Economic Update, March 1, 2019
Submitted by Bob Moreo

Summary: At Thursday's Annual Economic Policy Conference of the National Association for Business Economics in Washington, D.C., Federal Reserve Vice-Chair Richard Clarida spoke positively of the economy, saying "the U.S. economy expanded at a robust pace in 2018, and my baseline outlook for 2019 foresees somewhat slower but still-solid growth in the year ahead." In particular, he noted that "the unemployment rate is near the lowest level recorded in 50 years, and average monthly job gains have continued to well outpace the increases needed over the longer run to provide jobs for new entrants to the labor force." However, CNBC notes that "the number of Americans filing applications for jobless benefits increased more than expected last week and the number of people on unemployment rolls increased to a 10-month high, suggesting some slowing in the labor market." On Friday, Bloomberg reported that "U.S. consumer sentiment unexpectedly fell from an initial February reading and remained near the prior month's two-year low," though it remains "quite positive," according to the chief economist for the University of Michigan's survey of consumers.

University of Michigan

Friday, Surveys of Consumers: The February 2019 Index of Consumer Sentiment was 93.8—up from 91.2 in January 2019 but remaining below the February 2018 index of 99.7. The Current Economic Conditions index was 108.5—down slightly from January's 108.8 figure and below the level of 114.9 reported in February 2018. The Index of Consumer Expectations for February 2019 rose from 79.9 a month ago to 84.4, although this too is below its February 2018 figure of 90.0. Richard Curtin, chief economist for the survey, said, "Although sentiment was still above last month's low, the bounce-back from the end of the Federal shutdown faded in late February. While the overall level of confidence remains diminished, it is still quite positive. . . . Consumers continued to react to the Fed's pause in raising interest rates, balancing the favorable impact on borrowing costs against the negative message that the economy at present could not withstand another rate hike."

Federal Reserve

Monday, Chicago Fed National Activity Index: "Led by declines in production-related indicators, the [index] fell to –0.43 in January from +0.05 in December. . . . The contribution from production-related indicators to the [index] decreased to –0.45 in January from +0.08 in December. Industrial production fell by 0.6 percent in January after edging up 0.1 percent in December."

US Census Bureau

Monday, Wholesale Trade: "December 2018 sales of merchant wholesalers, except manufacturers' sales branches and offices . . . were $497.2 billion, down 1.0 percent from the revised November level. . . . Total inventories of merchant wholesalers, except manufacturers' sales branches and offices . . . were $661.8 billion at the end of December, up 1.1 percent from the revised November level."

Tuesday, New Residential Construction: In December 2018, "[p]rivately-owned housing units authorized by building permits . . . were at a seasonally adjusted annual rate of 1,326,000. . . . This is 0.3 percent above the revised November rate of 1,322,000 and 0.5 percent above the December 2017 rate of 1,320,000." This increase occurred despite a rate of 829,000 single-family authorizations in December that is 2.2 percent below the revised November figure of 848,000, as authorizations of units in buildings with five units or more were at a rate of 460,000 in December—up 5.7 percent from the November rate of 435,000, and up 13.6 percent from 405,000 in December 2017. Permits for single-family units are down 5.5 percent from a rate of 877,000 in December 2017.

New Residential Construction: Permits Issued, Housing Starts, and Completions by Unit Type, 2017–2018

Unit Type		Dec. 2018*	Nov. 2018*	Change Nov.–Dec.	Dec. 2017*	Change Dec. 2017–18	Full Year 2018	Full Year 2017	Change 2017–18
All Privately Owned	Permits	1,326,000	1,322,000	+0.3%	1,320,000	+0.5%	1,310,700	1,282,000	+2.2%
	Starts	1,078,000	1,214,000	–11.2%	1,210,000	–10.9%	1,246,600	1,203,000	+3.6%
	Completions	1,097,000	1,128,000	–2.7%	1,197,000	–8.4%	1,191,700	1,152,900	+3.4%
Single-Unit	Permits	829,000	848,000	–2.2%	877,000	–5.5%	852,700	820,000	+4.0%
	Starts	758,000	812,000	–6.7%	847,000	–10.5%	872,800	848,900	+2.8%
	Completions	790,000	789,000	+0.1%	837,000	–5.6%	844,300	795,300	+6.2%
5 Units or More	Permits	460,000	435,000	+5.7%	405,000	+13.6%	420,400	424,800	–1.0%
	Starts	302,000	387,000	–22.0%	359,000	–15.9%	359,700	342,700	+5.0%
	Completions	296,000	327,000	–9.5%	347,000	–14.7%	338,300	346,900	–2.5%

* Seasonally adjusted annual rates.
Source: U.S. Census Bureau and U.S. Department of Housing and Urban Development, New Residential Construction, February 26, 2019. TACIR summary of data presented in tables 1 (permits), 3 (starts), and 5 (completions).

Wednesday, Advance Economic Indicators: "The international trade deficit was $79.5 billion in December, up $9.0 billion [12.8 percent] from $70.5 billion in November. Exports of goods for December were $135.7 billion, $4.0 billion less than November exports. Imports of goods for December were $215.2 billion, $5.0 billion more than November imports. Wholesale inventories for December . . . were estimated at an end-of-month level of $661.8 billion, up 1.1 percent from November 2018, and were up 7.3 percent from December 2017. . . . Retail inventories for December . . . were estimated at an end-of-month level of $651.1 billion, up 0.9 percent from November 2018, and were up 3.9 percent from December 2017."

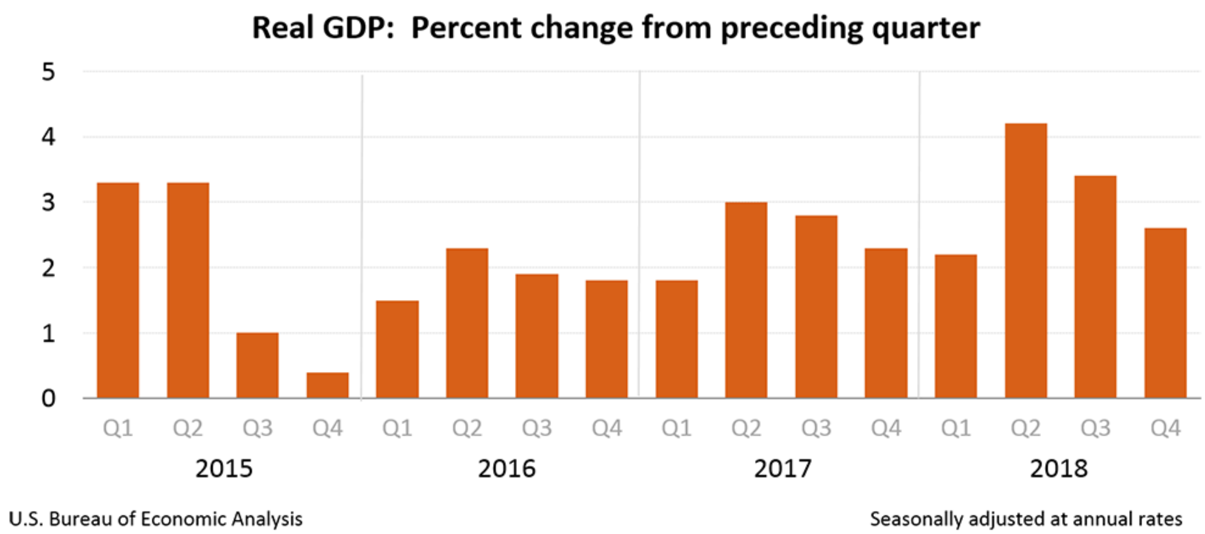
Wednesday, Manufacturers' Shipments, Inventories and Orders: "New orders for manufactured goods in December, up following two consecutive monthly decreases, increased $0.3 billion or 0.1 percent to $499.9 billion. . . . Shipments, down three consecutive months, decreased $0.9 billion or 0.2 percent to $504.9 billion. . . . Unfilled orders, also down three consecutive months, decreased $0.9 billion or 0.1 percent to $1,180.3 billion."

Thursday, Residential Vacancies and Homeownership: "The [national] rental vacancy rate of 6.6 percent [in the fourth quarter 2018] was not statistically different from the rate in the fourth quarter 2017 (6.9 percent), but lower than the rate in the third quarter 2018 (7.1 percent). The [national] homeowner vacancy rate of 1.5 percent was 0.1 percentage point lower than the rate in the fourth quarter 2017 and also 0.1 percentage point lower than the rate in the third quarter 2018 (1.6 percent each). The homeownership rate of 64.8 percent was not statistically different from the rate in the fourth quarter 2017 (64.2 percent) nor from the rate in the third quarter 2018 (64.4 percent).

Bureau of Economic Analysis

Tuesday, Gross Domestic Product by State, Third Quarter 2018: "Real gross domestic product (GDP) increased in 49 states and the District of Columbia in the third quarter of 2018 . . . [ranging] from 5.8 percent in Washington to 0.0 percent in West Virginia. Wholesale trade, information services, finance and insurance, and retail trade were the leading contributors to the increase in real GDP nationally . . . [increasing] 7.4 percent, 7.6 percent, 5.5 percent, and 6.3 percent, respectively." Tennessee's GDP increased by 3.1% in the third quarter of 2018, ranking 23rd nationally.

Thursday, [Gross Domestic Product, Fourth Quarter and Annual 2018:]() "Real gross domestic product (GDP) increased at an annual rate of 2.6 percent in the fourth quarter of 2018. . . . The increase in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, exports, private inventory investment, and federal government spending . . . partly offset by negative contributions from residential fixed investment, and state and local government spending. . . . Real GDP increased 2.9 percent in 2018 (from the 2017 annual level to the 2018 annual level), compared with an increase of 2.2 percent in 2017."

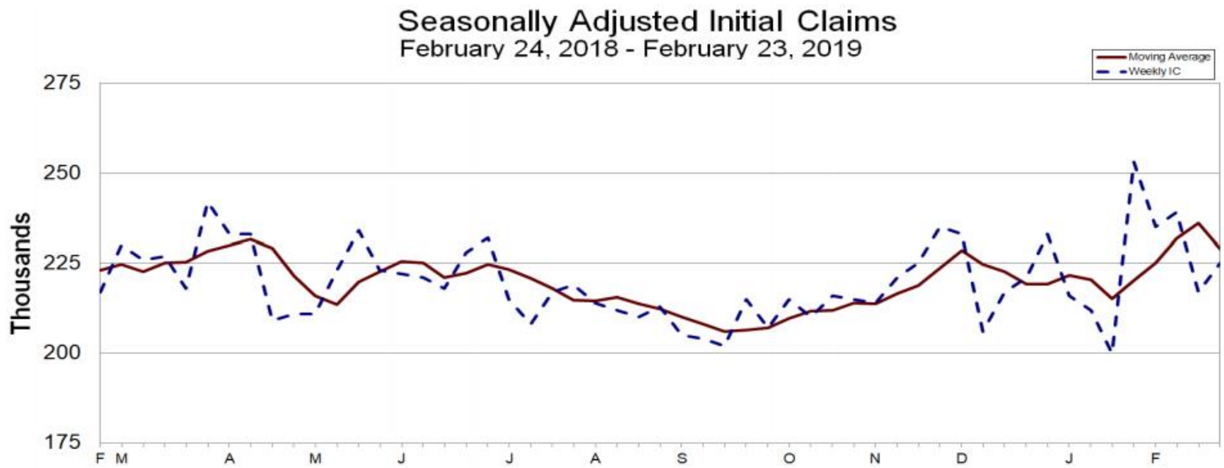


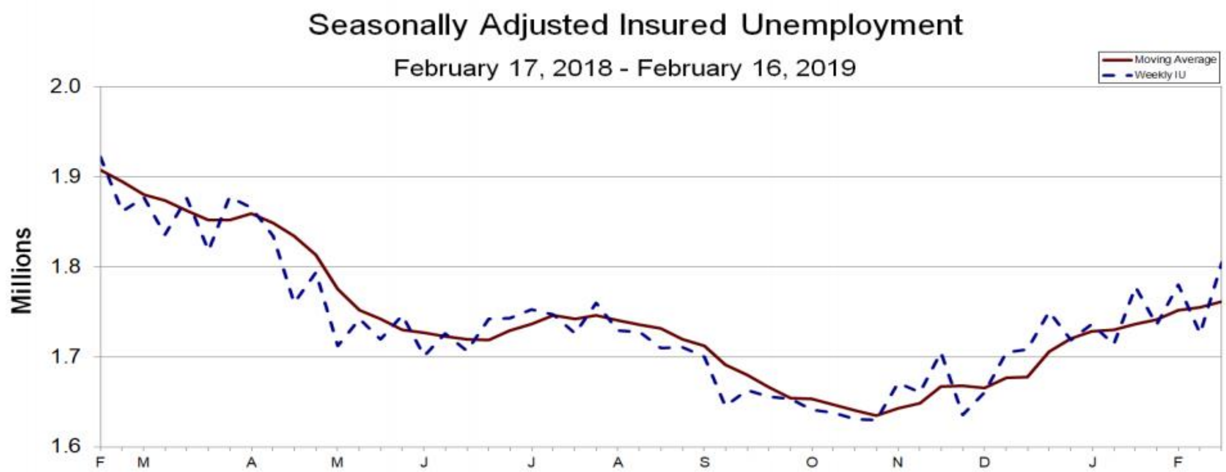
S&P Dow Jones

Tuesday, [U.S. National Home Price NSA Index:]() "Data released . . . for December 2018 shows that the rate of home price increases across the U.S. has continued to slow. . . . The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, covering all nine U.S. census divisions, reported a 4.7% annual gain in December, down from 5.1% in the previous month. The 10-City Composite annual increase came in at 3.8%, down from 4.2% in the previous month. The 20-City Composite posted a 4.2% year-over-year gain, down from 4.6% in the previous month. . . . 'The annual rate of price increases continues to fall,' says David M. Blitzer, Managing Director and Chairman of the Index Committee at S&P Dow Jones Indices. 'Even at the reduced pace of 4.7% per year, home prices continue to outpace wage gains of 3.5% to 4% and inflation of about 2%. A decline in interest rates in the fourth quarter was not enough to offset the impact of rising prices on home sales. The monthly number of existing single family homes sold dropped throughout 2018, reaching an annual rate of 4.45 million in December. The 2018 full year sales pace was 4.74 million.'"

U.S. Department of Labor

Thursday, [Unemployment Insurance Weekly Claims:]() "In the week ending February 23, the advance figure for seasonally adjusted initial claims was 225,000, an increase of 8,000 from the previous week's revised level. . . . The 4-week moving average was 229,000, a decrease of 7,000 from the previous week's revised average. . . . The advance number for seasonally adjusted insured unemployment during the week ending February 16 was 1,805,000, an increase of 79,000 from the previous week's revised level. . . . The 4-week moving average was 1,761,750, an increase of 6,750 from the previous week's revised average."





Freddie Mac

Thursday, Primary Mortgage Market Survey: "[The] 30-year fixed-rate mortgage (FRM) averaged 4.35 percent with an average 0.5 point for the week ending February 28, 2019, unchanged from last week. A year ago at this time, the 30-year FRM averaged 4.43 percent." Sam Khater, Freddie Mac's chief economist, says, "Mortgage rates remained mostly unchanged this week, while mortgage applications rose 5.3 percent from the previous week. The general decline in rates we have seen recently, combined with rebounding pending home sales, hint at a strong spring homebuying season."

According to Freddie Mac's February Forecast, modest growth in the mortgage market is expected in 2019, buoyed by lower interest rates. Sam Khater, Freddie Mac's chief economist, says, "We expect single-family mortgage originations to increase 2.6 percent to $1.69 trillion in 2019 and remain around that level in 2020. With mortgage rates easing up since the end of 2018, we revised up our forecast of the refinance share of originations to 27 percent and 24 percent in 2019 and 2020, respectively."

Forecast Highlights:

- “Overall, we forecast that U.S. GDP growth will decelerate to 2.5 percent in 2019 and 1.8 percent in 2020 as the economy settles in to near longer-term potential growth of under 2 percent per year.”
- “The 30-year fixed-rate mortgage rate is expected to average 4.6 percent in 2019, matching 2018, before increasing to 4.9 percent in 2020.”
- “Total housing starts are expected to increase to 1.29 million units in 2019 and further to 1.36 million units in 2020, well below long-run demand.”
- “Due to lower mortgage rates, expect total home sales to slowly regain momentum, increasing to 6.10 million in 2019 and to 6.12 million in 2020.”