Economic Update, June 19, 2020
Submitted by Bob Moreo

Summary: As we look for signs of economic recovery in a still-uncertain environment, data from May showed improvements from April in the retail and real estate sectors in particular, as states loosened some of their pandemic-related restrictions. Unemployment data also improved in May relative to April, while initial claims decreased again this week. Mortgage rates remain at all-time lows, which along with the May data, contributed to optimism from the National Association of Home Builders' chairman that "we are seeing many positive economic indicators that point to a recovery." All that said, Federal Reserve Chairman Jerome Powell sounded a note of caution this week regarding a quick rebound to the economy given the ongoing uncertainty surrounding the pandemic and the possibility of long-term damage resulting from job losses and business closures. The pandemic has not only disrupted the economy but also traditional data sources. "In the coronavirus era," CNBC reported on Thursday, "when the drop in activity happened so rapidly, the need for more immediate indicators has increased." The article describes how analysts are looking at measures such as "foot traffic at consumer discretionary stores, roadway congestion, job postings, employee hours at small businesses, web traffic for job posting sites, domestic flights and restaurant bookings" for more immediate guidance. Even so, "the story they generally seem to be telling is of faster activity in certain areas and activities, but not enough to send an all-clear signal on where the broader economy is heading."

Federal Government Indicators and Reports:

Bureau of Economic Analysis

Friday, U.S. International Transactions: "The U.S. current account deficit, which reflects the combined balances on trade in goods and services and income flows between U.S. residents and residents of other countries, narrowed by $0.1 billion, or 0.1 percent, to $104.2 billion in the first quarter of 2020. . . . Exports of goods and services to, and income received from, foreign residents decreased $47.5 billion, to $902.3 billion, in the first quarter. Imports of goods and services from, and income paid to, foreign residents decreased $47.7 billion, to $1.01 trillion."

Bureau of Labor Statistics

Thursday, Employer Costs for Employee Compensation: "State and local government worker compensation costs for employers averaged $52.45 per hour worked in March 2020. Wages and salaries averaged $32.62 and accounted for 62.2 percent of employer costs, while benefit costs averaged $19.82 and accounted for 37.8 percent. Total compensation costs at the 50th (median) wage percentile were $50.06. . . . Total employer compensation costs for private industry workers averaged $35.34 per hour worked. Wages and salaries averaged $24.82 per hour worked and accounted for 70.2 percent of employer costs. Benefit costs averaged $10.53 per hour worked and accounted for the remaining 29.8 percent. Median (50th wage percentile) employer costs per employee hour worked were $26.00." Broken down by census region, total compensation for private industry workers was lowest in the East South Central region (Alabama, Kentucky, Mississippi, and Tennessee), at $28.16.

Friday, State Employment and Unemployment (Monthly): Compared to April, "unemployment rates were lower in May in 38 states and the District of Columbia, higher in 3 states, and stable in 9 states. . . . The national unemployment rate declined by 1.4 percentage points over the month to 13.3 percent but was 9.7 points higher than in May 2019." Tennessee's unemployment rate in May 2020 was 11.3 percent, a 4.2-point improvement from April.

Bureau of Transportation Statistics

Monday, U.S. Airline Financial Data: "U.S. scheduled passenger airlines reported a first-quarter 2020 after-tax net loss of $5.2 billion and a pre-tax operating loss of $4.6 billion. The first-quarter losses follow 27 consecutive quarterly after-tax net profits and 35 consecutive quarterly pre-tax operating profits."

Wednesday, U.S. Airlines Cargo (Preliminary): "U.S. airlines carried 1.3% less cargo by weight in April 2020 than in April 2019 with a 15% decline in international cargo, according to preliminary data." Domestic cargo, however, was up 3.8%. "April 2020 would be the fifth consecutive month that the weight of domestic cargo on U.S. airlines rose from the same month of the previous year."

Census Bureau

Tuesday, Advance Monthly Sales for Retail and Food Services: "Advance estimates of U.S. retail and food services sales for May 2020 . . . were $485.5 billion, an increase of 17.7 percent from the previous month, but 6.1 percent below May 2019. Total sales for the March 2020 through May 2020 period were down 10.5 percent from the same period a year ago. . . . Retail trade sales were up 16.8 percent from April 2020, but 1.4 percent below last year. Nonstore retailers were up 30.8 percent from May 2019, while building material and garden equipment and supplies dealers were up 16.4 percent from last year."

Tuesday, Manufacturing and Trade Inventories and Sales: "The combined value of distributive trade sales and manufacturers' shipments for April . . . was estimated at $1,184.8 billion, down 14.4 percent from March 2020 and was down 18.4 percent from April 2019. Manufacturers' and trade inventories . . . were estimated at an end-of-month level of $1,981.2 billion, down 1.3 percent from March 2020 and were down 2.2 percent from April 2019. The total business inventories/sales ratio based on seasonally adjusted data at the end of April was 1.67."

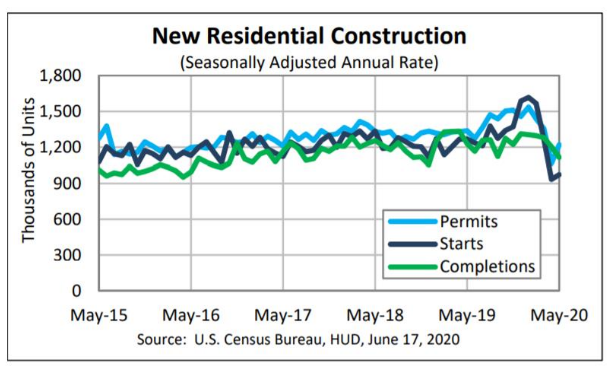
Wednesday, New Residential Construction: "Privately-owned housing units authorized by building permits in May were at a seasonally adjusted annual rate of 1,220,000. This is 14.4 percent above the revised April rate of 1,066,000, but is 8.8 percent below the May 2019 rate of 1,338,000. . . . Privately-owned housing starts in May were at a seasonally adjusted annual rate of 974,000. This is 4.3 percent above the revised April estimate of 934,000, but is 23.2 percent below the May 2019 rate of 1,268,000. . . . Privately-owned housing completions in May were at a seasonally adjusted annual rate of 1,115,000. This is 7.3 percent below the revised April estimate of 1,203,000 and is 9.3 percent below the May 2019 rate of 1,230,000."

NEW RESIDENTIAL CONSTRUCTION MAY 2020

Building Permits:	**1,220,000**
Housing Starts:	**974,000**
Housing Completions:	**1,115,000**

Next Release: July 17, 2020

Seasonally Adjusted Annual Rate
Source: U.S. Census Bureau, HUD, June 17, 2020



Department of Labor

Thursday, Unemployment Insurance Weekly Claims: "In the week ending June 13, the advance figure for seasonally adjusted initial claims was 1,508,000, a decrease of 58,000 from the previous week's revised level. . . . The 4-week moving average was 1,773,500, a decrease of 234,500 from the previous week's revised average. . . . The advance seasonally adjusted insured unemployment rate was 14.1 percent for the week ending June 6, unchanged from the previous week's revised rate." In Tennessee, there were 19,925 initial claims filed during the week ended June 13, a decrease of 983 from the week prior.

Federal Reserve

Tuesday, Semiannual Monetary Policy Report: Presenting the report to the Senate Committee on Banking, Housing, and Urban Affairs, Fed chairman Jerome Powell first spoke of the severity and speed at which economic activity decreased when measures to slow the spread of the coronavirus went into effect. Powell stated that "the decline in real gross domestic product (GDP) this quarter is likely to be the most severe on record" and emphasized that "the burden of the downturn has not fallen equally on all Americans." Powell cautioned "if not contained and reversed, the downturn could further widen gaps in economic well-being that the long expansion had made some progress in closing." Although some indications show the economy has stabilized and started to improve in some areas, Powell noted that "output and employment remain far below their pre-pandemic levels, and significant uncertainty remains about the timing and strength of the recovery. Much of that economic uncertainty comes from uncertainty about the path of the disease and the effects of measures to contain it. Until the public is confident that the disease is contained, a full recovery is unlikely." The chair said the Fed is committed "to maintain interest rates at this level until we are confident that the economy has weathered recent events" and to take necessary actions "to support the flow of credit in the economy." However, Powell expressed concern about "the potential for longer-term damage from permanent job loss and business closures," noting that "long periods of unemployment can erode workers' skills and hurt their future job prospects." He also stressed that the "pandemic is presenting acute risks to small businesses," which are "the heart of our economy and often embody the work of generations."

Federal Reserve Bank of Philadelphia

Thursday, Manufacturing Business Outlook Survey: "Manufacturing conditions in the region showed signs of improvement this month, according to firms responding to the June Manufacturing Business Outlook Survey. The survey's current indicators for general activity, new orders, and shipments returned to positive territory, coinciding with the gradual reopening of the economy in our region and the nation more broadly. The employment index remained negative but increased for the second consecutive month. All future indicators improved, suggesting that the firms expect overall growth over the next six months."

Economic Indicators and Confidence:

The Conference Board

Thursday, Leading Economic Index: The index "for the U.S. increased 2.8 percent in May to 99.8, following a 6.1 percent decline in April and a 7.5 percent decline in March." According to Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board, "the relative improvement in unemployment insurance claims is responsible for about two-thirds of the gain in the index. The improvements in labor markets, housing permits, and stock prices also buoyed the LEI, but new orders in manufacturing, consumers' outlook on the economy, and the Leading Credit Index still point to weak economic conditions."

Mortgages and Housing Markets:

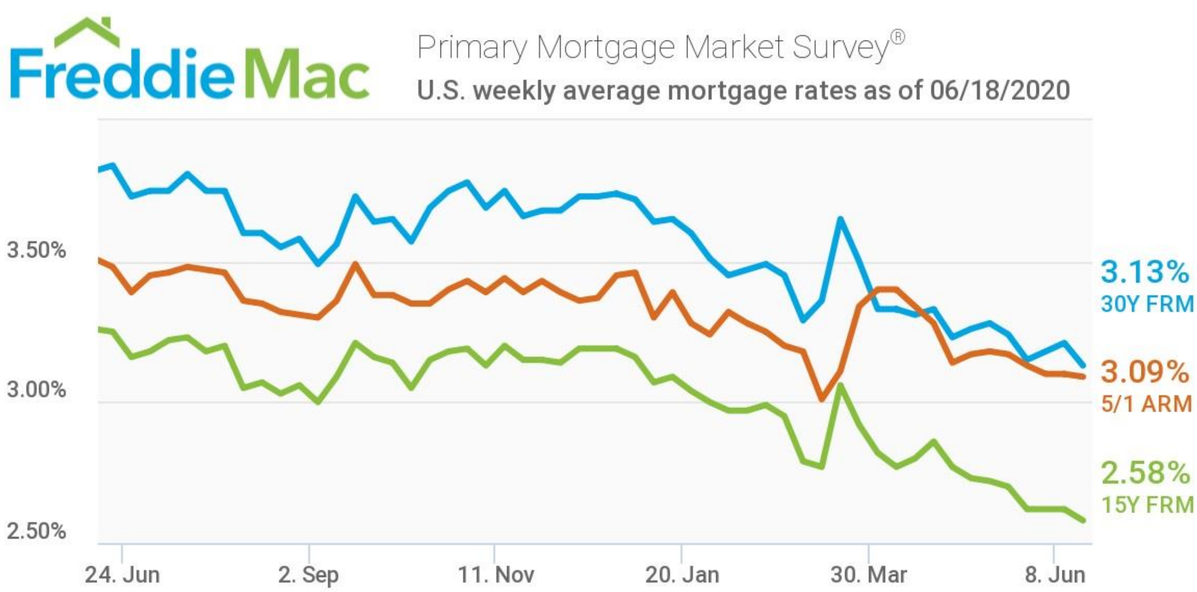
Fannie Mae

Monday, Monthly Economic and Housing Outlook: Fannie Mae's Economic and Strategic Research (ESR) Group "expects second quarter 2020 real GDP to fall 37.0 percent annualized, compared to the 36.6 percent decline predicted last month, and full-year 2020 GDP of negative 5.4 percent, one-tenth lower than the prior forecast of negative 5.3 percent. Its forecast for full-year 2021 growth, however, improved by one-tenth to 5.3 percent. The revisions to the underlying components reflect expectations that consumer spending and fixed investment will be stronger than previously forecast but largely offset by weaker net exports and business inventories. . . . The ESR Group also revised upward its forecast for new and existing home sales in 2020." Doug Duncan, Fannie Mae Senior Vice President and Chief Economist, said "while housing took a big hit this quarter, we believe the further reduction of mortgage rates, persistently low levels of supply, and strong buyer sentiment compared to seller sentiment should continue to provide support to home prices and new construction."

Freddie Mac

Tuesday, Quarterly Forecast: "While the housing market undoubtedly has felt the effects of COVID-19, we are encouraged by recent homebuyer demand as well as mortgage rates that should remain at record lows for the foreseeable future." said Sam Khater, Freddie Mac's Chief Economist. According to the quarterly forecast, "the average 30-year fixed-rate mortgage is expected to be 3.4 percent in 2020 and 3.2 percent in 2021. House price growth is expected to decelerate to an annual rate of 2.3 percent in 2020. In 2021, that rate is expected to be 0.4 percent. Home sales are expected to decrease in 2020 to 4.8 million homes and increase in 2021 to 5.6 million homes."

Thursday, Primary Mortgage Market Survey: Rates fell to another all-time low; "30-year fixed-rate mortgage averaged 3.13 percent . . . for the week ending June 18, 2020, down from last week when it averaged 3.21 percent. A year ago at this time, the 30-year FRM averaged 3.84 percent."



Mortgage Bankers Association

Tuesday, Builder Application Survey: "Data for May 2020 shows mortgage applications for new home purchases increased 10.9 percent compared from a year ago. Compared to April 2020, applications increased by 26 percent." This indicates "a healthy turnaround after three months of declines," according to Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "Homebuyer traffic is rising, and homebuilders are continuing to ramp up production following the COVID-19 pandemic-related restrictions. We expect to see additional near-term strength in the coming months from the resumption of delayed sales activity caused by the social distancing and stay-at-home orders during March and April."

Wednesday, Mortgage Applications: "Mortgage applications increased 8.0 percent from one week earlier, according to data . . . for the week ending June 12, 2020. . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($510,400 or less) decreased to 3.30 percent from 3.38 percent, the lowest level in survey history."

Thursday, Commercial/Multifamily Delinquency Report: "Commercial and multifamily mortgage delinquencies remained low at the end of the first quarter of 2020. . . . 'This year's first quarter marked the end of a long period of extraordinarily low and stable delinquency rates for commercial and multifamily mortgages,' said Jamie Woodwell, MBA's Vice President of Commercial Real Estate Research. . . . 'More recent data from MBA and others show increasing pressure on delinquency rates, particularly for loans backed by hotel and retail properties - where the impacts have been most immediately and dramatically felt.'"