Economic Update, July 31, 2020
Submitted by Bob Moreo

Summary: The historically negative GDP number that came out this week didn't surprise anyone—in fact, forecasters actually expected slightly worse. Ahead of that number, Fitch Ratings warned that the coronavirus' effect on GDP will be felt for years to come. Initial unemployment claims ticked up slightly for the second straight week, and the Federal Reserve voted to hold interest rates near zero. Consumer and investor expectations are trending downward. Concerns about a slow recovery—or even another round of shutdowns—seem to remain from week to week as the trajectory of the pandemic remains unknown. However, some short-term reports have been positive. Bloomberg reported on Monday that "U.S. orders for durable goods rose more than expected in June, led by a spike in demand for motor vehicles and a pickup in business activity more broadly as states reopened their economies." Housing and real estate continue to show strength. Reuters reported that pending home sales contracts reached their highest level since January 2006, beating analyst expectations.

TACIR has a partnership with the Business and Economic Research Center at Middle Tennessee State University (BERC), which has published a new interactive dashboard and website, "Tracking Tennessee's Economy," to visualize the state's economic and labor market trends. To view this dashboard and the many other economic topics BERC is working on, please visit their website at https://mtsu.edu/berc/.

Federal Government Indicators and Reports:

Bureau of Economic Analysis

Thursday, Gross Domestic Product, Second Quarter 2020: According to advance estimates, "real gross domestic product (GDP) decreased at an annual rate of 32.9 percent in the second quarter of 2020. . . . In the first quarter, real GDP decreased 5.0 percent." The first quarter decrease did not change from the advance estimate. This release also includes "results of the Annual Update of the National Income and Product Accounts. . . . For the period of expansion from the second quarter of 2009 through the fourth quarter of 2019, real GDP increased at an annual rate of 2.3 percent, the same as previously published."

Friday, Personal Income and Outlays, June 2020: "Personal income decreased $222.8 billion (1.1 percent) in June. . . . Disposable personal income (DPI) decreased $255.3 billion (1.4 percent) and personal consumption expenditures (PCE) increased $737.7 billion (5.6 percent). . . . The decrease in personal income in June was more than accounted for by a decrease in government social benefits to persons as payments made to individuals from federal economic recovery programs in response to the COVID-19 pandemic continued, but at a lower level than in May. . . . Partially offsetting the decrease in other government social benefits were increases in compensation of employees and proprietors' income as portions of the economy continued to reopen in June."

Bureau of Labor Statistics

Wednesday, Quarterly Business Employment Dynamics: "From September 2019 to December 2019, gross job gains from opening and expanding private-sector establishments were 7.8 million, an increase of 490,000 jobs from the previous quarter. . . . Over this period, gross job losses from closing and contracting private-sector establishments were 7.0 million, a decrease of 291,000 jobs from the previous quarter . . . [yielding] a net employment gain of 792,000 jobs in the private sector during the fourth quarter of 2019." Tennessee reported 147,133 gross job gains and 130,443 losses, for a net gain of 16,690 jobs in the fourth quarter of 2019.

Wednesday, Metropolitan Area Employment and Unemployment: "Unemployment rates were higher in June than a year earlier in 388 of the 389 metropolitan areas and lower in 1 area [Owensboro, KY]. . . . A total of 218 areas had jobless rates of less than 10.0 percent and 6 areas had rates of at least 20.0 percent. Nonfarm payroll employment decreased over the year in 307 metropolitan areas and was essentially unchanged in 82 areas. The national unemployment rate in June was 11.2 percent, not seasonally adjusted, up from 3.8 percent a year earlier." The table below contains data for Tennessee's metropolitan areas taken from tables 1 and 3 in the news release.

	Civilian Labor Force		Unemployed				Number of Employees on Nonfarm Payrolls		Employment Change June 2019 to June 2020	
			Number		Percent of Labor Force					
	June 2019	June 2020	June 2019	June 2020	June 2019	June 2020	June 2019	June 2020	Number	Percent
Tennessee	3,372,213	3,201,894	131,488	324,508	3.9	10.1	3,104,500	2,951,800	–152,700	-4.9
Chattanooga	280,189	270,275	10,486	22,124	3.7	8.2	267,200	261,000	–6,200	-2.3
Clarksville	117,764	113,678	5,759	9,942	4.9	8.7	91,800	89,200	–2,600	-2.8
Cleveland	59,810	59,065	2,506	5,005	4.2	8.5	47,200	48,000	800	1.7
Jackson	66,091	61,866	2,681	5,764	4.1	9.3	69,400	65,500	–3,900	-5.6
Johnson City	91,599	86,874	3,980	7,740	4.3	8.9	78,800	76,500	–2,300	-2.9
Kingsport-Bristol-Bristol	139,257	131,288	5,784	12,056	4.2	9.2	120,600	112,700	–7,900	-6.6
Knoxville	436,264	412,167	16,719	33,691	3.8	8.2	401,400	388,200	–13,200	-3.3
Memphis	651,549	620,350	31,456	73,822	4.8	11.9	651,100	611,100	–40,000	-6.1
Morristown	53,423	51,352	2,317	4,847	4.3	9.4	46,700	45,500	–1,200	-2.6
Nashville-Davidson--Murfreesboro--Franklin	1,102,056	1,042,052	33,493	106,563	3.0	10.2	1,043,300	976,900	–66,400	-6.4

Thursday, Productivity and Costs by Industry (Trade and Food Services): "Labor productivity rose 5.3 percent in retail trade and 0.4 percent in wholesale trade in 2019. . . . Unit labor costs . . . rose in wholesale trade and fell in retail trade. Annual productivity growth for retail trade in 2019 was the highest since 1999. . . . Productivity increased in 13 of the 15 3-digit NAICS industries studied in 2019 . . . [and] in 30 of the 46 4-digit NAICS industries studied."

Friday, Employment Cost Index: "Compensation costs for civilian workers increased 0.5 percent, seasonally adjusted, for the 3-month period ending in June 2020. . . . Wages and salaries increased 0.4 percent and benefit costs increased 0.8 percent from March 2020. . . . Compensation costs for private industry workers increased 2.7 percent over the year. . . . Wages and salaries increased 2.9 percent for the 12-month period ending in June 2020 and . . . the cost of benefits rose 2.0 percent."

Bureau of Transportation Statistics

Tuesday, U.S. International Air Cargo: "Airlines carried 11% less cargo by weight between the U.S. and foreign points in May 2020 than in May 2019, including a 40% decline in cargo between the U.S. and Europe. . . . May's decline was smaller than decreases in March (down 17%) and April (down 16%)."

Census Bureau

Monday, Advance Report on Durable Goods: "New orders for manufactured durable goods in June increased $14.0 billion or 7.3 percent to $206.9 billion. . . . This increase, up two consecutive months, followed a 15.1 percent May increase. . . . Transportation equipment, also up two consecutive months, led the increase, $9.2 billion or 20.0 percent to $55.3 billion. . . . Shipments of manufactured durable goods in June, up two consecutive months, increased $29.4 billion or 14.9 percent to $227.1 billion. . . . Nondefense new orders for capital goods in June decreased $10.3 billion or 16.4 percent to $52.2 billion. Shipments increased $2.8 billion or 4.4 percent to $66.1 billion." Looking at table 1 of the report, new orders for nondefense durable goods are nearly $200 billion (14.4 percent) below this same point year-to-date in 2019, despite the rebound in the past two months.

Tuesday, [Housing Vacancies and Homeownership](): "National vacancy rates in the second quarter 2020 were 5.7 percent for rental housing and 0.9 percent for homeowner housing." Both rates were lower than they were in the first quarter of 2020 and lower than the second quarter of 2019. "The homeownership rate of 67.9 percent was 3.8 percentage points higher than the rate in the second quarter 2019 (64.1 percent) and 2.6 percentage points higher than the rate in the first quarter 2020 (65.3 percent). . . . In the second quarter 2020, the median asking rent for vacant for rent units was $1,033 [and] . . . the median asking sales price for vacant for sale units was $205,600."

Wednesday, [Advance Economic Indicators Report](): "The international trade deficit was $70.6 billion in June, down $4.6 billion from $75.3 billion in May. Exports of goods for June were $102.6 billion, $12.5 billion more than May exports. Imports of goods for June were $173.2 billion, $7.9 billion more than May imports." Advance wholesale inventories "were estimated at an end-of-month level of $629.6 billion, down 2.0 percent from May 2020, and were down 6.1 percent from June 2019." Advance retail inventories "were estimated at an end-of-month level of $588.2 billion, down 2.6 percent from May 2020, and were down 11.5 percent from June 2019."

Department of Labor

Thursday, [Unemployment Insurance Initial Claims](): "In the week ending July 25, the advance figure for seasonally adjusted initial claims was 1,434,000, an increase of 12,000 from the previous week's revised level. . . . The 4-week moving average was 1,368,500, an increase of 6,500 from the previous week's revised average. . . . The advance seasonally adjusted insured unemployment rate was 11.6 percent for the week ending July 18, an increase of 0.5 percentage point from the previous week's unrevised rate." New claims in Tennessee, however, decreased in the week ending July 25. The state had reported a significant increase in claims the week before, with "layoffs in the public administration, arts, entertainment, and recreation, management of companies and enterprises, wholesale trade, and educational services industries."

Federal Reserve

Wednesday, [Federal Open Market Committee (FOMC) Statement](): "The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. In light of these developments, the Committee decided to maintain the target range for the federal funds rate at 0 to 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals."

Economic Indicators and Confidence:

The Conference Board

Tuesday, [Consumer Confidence Index](): "The Index now stands at 92.6 down from 98.3 in June. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – improved from 86.7 to 94.2. However, the Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – decreased from 106.1 in June to 91.5 this month." Lynn Franco, Senior Director of Economic Indicators at The Conference Board, said "consumers have grown less optimistic about the short-term outlook for the economy and labor market and remain subdued about their financial prospects. Such uncertainty about the short-term future does not bode well for the recovery, nor for consumer spending."

State Street

Wednesday, [Investor Confidence Index]: "The Global Investor Confidence Index decreased to 84.8, dropping 9.2 points from June's revised reading of 94.0. The North American ICI, down 9.1 points to 76.7, and Asian ICI, down 13.7 points to 86.7, showed the largest declines." According to Marvin Loh, senior macro strategist, State Street Global Markets, "while economies continued to open, the mounting number of virus cases in the U.S. and across various emerging markets tempered last month's positive momentum. The European ICI fell the least, as the virus remains more contained than other parts of the world."

University of Michigan

Friday, [Index of Consumer Sentiment]: Surveys of Consumers chief economist Richard Curtin says, "Consumer sentiment sank further in late July due to the continued resurgence of the coronavirus. In the last four months, the Sentiment Index has remained trendless, averaging 73.7, a decline of 25% from the same period in 2019. The Expectations Index fell back to 65.9 in July, tied with the six-year low recorded in May, providing no indication that consumers expect the recession to end anytime soon."

Final Results for July 2020

	Jul 2020	Jun 2020	Jul 2019	M-M Change	Y-Y Change
Index of Consumer Sentiment	**72.5**	78.1	98.4	-7.2%	-26.3%
Current Economic Conditions	**82.8**	87.1	110.7	-4.9%	-25.2%
Index of Consumer Expectations	**65.9**	72.3	90.5	-8.9%	-27.2%

Employment and Businesses:

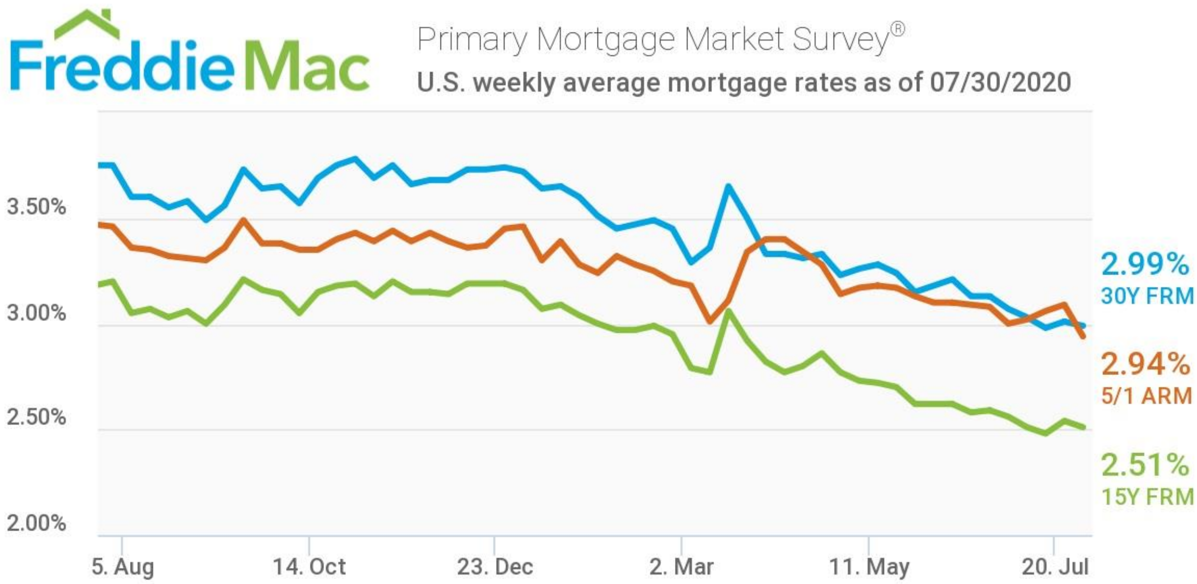
National Federation of Independent Business

Monday, [Covid-19 Small Business Survey]: "The NFIB Research Center released a [survey] today on the state of small business and the Paycheck Protection Program (PPP). . . . Most small business owners (71%) have used their entire PPP loan. However, 46% of borrowers say they anticipate needing additional financial support in the next six months. . . . Almost half of small business owners (46%) are nearly back to where they were with some exceeding pre-COVID sales levels. . . . About 23% of small business owners report that they will have to close their doors if the current economic conditions do not improve over the next six months."

Mortgages and Housing Markets:

Freddie Mac

Thursday, [Primary Mortgage Market Survey]: "It's Groundhog Day in the mortgage market as rates continue to remain near historic lows, driving purchase demand over 20 percent above a year ago," said Sam Khater, Freddie Mac's Chief Economist. "Real estate is one of the bright spots in the economy, with strong demand and modest slowdown in home prices heading into the late summer. Home sales should remain strong the next few months into the early fall."



Mortgage Bankers Association

Wednesday, Weekly Mortgage Applications: "Mortgage applications decreased 0.8 percent from one week earlier, according to data . . . for the week ending July 24, 2020." According to Mike Fratantoni, MBA's Senior Vice President and Chief Economist, "homebuyers stepped back slightly, and there was a larger drop in purchase application volume for FHA, VA, and USDA loans. This trend, along with the fact that average loan sizes are increasing, indicate that prospective first-time buyers are being impacted more by the rising economic stress caused by the resurgence in COVID-19 cases, as well as the uncertainty on how the next round of government support will take shape."

National Association of Home Builders

Wednesday, Quarterly Housing Trends Report: Survey data collected in the second half of June shows that, "of the 11% of American adults considering a future home purchase in the second quarter of 2020, about half (49%) are . . . actively engaged in the process. . . . That is a significantly higher share than the comparable figure a year ago (41%), which suggests that the COVID-19 crisis and its accompanying record-low mortgage rates have converted some prospective buyers into active buyers." According to the report, "only 24% of prospective buyers can afford at least half the homes available in their markets. . . . Although these results demonstrate housing affordability remains a serious challenge, buyers' affordability expectations are slightly more favorable than a year ago, when only 20% could afford at least half the homes for-sale."

National Association of Realtors

Wednesday, Pending Home Sales Index: "Pending home sales continued to ascend in June, sustaining two consecutive months of increases in contract activity. . . . The Pending Home Sales Index (PHSI) . . . rose 16.6% to 116.1 in June. Year-over-year, contract signings rose 6.3%. . . . 'It is quite surprising and remarkable that, in the midst of a global pandemic, contract activity for home purchases is higher compared to one year ago,' said Lawrence Yun, NAR's chief economist. 'Consumers are taking advantage of record-low mortgage rates resulting from the Federal Reserve's maximum liquidity monetary policy.'"

S&P CoreLogic

Tuesday, Case-Shiller U.S. National Home Price Index: "The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, covering all nine U.S. census divisions, reported a 4.5% annual gain in May, down from 4.6% in the previous month. . . . The National Index posted a 0.7% month-over-month increase, while the 10-City and 20-City Composites posted increases of 0.3% and 0.4% respectively before seasonal adjustment in May." Craig J. Lazzara, Managing Director and Global Head of Index Investment Strategy at S&P Dow Jones Indices, said "more data will obviously be required in order to know whether May's report represents a reversal of the previous path of accelerating prices or merely a slight deviation from an otherwise intact trend. Even if prices continue to decelerate, that is quite different from an environment in which prices actually decline."