Economic Update, May 15, 2020
Submitted by Bob Moreo

Summary: Unemployment continues to dominate the headlines. Although the number of new claims has been less each week, this two-month span has seen more than 33 million people—more than one in five workers—apply for unemployment insurance through regular state programs, notes the Economic Policy Institute. The economic effects of business shut-downs and stay-at-home policies are so unlike typical conditions that even what appears to be positive news on the surface is viewed with skepticism. When hourly earnings appeared to jump more than 5% from March to April—up 7.5% from April 2019—one wonders why. Unfortunately, as *The Washington Post* reports, the average wage went up because so many low-wage workers have lost their jobs. Speaking Wednesday, Fed Chair Jerome Powell said, "Among people who were working in February, almost 40 percent of those in households making less than $40,000 a year had lost a job in March." Similarly, a drop in consumer prices should be a good thing when people are struggling to make ends meet. The reality is that prices are going down for goods and services that aren't in demand—gasoline and travel, in particular—while food prices are rising.

On the whole, economic forecasters and consumers seem to believe a bottom has been reached, but expectations are that recovery and a return to "normal" will be a slow, uncertain process.

## Federal Government Indicators and Reports:

Bureau of Labor Statistics

Tuesday, Real Earnings: "Real average hourly earnings for all employees increased 5.6 percent from March to April, seasonally adjusted," due to "an increase of 4.7 percent in average hourly earnings combined with a decrease of 0.8 percent in the Consumer Price Index."

Tuesday, Consumer Price Index: "The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.8 percent in April on a seasonally adjusted basis, the largest monthly decline since December 2008. . . . Over the last 12 months, the all items index increased 0.3 percent before seasonal adjustment. A 20.6-percent decline in the gasoline index was the largest contributor to the monthly decrease in the seasonally adjusted all items index, but the indexes for apparel, motor vehicle insurance, airline fares, and lodging away from home all fell sharply as well. In contrast, food indexes rose in April, with the index for food at home posting its largest monthly increase since February 1974."

Wednesday, Producer Price Index: "The Producer Price Index for final demand declined 1.3 percent in April, seasonally adjusted. . . . This decrease is the largest since the index began in December 2009. Final demand prices fell 0.2 percent in March and 0.6 percent in February. . . . On an unadjusted basis, the final demand index moved down 1.2 percent for the 12 months [ending] in April, the largest decline since falling 1.3 percent for the 12 months [ending] November 2015. . . . Most of the broad-based decrease is attributable to prices for final demand energy [e.g. gasoline], which fell 19.0 percent."

The National Association of Home Builders noted that "Prices paid for goods used in residential construction decreased 4.1% in April (not seasonally adjusted)—the largest monthly decline on record."

Thursday, Import and Export Price Indexes: "U.S. import prices declined 2.6 percent in April . . . following a 2.4-percent decrease in March. Both monthly declines were led by falling fuel prices. Prices for U.S. exports fell 3.3 percent in April, after decreasing 1.7 percent the previous month. . . . Prices for imports excluding fuel fell 0.5 percent in April following no change the previous month. In April, the drop was driven by lower prices for industrial supplies and materials; foods, feeds, and beverages; and consumer goods. . . . Declining prices for both nonagricultural exports and agricultural exports contributed to the April decrease [in export prices]."

Friday, [Job Openings and Labor Turnover Survey (JOLTS)]: "The number of total separations increased by 8.9 million to a series high of 14.5 million in March. . . . Job openings decreased to 6.2 million on the last business day of March. Over the month, hires declined to 5.2 million. The changes in these measures reflect the effects of the coronavirus (COVID-19) pandemic and efforts to contain it. . . . Job openings fell in total private (-774,000), with the largest declines in accommodation and food services (-258,000) and durable goods manufacturing (-82,000). . . . Hires decreased in accommodation and food services (-344,000), health care and social assistance (-87,000), and durable goods manufacturing (-33,000). Hires increased in federal government (+8,000).

The number and rate of layoffs and discharges increased in March to a series high of 11.4 million (+9,526,000) and 7.5 percent, respectively . . . with the largest increases in accommodation and food services (+4,136,000) and retail trade (+908,000). . . . Over the 12 months ending in March, hires totaled 69.8 million and separations totaled 76.9 million, yielding a net employment loss of 7.1 million"

Bureau of Transportation Statistics

Tuesday, [Preliminary Air Traffic Data (March)]: "U.S. airlines carried 51% fewer scheduled service passengers in March 2020 than in March 2019, according to preliminary data, . . . dropping to the lowest level of air travel in almost two decades. The 51% decline in the number of passengers from March 2019 was the largest year-to-year decrease on record. The airlines carried slightly more total, domestic and international passengers in March 2020 than in September 2001, the month of the 9/11 terrorist attacks." Final data for February, [released on Thursday], showed a 0.6% decrease in passengers from January, "down 0.9% from the all-time, seasonally-adjusted, reported high of 78.9 million reached in December 2019."

Wednesday, [Freight Transportation Services Index]: The index, "based on the amount of freight carried by the for-hire transportation industry, rose 0.5% in March from February, rising after a one-month decline. . . . From March 2019 to March 2020, the index fell 0.9% compared to a rise of 1.8% from March 2018 to March 2019. . . . The Freight TSI increased in March from February due to growth in air freight, trucking and water, despite declines in rail carload, rail intermodal and pipeline. The TSI rise was likely due to growth in shipping in the first part of the month . . . against a background of decline in other indicators driven largely by the impact of the COVID-19 virus in the latter part of the month."

Census Bureau

Friday, [Advance Monthly Retail Trade]: "Advance estimates of U.S. retail and food services sales for April 2020 [seasonally adjusted] were $403.9 billion, a decrease of 16.4 percent from the previous month, and 21.6 percent below April 2019. Total sales for the February 2020 through April 2020 period were down 7.7 percent from the same period a year ago. . . . Retail trade sales were down 15.1 percent from March 2020, and 17.8 percent below last year. Clothing and clothing accessories stores were down 89.3 percent from April 2019, while nonstore retailers were up 21.6 percent from last year."

Friday, [Manufacturing and Trade Inventories and Sales]: "The combined value of distributive trade sales and manufacturers' shipments for March [seasonally adjusted] was estimated at $1,386.1 billion, down 5.2 percent from February 2020 and was down 4.9 percent from March 2019. Manufacturers' and trade inventories for March . . . were estimated at an end-of-month level of $2,012.5 billion, down 0.2 percent from February 2020 and were down 0.3 percent from March 2019. The total business inventories/sales ratio based on seasonally adjusted data at the end of March was 1.45. The March 2019 ratio was 1.38."

Department of Labor

Thursday, Initial Unemployment Claims: "In the week ending May 9, the advance figure for seasonally adjusted initial claims was 2,981,000, a decrease of 195,000 from the previous week [which] was revised up by 7,000 from 3,169,000 to 3,176,000. The 4-week moving average was 3,616,500, a decrease of 564,000 from the previous week [which] was revised up by 7,000 from 4,173,500 to 4,180,500. The advance seasonally adjusted insured unemployment rate was 15.7 percent for the week ending May 2, an increase of 0.3 percentage point from the previous week's revised rate. . . . The advance number for seasonally adjusted insured unemployment during the week ending May 2 was 22,833,000, an increase of 456,000 from the previous week's revised level."

Federal Reserve Board

Thursday, Report on the Economic Well-Being of U.S. Households: "[P]rior to the onset of COVID-19 and the associated financial disruptions," this report shows that, for most households, "overall financial well-being was similar to that seen in 2018 for most measures in the survey. Consistent with economic improvements over the prior six years, families were faring substantially better than they were when the survey began in 2013." However, "results also show that a substantial minority of adults were financially vulnerable at the time of the survey and either could not pay their current month's bills in full or would have struggled to do so if faced with an emergency expense as small as $400. Even fewer had three months of emergency savings to cover expenses in the event of a job loss."

The Fed conducted a follow-up survey the first week of April 2020 to assess the effects of COVID-19. "Thirteen percent of adults reported that they lost a job or were furloughed between March 1, 2020, and the time at which they completed the survey. . . . However, . . . most of those who lost a job expected in early April that the layoff would be temporary and that they would return to the same employer. . . . Among those adults not experiencing a job loss or reduction in hours, 76 percent were doing at least okay financially in April, which is similar to the overall share of adults who reported doing at least okay financially in the fall. Among those who experienced a job loss or hours reduction, 51 percent indicated that they were doing at least okay financially in April, whereas 48 percent were either struggling to get by or just getting by."

Friday, Industrial Production and Capacity Utilization: "Total industrial production fell 11.2 percent in April for its largest monthly drop in the 101-year history of the index, as the COVID-19 (coronavirus disease 2019) pandemic led many factories to slow or suspend operations throughout the month. Manufacturing output dropped 13.7 percent, its largest decline on record, as all major industries posted decreases. The output of motor vehicles and parts fell more than 70 percent; production elsewhere in manufacturing dropped 10.3 percent. . . . At 92.6 percent of its 2012 average, the level of total industrial production was 15.0 percent lower in April than it was a year earlier. Capacity utilization for the industrial sector decreased 8.3 percentage points to 64.9 percent in April, a rate that is 14.9 percentage points below its long-run (1972–2019) average and 1.8 percentage points below its all-time (since 1967) low set in 2009."

Federal Reserve Bank of Chicago

Tuesday, Survey of Business Conditions: Overall, the Activity Index "decreased to −69 in April from –55 in March, suggesting that economic growth remained well below trend. The CFSBC Manufacturing Activity Index fell to –94 in April from –48 in March, but the CFSBC Nonmanufacturing Activity Index ticked up to −57 in April from –58 in the previous month. Respondents' outlooks for the U.S. economy for the next 12 months improved, but remained pessimistic on balance. . . . A number of respondents raised concerns about a second wave of Covid-19 infections and expressed uncertainty about when an effective treatment or vaccine would be developed."

Wednesday, National Financial Conditions: The index "points to some further easing of financial conditions in week ending May 8. . . .The NFCI was –0.40 in the week ending May 8, down from a revised –0.30 (initially reported as –0.28). Risk indicators contributed –0.17, credit indicators contributed –0.15, and leverage indicators contributed –0.08 to the index in the latest week."

Federal Reserve Bank of St. Louis

Wednesday, "Ready for the Pandemic? Household Debt before the COVID-19 Shock": This blog post explores whether the average household was ready financially for the COVID-19 pandemic by measuring the dynamics and geographies of shares of delinquency in different debt categories in recent years through March 2020. The research found that Sun Belt states—Tennessee included—have disproportionately large shares of delinquent debt. "In particular, it is likely that less affluent consumers, such as those with large auto finance loans or student loans, were struggling with payment prior to this unprecedented shock and that they may not be able to make payments."

**Economic Indicators and Confidence:**

The Conference Board

Monday, Employment Trends Index: "The Conference Board Employment Trends Index declined further in April, following a sharp decline in March. The index now stands at 43.43, down from 57.87 (a downward revision) in March. The index is down 60.2 percent from a year ago." According to Gad Levanon, Head of The Conference Board Labor Markets Institute, 'A decline in jobs of this magnitude is unprecedented. . . . Millions of workers in businesses that were shut down will return to work over the coming months as states start to reopen their economies. However, for many companies, massive layoffs will continue in the coming months as they try to adjust to lost revenue with cost cuts. Beginning in May or June, we expect that the number of workers returning to work will be larger than the number being furloughed or laid off. . . . At the end of the year, however, the labor market may still be in worse condition than it was at the peak of the Great Recession.'"

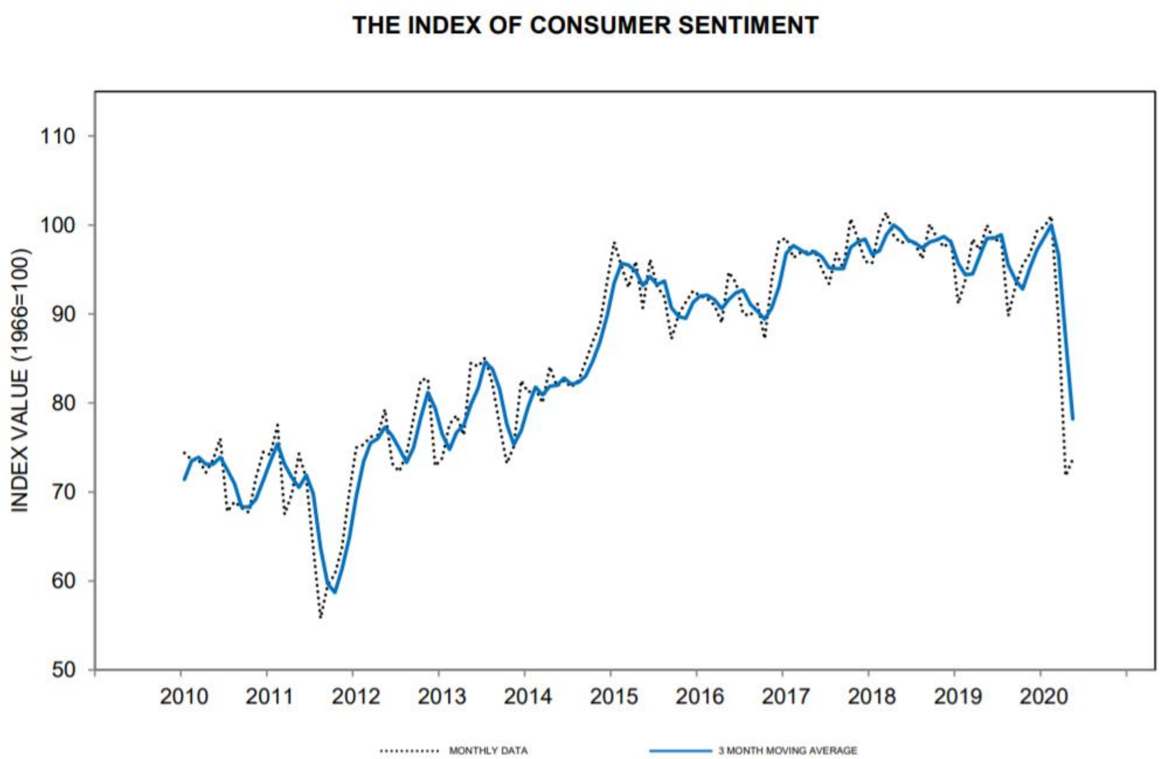
Wednesday, Help Wanted Online Index: The index "fell sharply in April and now stands at 58.6 (July 2018=100), down from 99.4 in March. The Index declined 1.8 percent from February to March and is down 44.6 percent from a year ago."

University of Michigan

Friday, Index of Consumer Sentiment (Preliminary): According to Surveys of Consumers chief economist, Richard Curtin, "Confidence inched upward in early May as the CARES relief checks improved consumers' finances and widespread price discounting boosted their buying attitudes. Despite these gains, personal financial prospects for the year ahead continued to weaken, falling to the lowest level in almost six years, with declines especially sharp among upper income households." Curtin added, "Perhaps the most surprising finding concerned consumers' inflation expectations. The median expected inflation rate during the year ahead rose sharply, with wide differences across age and income subgroups. . . . [However,] the Expectations Index still indicates that no economic restoration is as yet anticipated by consumers."

## Preliminary Results for May 2020

| | May 2020 | Apr 2020 | May 2019 | M-M Change | Y-Y Change |
|---|---|---|---|---|---|
| Index of Consumer Sentiment | **73.7** | 71.8 | 100.0 | +2.6% | -26.3% |
| Current Economic Conditions | **83.0** | 74.3 | 110.0 | +11.7% | -24.5% |
| Index of Consumer Expectations | **67.7** | 70.1 | 93.5 | -3.4% | -27.6% |




**<u>Employment and Businesses:</u>**

Challenger, Gray, & Christmas

Wednesday, [CEO Turnover and Job Cuts](): "Chief Executive Officer turnover plunged to 48 exits in April, the lowest monthly total since 46 departures were recorded in November 2004. . . . April's total is 51% lower than the 97 CEO exits that were tracked in April 2019 and 49% lower than the 94 who left their posts in March." April's total was led by the Technology sector, and Andrew Challenger, senior Vice President of Challenger, Gray & Christmas, Inc., said "The Tech sector is not immune to the current crisis, but it does continue to see strong hiring prospects, especially for the more established companies. Start-ups are having a more difficult time securing funding, and new leadership may be needed during this uncertain time."

Institute for Supply Management

Friday, Spring Semiannual Economic Forecast: Purchasing and supply executives expect the economic downturn to continue through the end of 2020 for both manufacturing and non-manufacturing sectors. "[Manufacturers'] revenue for 2020 is expected to decrease, on average, by 10.3 percent. This is 15.1 percentage points lower than the 4.8-percent increase forecast in December 2019 for all of 2020, and 12.2 percentage points lower than the 1.9-percent increase reported for 2019 over 2018." Said Timothy R. Fiore, Chair of the ISM Manufacturing Business Survey Committee, "'With 15 of the 18 manufacturing sector industries—including five of the six big industry sectors—predicting revenue declines for 2020, panelists forecast that recovery will likely not occur until near the end of the year.' (The two industries reporting expectations of growth in revenue for 2020 are: Apparel, Leather & Allied Products; and Food, Beverage & Tobacco Products.)"

Non-manufacturing executives surveyed "currently expect a 10.4-percent net decrease in overall revenue, which is 13.8 percentage points less than the 3.4-percent increase that was forecasted in December 2019." According to ISM Non-Manufacturing Business Survey Committee Chair Anthony S. Nieves, "companies are currently operating at 73.3 percent of normal capacity. Supply managers have indicated that prices are projected to increase 3.9 percent over the year, reflecting moderate inflation. Employment is projected to decrease 3 percent. All 18 industries are forecasting decreased revenues, a dramatic reversal from 2019, when 17 of 18 industries projected increased revenues for the year."

National Federation of Independent Business

Tuesday, Small Business Optimism: "Small business optimism took another dive in April, falling 5.5 points to 90.9, with owners expressing certainty the economy will weaken in the near-term, but expecting it to improve over the next six months. The Optimism Index has fallen 13.6 points over the last two months." NFIB Chief Economist William Dunkelberg said, "Owners are starting to benefit from the PPP and EIDL small business loan programs as they try to reopen and keep employees on staff."

## **Mortgages and Housing Markets:**

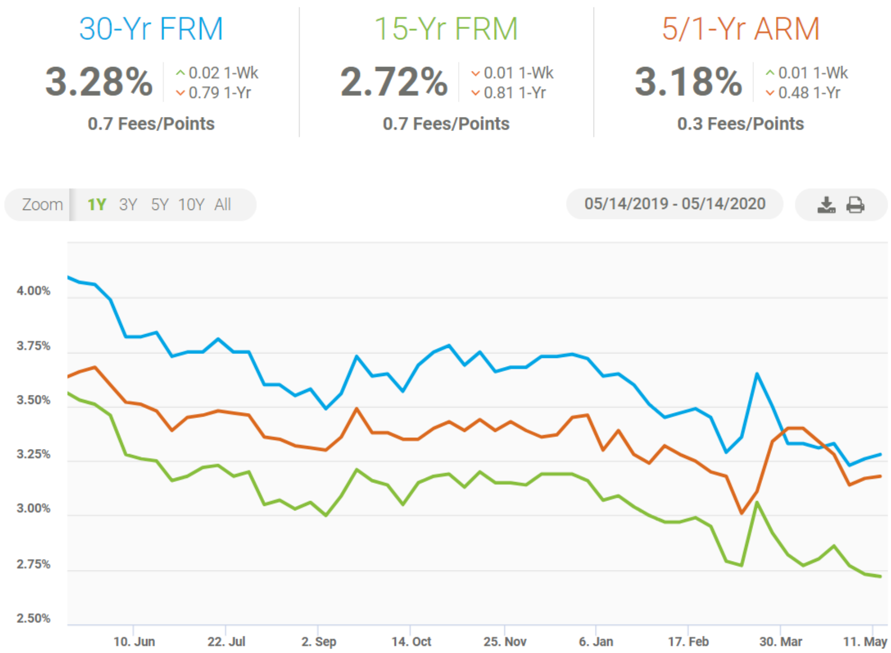
Fannie Mae

Wednesday, Monthly Economic and Housing Outlook: "Following a first quarter decline, real GDP growth is expected to contract even further in the second quarter due primarily to an unprecedented slowdown in consumer spending. . . . The Economic and Strategic Research (ESR) Group attributes much of the shift in its forecast to the sharp decrease in elective healthcare expenditures, which it believes is short-term, and the ESR Group now predicts second quarter 2020 GDP growth of negative 36.6 percent and full-year 2020 growth of negative 5.3 percent, compared to last month's forecast of negative 25.3 percent and negative 3.1 percent, respectively. A partial recovery is forecast for the second half of the year due to supportive monetary and fiscal policies, resumed consumer spending following an elevated savings rate, and expected relaxing of virus-related restrictions and social distancing measures."

"We expect the contraction in the second quarter of 2020 to represent the floor of the sudden and historic drop in economic activity associated with the coronavirus," said Doug Duncan, Senior Vice President and Chief Economist, Fannie Mae. "While we expect housing to stage a solid recovery starting later this year, we still predict a 15 percent decline in existing home sales. Very low interest rates offer some support to the demand side of the housing market, while the supply side recedes via the unwillingness of homeowners to offer properties for sale under the current public health conditions. In the near term, this implies support for home prices. Low interest rates also present a refinance opportunity for millions, and as a result we expect the highest level of annual refinance activity since 2012."

Freddie Mac

Thursday, Primary Mortgage Market Survey: "Mortgage rates have stabilized at very low levels over the last few weeks as homebuyer demand slowly improves," said Sam Khater, Freddie Mac's Chief Economist. "Although purchase applications reached a new low in mid-April, today purchase demand is only down ten percent from one year ago. While demand is improving, inventory is low and declining with no signs of a turnaround yet." Rates for 30-year fixed-rate mortgages "averaged 3.28 percent with an average 0.7 point for the week ending May 14, 2020, up slightly from last week when it averaged 3.26 percent. A year ago at this time, the 30-year FRM averaged 4.07 percent."




Mortgage Bankers Association

Wednesday, Weekly Mortgage Applications: "The Market Composite Index, a measure of mortgage loan application volume, increased 0.3 percent on a seasonally adjusted basis from one week earlier." Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting, said, "There continues to be a stark recovery in purchase applications, as most large states saw increases in activity last week. . . . We expect this positive purchase trend to continue--at varying rates across the country--as states gradually loosen social distancing measures, and some of the pent-up demand for housing returns in what is typically the final weeks of the spring home buying season."

Thursday, Builder Application Survey: "[D]ata for April 2020 shows mortgage applications for new home purchases decreased 12 percent compared from a year ago. Compared to March 2020, applications decreased by 25 percent. . . . MBA estimates new single-family home sales were running at a seasonally adjusted annual rate of 533,000 units in April 2020."

National Association of Realtors

Tuesday, Metropolitan Median Area Prices and Affordability: "Median single-family home prices increased year-over-year in 96% of measured markets in the first quarter, with 174 of 181 metropolitan statistical areas showing sales price gains. That is an increase from the 94% share seen in the fourth quarter of 2019. The national median existing single-family home price in the first quarter of 2020 was $274,600, up 7.7% from the first quarter of 2019 ($254,900). . . . In March, the median sales price of existing homes rose 8% on a year-over-year basis. [NAR chief economist Lawrence] Yun says the strong desire for housing, paired with the dire inventory totals contributed to higher home prices."

**National Association of REALTORS®**
**Median Sales Price of Existing Single-Family Homes for Metropolitan Areas**

| | Metropolitan Area | 2017 | 2018 | 2019 r | 2019.I | 2019.II | 2019.III | 2019.IV r | 2020.I p | Q1-Q1 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | (Not Seasonally Adjusted, 000s) | | | | %Chya |
| 16860 | Chattanooga, TN-GA | 176.1 | 185.7 | 193.3 | 178.2 | 196.6 | 196.5 | 197.7 | 197.7 | 10.9% |
| 28940 | Knoxville, TN | 175.9 | 188.8 | 205.2 | 189.8 | 206.7 | 211.7 | 209.4 | 206.9 | 9.0% |
| 32820 | Memphis, TN-MS-AR | 166.7 | 177.9 | 188.7 | 170.5 | 194.0 | 195.5 | 190.2 | 194.8 | 14.3% |
| 34980 | Nashville-Davidson--Murfreesboro--Franklin, TN | 241.7 | 260.5 | 275.0 | 259.3 | 276.8 | 279.7 | 279.8 | 278.8 | 7.5% |

https://www.nar.realtor/sites/default/files/documents/metro-home-prices-q1-2020-single-family-2020-05-12.pdf