Economic Update, September 4, 2020
Submitted by Bob Moreo

Summary: New government forecasts for employment and GDP growth in the coming decade seem to indicate a years-long path to pre-pandemic levels. On the surface, job growth and unemployment numbers this week were great. A closer look, however, reveals that the drop in unemployment claims resulted from a change in how the government calculates seasonal adjustments and job numbers were boosted by temporary Census workers. Meanwhile, orders and shipments of transportation equipment—cars, trucks, and parts—led the way for a better-than-expected manufactured goods report. According to FXStreet.com, "this reading came in better than the market expectation of 6% and matched June's increase of 6.4%." Construction spending was flat overall, but residential—multifamily in particular—did well in July. This week the Congressional Budget Office updated its budget outlook for the coming decade, projecting a record $3.3 trillion federal deficit in 2020 and for the ratio of debt to GDP to "exceed 100 percent in 2021 and increase to 107 percent in 2023, the highest in the nation's history." In the near-term, a Conference Board survey conducted from August 19th – 26th revealed 35% of businesses don't know when they will reopen their offices. Fourteen percent plan to open this month, but more (16%) say they are waiting until the first quarter of 2021.

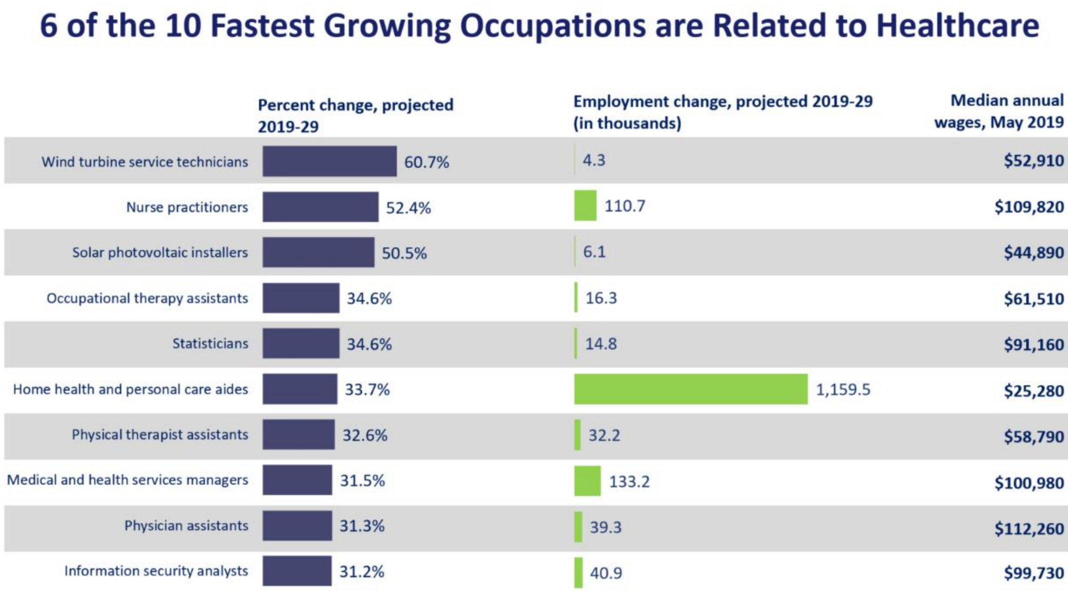
Federal Government Indicators and Reports:

Bureau of Economic Analysis

Thursday, U.S. International Trade: "[T]he goods and services deficit was $63.6 billion in July, up $10.1 billion from $53.5 billion in June. . . . Exports and imports increased in July but remained below pre-pandemic levels, reflecting the ongoing impact of COVID-19. . . . July exports were $168.1 billion, $12.6 billion more than June exports. July imports were $231.7 billion, $22.7 billion more than June imports. . . . Year-to-date, the goods and services deficit increased $6.4 billion, or 1.8 percent, from the same period in 2019."

Bureau of Labor Statistics

Tuesday, Employment Projections and Occupational Outlook: "Employment is projected to grow from 162.8 million to 168.8 million over the 2019-29 decade, an increase of 6.0 million jobs. . . . This reflects an annual growth rate of 0.4 percent, slower than the 2009-19 annual growth rate of 1.3 percent. . . . Growth in real Gross Domestic Product (GDP) is projected to be slower (1.8 percent annually) from 2019 to 2029, compared to the previous decade (2.3 percent annually)."



Wednesday, Metropolitan Area Employment and Unemployment: "Unemployment rates were higher in July than a year earlier in all 389 metropolitan areas. . . . [S]even areas had jobless rates of less than 5.0 percent and four areas had rates of at least 20.0 percent. Nonfarm payroll employment decreased over the year in 272 metropolitan areas, increased in 1 area, and was essentially unchanged in 116 areas. The national unemployment rate in July was 10.5 percent, not seasonally adjusted, up from 4.0 percent a year earlier." In July, Chattanooga and Knoxville had the lowest unemployment rates in Tennessee, at 7.9 percent. See table below.

State and Metropolitan Area	**Unemployed** (Table 1.)				**Employees on nonfarm payrolls** [000s] (Table 3.)			
	Number		Percent of Labor Force		July		Change from July 2019 to July 2020	
	July		July					
	2019	2020	2019	2020	2019	2020	Number	Percent
Tennessee	132,139	315,241	3.9	9.9	3,092.7	2,940.1	-152.6	-4.9
Chattanooga	10,620	21,573	3.8	7.9	264.9	264.2	-0.7	-0.3
Clarksville	5,813	10,047	4.9	9.2	92.2	86.8	-5.4	-5.9
Cleveland	2,567	4,975	4.2	8.6	47.6	47.3	-0.3	-0.6
Jackson	2,629	5,810	4.0	9.5	69.0	65.3	-3.7	-5.4
Johnson City	3,967	7,246	4.3	8.5	78.9	75.4	-3.5	-4.4
Kingsport-Bristol	5,850	11,457	4.2	8.8	118.7	112.4	-6.3	-5.3
Knoxville	16,709	32,225	3.8	7.9	400.5	388.2	-12.3	-3.1
Memphis	31,038	81,971	4.7	13.0	649.4	610.5	-38.9	-6.0
Morristown	2,301	4,519	4.3	8.9	46.2	45.9	-0.3	-0.6
Nashville-Davidson--Murfreesboro--Franklin	33,554	100,840	3.0	9.8	1,038.9	969.8	-69.1	-6.7
Counties outside metropolitan areas	17,091	34,578	4.6	10.2	286.4	274.3	-12.1	-4.2

Thursday, Productivity and Costs: Revised data show "nonfarm business sector labor productivity increased 10.1 percent in the second quarter of 2020 . . . as output decreased 37.1 percent and hours worked decreased 42.9 percent. . . . From the second quarter of 2019 to the second quarter of 2020, productivity increased 2.8 percent, reflecting an 11.2-percent decrease in output and a 13.6-percent decrease in hours worked."

Friday, August Employment Situation: "Total nonfarm payroll employment rose by 1.4 million in August, and the unemployment rate fell to 8.4 percent. . . . [T]he number of unemployed persons fell by 2.8 million to 13.6 million. . . . In August, the number of permanent job losers increased by 534,000 to 3.4 million; this measure has risen by 2.1 million since February. . . . The long-term unemployed (those jobless for 27 weeks or more) numbered 1.6 million, little changed over the month. . . . In August, 24.2 million persons reported that they had been unable to work because their employer closed or lost business due to the pandemic—that is, they did not work at all or worked fewer hours at some point in the last 4 weeks due to the pandemic. This measure is down from 31.3 million in July. . . . About 5.2 million persons not in the labor force in August were prevented from looking for work due to the pandemic. This is down from 6.5 million in July.

Census Bureau

Tuesday, Monthly Construction Spending: "Construction spending during July 2020 was estimated at a seasonally adjusted annual rate of $1,364.6 billion, 0.1 percent above the revised June estimate . . . [and] 0.1 percent below the July 2019 estimate of $1,366.0 billion. During the first seven months of this year, construction spending amounted to $792.6 billion, 4.0 percent above the $761.9 billion for the same period in 2019. . . . Residential construction was at a seasonally adjusted annual rate of $546.6 billion in July, 2.1 percent above the revised June estimate of $535.6 billion."

Wednesday, Manufacturers' Shipments, Inventories, and Orders: "New orders for manufactured goods in July, up three consecutive months, increased $27.8 billion or 6.4 percent to $466.1 billion . . . [following] a 6.4 percent June increase. Shipments, also up three consecutive months, increased $21.3 billion or 4.6 percent to $479.5 billion. This followed a 10.0 percent June increase."

Department of Labor

Thursday, Weekly Unemployment Claims: "In the week ending August 29, the advance figure for seasonally adjusted initial claims was 881,000, a decrease of 130,000 from the previous week's revised level. . . . The 4-week moving average was 991,750, a decrease of 77,500 from the previous week's revised average. . . . The advance seasonally adjusted insured unemployment rate was 9.1 percent for the week ending August 22, a decrease of 0.8 percentage point from the previous week's unrevised rate." The advance figure for initial claims filed in Tennessee during the week ended August 29, unadjusted, was 12,035—447 more than the week before. There were 4,711 new claims for Pandemic Unemployment Assistance.

Federal Reserve Board

Wednesday, The Beige Book: Comments and information gathered by the Federal Reserve districts in July and August indicate that economic gains "were generally modest and activity remained well below levels prior to the COVID-19 pandemic. Manufacturing rose in most Districts, which coincided with increased activity at ports and among transportation and distribution firms. Consumer spending continued to pick up, sparked by strong vehicle sales and some improvements in tourism and retail sectors. But many Districts noted a slowing pace of growth in these areas. . . . Commercial construction was down widely . . . [but] residential construction was a bright spot."

- In the Sixth District (Atlanta), which includes Middle and East Tennessee, "retail contacts reported continued strength in the home improvement and renovation segment, but softness in apparel sales. Auto dealers noted sales increased since the previous report. Tourism and hospitality activity remained soft. Residential real estate continued to strengthen, however, commercial real estate markets remained challenged. Overall manufacturing activity accelerated somewhat, though new orders and production levels varied across firms."

- In the Eighth District (St. Louis), which includes West Tennessee, "auto dealers reported strong sales, and restaurants reported some improvement. Tourism and hospitality contacts reported that higher COVID-19 cases over the past month have reduced demand. The outlook among contacts remains pessimistic but has improved slightly since our previous report."

Federal Reserve Bank of Chicago

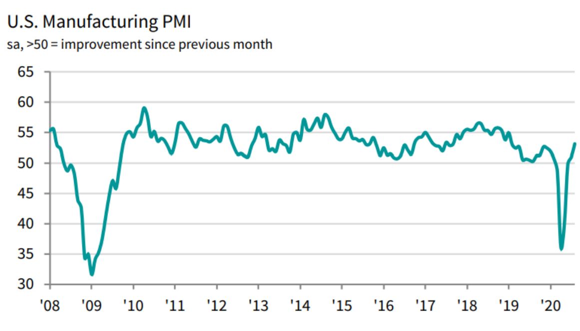
Wednesday, National Financial Conditions Index: "The NFCI ticked up to –0.53 in the week ending August 28," showing little change from its reading of –0.54 a week prior and the –0.52 figure before that. Negative index values have been historically associated with looser-than-average financial conditions.

Economic Indicators and Confidence:

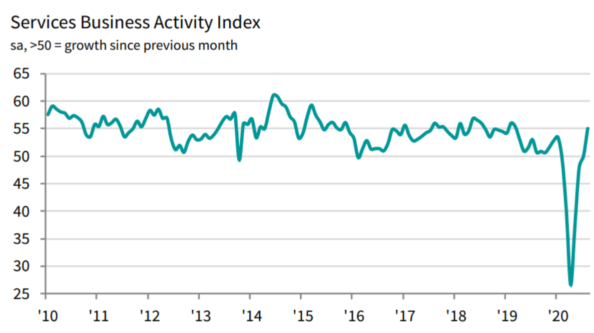
IHS Markit

Tuesday, US Manufacturing PMI: The Manufacturing Purchasing Managers Index "posted 53.1 in August, down slightly from the previously released 'flash' estimate of 53.6, but up from 50.9 at the start of the third quarter." Encouragingly, "companies registered the highest degree of confidence in the outlook for output over the coming year since April 2019 amid hopes of further growth of client demand." New orders are outpacing production, according to Chris Williamson, Chief Business Economist at IHS Markit, and "backlogs of uncompleted work consequently rose at the fastest rate since the early months of 2019, encouraging increasing numbers of firms to take on more staff."

Thursday, US Services PMI: The Services Business Activity Index "registered 55.0 in August, up notably from 50.0 in July and slightly higher than the earlier 'flash' estimate of 54.8. The latest expansion was strong overall and the quickest since March 2019." To meet growing demand, "firms increased their workforce numbers sharply to cope with greater pressure on capacity. Although business expectations ticked down slightly, firms remained optimistic on balance, with sentiment regarding the year ahead at its second-highest since April 2019." Chris Williamson, Chief Business Economist at IHS Markit, noted that "companies across the board also remain concerned about resurgent virus infections and the durability of demand in the coming months after the initial rebound potentially fades."



Source: IHS Markit.



Sources: IHS Markit.

Thursday, US Sector PMI: "August data indicated that business activity expanded in six of the seven broad categories of activity. . . . Only the consumer services sector recorded a sustained decline in business activity during August, with the rate of contraction accelerating slightly since the previous month. The strongest rate of activity growth was seen in healthcare, which includes both service provision and the manufacturing supply chain, followed by financials."

Employment and Businesses:

ADP

Wednesday, National Employment Report: "Private sector employment increased by 428,000 jobs from July to August," according August payroll data. "The August job postings demonstrate a slow recovery," said Ahu Yildirmaz, vice president and co-head of the ADP Research Institute. "Job gains are minimal, and businesses across all sizes and sectors have yet to come close to their pre-COVID-19 employment levels."

Challenger, Gray, & Christmas

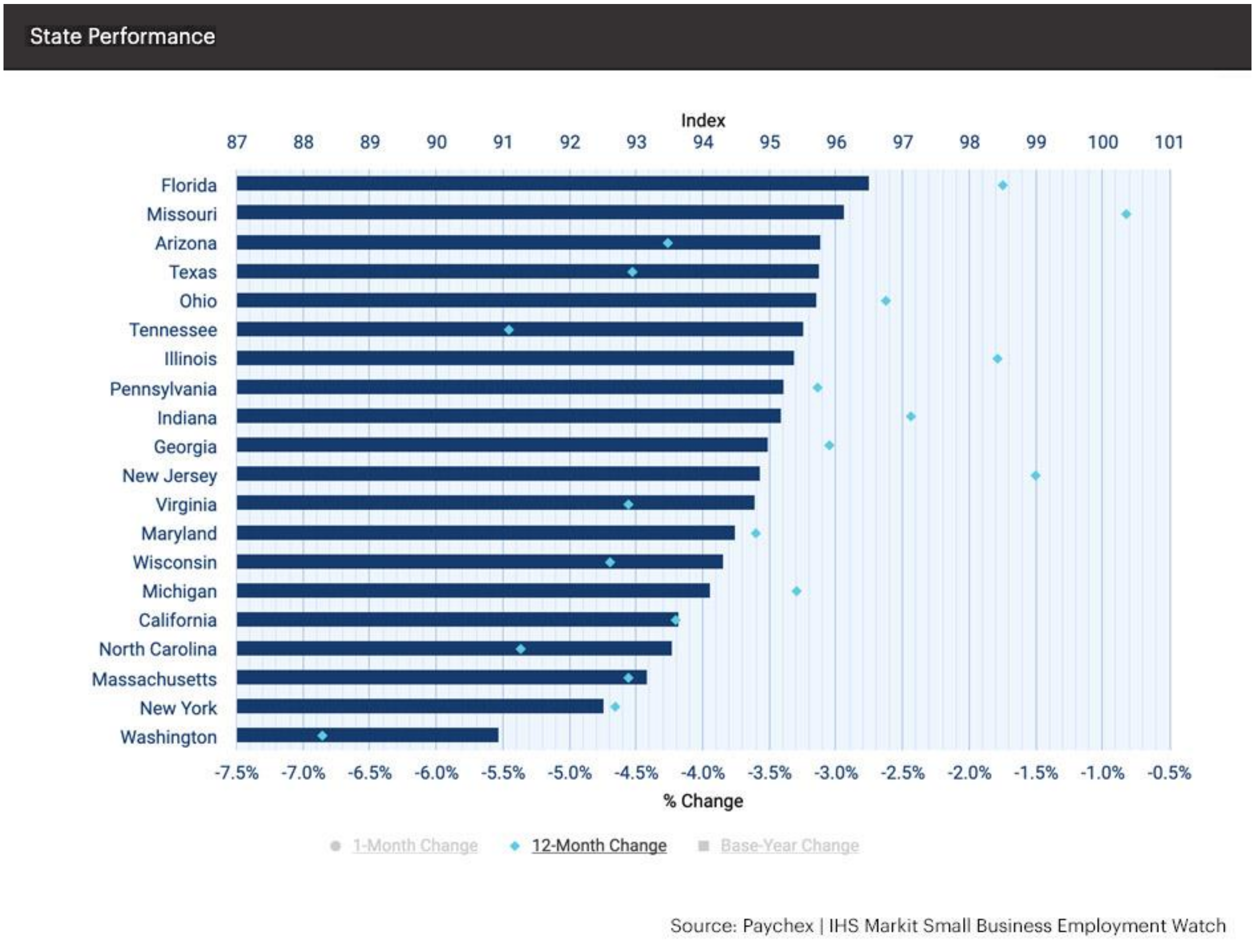
Thursday, Job Cuts Report: "Job cuts announced by U.S.-based employers in August totaled 115,762, 116% higher than the August 2019 total of 53,480. . . . August's total is 56% lower than the 262,649 job cuts announced in July. . . . So far this year, employers have announced 1,963,458 cuts . . . [which] have surpassed the previous record annual total of 1,956,876 recorded in 2001." Andrew Challenger, Senior Vice President of Challenger, Gray & Christmas, says "the leading sector for job cuts last month was Transportation, as airlines begin to make staffing decisions in the wake of decreased travel and uncertain federal intervention. An increasing number of companies that initially had temporary job cuts or furloughs are now making them permanent." Regarding hiring, the report notes that "companies announced 160,411 hiring plans in August. Entertainment/Leisure led with 45,575 hires, followed by Construction, which plans to add 31,052 jobs."

National Federation of Independent Business

Monday, Small Business Economic Trends: "The July Optimism Index for construction was 100.6, up 9.1 points from April's quarterly report. . . . The demand for new workers in construction remains high as the industry had higher than average job openings and plans to increase employment. . . . The July Optimism Index for manufacturing was 100.5, a 13.1 point increase from April. . . . The July Optimism Index for retail was 99.9, closely tracking to the overall economy and 10 points better than the last quarter. . . . The July Optimism Index for services remains below the overall at 97.1; services have not recovered as much as other industries after a smaller decline in April then the rest of the economy. Owners became more optimistic about economic trends and decided they needed to 'staff up,' increasing the percent of service firms with hiring plans."

Paychex | IHS Markit

Tuesday, Small Business Employment Watch: "Hourly earnings growth was steady at 3.28 percent in August and weekly earnings continue to improve as the number of hours worked increases. The national jobs index stood at 94.39, moderating 0.21 percent from the previous month. . . . 'As the jobs index has remained near April levels, PPP loans appear to have provided stability and prevented further declines,' said Martin Mucci, Paychex president and CEO. 'While employment levels remain challenging, wages continue to show positive momentum.'"



Mortgages and Housing Markets:

Freddie Mac

Thursday, [Primary Mortgage Market Survey]: "Mortgage rates have remained effectively flat or at near record lows for the last month," said Sam Khater, Freddie Mac's Chief Economist. "The rise in Treasury rates will make it difficult for mortgage rates to fall much more over the next few weeks." The average rate for 30-year fixed-rate mortgages for the week ending September 3, 2020, was 2.93 percent, up from last week when it averaged 2.91 percent. A year ago at this time, the 30-year FRM averaged 3.49 percent."

Housing and Urban Development

Wednesday, [National Housing Market Indicators]: "National housing market indicators available as of August showed activity in housing markets improved overall. Housing market activity began to rebound as buyers took advantage of record-low mortgage rates and the economy reopened more broadly with the lifting of COVID-19 restrictions adopted by many states in mid-to-late March."

Mortgage Bankers Association

Monday, [Forbearance and Call Volume Survey]: "The total number of loans now in forbearance remained unchanged relative to the prior week at 7.20% as of August 23, 2020. According to MBA's estimate, 3.6 million homeowners are in forbearance plans." However, Mike Fratantoni, MBA's Senior Vice President and Chief Economist, says "The loss of enhanced unemployment insurance benefits, coupled with a consistently high rate of layoffs and uncertainty about the job market, are having a disproportionate impact on FHA and VA borrowers."

Tuesday, Commercial Loan Performance: "The onset of the COVID-19 pandemic had a dramatic and immediate impact on lodging and retail properties, which flowed through to the mortgages backed by those properties and led to a spike in delinquency rates in April and May," said Jamie Woodwell, MBA's Vice President of Commercial Real Estate Research. "While delinquency rates for both hotel and retail properties have since stabilized—and even declined slightly in July and August for hotel-backed loans—they still remain elevated. Overall, the vast majority of the balance of loans backed by other major property types continues to perform well."

Wednesday, Weekly Mortgage Applications: "Mortgage applications decreased 2.0 percent from one week earlier, according to data . . . for the week ending August 28, 2020. . . . 'Mortgage rates have remained below 3.5 percent for five months now, and it's possible that refinance demand may be slowing and will not significantly increase again without another notable drop in rates,' said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. 'Purchase applications were essentially unchanged over the week and were 28 percent higher than a year ago—the 15th straight week of year-over-year increases.'"

National Association of Home Builders

Tuesday, Home Building Geography Index: "The increasing demand for construction in more suburban neighborhoods is being driven in large part by the coronavirus outbreak," said NAHB Chairman Chuck Fowke, a custom home builder from Tampa, Fla. "The growing trend for working at home is enabling more families to choose to live in lower cost, lower density communities. Moreover, persistent housing affordability challenges exacerbated by soaring lumber prices that have added $16,000 to the price of a single-family home since mid-April are adding to the need to find affordable housing in lower cost markets."