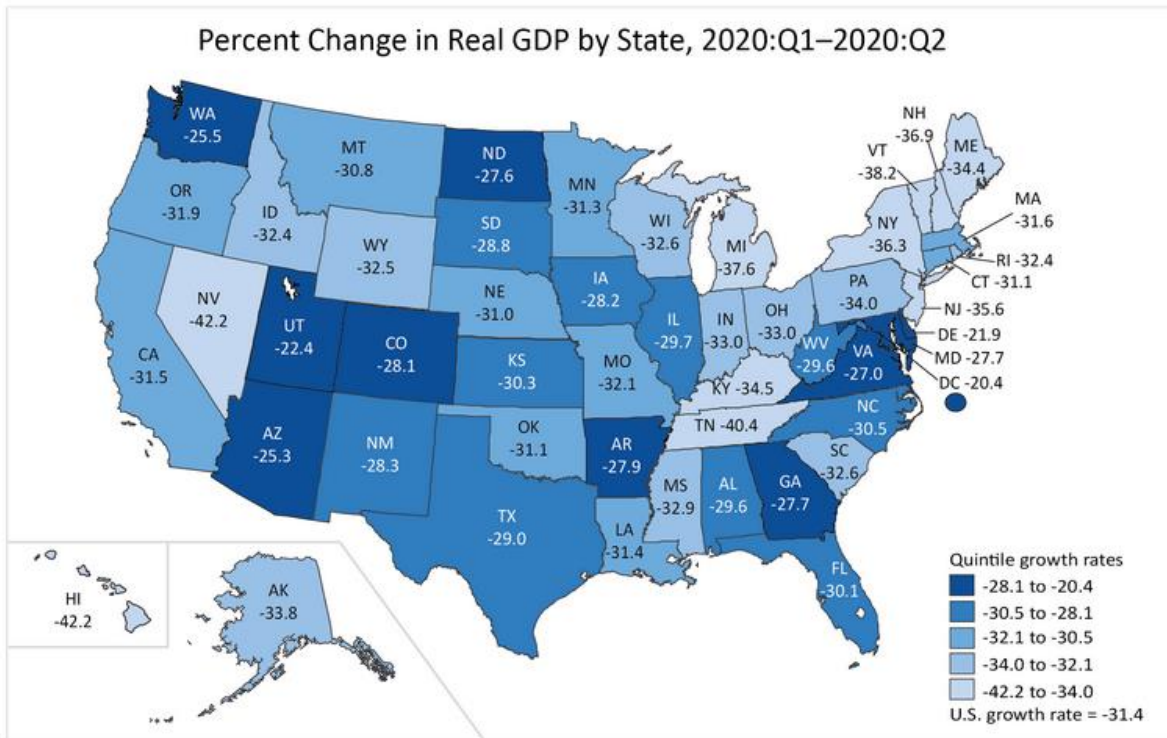
**Federal Government Indicators and Reports:**

Bureau of Economic Analysis

Wednesday, [Gross Domestic Income and Corporate Profits](#): "Real gross domestic income (GDI) decreased 33.5 percent in the second quarter, compared with a decrease of 2.5 percent in the first quarter. The average of real GDP and real GDI, a supplemental measure of U.S. economic activity that equally weights GDP and GDI, decreased 32.5 percent in the second quarter, compared with a decrease of 3.7 percent in the first quarter. Profits from current production . . . decreased \$208.9 billion in the second quarter, compared with a decrease of \$276.2 billion in the first quarter. Profits of domestic financial corporations increased \$26.5 billion in the second quarter."

Thursday, [Personal Income and Outlays](#): "Personal income decreased \$543.5 billion (2.7 percent) in August. . . . Disposable personal income (DPI) decreased \$570.9 billion (3.2 percent) and personal consumption expenditures (PCE) increased \$141.1 billion (1.0 percent). Real DPI decreased 3.5 percent in August and Real PCE increased 0.7 percent. . . . The PCE price index increased 0.3 percent. Excluding food and energy, the PCE price index increased 0.3 percent."

Friday, [Gross Domestic Product by State](#): "Real gross domestic product (GDP) decreased in all 50 states and the District of Columbia in the second quarter of 2020, as real GDP for the nation decreased at an annual rate of 31.4 percent. . . . The percent change in real GDP in the second quarter ranged from -20.4 percent in the District of Columbia to -42.2 percent in Hawaii and Nevada." Tennessee was near the top in decreases with -40.4.



U.S. Bureau of Economic Analysis

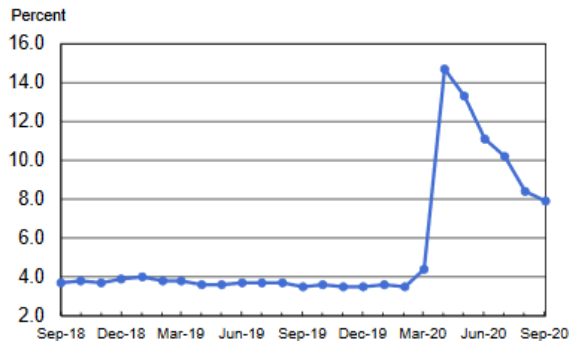
#### Bureau of Labor Statistics

Wednesday, [Metropolitan Area Employment and Unemployment](#): “Unemployment rates were higher in August than a year earlier in 387 of the 389 metropolitan areas and lower in 2 areas. . . . A total of 37 areas had jobless rates of less than 5.0 percent and 6 areas had rates of at least 15.0 percent.” In Tennessee, unemployment rates ranged from 6.6 percent in Knoxville to 11.8 in Memphis. “Nonfarm payroll employment decreased over the year in 254 metropolitan areas and was essentially unchanged in 135 areas.” Employment decreased in all ten of Tennessee’s metropolitan areas, with the Nashville and Kingsport areas each losing more than 6 percent. “The national unemployment rate in August was 8.5 percent, not seasonally adjusted, up from 3.8 percent a year earlier.” The Memphis area (11.8 percent unemployed) was the only metropolitan area in Tennessee with an unemployment rate above the national average; the statewide rate was 8.6 percent.

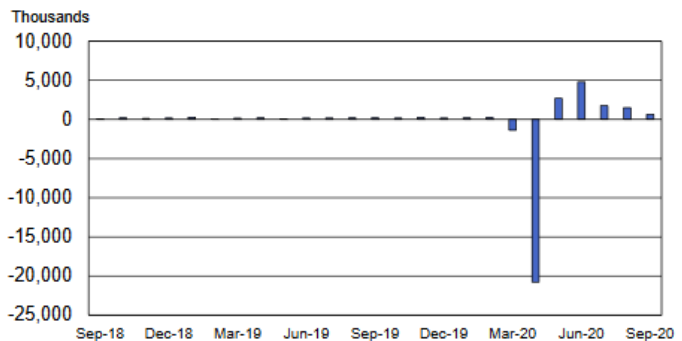
Friday, [Employment Situation](#): “Total nonfarm payroll employment rose by 661,000 in September, and the unemployment rate declined to 7.9 percent. . . . These improvements in the labor market reflect the continued resumption of economic activity that had been curtailed due to the coronavirus (COVID-19) pandemic and efforts to contain it. In September, notable job gains occurred in leisure and hospitality, in retail trade, in health care and social assistance, and in professional and

business services. Employment in government declined over the month, mainly in state and local government education.”

**Chart 1. Unemployment rate, seasonally adjusted, September 2018 – September 2020**



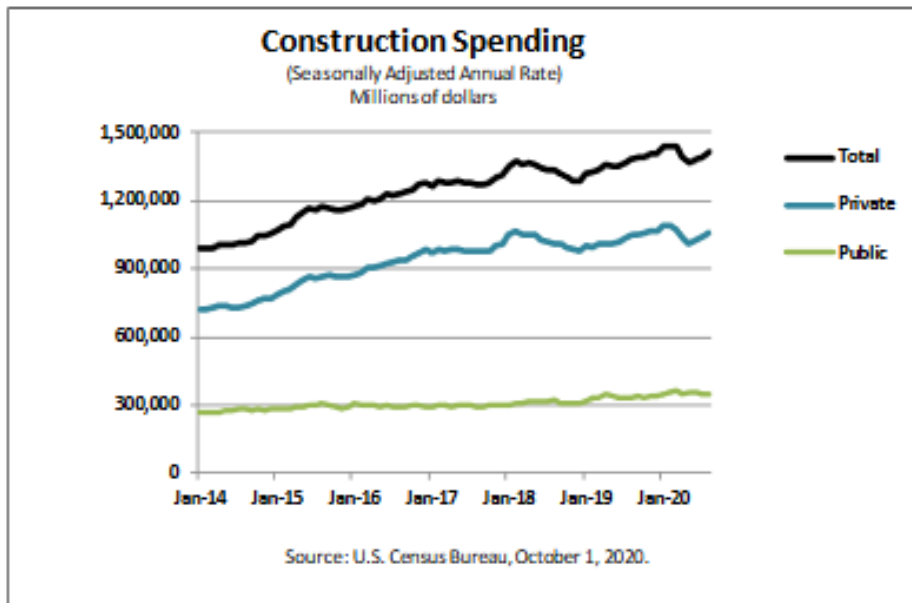
**Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, September 2018 – September 2020**



Census Bureau

Tuesday, [Advance Economic Indicators](#): “The international trade deficit was \$82.9 billion in August, up \$2.8 billion from \$80.1 billion in July. Exports of goods for August were \$118.3 billion, \$3.2 billion more than July exports. Imports of goods for August were \$201.3 billion, \$6.0 billion more than July imports. Wholesale inventories for August, adjusted for seasonal variations but not for price changes, were estimated at an end-of-month level of \$637.0 billion, up 0.5 percent from July 2020, and were down 5.0 percent from August 2019. Retail inventories for August, adjusted for seasonal variations but not for price changes, were estimated at an end-of-month level of \$599.7 billion, up 0.8 percent from July 2020, and were down 10.1 percent from August 2019.”

Thursday, [Construction Spending](#): “Construction spending during August 2020 was estimated at a seasonally adjusted annual rate of \$1,412.8 billion, 1.4 percent above the revised July estimate of \$1,392.7 billion. The August figure is 2.5 percent above the August 2019 estimate of \$1,379.0 billion.”



Friday, [Manufacturers’ Shipments, Inventories and Orders](#): “New orders for manufactured goods in August, up four consecutive months, increased \$3.2 billion or 0.7 percent to \$470.1 billion.

. . . This followed a 6.5 percent July increase. Shipments, also up four consecutive months, increased \$1.4 billion or 0.3 percent to \$481.3 billion. This followed a 4.7 percent July increase. Unfilled orders, down five of the last six months, decreased \$6.2 billion or 0.6 percent to \$1,078.6 billion. This followed a 0.7 percent July decrease. The unfilled orders-to-shipments ratio was 6.60, down from 6.69 in July. Inventories, up three of the last four months, increased \$0.2 billion or virtually unchanged to \$686.6 billion. This followed a 0.6 percent July decrease. The inventories-to-shipments ratio was 1.43, unchanged from July.”

Department of Labor

Thursday, [Unemployment Insurance Weekly Claims](#): “In the week ending September 26, the advance figure for seasonally adjusted initial claims was 837,000, a decrease of 36,000 from the previous week’s revised level. . . . The 4-week moving average was 867,250, a decrease of 11,750 from the previous week’s revised average. . . . The advance seasonally adjusted insured unemployment rate was 8.1 percent for the week ending September 19, a decrease of 0.6 percentage point from the previous week’s revised rate.” In Tennessee, the unadjusted advance figure for initial claims the week ending September 26 was 9,802—a decrease of 1,991 from the previous week. In addition, initial claims for Pandemic Unemployment Assistance increased by 2,015 from the week prior to 7,157.

**Tennessee: Total Claims for the Week Ending September 12 (not seasonally adjusted)**

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167,778 Advance Insured Unemployment
121 Unemployment Compensation program for Federal Employees (UCFE)
127 Unemployment Compensation for Ex-service members (UCX)
153,889 Pandemic Unemployment Assistance (PUA) Continued Claims
52,333 Pandemic Emergency Unemployment Compensation (PEUC) Claims
2,105 Extended Benefits (EB) Claims

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**376,353**

Federal Reserve Bank of Chicago

Wednesday, [National Financial Conditions Index](#): “The NFCI was up to –0.49 in the week ending September 25.” The index was at –0.53 at the start of the month. Negative values indicate looser-than-average financial conditions.

**Economic Indicators and Confidence:**

The Conference Board

Tuesday, [Consumer Confidence](#): The index “increased in September, after declining in August. The Index now stands at 101.8, up from 86.3 in August. The Present Situation Index—based on consumers’ assessment of current business and labor market conditions—increased from 85.8 to 98.5. The Expectations Index—based on consumers’ short-term outlook for income, business, and labor market conditions—increased from 86.6 in August to 104.0 this month.” Lynn Franco, Senior Director of Economic Indicators at The Conference Board, noted that confidence “remains below pre-pandemic levels” despite the increase.

IHS Markit

Thursday, [U.S. Manufacturing PMI](#): September data “indicated the sharpest improvement in operating conditions across the U.S. manufacturing sector since early-2019. Overall growth was supported by a faster expansion in production and a solid rise in new orders. As a result, firms

continued to broaden their workforce numbers, as hiring increased following further upward pressure on capacity. Nonetheless, output expectations moderated in September amid increased uncertainty regarding the coronavirus disease 2019 (COVID-19) pandemic and the upcoming presidential election.” Chris Williamson, Chief Business Economist at IHS Markit said the data “suggests firms are increasing their investment spending again after expansion plans were put on hold during the spring.” However, “Growth of new orders for consumer goods also waned during the month, hinting at some cooling of demand from households.”

Challenger, Gray, and Christmas

Thursday, [Job Cuts](#): “Job cuts announced by U.S.-based employers jumped to 118,804 in September, up 2.6% from August’s total of 115,762. . . . September’s total is 186% higher than the 41,557 job cuts announced in September 2019. Last month’s job cuts bring the yearly total so far to 2,082,262, up 348% from the 464,869 cuts at this time last year. The current year-to-date total already surpasses the record highest annual total—1,956,876 cuts announced in 2001—by 125,386 cuts.” The report finds “The majority of cuts continue to come from Entertainment/Leisure companies, including bars, restaurants, hotels, and amusement parks.”

National Federation of Independent Businesses

Thursday, [Small Business Jobs](#): “The small business labor market continues to make improvements in September despite continued state and federal employment regulations related to COVID-19. According to NFIB’s monthly jobs report, 10% of owners reported increasing employment an average of 3.2 workers per firm and 16% reported reducing employment an average of 2.0 workers per firm (seasonally adjusted). . . . Fifty-six percent of owners reported hiring or trying to hire in September, up four points from the previous month. Of those trying to hire, 89% reported few or no ‘qualified’ applicants for the positions they were trying to fill.”

University of Michigan

Friday, [Consumer Sentiment](#): “Consumer sentiment continued to improve in late September, with the Sentiment Index reaching its highest level in six months.” According to Surveys of Consumers chief economist Richard Curtin, “The gains were mainly due to a more optimistic outlook for the national economy. While consumers have anticipated gains in the national economy ever since the April shutdown, the September survey recorded a significant increase in the proportion that expected a reestablishment of good times financially in the overall economy. The recent gains are encouraging even though they were largely due to upper income households.”

### **Mortgages and Housing Markets:**

Freddie Mac

Thursday, [Primary Mortgage Market Survey](#): This week’s survey showed a “30-year fixed-rate mortgage averaged 2.88 percent . . . for the week ending October 1, 2020, down from last week when it averaged 2.90 percent.” Freddie Mac’s chief economist, Sam Khater, states, “As a result of low mortgage rates that have stayed under three percent since July, the housing market has seen a strong, upward trajectory during a very uncertain time.”

Mortgage Bankers Association

Monday, [Forbearance and Call Volume](#): “The total number of loans now in forbearance decreased by 6 basis points from 6.93% of servicers’ portfolio volume in the prior week to 6.87% as of September 20, 2020. According to MBA’s estimate, 3.4 million homeowners are in forbearance plans.” However, MBA’s Senior Vice President and Chief Economist, Mike Fratantoni, noted that “the overall

picture is still somewhat of a mixed bag. The recent uptick in forbearance requests, particularly for those with FHA or VA loans, is leaving the Ginnie Mae share elevated, as the pace of new requests meets or exceeds the pace of exits.”

Wednesday, [Weekly Mortgage Applications](#): “Mortgage applications decreased 4.8 percent from one week earlier, according to data . . . for the week ending September 25, 2020.” According to Joel Kan, MBA’s Associate Vice President of Economic and Industry Forecasting, “mortgage rates decreased last week, with the 30-year fixed rate mortgage declining 5 basis points to 3.05 percent—the lowest in MBA’s survey. Despite the decline in rates, refinances fell over 6 percent, driven by a 9 percent drop in conventional refinance applications.” Kan believes many lenders are “working through operational challenges, ultimately limiting the number of applications they are able to accept.”