Economic Update, April 17, 2020
Submitted by Bob Moreo

Summary: Another batch of lagging reports this week tell the story of a stable—though not necessarily thriving—economy in the first two months of 2020. Some data from March, like new residential construction, were better than a year ago, even as they reveal a sharp decline from February. Since quickly peaking at nearly 6.9 million (revised) the last week of March, initial unemployment claims have been lower each of the last two weeks. Numbers are expected to remain high, however, as state systems struggle to handle the sudden volume of applicants. The Federal Reserve said in its *Beige Book* that many businesses are cutting employment via furloughs and temporary layoffs with the hope that workers can come back as soon as business activity resumes. The question on everyone's mind, of course, is just when that activity will return. In his preview of the week ahead, IHS Markit economist Chris Williamson says, "around 500 US companies [will] report earnings, providing an initial insight into how the COVID-19 outbreak is hitting revenues and profits at some of the world largest firms."

Federal Government Indicators and Reports:

Bureau of Labor Statistics

Friday, April 10, Consumer Price Index: "The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.4 percent in March on a seasonally adjusted basis, the largest monthly decline since January 2015. . . . A sharp decline in the gasoline index was a major cause of the monthly decrease in the seasonally adjusted all items index, with decreases in the indexes for airline fares, lodging away from home, and apparel also contributing. . . . The index for all items less food and energy fell 0.1 percent in March, its first monthly decline since January 2010."

Friday, April 10, Real Earnings: "Real average hourly earnings for all employees increased 0.8 percent from February to March, seasonally adjusted. . . . This result stems from an increase of 0.4 percent in average hourly earnings combined with a decrease of 0.4 percent in the Consumer Price Index. . . . Real average hourly earnings increased 1.6 percent, seasonally adjusted, from March 2019 to March 2020."

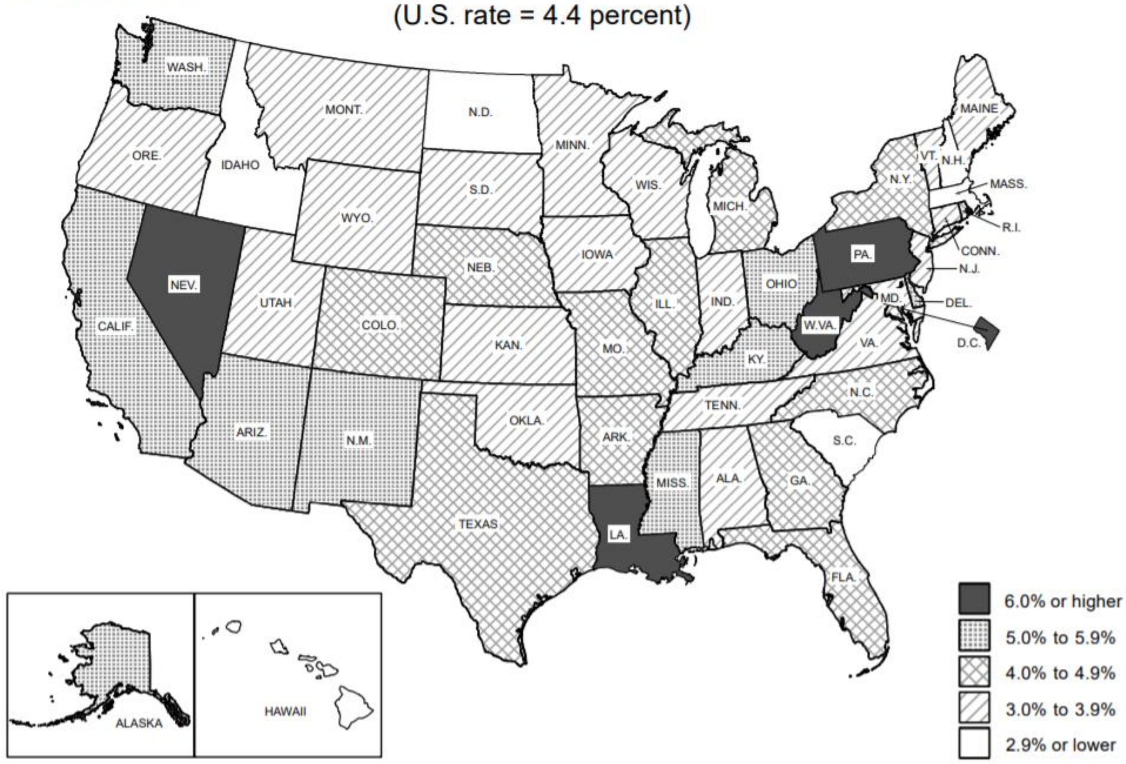
Tuesday, Import and Export Price Indexes: "The price index for U.S. imports declined 2.3 percent in March, the largest monthly drop since import prices fell 3.2 percent in January 2015. The March decline followed a 0.7-percent decrease in February. . . . Import prices also fell on a 12-month basis, declining 4.1 percent from March 2019 to March 2020. The decrease was the largest over-the-year drop since the index fell 4.7 percent for the 12 months ended June 2016. . . . Lower petroleum prices and natural gas prices both contributed to the decline. Import prices excluding fuel were unchanged in March following 0.3-percent increases in February and January. . . . Prices for U.S. exports declined 1.6 percent in March, after falling 1.1 percent in February and rising 0.6 percent in January. The March decrease was the largest monthly drop in export prices since the index declined 1.7 percent in January 2015. Decreasing prices for both nonagricultural exports and agricultural exports contributed to the March drop. U.S. export prices fell 3.6 percent for the year ended in March, the largest 12-month decrease since a 4.5-percent decline from May 2015 to May 2016."

Wednesday, Usual Weekly Earnings: "Median weekly earnings of the nation's 115.9 million full-time wage and salary workers were $957 in the first quarter of 2020 (not seasonally adjusted). . . . This was 5.7 percent higher than a year earlier, compared with a gain of 2.1 percent in the Consumer Price Index for All Urban Consumers (CPI-U) over the same period. . . . Seasonally adjusted median weekly earnings increased to $949 in the first quarter of 2020."

Friday, State Employment and Unemployment: "Unemployment rates were higher in March in 29 states and the District of Columbia, lower in 3 states, and stable in 18 states. . . . Twenty-three states had jobless rate increases from a year earlier, 3 states had decreases, and 24 states and the District had little or no change. The national unemployment rate rose by 0.9 percentage point over the month to 4.4 percent and was 0.6 point higher than in March 2019." Tennessee's statewide unemployment rate in March 2020 was 3.5 percent. The state's unemployment rate was also 3.5 percent in March 2019. Tennessee gained 52,300 jobs from March 2019 to March 2020—a 1.7 percent increase. Tennessee was one of 13 states with statistically significant increases in jobs from March 2019 to March 2020.

Map 1. Unemployment rates by state, seasonally adjusted, March 2020

(U.S. rate = 4.4 percent)



Bureau of Transportation Statistics

Thursday, Airline Traffic Data (January final): "U.S. airlines carried an estimated 79.0 million systemwide (domestic and international) scheduled service passengers in January 2020, seasonally-adjusted . . . up 0.1% from December. BTS is withholding the scheduled release of estimated U.S. airlines' traffic data for February and March because the estimates . . . do not account for the impact of the coronavirus. Instead, BTS is releasing preliminary monthly data based on reports from the 25 U.S. airlines with the most scheduled service passengers in 2019. February preliminary data was released on Tuesday."

Tuesday, Airline Traffic Data (February preliminary): "U.S. airlines carried 6.7% more scheduled service passengers in February 2020 than in February 2019, according to preliminary data. . . . February 2020 would be the 29th consecutive month of increases in U.S. airlines passengers from the same month of the previous year dating back to October 2017."

Census Bureau

Wednesday, Manufacturing and Trade Inventories and Sales: "The combined value of distributive trade sales and manufacturers' shipments for February . . . was estimated at $1,464.2 billion, down 0.5 percent from January 2020, but was up 1.4 percent from February 2019. Manufacturers' and trade inventories for February . . . were estimated at an end-of-month level of $2,012.7 billion, down 0.4 percent from January 2020 and were down 0.1 percent from February 2019."

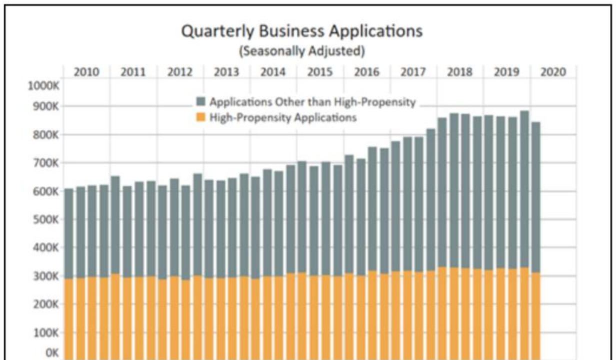
Wednesday, Advance Monthly Sales for Retail and Food Services: "Advance estimates of U.S. retail and food services sales for March 2020 . . . were $483.1 billion, a decrease of 8.7 percent from the previous month, and 6.2 percent below March 2019. Total sales for the January 2020 through March 2020 period were up 1.1 percent from the same period a year ago. . . . Retail trade sales were down 6.2 percent from February 2020, and 3.8 percent below last year. Food and beverage stores were up 28.0 percent from March 2019, while clothing and clothing accessories stores were down 50.7 percent from last year."

Wednesday, Business Formation Statistics: "Business Applications for the first quarter of 2020, adjusted for seasonal variation, were 842,614, a decrease of 4.5 percent compared to the fourth quarter of 2019."

BUSINESS APPLICATIONS

U.S. Business Applications:	2020 Q1	2020 Q1 / 2019 Q4
Total	842,614	-4.5%°
High-Propensity	310,175	-5.4%°
With Planned Wages	109,655	-3.8%°
From Corporations	129,486	-5.5%°

Next release: July 15, 2020
(°) Statistical significance is not applicable or not measureable.
Data adjusted for seasonality.
Source: U.S. Census Bureau, Business Formation Statistics, April 15, 2020



Source: U.S. Census Bureau, Business Formation Statistics, April 15, 2020

Thursday, New Residential Construction: "Privately-owned housing units authorized by building permits in March were at a seasonally adjusted annual rate of 1,353,000. This is 6.8 percent below the revised February rate of 1,452,000, but is 5.0 percent above the March 2019 rate of 1,288,000. . . . Privately-owned housing starts in March were at a seasonally adjusted annual rate of 1,216,000. This is 22.3 percent below the revised February estimate of 1,564,000, but is 1.4 percent above the March 2019 rate of 1,199,000. . . . Privately-owned housing completions in March were at a seasonally adjusted annual rate of 1,227,000. This is 6.1 percent below the revised February estimate of 1,307,000 and is 9.0 percent below the March 2019 rate of 1,348,000."

Department of Labor

Thursday, Initial Unemployment Claims: "In the week ending April 11, the advance figure for seasonally adjusted initial claims was 5,245,000, a decrease of 1,370,000 from the previous week's revised level. . . . The 4-week moving average was 5,508,500, an increase of 1,240,750 from the previous week's revised average. . . . The advance seasonally adjusted insured unemployment rate was 8.2 percent for the week ending April 4, an increase of 3.1 percentage points from the previous week's unrevised rate. This marks the highest level of the seasonally adjusted insured unemployment rate in the history of the seasonally adjusted series. The previous high was 7.0 percent in May of 1975." The insured unemployment rate counts those who are receiving unemployment benefits and is "a good indicator of labor market conditions." In Tennessee, the unadjusted number of people on unemployment for the week ending April 4 was 206,622, an increase of 116,179 from the week prior. The advance figure for initial claims for the week ending April 11 was 74,772, down from 112,186 the week ending April 4.

Federal Reserve

Wednesday, Industrial Production and Capacity Utilization: "Total industrial production fell 5.4 percent in March, as the COVID-19 pandemic led many factories to suspend operations late in the month. Manufacturing output fell 6.3 percent; most major industries posted decreases, with the largest decline registered by motor vehicles and parts. The decreases for total industrial production and for manufacturing were their largest since January 1946 and February 1946, respectively. . . . Capacity utilization for the industrial sector decreased 4.3 percentage points to 72.7 percent in March, a rate that is 7.1 percentage points below its long-run (1972–2019) average."

Wednesday, The Beige Book: "Economic activity contracted sharply and abruptly across all regions in the United States as a result of the COVID-19 pandemic. The hardest-hit industries—because of social distancing measures and mandated closures—were leisure and hospitality, and retail aside from essential goods. Most Districts reported declines in manufacturing, but cited significant variation across industries. Producers of food and medical products reported strong demand but faced both production delays, due to infection-prevention measures, and supply chain disruptions. . . . All Districts reported highly uncertain outlooks among business contacts, with most expecting conditions to worsen in the next several months. Employment declined in all Districts, steeply in many cases, as the COVID-19 pandemic affected firms in many sectors. . . . Contacts in several Districts noted they were cutting employment via temporary layoffs and furloughs that they hoped to reverse once business activity resumes. The near-term outlook was for more job cuts in coming months." In the Fed's Sixth District, which encompasses Middle and East Tennessee, "hospitality and tourism contacts reported significant declines in activity as conventions were canceled and attractions were temporarily shuttered. . . . Manufacturing activity deteriorated, but new orders held steady or increased as a result of changes in product demand." In the Eighth District, which includes West Tennessee, "Many firms reported moderate to severe temporary layoffs, furloughs, or paid time off." Perhaps in lieu of layoffs, "A considerable share of contacts reported reducing employee pay, particularly the pay of salaried employees with higher-than-average wages at their firms." Encouragingly, "there were no reports of abrupt cancellations of ongoing construction projects."

Federal Reserve Bank of Chicago

Wednesday, Chicago Fed Survey of Business Conditions: "The Chicago Fed Survey of Business Conditions (CFSBC) Activity Index fell to −59 from +1, suggesting that economic growth was well below trend in late February and March. The CFSBC Manufacturing Activity Index decreased to –41 from –14, and the CFSBC Nonmanufacturing Activity Index fell to −69 from +9."

Wednesday, National Financial Conditions Index: Financial conditions steadied a bit last week. "The NFCI was –0.02 in the week ending April 10, up from a revised –0.06 (initially reported as 0.07). . . . P ositive values of the NFCI have been historically associated with tighter-than-average financial conditions, while negative values have been historically associated with looser-than-average financial conditions."

Economic Indicators and Confidence:

The Conference Board

Wednesday, Online Labor Demand: Advertised online job vacancies declined in March. "The Conference Board-Burning Glass Help Wanted OnLine (HWOL) Index fell in March and now stands at 99.6 (July 2018=100), down from 101.2 in February. The Index declined 1.5 percent from the prior month and is down 5.5 percent from a year ago. The March 2020 data does not capture the large decline due to COVID-19 as the data collection period covered February 14 to March 13."

Friday, US Leading Economic Index: The index "declined 6.7 percent in March to 104.2 (2016 = 100), following a 0.2 percent decrease in February, and a 0.4 percent increase in January. 'In March, the US LEI registered the largest decline in its 60-year history,' said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. 'The unprecedented and sudden deterioration was broad based, with the largest negative contributions coming from initial claims for unemployment insurance and stock prices. The sharp drop in the LEI reflects the sudden halting in business activity as a result of the global pandemic and suggests the US economy will be facing a very deep contraction.'"

IHS Markit

Wednesday, Global PMI Report: "Global business activity contracted in March at the fastest rate for 11 years as measures to contain the coronavirus disease 2019 (COVID-19) pandemic took an increasing toll on economies around the world. The JPMorgan Global PMI (compiled by IHS Markit) fell by a near record 6.7 points in March, building on a prior plunge of 6.1 points in February to drop from 46.1 to 39.4, its lowest since the height of the global financial crisis in February 2009. . . . Inflows of new business dropped sharply globally for a second consecutive month, declining at a rate not seen since March 2009. Similarly, backlogs of uncompleted orders fell to a degree not seen since August 2009, hinting strongly that firms are running out of work to keep capacity fully utilized."

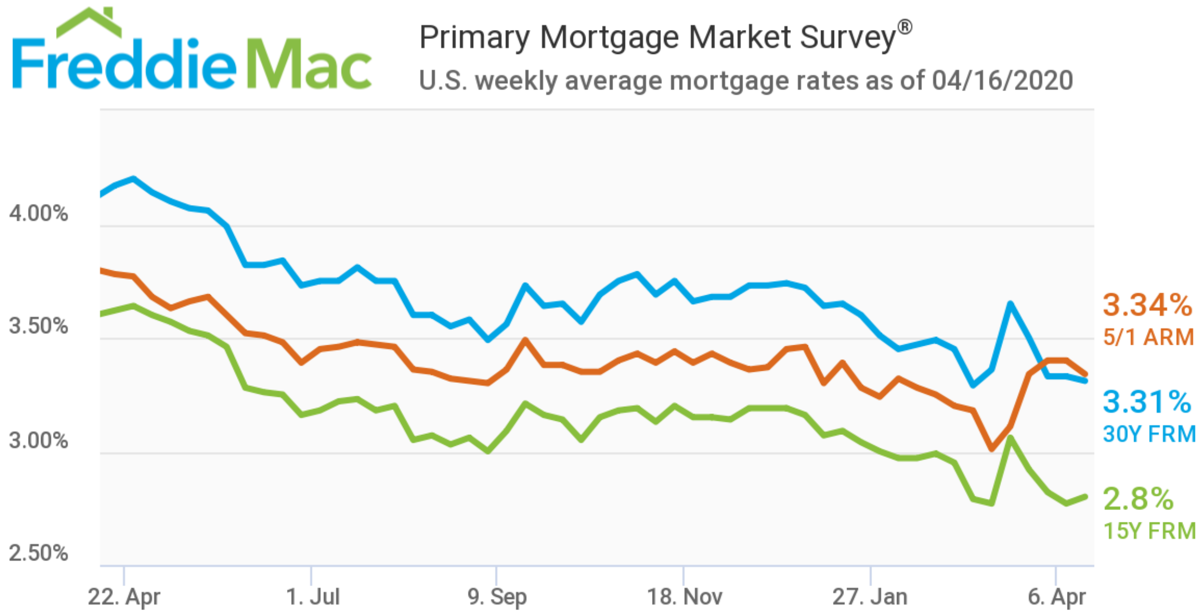
Mortgages and Housing Markets:

Fannie Mae

Wednesday, Monthly Economic & Housing Outlook: Fannie Mae's Economic and Strategic Research (ESR) Group "projects back-to-back quarters of negative real GDP growth in the first half of 2020, meeting the commonly accepted definition of a recession. The updated forecast includes expectations of a historically large contraction in the second quarter of approximately 25 percent annualized amid sizeable declines in employment, consumer spending, and business investment. While full-year 2020 output is expected to contract 3.1 percent, the ESR Group anticipates a growth rebound of 4.8 percent in 2021." The group forecasts "a sharp decline in total home sales and housing starts in both the second quarter and all of 2020. However, the low interest rate environment should continue to support refinance activity this year, which the ESR Group now projects to account for 56 percent of total mortgage originations volume."

Freddie Mac

Thursday, Primary Mortgage Market Survey: "'Mortgage rates continue to hover near all-time lows for the third straight week. As a result, refinance activity remains high, but home purchase demand is weak due to economic tightening,' said Sam Khater, Freddie Mac's Chief Economist. Khater continued, 'While new monthly economic data are driving markets lower this week, they are a lagging indicator and should be priced in already. Real time daily economic activity metrics suggest that the economy will likely not decline much further. Going forward, the key question is no longer the depth of the economic contraction, but the duration.'"



Mortgage Bankers Association

Monday, Builder Application Survey: In March, "mortgage applications for new home purchases increased 21.2 percent compared from a year ago. Compared to February 2020, applications increased by 14 percent. . . . MBA estimates new single-family home sales were running at a seasonally adjusted annual rate of 697,000 units in March 2020 . . . a decrease of 6.6 percent from the February pace of 746,000 units. On an unadjusted basis, MBA estimates that there were 71,000 new home sales in March, an increase of 10.9 percent from 64,000 new home sales in February."

Wednesday, Mortgage Applications: "Mortgage applications increased 7.3 percent from one week earlier, according to data . . . for the week ending April 10, 2020. . . . 'The 30-year fixed mortgage rate decreased last week to the lowest level in MBA's survey at 3.45 percent,' said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting."

National Association of Home Builders

Wednesday, Housing Market Index: Builders' "confidence in the market for newly-built single-family homes plunged 42 points in April to 30. . . . The decline in April was the largest single monthly change in the history of the index and marks the lowest builder confidence reading since June 2012. It is also the first time that builder confidence has been in negative territory (below 50) since June 2014. . . . 'Before the pandemic hit, the housing market was showing signs of strength with January and February new home sales at their highest pace since the Great Recession,' said NAHB Chief Economist Robert Dietz."