Economic Update, October 9, 2020
Submitted by Bob Moreo

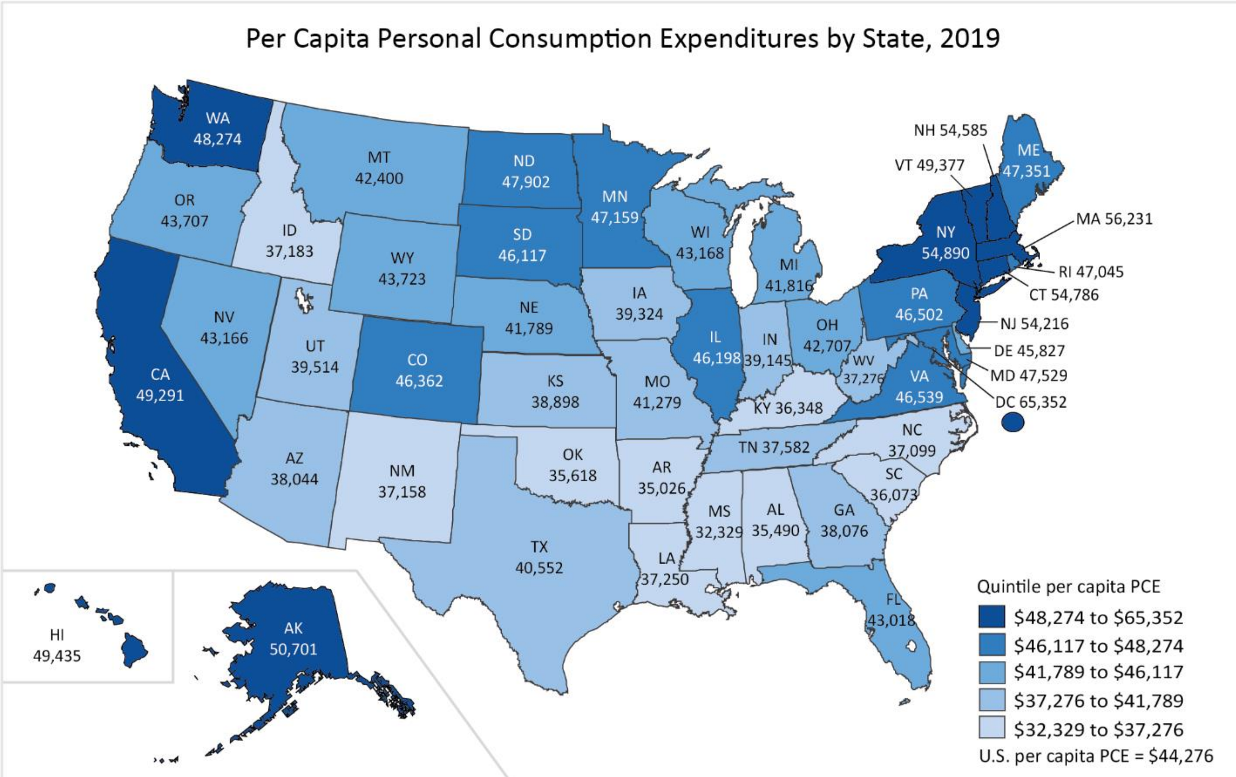
Summary: Several data sources this week reported positive gains across a broad spectrum of the economy in August and September—but nearly all come with the caveat that the recovery is fragile and worries about ongoing cases of the coronavirus cloud the future. Federal Reserve Board Chairman Jerome Powell said this week that economic recovery from the COVID-19 pandemic is still in its early stages and has been bolstered by the government's support for individuals and businesses. Minutes published from the Federal Reserve's Open Market Committee meeting in September show members concerned "that fiscal support so far for households, businesses, and state and local governments might not provide sufficient relief." On the other hand, *Investor's Business Daily* reported its Economic Optimism Index "registered its biggest-ever monthly gain, surging into optimistic territory for the first time since early March." Meanwhile, for many Americans, work-from-home is expected to continue well into next year. A Conference Board survey of US employees "finds that only 28 percent expect returning to the workplace by the end of 2020." Many remain uncomfortable with the thought of returning, as "29 percent of respondents have little faith in their colleagues' ability to adhere to safety protocols and guidelines."

Federal Government Indicators and Reports:

Bureau of Economic Analysis

Tuesday, International Trade: "The goods and services deficit was $67.1 billion in August, up $3.7 billion from $63.4 billion in July, revised. August exports were $171.9 billion, $3.6 billion more than July exports. August imports were $239.0 billion, $7.4 billion more than July imports. . . . Exports of goods increased $3.5 billion to $119.1 billion in August. . . . Industrial supplies and materials increased $3.9 billion. . . . Foods, feeds, and beverages increased $1.1 billion."

Thursday, Personal Consumption Expenditures by State: "State personal consumption expenditures (PCE) increased 3.9 percent in 2019, a deceleration from the 4.9 percent increase in 2018. . . . The percent change in PCE across all states ranged from 5.7 percent in Utah to 1.8 percent in Vermont." PCE increased 3.9 percent in Tennessee in 2019. "Expenditures on housing and utilities, and on health care grew 4.3 percent and 4.5 percent, respectively. . . . Across all states and the District of Columbia, per capita PCE was $44,276."



U.S. Bureau of Economic Analysis

Bureau of Labor Statistics

Tuesday, Job Openings and Labor Turnover Survey: "The number of job openings was little changed at 6.5 million on the last business day of August. . . . Hires were little changed at 5.9 million in August. Total separations decreased to 4.6 million. . . . Job openings increased over the year for federal government reflecting recruitment efforts related to the 2020 Census. . . . Job openings decreased in a number of industries with the largest decreases in accommodation and food services and in transportation, warehousing, and utilities. . . . Over the 12 months ending in August, hires totaled 70.4 million and separations totaled 77.4 million, yielding a net employment loss of 7.0 million."

Bureau of Transportation Statistics

Friday, US Airlines Passengers: Preliminary data shows "U.S. airlines carried 70% fewer scheduled service passengers in August 2020 than in August 2019. . . . U.S. airlines carried 2% more passengers in August 2020 than in July 2020. The 70% decline from August 2019 was the smallest annual decrease since March." Domestic passengers (23.0 million) were up 1% from July, but down 67% from August 2019. International passengers (1.4 million) were up 22% from July and down 87% from a year ago.

Census Bureau

Friday, Monthly Wholesale Trade: "August 2020 sales of merchant wholesalers, [seasonally adjusted,] . . . were $486.6 billion, up 1.4 percent from the revised July level, but were down 2.3 percent from the revised August 2019 level. . . . Total inventories . . . were $635.5 billion at the end of August, up 0.4 percent from the revised July level. Total inventories were down 5.2 percent from the revised August 2019 level. . . . The August inventories/sales ratio . . . was 1.31."

Department of Labor

Thursday, Unemployment Insurance Weekly Claims: "In the week ending October 3, the advance figure for seasonally adjusted initial claims was 840,000, a decrease of 9,000 from the previous week's revised level. . . . The 4-week moving average was 857,000. . . . The advance seasonally adjusted insured unemployment rate was 7.5 percent for the week ending September 26, a decrease of 0.7 percentage point from the previous week's revised rate." The advance figure for initial claims (unadjusted) filed in Tennessee for the week ending October 3 was 9,839—a decrease of 472 from the previous week. Initial claims for Pandemic Unemployment Assistance (PUA) were also down, totaling 4,334 compared to 7,152 the week prior.

Tennessee: Total Claims for the Week Ending September 19 (not seasonally adjusted)

151,690	Advance Insured Unemployment
101	Unemployment Compensation program for Federal Employees (UCFE)
142	Unemployment Compensation for Ex-servicemembers (UCX)
153,984	Pandemic Unemployment Assistance (PUA) Continued Claims
57,675	Pandemic Emergency Unemployment Compensation (PEUC) Claims
2,239	Extended Benefits (EB) Claims
365,831	(down from 376,353 reported the week ended September 12)

Federal Reserve Board

Tuesday, Chairman Powell Speech: Speaking at the National Association for Business Economics Virtual Annual Meeting, Federal Reserve Chairman Jerome Powell described the pre-COVID economy as "generally in a strong position," and said that "most economic forecasters expected the expansion and its benefits to continue." In terms of the recovery, Powell said "goods consumption is now above its pre-pandemic level. Services consumption remains low, although it seems likely that much of this weakness is the byproduct of health concerns and social distancing, rather than reductions in income and wealth." The government's assistance strengthened spending, but Powell cautioned that, "since it appears that many will undergo extended periods of unemployment, there is likely to be a need for further support." According to Powell, "the Paycheck Protection Program—and the general boost to aggregate demand have so far partly forestalled an expected wave of bankruptcies and lessened permanent layoffs. Business investment appears to be on a renewed upward trajectory and new business formation similarly appears to be rebounding, pointing to some confidence in the path ahead." Powell closed his remarks by saying that "too little support would lead to a weak recovery . . . harming the productive capacity of the economy and holding back wage growth."

Wednesday, Minutes of the Federal Open Market Committee: "Information available at the time of the September 15–16 meeting suggested that U.S. real GDP was rebounding at a rapid rate in the third quarter. Labor market conditions continued to improve markedly in July and August, but employment was still below its level at the beginning of the year. . . . In addition, weekly estimates of private-sector payrolls . . . suggested that employment gains likely were still solid from mid-August to early September. . . . Housing-sector activity continued to expand, likely supported by the effects of low interest rates. . . . Indicators of business fixed investment suggested that this sector was beginning to recover on balance. . . . Industrial production expanded further in July and August, although at a less rapid pace than over the preceding two months. . . . Financing conditions for small businesses remained tight, although some indicators pointed to a slight improvement. Thirty-day delinquency rates fell modestly between May and July but remained comparable with early 2008 levels. The credit needs of small businesses remained high. . . . Participants continued to see the uncertainty surrounding the economic outlook as very elevated, with the path of the economy highly dependent on the course of the virus; on how individuals, businesses, and public officials responded to it; and on the effectiveness of public health measures to address it. . . . Most participants raised the concern that fiscal support so far for households, businesses, and state and local governments might not provide sufficient relief to these sectors."

Economic Indicators and Confidence:

IHS Markit

Monday, US Composite PMI: The composite index "posted 54.3 in September, down fractionally from 54.6 in August. Manufacturing firms registered the fastest increase in output since November 2019, as service sector companies noted a solid rise in activity." Chris Williamson, Chief Business Economist at IHS Markit, said September's gains helped "round off the strongest quarter since early-2019." He cautioned, though, that "sentiment on prospects for the coming year darkened significantly, however, linked to growing worries about virus numbers, uncertainty regarding the presidential election and fears that the economy is susceptible to weakening unless more support measures are put in place soon."

Monday, US Sector PMI Indices: September data showed two sectors in contraction, "as basic materials firms registered a renewed fall in output. That said, the pace of contraction was only marginal. . . . The healthcare sector continued to record the strongest performance in business activity at the end of the third quarter. Meanwhile, three sectors [technology, consumer goods, and industrials] recorded faster rises in output amid reports of strengthening client demand."

Investor's Business Daily

Tuesday, Economic Optimism Index: "The IBD/TIPP Economic Optimism Index jumped to a solidly optimistic 55.2 at the start of October from a moderately pessimistic 45 the prior month. The 10.2-point jump — a record for the IBD/TIPP gauge dating to early 2001 — ended its sixth month below the 50 neutral level."

Employment and Businesses:

The Conference Board

Wednesday, Burning Glass Help Wanted OnLine Index: The index, which measures changes over time in advertised online job vacancies, "rose in September and now stands at 107.5 (July 2018=100), up from 105.1 in August. The Index rose 1.7 percent from July to August and is up 2.6 percent from a year ago."

Institute for Supply Management

Wednesday, Hospital ISM Report On Business: "Economic activity in the hospital subsector grew in September for the fourth consecutive month. . . . The Hospital PMI registered 63.3 percent, down 0.5 percentage point from the August reading of 63.8 percent. . . . Survey Committee panelists' comments indicated that growth was being driven by an increase in elective procedures and reduced impact of the coronavirus (COVID-19) pandemic."

National Federation of Independent Business

Wednesday, Covid-19 Small Business Survey: "The vast majority of PPP borrowers (86%) have spent their entire loan and are ready to apply for loan forgiveness. . . . After using the PPP loan, 22% of borrowers anticipate having to lay off employees in the next six months. About half (49%) of borrowers anticipate needing additional financial support over the next 12 months."

Mortgages and Housing Markets:

Fannie Mae

Wednesday, Home Purchase Sentiment Index: The index "increased 3.5 points in September to 81.0, rising for the second consecutive month and continuing the rebound from late spring. Three of the six HPSI components increased month over month, with consumers reporting a substantially more optimistic view of home-selling conditions, expected home price growth, and the labor market. . . . The percentage of respondents who say they are not concerned about losing their job in the next 12 months increased from 78% to 83%, while the percentage who say they are concerned decreased from 22% to 16%." Doug Duncan, Senior Vice President and Chief Economist, questions "whether enough sellers enter the market to continue to meet the strong homebuying demand."

Freddie Mac

Thursday, Primary Mortgage Market Survey: "30-year fixed-rate mortgage[s] averaged 2.87 percent . . . for the week ending October 8, 2020, slightly down from last week when it averaged 2.88 percent. A year ago at this time, the 30-year FRM averaged 3.57 percent." Sam Khater, Freddie Mac's Chief Economist, says "buyer demand remains robust with strong first-time buyers coming into the market."

Mortgage Bankers Association

Monday, Forbearance and Call Volume Survey: "The total number of loans now in forbearance decreased by 6 basis points from 6.87% of servicers' portfolio volume in the prior week to 6.81% as of September 27, 2020. According to MBA's estimate, 3.4 million homeowners are in forbearance plans." Mike Fratantoni, MBA's Senior Vice President and Chief Economist, says "significant churn in the labor market now, more than six months into the pandemic, is still causing financial distress for millions of homeowners. As a result, more than 70 percent of loans in forbearance are now in an extension."

Wednesday, Weekly Mortgage Applications Survey: "Mortgage applications increased 4.6 percent from one week earlier, according to data . . . for the week ending October 2, 2020. 'The refinance index jumped 8 percent and hit its highest level since mid-August,' said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. . . . 'There are signs that demand is waning at the entry-level portion of the market because of supply and affordability hurdles, as well as the adverse economic impact the pandemic is having on hourly workers and low-and moderate-income households.' . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($510,400 or less) decreased to 3.01 percent from 3.05 percent."