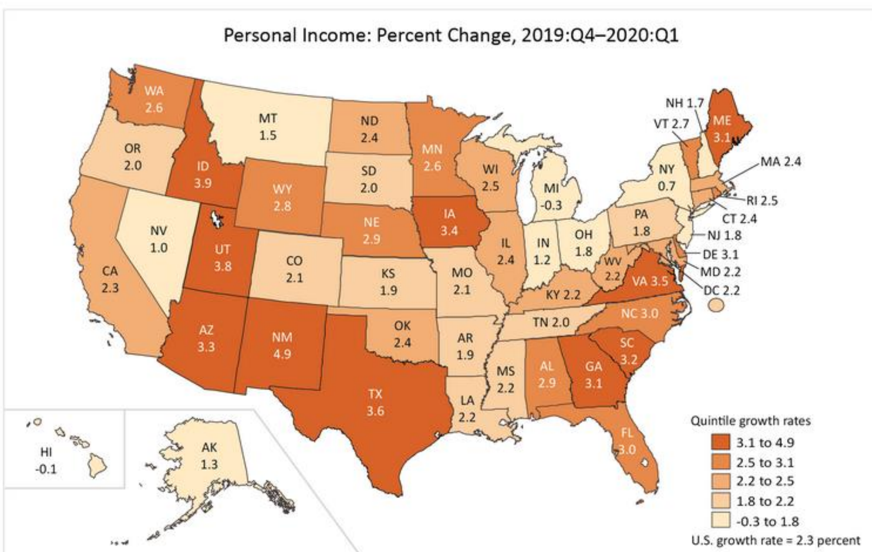
Economic Update, June 26, 2020
Submitted by Dave Keiser

Summary: As the country reopens and people start to venture out of their homes (as can be seen by foot traffic metrics), several economic indicators have improved. New orders of durable goods increased, unemployment claims decreased from last week, mortgage rates remained at all-time lows, investor confidence increased, and a little over half of small businesses reported sales increases in May. However, a lot of indicators either weren't as rosy or don't reflect the reopening just yet. Personal income decreased in May. Mortgage applications and home sales were down. Naturally, air cargo and transborder freight with our neighboring countries were both down. Perhaps more worrisome, consumer sentiment decreased in the second half of June as coronavirus cases rebounded, particularly in the South and West. At least one economic model suggests the recovery may plateau given the increase in new cases. Time will tell.

Federal Government Indicators and Reports:

Bureau of Economic Analysis

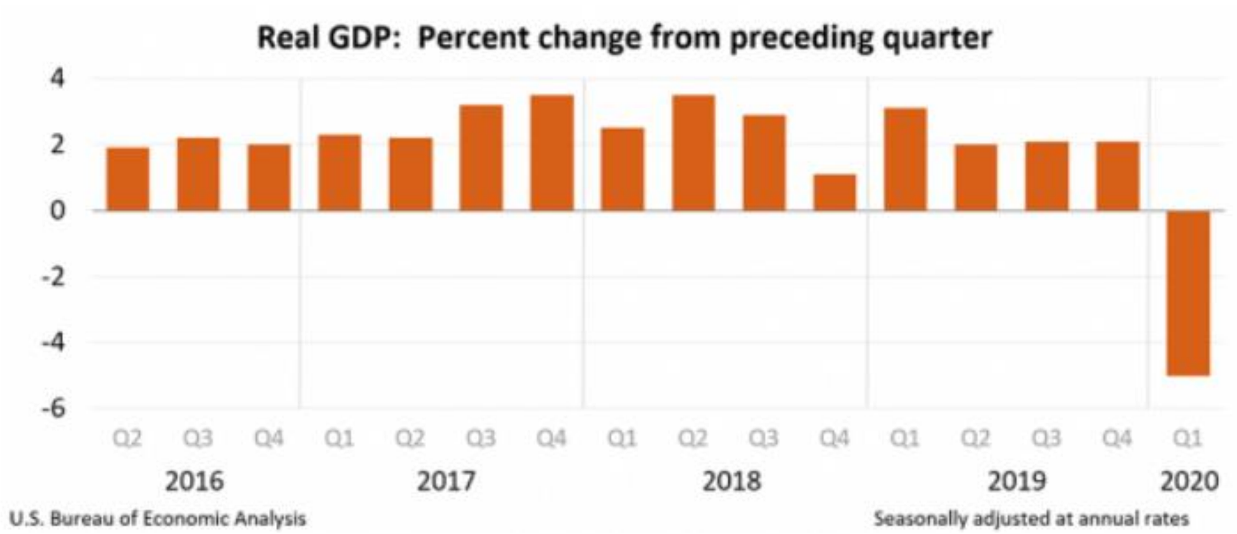
Tuesday, Personal Income by State: "State personal income increased 2.3 percent at an annual rate in the first quarter of 2020, a deceleration from the 3.6 percent increase in the fourth quarter of 2019. . . . The percent change in personal income across all states ranged from 4.9 percent in New Mexico to -0.3 percent in Michigan." The change in Tennessee was 2.0 percent.



U.S. Bureau of Economic Analysis

Thursday, Gross Domestic Product: "Real gross domestic product (GDP) decreased at an annual rate of 5.0 percent in the first quarter of 2020. . . . In the fourth quarter, real GDP increased 2.1 percent. . . . The decrease in real GDP in the first quarter reflected negative contributions from [personal consumption expenditures], private inventory investment, exports, and nonresidential fixed investment that were partly offset by positive contributions from residential fixed investment, federal government spending, and state and local government spending. Imports, which are a subtraction in the calculation of GDP, decreased."

Real GDP: Percent change from preceding quarter, Q1 2020 (3rd)



Friday, [Personal Income and Outlays](#): "Personal income decreased $874.2 billion (4.2 percent) in May. . . . Disposable personal income (DPI) decreased $911.1 billion (4.9 percent) and personal consumption expenditures (PCE) increased $994.5 billion (8.2 percent). Real DPI decreased 5.0 percent in May and Real PCE increased 8.1 percent. The PCE price index increased 0.1 percent. Excluding food and energy, the PCE price index increased 0.1 percent."

Bureau of Labor Statistics

Thursday, [Productivity and Costs by Industry](#): "Labor productivity declines were widespread among manufacturing industries in 2019, with decreases in 54 of the 86 four-digit NAICS industries. Of the 51 industries in durable manufacturing, 31 had productivity decreases in 2019 led by a 7.8 percent decline in the productivity of the HVAC and commercial refrigeration equipment industry. Nondurable manufacturing also had widespread declines in 2019 with productivity falling in 23 of 35 industries, led by a 13.1-percent decline in the other leather products industry. All four industries in the mining sector posted productivity declines in 2019 led by the coal mining industry with a decrease of 6.6 percent."

Thursday, [American Time Use](#): "In 2019, 24 percent of employed persons did some or all of their work at home on days they worked, and 82 percent of employed persons did some or all of their work at their workplace."

Bureau of Transportation Statistics

Tuesday, [Air Cargo](#): "U.S. and foreign airlines carried 21% less cargo by weight between the U.S. and foreign points in April 2020 than in April 2019, including a 44% decline in cargo between the U.S. and Europe" according to data reported by large air carriers.

Wednesday, [North American Transborder Freight](#): A total of $58.1 billion of transborder freight was moved by all modes of transportation between North American countries in April 2020, down 44 percent from April 2019 and 41.2 percent from March 2020. This is the lowest total since May 2009.

Trucks moved $38.5 billion of freight, down 40.8 percent from April 2019. Railways moved $6.0 billion, down 61.9 percent from April 2019.

Census Bureau

Tuesday, New Residential Sales: "Sales of new single-family houses in May 2020 were at a seasonally adjusted annual rate of 676,000. . . . This is 16.6 percent above the revised April rate of 580,000 and is 12.7 percent above the May 2019 estimate of 600,000. The median sales price of new houses sold in May 2020 was $317,900. The average sales price was $368,800. The seasonally-adjusted estimate of new houses for sale at the end of May was 318,000. This represents a supply of 5.6 months at the current sales rate."

Thursday, Advance Economic Indicators: "The international trade deficit was $74.3 billion in May, up $3.6 billion from $70.7 billion in April. Exports of goods for May were $90.1 billion, $5.5 billion less than April exports. Imports of goods for May were $164.4 billion, $1.9 billion less than April imports. Wholesale inventories for May . . . were estimated at an end-of-month level of $642.2 billion, down 1.2 percent from April 2020, and were down 4.3 percent from May 2019. Retail inventories for May . . . were estimated at an end-of-month level of $604.5 billion, down 6.1 percent from April 2020, and were down 9.5 percent from May 2019."

Thursday, Advance Durable Goods: "New orders for manufactured durable goods in May increased $26.6 billion or 15.8 percent to $194.4 billion. . . . This increase, up following two consecutive monthly decreases, followed an 18.1 percent April decrease. . . . Transportation equipment, also up following two consecutive monthly decreases, led the increase, $20.9 billion or 80.7 percent to $46.9 billion. Shipments of manufactured durable goods in May, up following two consecutive monthly decreases, increased $8.4 billion or 4.4 percent to $198.5 billion. . . . Unfilled orders for manufactured durable goods in May, up following two consecutive monthly decreases, increased $0.8 billion or 0.1 percent to $1,108.6 billion. . . . Inventories of manufactured durable goods in May, up three consecutive months, increased $0.3 billion or 0.1 percent to $425.1 billion."

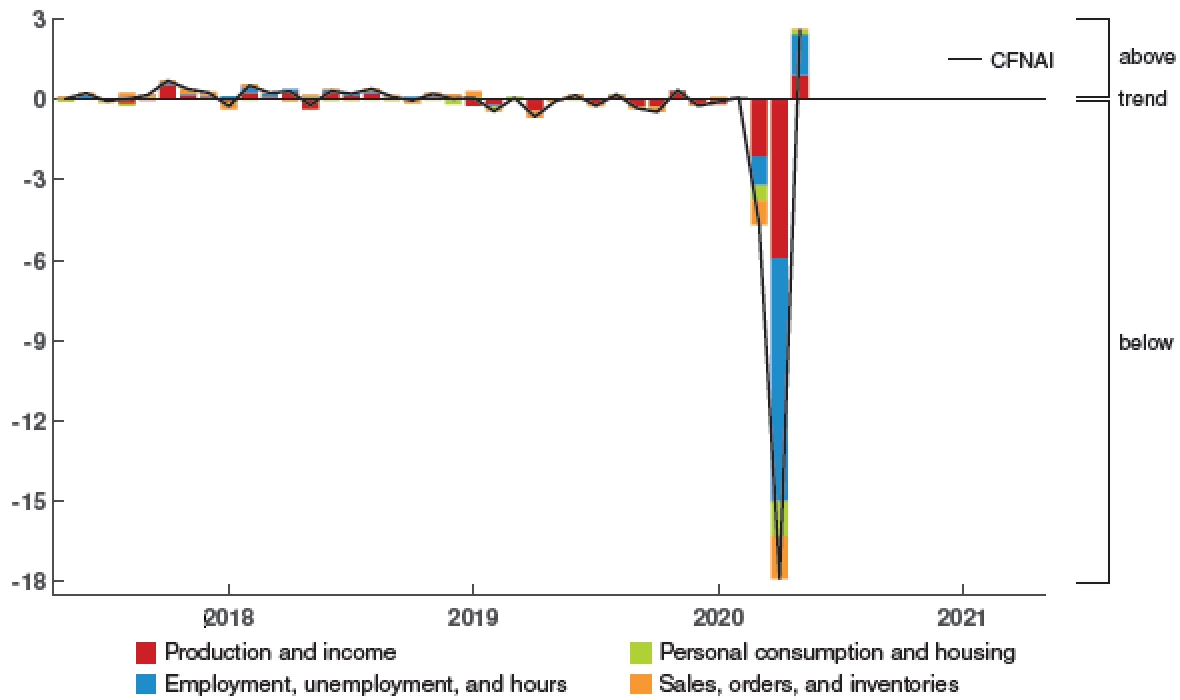
Department of Labor

Thursday, Unemployment Insurance Weekly Claims: "In the week ending June 20, the advance figure for seasonally adjusted initial claims was 1,480,000, a decrease of 60,000 from the previous week's revised level. . . . The 4-week moving average was 1,620,750, a decrease of 160,750 from the previous week's revised average. . . . The advance seasonally adjusted insured unemployment rate was 13.4 percent for the week ending June 13, a decrease of 0.5 percentage point from the previous week's revised rate." In Tennessee, there were 21,155 initial claims filed during the week ended June 20, an increase of 1,742 from the week prior.

Federal Reserve Bank of Chicago

Monday, National Activity Index (CFNAI): "Led by improvements in production- and employment-related indicators, the Chicago Fed National Activity Index (CFNAI) rose to +2.61 in May from –17.89 in April. All four broad categories of indicators used to construct the index made positive contributions in May, and all four categories increased from April. The index's three-month moving average, CFNAI-MA3, moved up to –6.65 in May from –7.50 in April."

Chicago Fed National Activity Index, by Categories



Wednesday, National Financial Conditions Index (NFCI): "The NFCI ticked down to –0.59 in the week ending June 19. . . . Positive 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. "

Federal Reserve of New York

Thursday, Weekly Economic Index: "The WEI is currently -7.69 percent, scaled to four-quarter GDP growth, for the week ended June 20 and -8.57 percent for June 13; for reference, the WEI stood at 1.54 percent for the week ended February 29. Today's increase in the WEI for the week of June 20 was driven by increases in fuel sales, tax withholdings, and railroad traffic, and a small decrease in initial unemployment insurance (UI) claims, which more than offset a decline in electricity output. . . . The WEI is scaled to the four-quarter GDP growth rate; for example, if the WEI reads -2 percent and the current level of the WEI persists for an entire quarter, we would expect, on average, GDP that quarter to be 2 percent lower than a year previously."

Economic Indicators and Confidence:

IHS Markit

Tuesday, Composite Purchasing Managers' Index (PMI): "Adjusted for seasonal factors, the IHS Markit Flash U.S. Composite PMI Output Index posted 46.8 in June, up from 37.0 in May, indicating that the rate of contraction slowed further from April's record low. The decrease was the softest since February, before the pandemic escalated."

State Street

Wednesday, Investor Confidence: The index "increased to 94.3, jumping 21 points from May's revised reading of 73.3. North American ICI [Investor Confidence Index] led the way, rising 18.8 points to 86.2, followed closely by the Asian ICI which was up 18.6 points to 100.0. The European ICI was up double digits as well, rising to 119.7 from 108.5."

University of Michigan

Friday, Consumer Sentiment: "Consumer sentiment slipped in the last half of June, although it still recorded its second monthly gain over the April low. While most consumers believe that economic conditions could hardly worsen from the recent shutdown of the national economy, prospective growth in the economy is more closely tied to progress against the coronavirus. The early reopening of the economy has undoubtedly restored jobs and incomes, but it has come at the probable cost of an uptick in the spread of the virus."

Employment and Businesses:

National Federation of Independent Business

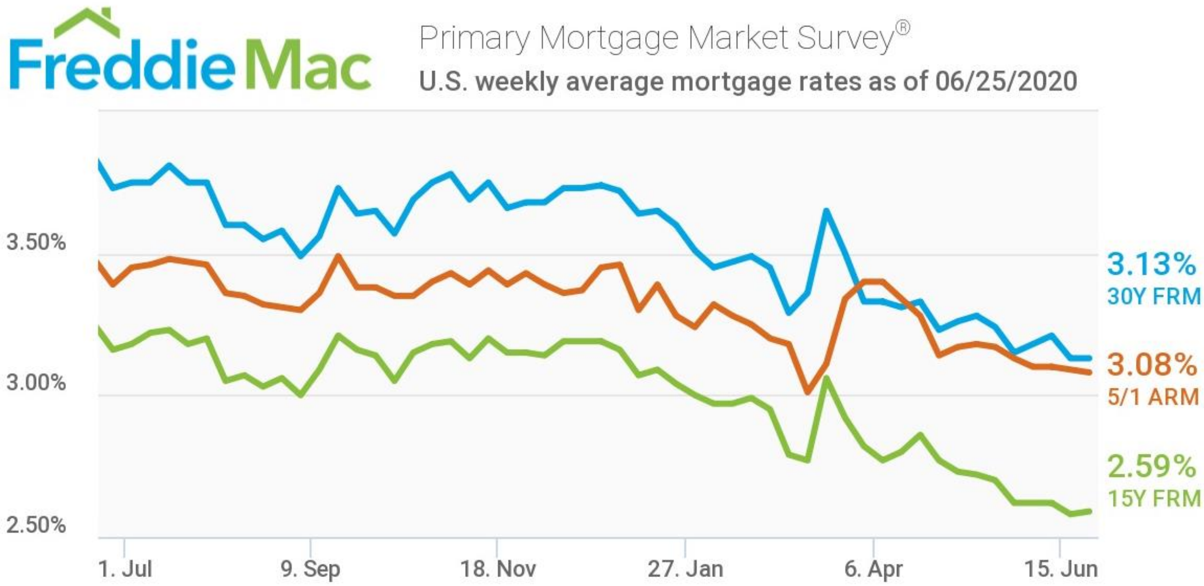
Tuesday, Small Business Sales: "Twenty-seven percent of owners reported experiencing a significant or moderate increase in sales due to eased restrictions in the states. Another 27% reported a slight increase and 42% of owners said sales levels did not change. 'Small businesses are entering the fourth month of economic crisis and are still experiencing a heavy amount of uncertainty and complications,' said Holly Wade, NFIB Director of Research & Policy Analysis. 'Now that owners have more flexibility in using their PPP loan, they can focus on adjusting business operations accordingly as states loosen business restrictions.'"

Mortgages and Housing Markets:

Freddie Mac

Thursday, Multifamily Apartment Investment Market Index (AIMI): The index "rose by 1.8% in Q1 2020 after a modest quarterly decline (1.4%) in Q4 2019. The growth was largely driven by mortgage rates decreasing by 21 bps and supported by positive net operating income (NOI) growth nationwide and in most markets. On an annual basis, AIMI rose to 11% as mortgage rates experienced their second largest annual decline (95 bps) in AIMI history.

Thursday, Primary Mortgage Market Survey: Mortgage rates remain at all-time lows. The "30-year fixed-rate mortgage averaged 3.13 percent . . . for the week ending June 25, 2020, unchanged from last week. A year ago at this time, the 30-year FRM averaged 3.73 percent."



Mortgage Bankers Association

Monday, Forbearance and Call Volume Survey: The latest survey "revealed that the total number of loans now in forbearance decreased—for the first time since the survey's inception in March—from 8.55% of servicers' portfolio volume in the prior week to 8.48% as of June 14, 2020. According to MBA's estimate, 4.2 million homeowners are now in forbearance plans—down from almost 4.3 million homeowners the prior week."

Wednesday, Mortgage Applications: "Mortgage applications decreased 8.7 percent from one week earlier."

National Association of Realtors

Monday, Existing Home Sales: "Total existing-home sales, . . . completed transactions that include single-family homes, townhomes, condominiums and co-ops, slumped 9.7% from April to a seasonally-adjusted annual rate of 3.91 million in May. Overall, sales fell year-over-year, down 26.6% from a year ago (5.33 million in May 2019)."