Economic Update, December 13, 2019
Submitted by Bob Moreo

Summary: The news was generally positive this week, though expectations for growth in household spending declined sharply. In line with market expectations, the Federal Reserve announced it would leave the target range for its federal funds rate unchanged at 1.5 percent to1.75 percent—signaling no plans to change rates in 2020. The nation's purchasing and supply management executives said this week that approximately half of their businesses saw revenue increase in 2019 compared to 2018, and across the board, there is optimism for continued growth in 2020. Mortgage rates showed a slight uptick, but favorable employment conditions lead bankers to believe the housing market will remain strong in upcoming months. This week's unexpectedly large jump in initial unemployment claims "was likely tied to a later than usual Thanksgiving holiday instead of rising layoffs," MarketWatch reports.

Institute for Supply Management (ISM)

Monday, Semiannual Economic Forecast: "Economic growth in the United States will continue in 2020. . . . The manufacturing sector is optimistic about growth in 2020, with revenues expected to increase in all 18 manufacturing industries, and the non-manufacturing sector also indicates that 17 of its industries will see higher revenues. Capital expenditures are expected to decrease by 2.1 percent in the manufacturing sector (after 6.4-percent growth in 2019) and increase by 3.4 percent in the non-manufacturing sector. Manufacturing expects that its employment base will grow slightly, by 0.1 percent, while the outlook for the next 12 months is predominately growth oriented."

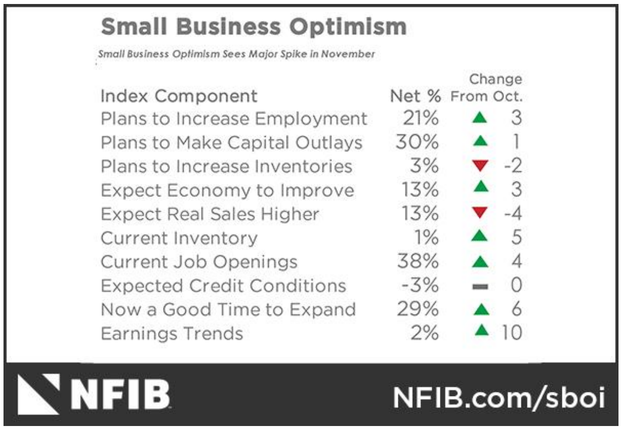
Federal Reserve

Monday, Survey of Consumer Expectations: The Federal Reserve Bank of New York's Center for Microeconomic Data November survey shows that "expectations for three year ahead inflation rebounded from a series low in October, increasing from 2.4% to 2.5%. While remaining optimistic about the labor market, expectations about spending growth declined sharply. . . . Median household spending growth expectations declined sharply from 3.3% in October to 2.8% in November. It is at its lowest reading since September 2017, and it is considerably below its trailing 12-month average of 3.3%.

Wednesday, Federal Open Market Committee Statement and Projections: "The Committee decided to maintain the target range for the federal funds rate at 1-1/2 to 1-3/4 percent . . . [judging] that the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective." Summarizing FOMC projections, Trading Economics explained: "The central bank kept its growth forecasts unchanged for this year at 2.2 percent; 2 percent for 2020; 1.9 percent for 2021; and 1.8 percent for 2022. Inflation is seen at 1.5 percent in 2019; 1.9 percent in 2020; 2 percent in 2021; and 2 percent in 2022; all unchanged from the September projection."

National Federation of Independent Business

Tuesday, Small Business Optimism Index: "Small business optimism posted the largest month-over-month gain since May 2018, rising 2.3 points to 104.7 in November. . . . The NFIB Uncertainty Index fell 6 points in November to 72, adding to the 4-point drop in October and the lowest reading since May 2018. . . . Job creation jumped in November, with an average addition of 0.29 workers per firm, the highest level since May. Finding qualified workers though remains the top issue for 26 percent reporting this as their number one problem, 1 point below August's record high."

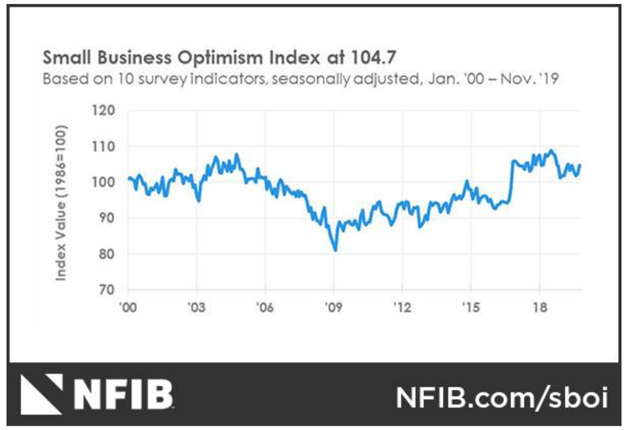


Small Business Optimism

Small Business Optimism Sees Major Spike in November

Index Component	Net %	Change From Oct.
Plans to Increase Employment	21%	▲ 3
Plans to Make Capital Outlays	30%	▲ 1
Plans to Increase Inventories	3%	▼ -2
Expect Economy to Improve	13%	▲ 3
Expect Real Sales Higher	13%	▼ -4
Current Inventory	1%	▲ 5
Current Job Openings	38%	▲ 4
Expected Credit Conditions	-3%	▬ 0
Now a Good Time to Expand	29%	▲ 6
Earnings Trends	2%	▲ 10

NFIB NFIB.com/sboi



Bureau of Labor Statistics

Tuesday, Productivity and Costs: "Nonfarm business sector labor productivity decreased 0.2 percent in the third quarter of 2019 . . . as output increased 2.3 percent and hours worked increased 2.5 percent. From the third quarter of 2018 to the third quarter of 2019, productivity increased 1.5 percent, reflecting a 2.3-percent increase in output and a 0.9-percent increase in hours worked."

Wednesday, Real Earnings: "Real average hourly earnings for all employees were unchanged from October to November, [stemming] from an increase of 0.2 percent in average hourly earnings combined with an increase of 0.3 percent in the Consumer Price Index for All Urban Consumers (CPI-U)."

Wednesday, Consumer Price Index: "The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.3 percent in November on a seasonally adjusted basis, after rising 0.4 percent in October. . . . Over the last 12 months, the all items index increased 2.1 percent before seasonal adjustment. Increases in the shelter and energy indexes were major factors in the seasonally adjusted monthly increase of the all items index. Increases in the indexes for medical care, for recreation, and for food also contributed to the overall increase."

Thursday, Producer Price Index: "The Producer Price Index for final demand was unchanged in November, seasonally adjusted. . . . Final demand prices increased 0.4 percent in October and fell 0.3 percent in September. On an unadjusted basis, the final demand index advanced 1.1 percent for the 12 months ended in November. . . . For the 12 months ended in November, prices for final demand less foods, energy, and trade services moved up 1.3 percent, the smallest advance since climbing 1.3 percent in the 12 months ended September 2016."

Friday, U.S. Import and Export Price Indexes: "U.S. import prices rose 0.2 percent in November . . . following a 0.5-percent decrease in October. The November increase was driven by higher fuel prices, which more than offset lower nonfuel prices." Led by higher agricultural prices, "[t]he price index for U.S. exports rose 0.2 percent in November following a 0.1-percent drop in October and a 0.3-percent decrease in September. . . . Agricultural export prices rose 2.5 percent from November 2018 to November 2019."

Mortgage Bankers Association

Wednesday, Mortgage Applications: "Mortgage applications [for the week ending December 6] increased 3.8 percent from one week earlier. . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($484,350 or less) increased to 3.98 percent from 3.97 percent. . . . The average contract interest rate for 15-year fixed-rate mortgages remained unchanged at 3.37 percent." Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting, said

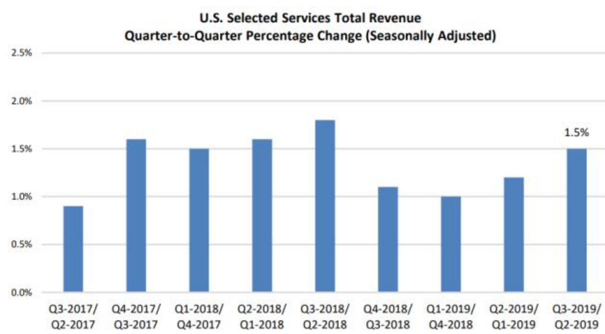
“Low mortgage rates continue to be the trend as 2019 comes to an end, and mortgage applications responded accordingly last week, rising 3.8 percent. The 30-year fixed mortgage rate remained under 4 percent for the fourth straight week, and rates for FHA loans declined close to their lowest level of the year.” Added Kan, “The November jobs data showed increased payroll gains and low unemployment, which means conditions remain favorable for steady purchase growth in the coming months.”

Freddie Mac

Thursday, Primary Mortgage Market Survey: “The risk of an economic downturn has receded and, combined with the very strong job market, it should lead to a slightly higher rate environment. Since early September, when mortgage rates posted the year low of 3.49 percent, rates have moved up to 3.73 percent this week.” The U.S. weekly average rate for a 30-year fixed-rate mortgage was up 0.05 points from the week before but was 0.90 points lower than the average rate one year ago.

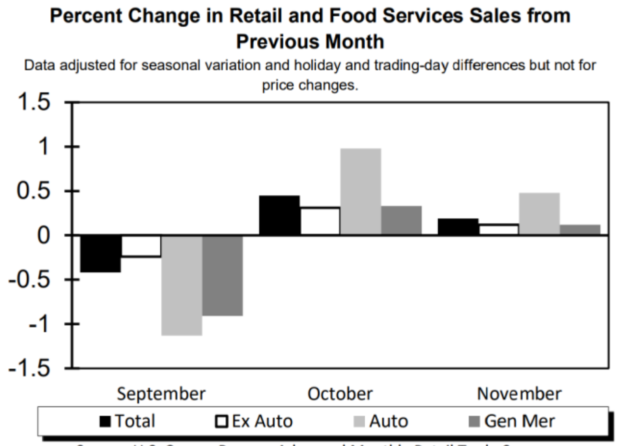
Census Bureau

Wednesday, Selected Services Estimates, Third Quarter 2019: “U.S. selected services total revenue for the third quarter of 2019, adjusted for seasonal variation but not for price changes, was $4,105.2 billion, an increase of 1.5 percent from the second quarter of 2019 and up 4.9 percent from the third quarter of 2018.” The largest sector reported on by revenue, finance and insurance, saw revenue of $1,299.1 billion, “an increase of 1.6 percent from the second quarter of 2019 and up 6.6 percent from the third quarter of 2018.”



Source: Q3 2019 Quarterly Services Survey <www.census.gov/services>
Note: Data adjusted for seasonal variation but not for price changes. Differences between percent changes may be attributed to sampling or nonsampling error, rather than underlying economic conditions. Caution should be used in drawing conclusions from the estimates and comparisons shown. Additional information on the survey methodology, including sample error (e.g., standard errors and relative standard errors) and nonsampling error, may be found at https://www.census.gov/services/qss/how_the_data_are_collected.html.

Friday, Advance Monthly Sales for Retail and Food Services: “Advance estimates of U.S. retail and food services sales for November 2019, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $528.0 billion, an increase of 0.2 percent from the previous month, and 3.3 percent above November 2018. Total sales for the September 2019 through November 2019 period were up 3.5 percent from the same period a year ago.”



Source: U.S. Census Bureau, Advanced Monthly Retail Trade Survey, December 13, 2019

Friday, Manufacturing and Trade Inventories and Sales: "The combined value of distributive trade sales and manufacturers' shipments for October, adjusted for seasonal and trading day differences but not for price changes, was estimated at $1,456.0 billion, down 0.1 percent from September 2019 and was down 0.1 percent from October 2018. Manufacturers' and trade inventories . . . were estimated at an end-of-month level of $2,042.8 billion, up 0.2 percent from September 2019 and were up 3.1 percent from October 2018. The total business inventories/sales ratio based on seasonally adjusted data at the end of October was 1.40. The October 2018 ratio was 1.36."

U.S. Department of Labor

Thursday, Initial Claims: "In the week ending December 7, the advance figure for seasonally adjusted initial claims was 252,000, an increase of 49,000 from the previous week's unrevised level of 203,000. This is the highest level for initial claims since September 30, 2017 when it was 257,000. The 4-week moving average was 224,000, an increase of 6,250 from the previous week's unrevised average of 217,750."

U.S. Bureau of Economic Analysis

Thursday, Local Area Gross Domestic Product: "Real gross domestic product (GDP) increased in 2,375 counties, decreased in 717, and was unchanged in 21 in 2018." Among the nation's 141 counties with populations greater than 500,000 in 2018, real GDP increased in 136 and decreased in 5. Real GDP increased in 433 of the 464 counties with populations between 100,000 and 500,000 in 2018, decreased in 30, and was unchanged in 1. Counties with populations less than 100,000, however, fared worse, with 682 of 2,508 counties (27.2%) showing a decrease in GDP for 2018. Counties in Tennessee saw their GDP increase in 2018 by as much as 13.7 percent (Smith County) and decrease by as much as 10.1 percent (Humphreys County). Real GDP in Nashville-Davidson County, the state's largest economically, increased by 4.6 percent in 2018.