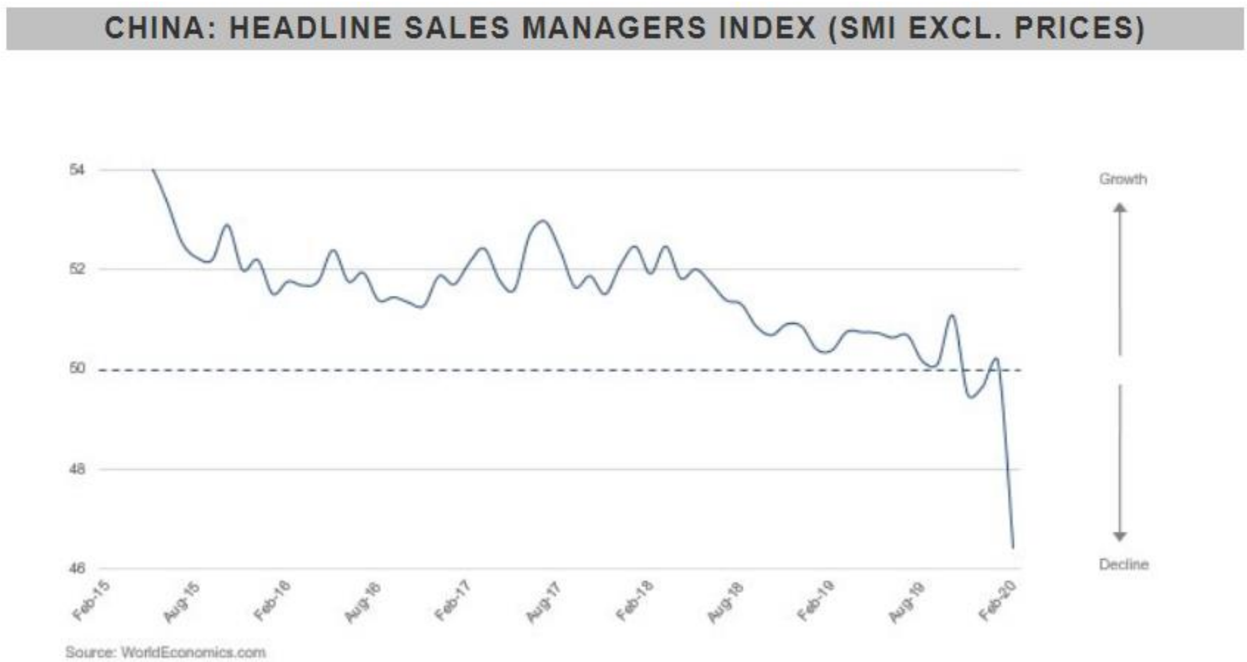
Economic Update, February 21, 2020
Submitted by Bob Moreo

Summary: Until Friday, most of this week's news was positive: Residential building permits jumped to their highest level since 2007, surveys from the New York and Philadelphia Federal Reserve branches showed strong consumer spending and increased activity in both manufacturing and service industries, wages were up, and leading indicators seemed to be that the current rate of moderate growth will continue in the coming months. Friday's Flash Composite PMI report, however, showed the first decline in U.S. business activity in over a decade (not counting the 2013 government shutdown), and the World Economics Sales Managers' Index for China revealed the "profound" effects the coronavirus outbreak is already having on that country's economy. Meanwhile, Japan appears headed for a recession of its own. Investors seeking stability drove U.S. Treasury yields to all-time lows.



Bureau of Labor Statistics

Wednesday, Producer Price Index: "The Producer Price Index for final demand advanced 0.5 percent in January. . . . [Seasonally adjusted] prices rose 0.2 percent in December and declined 0.1 percent in November. On an unadjusted basis, the final demand index increased 2.1 percent for the 12 months ended in January, the largest advance since moving up 2.1 percent for the 12 months ended May 2019."

Thursday, County Employment and Wages: "From September 2018 to September 2019, employment increased in 283 of the 355 largest U.S. counties. . . . In September 2019, national employment (as measured by the QCEW program) increased to 148.6 million, a 1.1 percent increase over the year. . . . Among the 355 largest counties, 350 had over-the-year increases in average weekly wages. In the third quarter of 2019, average weekly wages for the nation increased to $1,093, a 3.6 percent increase over the year." Six of these largest counties—defined as having employment levels of 75,000 or greater—are in Tennessee:

County	Employment			Average weekly wage		
	September 2019 (thousands)	Percent change, September 2018-2019	Ranking by percent change	Third quarter 2019	Percent change, third quarter 2018-2019	Ranking by percent change
Davidson	520.0	3.4	14	$ 1,179	4.1	103
Hamilton	209.4	1.3	132	963	4.2	93
Knox	241.4	0.8	196	936	2.4	276
Rutherford	134.4	1.4	122	939	3.8	132
Shelby	504.1	0.8	196	1,061	0.2	349
Williamson	141.3	3.7	9	1,251	4.1	103

Census Bureau

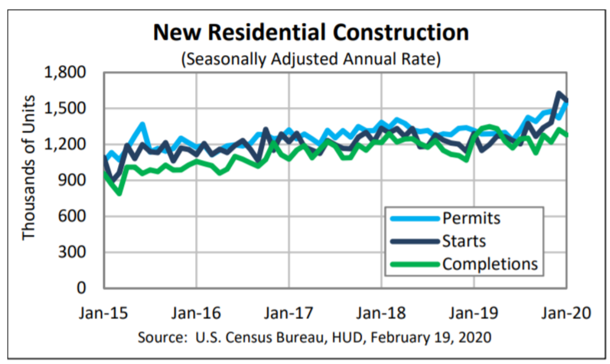
Wednesday, New Residential Construction: "Privately-owned housing units authorized by building permits in January were at a seasonally adjusted annual rate of 1,551,000. This is 9.2 percent above the revised December rate of 1,420,000 and is 17.9 percent above the January 2019 rate of 1,316,000. . . . Privately-owned housing starts in January were at a seasonally adjusted annual rate of 1,567,000. This is 3.6 percent below the revised December estimate of 1,626,000 but is 21.4 percent above the January 2019 rate of 1,291,000. . . . Privately-owned housing completions in January were at a seasonally adjusted annual rate of 1,280,000. This is 3.3 percent below the revised December estimate of 1,323,000 but is 1.5 percent above the January 2019 rate of 1,261,000."

NEW RESIDENTIAL CONSTRUCTION JANUARY 2020

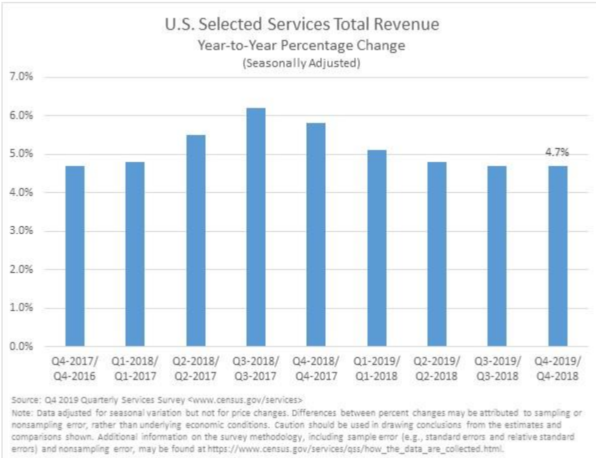
Building Permits: 1,551,000
Housing Starts: 1,567,000
Housing Completions: 1,280,000

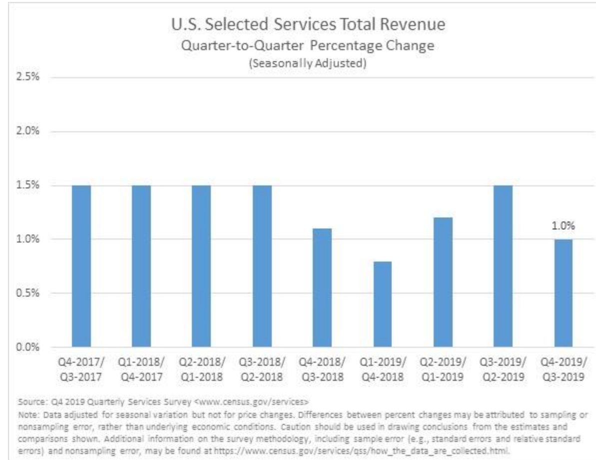
Next Release: March 18, 2020

Seasonally Adjusted Annual Rate
Source: U.S. Census Bureau, HUD, February 19, 2020



Wednesday, Advance Quarterly Services Report: "Advance U.S. selected services total revenue for the fourth quarter of 2019 . . . was $4,129.2 billion [seasonally adjusted], an increase of 1.0 percent from the third quarter of 2019 and up 4.7 percent from the fourth quarter of 2018. The second quarter of 2019 to the third quarter of 2019 percentage change was not revised from the preliminary estimate of 1.5 percent.





Department of Labor

Thursday, Initial Claims: "In the week ending February 15, the advance figure for seasonally adjusted initial claims was 210,000, an increase of 4,000 from the previous week's revised level. . . . The 4-week moving average was 209,000, a decrease of 3,250 from the previous week's revised average. . . . The total number of people claiming benefits in all programs for the week ending February 1 was 2,118,088, a decrease of 66,534 from the previous week. There were 2,177,074 persons claiming benefits in all programs in the comparable week in 2019."

Federal Reserve Board

Wednesday, January FOMC Minutes: "In their discussion of monetary policy for this meeting, members noted that information received since the FOMC met in December indicated that the labor market remained strong and that economic activity had been rising at a moderate rate. Job gains had been solid, on average, in recent months, and the unemployment rate had remained low. Although household spending had been rising at a moderate pace, business fixed investment and exports remained weak. On a 12-month basis, overall inflation and inflation for items other than food and energy were running below 2 percent. Market-based measures of inflation compensation remained low; survey-based measures of longer-term inflation expectations were little changed. Members agreed to maintain the target range for the federal funds rate at 1½ to 1¾ percent."

Federal Reserve Bank of Atlanta

Wednesday, GDPNow: "The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the first quarter of 2020 is 2.6 percent on February 19, up from 2.4 percent on February 14. After this morning's Producer Price Index release from the U.S. Bureau of Labor Statistics and new residential construction report from the U.S. Census Bureau, the nowcast of first-quarter real gross private domestic investment growth increased from 5.1 percent to 6.4 percent."

Federal Reserve Bank of Chicago

Thursday, National Financial Conditions Index: "The NFCI ticked down to –0.83 in the week ending February 14. Risk indicators contributed –0.34, credit indicators contributed –0.34, and leverage indicators contributed –0.15 to the index in the latest week." This indicates looser financial conditions."

Federal Reserve Bank of New York

Tuesday, Household Spending Survey: "The December 2019 Survey of Consumer Expectations (SCE) Household Spending Survey . . . shows the highest reading for monthly household spending growth compared to a year ago since April 2015. The share of respondents who reported making at least one large purchase in the last four months also reached a new series high. Year-ahead total household spending growth expectations, however, were substantially lower compared to levels seen in the previous year."

Tuesday, Empire State Manufacturing Survey: "Business activity picked up in New York State, according to firms responding to the February 2020 Empire State Manufacturing Survey. The headline general business conditions index moved up eight points to 12.9. The new orders index shot up 16 points to 22.1, and the shipments index climbed to 18.9. Delivery times lengthened, and inventories increased significantly. Employment expanded only modestly, and the average workweek was little changed. Input price increases slowed somewhat, and selling price increases picked up a touch. Optimism about the six-month outlook continued to be somewhat subdued, and capital spending plans remained firm."

Wednesday, Business Leaders Survey: "Activity in the region's service sector grew at a faster pace than in recent months. . . . The survey's headline business activity index climbed six points to 9.8, its highest level in several months. . . . Firms remained optimistic about the six-month outlook. The index for future business activity advanced three points to 35.1, and the index for future business climate remained above zero, suggesting that firms expected the business climate to be better than normal in the months ahead."

Federal Reserve Bank of Philadelphia

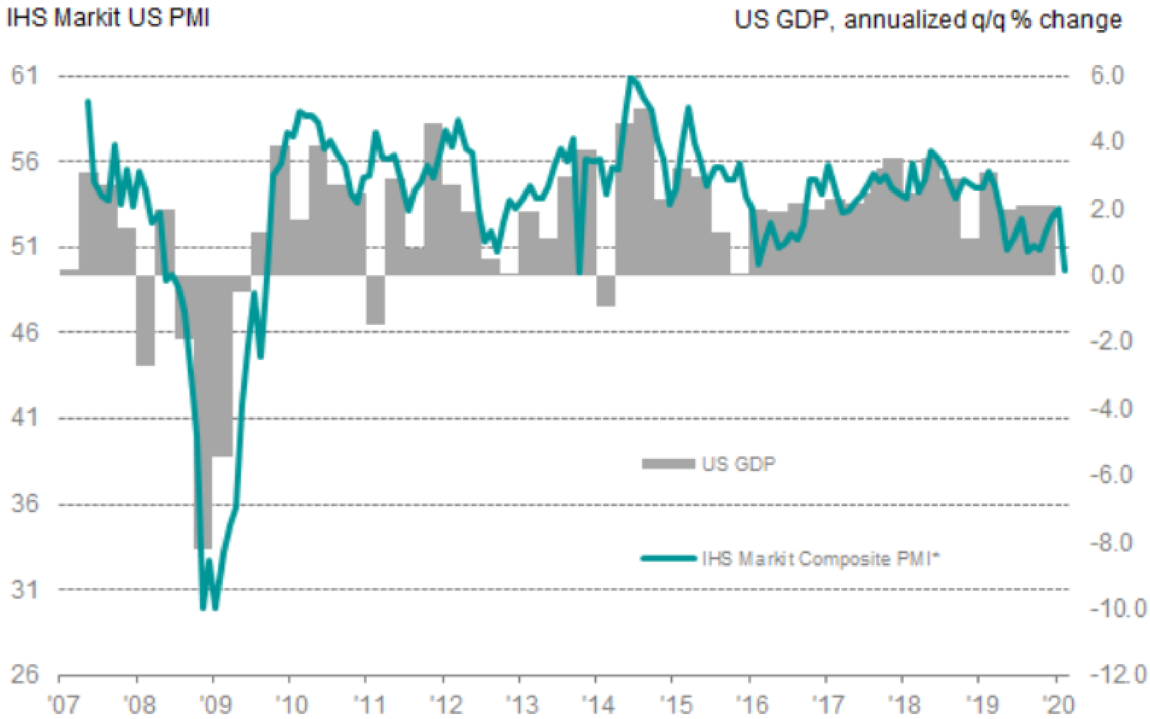
Thursday, Manufacturing Business Outlook Survey: "Manufacturing firms reported an improvement in regional manufacturing activity. . . . The diffusion index for current general activity rose nearly 20 points this month to 36.7, its highest reading since February 2017. . . . The index for new orders increased 15 points to 33.6, its highest reading since May 2018. . . . The survey's future indexes indicate that respondents continue to expect growth in manufacturing activity over the next six months."

The Conference Board

Thursday, Leading Economic Index: The index "increased 0.8 percent in January to 112.1 following a 0.3 percent decline in December and a 0.1 percent increase in November." Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board, said the increase "was driven by a sharp drop in initial unemployment insurance claims, increasing housing permits, consumers' outlook on the economy and financial indicators," adding, "the LEI's six-month growth rate has returned to positive territory, suggesting that the current economic expansion—at about 2 percent—will continue through early 2020."

IHS Markit

Friday, Flash US Composite PMI: "Private sector firms across the U.S. signaled a slight decline in business activity in February. The overall contraction was driven by a notable worsening of service sector performance, where output fell for the first time in four years." The composite index "posted 49.6 in February, down from 53.3 in the opening month of 2020." Chris Williamson, Chief Business Economist at IHS Markit, said "with the exception of the government-shutdown of 2013, US business activity contracted for the first time since the global financial crisis in February. . . . The survey data are consistent with GDP growth slowing from just above 2% in January to a crawl of just 0.6% in February. However, the February survey also saw a notable upturn in business sentiment about the year ahead, reflecting widespread optimism that the current slowdown will prove short-lived."



*Manufacturing only pre-October 2009

S&P Dow Jones

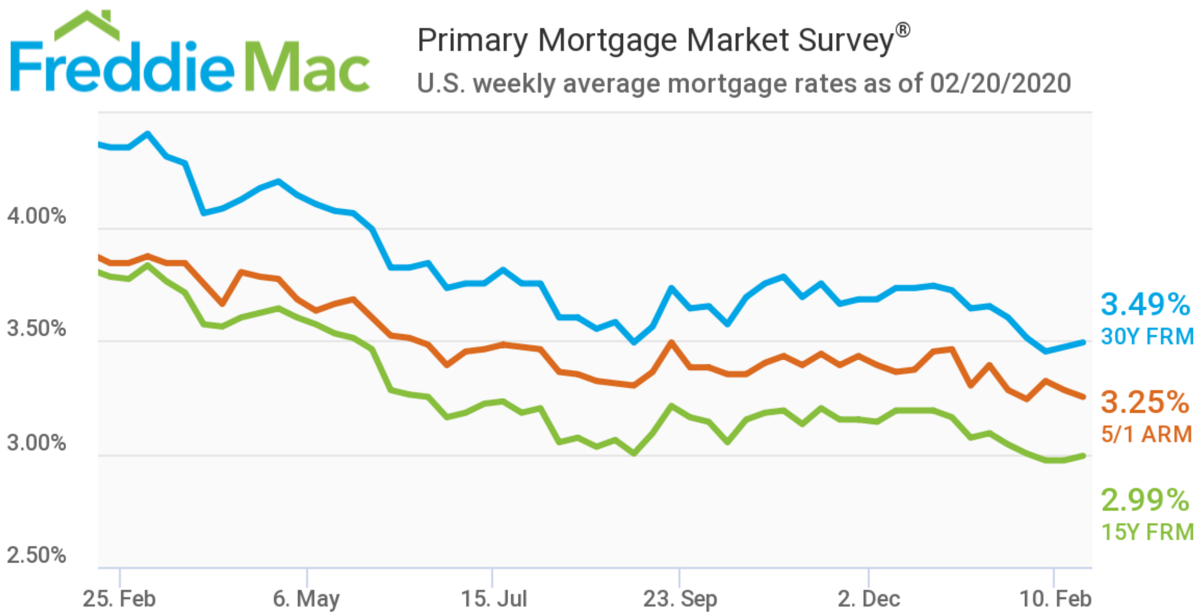
Tuesday, Consumer Credit Default: The composite rate of consumer credit defaults rose six basis points to 1.02% in January 2020. It was the third-straight month the composite index went up, reaching its highest level since March 2015.

Fannie Mae

Tuesday, Monthly Economic and Housing Outlook: According to Fannie Mae's Economic & Strategic Research (ESR) Group, "expectations for full-year 2020 and 2021 real gross domestic product (GDP) growth were improved by one-tenth to 2.2 percent and 2.1 percent, respectively, on a projected substantial upgrade to business fixed investment later this year. . . . On housing, the ESR Group expects low mortgage rates and strong demand to help grow residential fixed investment at a 3.9 percent annualized pace in 2020, following last year's contraction of 0.1 percent." Fannie Mae Senior Vice President and Chief Economist Doug Duncan said "we continue to anticipate that the economy's resilience will help keep housing on a firm growth track."

Freddie Mac

Thursday, Primary Mortgage Market Survey: The weekly average rate for a 30-year, fixed-rate mortgage was 3.49%, up 0.02% from the previous week and 0.86% lower than a year ago. "The low mortgage rate environment continues to spur homebuying activity, with applications to purchase a home up fifteen percent from a year ago. We've seen new residential construction surge over the last few months, on pace to reach the highest level in more than a decade. This is a good sign for the inventory-starved housing market and is a promising indication for the spring homebuying season."



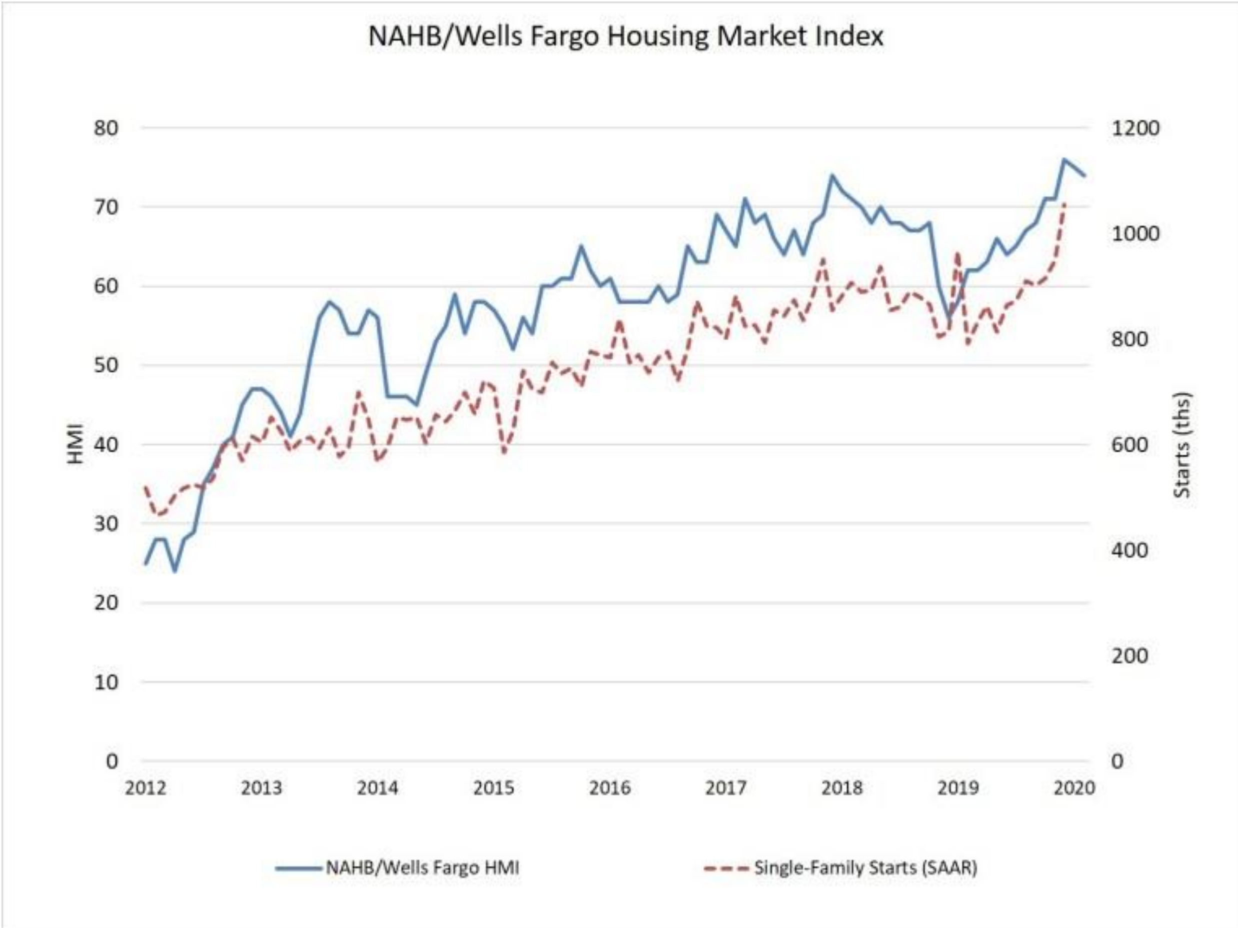
Mortgage Bankers Association

Tuesday, [Builder Application Survey]: "[D]ata for January 2020 shows mortgage applications for new home purchases increased 35.3 percent compared from a year ago. Compared to December 2019, applications increased by 40 percent. . . . MBA estimates new single-family home sales were running at a seasonally adjusted annual rate of 865,000 units in January 2020." Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting, said the increase "was a continuation of the end of 2019, which saw strong residential construction and increased purchase applications activity." Kan added, "MBA estimates that January new home sales increased 25 percent over the month to a sales pace of 865,000 units, while the average loan size increased to $346,000—both record highs since the survey began in 2012."

Wednesday, [Mortgage Applications]: "Mortgage applications decreased 6.4 percent from one week earlier, according to data . . . for the week ending February 14, 2020." According to MBA's Joel Kan, higher treasury yields last week caused mortgage rates to tick up and refinance applications fell accordingly. "The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($510,400 or less) increased to 3.77 percent from 3.72 percent."

National Association of Home Builders

Tuesday, [Housing Market Index]: "Builder confidence in the market for newly-built single-family homes edged one point lower to 74 in February." Despite the tick downward, "[t]he last three monthly readings mark the highest sentiment levels since December 2017. Steady job growth, rising wages and low interest rates are fueling housing demand in a market that lacks inventory, particularly at the entry-level. . . . [W]hile lower mortgage rates have improved housing affordability in recent months, accelerating price growth due to limited inventory may offset some of that effect."



Thursday, Quarterly Financing Survey: "Rates on construction loans continue to drift downward," according to builders and developers surveyed in the fourth quarter of 2019. "The average interest rate declined from 6.39 to 6.13 percent on loans for land acquisition, from 6.31 to 5.94 percent on loans for land development, from 5.99 to 5.63 percent on loans for speculative single-family construction, and from 5.63 to 5.38 percent on loans for pre-sold single-family construction." The survey also showed that availability of credit improved in the quarter.

National Association of Realtors

Friday, Existing Home Sales: "Existing-home sales declined in January, continuing a fluctuating pattern of monthly increases and declines. . . . Significant declines in the West region dragged down nationwide numbers, with the other three major U.S. regions reporting marginal – or no – changes last month. Total existing-home sales . . . decreased 1.3% from December to a seasonally-adjusted annual rate of 5.46 million in January. However, for the second straight month, overall sales substantially increased year-over-year, up 9.6% from a year ago (4.98 million in January 2019)."