Economic Update, September 11, 2020
Submitted by Bob Moreo

Summary: Let's begin the Labor Day-shortened week with labor market news. Job openings were up at the end of July, but layoffs remained steady and hiring slowed compared to June. New claims for regular state unemployment were unchanged last week, but new claims for federal Pandemic Unemployment Assistance rose more than 90,000 (unadjusted), and nearly 30 million Americans are receiving some form of unemployment benefit. According to *The Wall Street Journal*, "more individuals have run through their regular state benefits and are now relying on an extra 13 weeks in benefits provided in a federal stimulus bill passed in March." However, as the *Tennessean* reports, federal supplements will only be paid through the week that ended September 5. The Boyd Center for Business and Economic Research at the University of Tennessee published the results of a survey of Tennessee business leaders last week. "Leaders have not become optimistic yet," it says. "One-half believe the U.S. economy will get worse over the next 12 months, while a little over one-third see the economy improving." Two-thirds, however, "expect Tennessee's economy to improve more than the national economy." Meanwhile, small business optimism is up nationally. Mortgage rates fell to another record-low, but credit "continues to tighten because of uncertainty still looming around the health of the job market."

Federal Government Indicators and Reports:

Bureau of Labor Statistics

Wednesday, Job Openings and Labor Turnover Survey: "The number of job openings increased to 6.6 million on the last business day of July. . . . Hires decreased to 5.8 million in July. Total separations was little changed at 5.0 million. . . . Over the 12 months ending in July, hires totaled 70.2 million and separations totaled 78.5 million, yielding a net employment loss of 8.2 million."

Wednesday, Annual Consumer Expenditures: "Average annual expenditures for all consumer units in 2019 were $63,036, a 3.0-percent increase from 2018. . . . Healthcare expenditures were up 4.5 percent in 2019, following a modest 0.8-percent increase in 2018. . . . Spending on food increased 3.1 percent over this period. . . . Expenditures on rented dwellings were up 4.3 percent, while expenditures on owned dwellings were up 1.8 percent. . . . Entertainment expenditures decreased 4.2 percent in 2019."

Thursday, Producer Price Index: "The Producer Price Index for final demand increased 0.3 percent in August, seasonally adjusted . . . led by a 0.5-percent increase in the index for final demand services. Prices for final demand goods also advanced, inching up 0.1 percent. . . . The index for processed goods for intermediate demand rose 0.6 percent in August, the fourth consecutive increase. . . . A major factor in the August increase in prices for processed goods for intermediate demand was the index for lumber, which rose 10.5 percent. . . . Prices for unprocessed goods for intermediate demand rose 7.0 percent in August following a 0.7-percent decrease the previous month. . . . Over a quarter of the August increase in the index for unprocessed goods for intermediate demand can be traced to prices for natural gas, which jumped 22.8 percent."

Friday, Consumer Price Index: "The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4 percent in August on a seasonally adjusted basis after rising 0.6 percent in July. . . . Over the last 12 months, the all items index increased 1.3 percent before seasonal adjustment." The "core" CPI—all items less food and energy—was up 1.7 percent over the last 12 months.

Friday, Real Earnings: "Real average hourly earnings for all employees were unchanged from July to August, seasonally adjusted. . . . This result stems from an increase of 0.4 percent in average hourly earnings offset by an increase of 0.4 percent in the Consumer Price Index. . . . Real average hourly earnings increased 3.3 percent, seasonally adjusted, from August 2019 to August 2020." For production and nonsupervisory employees, "real average hourly earnings increased 3.5 percent, seasonally adjusted" from August 2019 to August 2020.

Bureau of Transportation Statistics

Thursday, Freight Transportation Services Index: The index "rose 0.3% in July from June, rising for the third consecutive month. . . . From July 2019 to July 2020, the index fell 7.8% compared to a rise of 2.9% from July 2018 to July 2019. . . . The level of for-hire freight shipments in July measured by the Freight TSI (128.9) was 2.5% above the recent April low (125.7) but still 8.8% below the all-time high level of 141.3 in August 2019. . . . The index remained 5.3% below its pre-pandemic level in February."

Census Bureau

Wednesday, Quarterly Financial Report—Manufacturing, Mining, Wholesale Trade, and Selected Service Industries: "U.S. manufacturing corporations' seasonally adjusted after-tax profits in the second quarter of 2020 totaled $47.2 billion, down $65.7 billion from the after-tax profits of $113.0 billion recorded in the first quarter of 2020, and down $89.0 billion from the after-tax profits of $136.3 billion recorded in the second quarter of 2019." Mining corporations, wholesale trade corporations, information corporations, and professional and technical services corporations (except legal services) all faired better in the second quarter of 2020 than the first, but all were worse-off compared with the second quarter of 2019.

Wednesday, Quarterly Financial Report—Retail Trade: "Seasonally adjusted after-tax profits of U.S. retail corporations with assets of $50 million and over totaled $38.6 billion, up $23.1 billion from the $15.5 billion recorded in the first quarter of 2020, and up $9.8 billion from the $28.8 billion recorded in the second quarter of 2019. Seasonally adjusted sales for the quarter totaled $822.8 billion, up $18.3 billion from the $804.6 billion recorded in the first quarter of 2020, and up $32.9 billion from the $789.9 billion recorded in the second quarter of 2019."

Thursday, Monthly Wholesale Trade: "July 2020 sales of merchant wholesalers . . . were $479.2 billion, up 4.6 percent from the revised June level, but were down 4.0 percent from the revised July 2019 level. . . . Total inventories . . . were $632.3 billion at the end of July, down 0.3 percent from the revised June level . . . [and] down 5.6 percent from the revised July 2019 level. . . . The July inventories/sales ratio . . . was 1.32," down from the June ratio of 1.38.

Department of Labor

Thursday, Unemployment Insurance Weekly Claims: "In the week ending September 5, the advance figure for seasonally adjusted initial claims was 884,000, unchanged from the previous week's revised level. . . . The 4-week moving average was 970,750, a decrease of 21,750 from the previous week's revised average. . . . The advance seasonally adjusted insured unemployment rate was 9.2 percent for the week ending August 29, an increase of 0.1 percentage point from the previous week's unrevised rate." The advance number of initial claims in Tennessee the week ending September 5 was 11,706, down from 12,876 initial claims the prior week.

Federal Reserve

Tuesday, Consumer Credit: "In July, consumer credit increased at a seasonally adjusted annual rate of 3-1/2 percent. Revolving credit [e.g. credit cards] decreased at an annual rate of 1/2 percent, while nonrevolving credit [e.g. auto loans] increased at an annual rate of 4-3/4 percent."

Economic Indicators and Confidence:

Investor's Business Daily

Tuesday, Economic Optimism Index: "Americans grew more pessimistic about the U.S. economy over the past month. . . . The overall IBD/TIPP Economic Optimism Index dipped 1.8 points to 45, the sixth straight reading below 50. . . . Among self-described investors with at least $10,000 in household-owned stocks or mutual funds, the IBD/TIPP Economic Optimism Index rose 1.4 points to 52.8. . . . Among non-investors, the Economic Optimism Index fell 2.4 points to 39.6, the lowest reading since August 2011."

The Wall Street Journal

Thursday, Economic Forecasting Survey: "The U.S. economy and labor market are recovering from the coronavirus-related downturn more quickly than previously expected, economists said. . . . Business and academic economists polled by The Wall Street Journal expect gross domestic product to increase at an annualized rate of 23.9% in the third quarter. That is up sharply from an expectation of an 18.3% growth rate in the previous survey. . . . To return to the previous peak recorded in the final quarter of last year, the economy would need to grow at a roughly 24% rate again in the fourth quarter of this year. Economists see that as unlikely: Their forecast for fourth-quarter growth is for a 4.9% annual rate, suggesting the recovery will be protracted. The average forecast called for GDP to shrink 4.2% this year, measured from the fourth quarter of 2019."

Employment and Businesses:

The Conference Board

Tuesday, Employment Trends Index: The index, which aggregates eight labor market indicators, "increased in August, following increases in May, June, and July. The index now stands at 52.55, up from 51.37 (an upward revision) in July. However, the index is down from 109.8 a year ago." Gad Levanon, head of The Conference Board Labor Markets Institute, said that "over the coming months, job growth will persist as industries impacted by social distancing such as travel, hotels, restaurants, and personal care will continue to recover." But he cautions that "another wave of infections this fall would limit the expansion of the US labor market."

National Federation of Independent Business

Tuesday, Small Business Optimism: "The NFIB Optimism Index increased 1.4 points in August to 100.2, a reading slightly above the historical 46-year average. . . . Forty-seven percent of owners reported capital outlays in the last six months, down 2 points from July and 16 points below January's level. The low levels of investment are contributing to low GDP growth. Twenty-six percent plan capital outlays in the next few months, unchanged from July's reading." NFIB Chief Economist Bill Dunkelberg said that "we are seeing areas of improvement in the small business economy, as job openings and plans to hire are increasing, but many small businesses are still struggling and are uncertain about what the future will hold."

Wells Fargo

Wednesday, Gallup Small Business Index: The index "rose 12 points from last quarter's historic low-water mark, driven by a sharp rise in sentiment about future expectations. The overall positive movement in sentiment was contrasted by the third successive quarterly decline in optimism about current business conditions. . . . While only 19% of business owners feel optimistic about their present situation (a 20% decline from Q2), 41% feel optimism about what the future may hold, marking a 32% quarter-over-quarter rise."

Mortgages and Housing Markets:

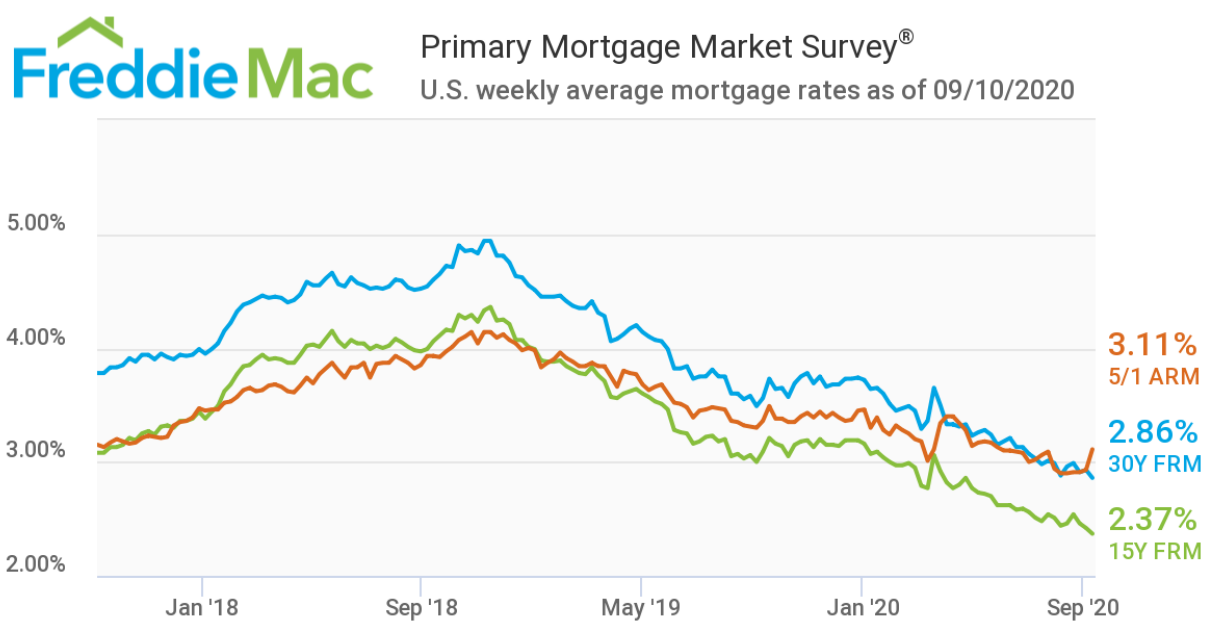
Fannie Mae

Tuesday, Home Purchase Sentiment: The index "increased 3.3 points in August to 77.5, recovering after falling slightly in July and continuing the rebound from May and June. Five of the six HPSI components increased month over month, with consumers reporting a more optimistic view of both homebuying and home-selling conditions, but a slightly more pessimistic view of expected home price growth. Year over year, the HPSI is down 16.3 points. . . . The percentage of respondents who say it is a good time to buy a home increased from 53% to 59%. . . . The percentage of respondents who say it is a good time to sell a home increased from 45% to 48%."

Thursday, Mortgage Lender Sentiment: "Mortgage lenders' profit margin outlook for the next three months increased even further due to strong consumer demand. . . . According to the third quarter survey, 48% of lenders believe profit margins will increase compared to the prior quarter, building on an already strong profit margin outlook, while 37% believe profits will remain the same. . . . Lenders reporting purchase mortgage demand growth for both the prior three months and the next three months rose significantly from last quarter . . . and is back on par with the same time last year. Similarly, according to lenders, refinance mortgage demand remained extremely strong in the third quarter across all loan types. . . . Lenders on net continued to report a tightening of credit standards for the prior three months, with the majority expecting credit standards to stay about the same for the next three months."

Freddie Mac

Thursday, Primary Mortgage Market Survey: "Mortgage rates have hit another record low due to a late summer slowdown in the economic recovery," said Sam Khater, Freddie Mac's Chief Economist. "These low rates have ignited robust purchase demand activity, which is up twenty-five percent from a year ago and has been growing at double digit rates for four consecutive months."



Mortgage Bankers Association

Wednesday, Weekly Mortgage Applications: "Mortgage applications increased 2.9 percent from one week earlier, according to data . . . for the week ending September 4, 2020." Falling rates "led to a rebound in refinancing activity," according to Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. Purchase activity was up as well, with the average purchase loan "hitting a survey high at $368,600."

National Association of Realtors

Friday, Housing Affordability Index: The monthly affordability index for July 2020 was 163.3, down from 164.2 in June. (An index above 100 signifies that family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20 percent down payment.) Although mortgage rates fell, the median price of existing single-family homes rose nearly $10,000 from June to July, to $307,800.