Economic Update, August 14, 2020
Submitted by Bob Moreo

Summary: New unemployment claims decreased last week, but even as layoffs slow, more than 15 million Americans continue to claim unemployment. Indications from business leaders, however, are that budgets will remain lean well into 2021—and that recovery hinges on control of the coronavirus pandemic. The Conference Board's quarterly CEO Confidence report revealed more than a third of firms plan to cut jobs and reduce capital spending in coming months, and CEO "expectations about the short-term outlook have retreated." But a monthly poll by Chief Executive shows confidence rebounding to pre-pandemic levels, "assuming," says one executive, "the COVID crisis is under control." Mortgage rates remain historically low, and home prices continue to rise. However, as many homeowners are refinancing to take advantage and make additional equity available to spend, Fannie Mae and Freddie Mac will begin adding a new 0.5 percent refinance fee, "to offset higher risk due to a shaky economy," reports Forbes. "For a borrower refinancing a $350,000 mortgage, the fee would tack on an additional $1,750."

TACIR's partners at the Business and Economic Research Center at MTSU have updated the "Tracking Tennessee's Economy" dashboard with data through May 2020. "Although economic indicators are generally worse in comparison to May 2019," they say, "many have improved from [April], when the full impact of the COVID-19 pandemic was first experienced."

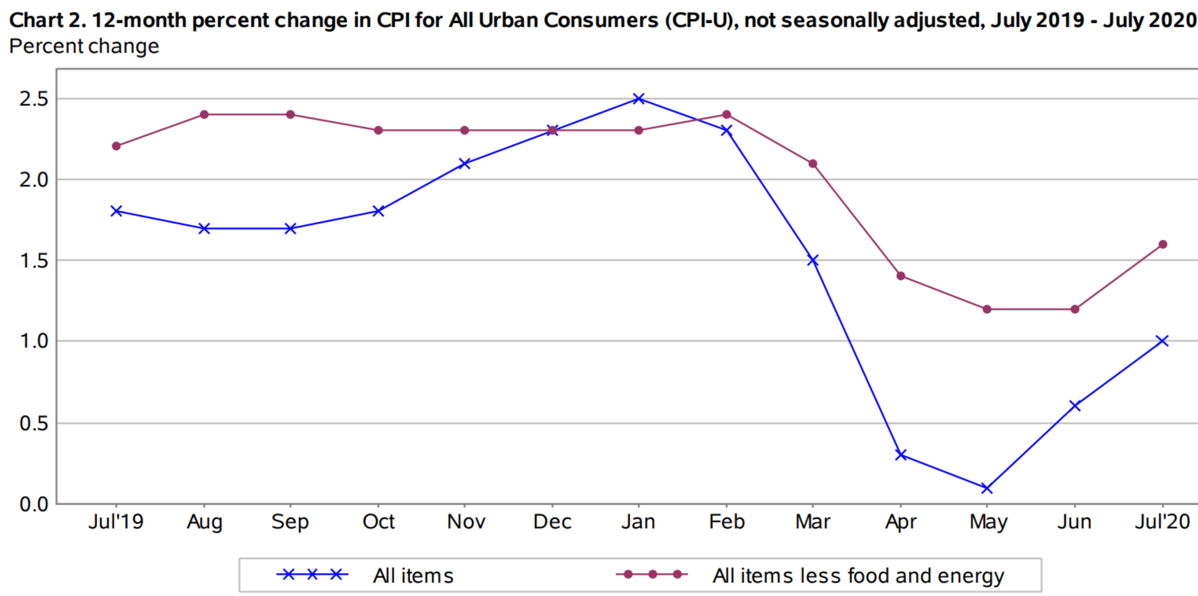
Federal Government Indicators and Reports:

Bureau of Labor Statistics

Tuesday, Producer Price Index: "The Producer Price Index for final demand increased 0.6 percent in July, seasonally adjusted, . . . [following] a 0.2-percent decline in June and a 0.4-percent advance in May."

Wednesday, Real Earnings: "Real average hourly earnings for all employees decreased 0.4 percent from June to July, seasonally adjusted, . . . [stemming] from an increase of 0.2 percent in average hourly earnings being more than offset by an increase of 0.6 percent in the Consumer Price Index. . . . Real average hourly earnings increased 3.7 percent, seasonally adjusted, from July 2019 to July 2020."

Wednesday, Consumer Price Index: "The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.6 percent in July on a seasonally adjusted basis, the same increase as in June. . . . Over the last 12 months, the all items index increased 1.0 percent before seasonal adjustment. . . . The index for all items less food and energy rose 0.6 percent in July, its largest increase since January 1991. . . . The index for all items less food and energy increased 1.6 percent over the last 12 months.



Thursday, US Import and Export Price Indexes: "U.S. import prices increased 0.7 percent in July, . . . following a 1.4-percent advance in June and a 0.7-percent rise in May. The increases for all 3 months were primarily driven by higher fuel prices. The price index for U.S. exports advanced 0.8 percent in July, after rising 1.2 percent the previous month. . . . Despite the upturn in the past 2 months, the price index for U.S. exports decreased 4.4 percent for the year ended in July. . . . Prices for agricultural exports declined 3.3 percent over the past 12 months, . . . [and] nonagricultural prices declined 4.6 percent over the past year."

Friday, Productivity and Costs: Preliminary data show "nonfarm business sector labor productivity increased 7.3 percent in the second quarter of 2020 . . . as output decreased 38.9 percent and hours worked decreased 43.0 percent. . . . Unit labor costs in the nonfarm business sector increased at an annual rate of 12.2 percent in the second quarter of 2020, following an increase of 9.8 percent in the first quarter. Unit labor costs increased 5.7 percent over the last four quarters. . . . Manufacturing sector labor productivity decreased at a 15.5 percent annual rate in the second quarter of 2020, as output fell 47.0 percent and hours worked dropped 37.3 percent. These were the largest quarterly declines in each of these series, which begin with data for 1987."

Bureau of Transportation Statistics

Wednesday, Freight Transportation Services Index: The index "rose 0.9% in June from May, rising for the second consecutive month. . . . From June 2019 to June 2020, the index fell 7.6% compared to a rise of 1.2% from June 2018 to June 2019."

Thursday, US Airline Cargo (preliminary): "U.S. airlines carried 9.4% more cargo by weight in June 2020 than in June 2019, the largest annual gain since January 2018 fueled by a gain of almost 14% in domestic cargo. A 3.6% decline in international cargo was the smallest annual loss since November 2019, according to preliminary data. . . . June 2020 was the second consecutive month that U.S. airlines carried more total cargo than they did during the same month of the previous year . . . follow[ing] four straight months of declines from the previous year."

Census Bureau

Friday, Advance Monthly Retail Trade: "Advance estimates of U.S. retail and food services sales for July 2020, adjusted for seasonal variation . . . were $536.0 billion, an increase of 1.2 percent from the previous month, and 2.7 percent above July 2019. Total sales for the May 2020 through July 2020 period were down 0.2 percent from the same period a year ago."

Friday, Manufacturing and Trade Inventories and Sales: "The combined value of distributive trade sales and manufacturers' shipments for June . . . was estimated at $1,394.0 billion, up 8.4 percent from May 2020, but was down 4.3 percent from June 2019." Seasonally adjusted inventories "were estimated at an end-of-month level of $1,912.1 billion, down 1.1 percent from May 2020 and were down 5.8 percent from June 2019."

Department of Labor

Thursday, Unemployment Insurance Weekly Claims: "In the week ending August 8, the advance figure for seasonally adjusted initial claims was 963,000, a decrease of 228,000 from the previous week's revised level. . . . The advance seasonally adjusted insured unemployment rate was 10.6 percent for the week ending August 1, a decrease of 0.4 percentage point from the previous week's unrevised rate." In Tennessee, 10,036 initial claims (no seasonally adjusted) were filed during the week ending August 8, 2,172 fewer than the week prior.

Federal Reserve Bank of Chicago

Wednesday, National Financial Conditions Index: Indicating looser financial conditions, "the NFCI was –0.52 in the week ending August 7, down from a revised –0.46 (initially reported as –0.47)."

Wednesday, Chicago Fed Survey of Business Conditions: The CFSBC Activity Index "was unchanged at +2 in July, suggesting that economic growth remained near trend." Among business contacts in the Seventh Federal Reserve District, "outlooks for the U.S. economy for the next 12 months improved a little and remained optimistic on balance. Forty-four percent of respondents expected an increase in economic activity over the next three months, and 53 percent expected activity to return to its level before the pandemic by the end of 2021." The manufacturing component of the index for July was up from June's level but nonmanufacturing activity decreased.

Economic Indicators and Confidence:

Chief Executive

Monday, CEO Confidence Index: "Chief Executive's polling of 495 CEOs in early August shows confidence in current economic conditions continuing to increase, clawing back another 2.5 percent of its Covid-related losses, to 5.3 out of 10 on our 1-10 scale. The Index is still down 26 percent since its February peak, but it has regained more than 30 percent since its bottom in May. Similarly, CEO confidence in business conditions 12 months from now is also on the rise, up 1.1 percent since July and 8.6 percent higher than it was at this time last year."

The Conference Board

Thursday, CEO Confidence: CEO confidence "saw a one-point uptick, moving from 44 in the second quarter to 45 in the third quarter. (A reading below 50 points reflects more negative than positive responses.) The latest Q3 results also reveal that, over the next 12 months, 38 percent of surveyed CEOs expect to reduce their workforce. Moreover, 37 percent say they will trim their capital spending budgets by 10 percent or more. And with uncertain economic conditions likely to persist, more than a third do not foresee increasing employees' average wages over the next 12 months. . . .

Now, 62 percent expect economic conditions will improve over the next six months, down from 71 percent last quarter. Moreover, nearly 17 percent expect economic conditions will worsen, up slightly from 16 percent in Q2."

University of Michigan

Friday, Preliminary Consumer Sentiment: "Consumer sentiment remained largely unchanged in early August from the July reading (+0.3 points) or the April low (+1.0)," said Surveys of Consumers chief economist, Richard Curtin. Consumers' views of current economic conditions decreased slightly from last month, while expectations improved somewhat. "Bad economic times are anticipated to persist not only during the year ahead, but the majority of consumers expect no return to a period of uninterrupted growth over the next five years," said Curtin.

Employment and Businesses:

Challenger, Gray, & Christmas

Wednesday, CEO Turnover and Job Cuts: "Chief Executive Officer turnover rose to 125 in July, up 37% from the 91 exits reported in June. . . . So far this year, 788 chief executives have left their posts, 7.3% lower than the 850 CEO changes reported between January 2019 and July 2019. 'CEO turnover stalled in April, as the pandemic brought everything to a halt. Now, we're beginning to see companies make decisions about leadership going forward, as they assess the new challenges presented by COVID-19,' said Andrew Challenger, Senior Vice President of Challenger, Gray & Christmas, Inc."

Mortgages and Housing Markets:

Freddie Mac

Thursday, Primary Mortgage Market Survey: The average for 30-year fixed-rate mortgages increased to 2.96 percent this week from 2.88 percent last week. A year ago this week, the average was 3.60 percent. "Homebuyer demand remains strong, especially for those in search of an entry-level home where the improvement in affordability via lower mortgage rates has a material impact," said Sam Khater, Freddie Mac's Chief Economist. "Even with this week's uptick, very low rates are providing a significant boost to the housing market that continues to hold up well during this time of uncertainty."

Mortgage Bankers Association

Wednesday, Weekly Mortgage Applications: "Mortgage applications increased 6.8 percent from one week earlier, according to data . . . for the week ending August 7, 2020. . . . The Refinance Index increased 9 percent from the previous week and was 47 percent higher than the same week one year ago. The seasonally adjusted Purchase Index increased 2 percent from one week earlier." Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting, said last week's record-low rates sparked refinance activity, "reaching almost 66 percent of all applications, its highest level since May."

Thursday, Builder Application Survey: "Data for July 2020 shows mortgage applications for new home purchases increased 39 percent compared from a year ago. Compared to June 2020, applications increased by 1 percent. This change does not include any adjustment for typical seasonal patterns. . . . MBA estimates new single-family home sales were running at a seasonally adjusted annual rate of 890,000 units in July 2020 . . . an increase of 15 percent from the June pace of 774,000 units."

National Association of Realtors

Wednesday, Metropolitan Median Area Prices: "Median single-family home prices rose year-over-year in 96% of measured markets in the second quarter, with 174 of 181 metropolitan statistical areas showing sales price gains. . . . The national median existing single-family home price in the second quarter of 2020 was $291,300. On a year-over-year basis, this is a 4.2% climb, however, it is still a slower pace of appreciation compared to the pre-pandemic rate of 7.7% in the first quarter." Memphis (+13.4%) was among fifteen metro areas with double-digit price growth. NAR chief economist Lawrence Yun said, "Although housing prices have consistently moved higher, when the favorable mortgage rates are factored in, an overall home purchase was more affordable in 2020's second quarter compared to one year ago."

Median Sales Price of Existing Single-Family Homes for Metropolitan Areas in Tennessee
(Not Seasonally Adjusted, $000s)

Metropolitan Area	2017	2018	2019	2019			2020		Q2–Q2
				Q2	Q3	Q4	Q1	Q2	
Nashville-Davidson--Murfreesboro--Franklin	$241.7	$260.5	$275.0	$276.8	$279.7	$279.8	$278.8	$293.4	6.0%
Memphis	$166.7	$177.9	$188.7	$194.0	$195.5	$190.2	$194.8	$220.0	13.4%
Knoxville	$175.9	$188.8	$205.2	$206.7	$211.7	$209.4	$206.9	$218.9	5.9%
Chattanooga	$176.1	$185.7	$193.3	$196.6	$196.5	$197.7	$197.7	$213.5	8.6%

Wednesday, Housing Affordability Index: "At the national level, housing affordability showed signs of improvement in June 2020 compared to a year ago but . . . worsened in June compared to May as the median family income slightly declined by 1% while the median home prices rose by 4%."