

Economic Update, June 16, 2023

Submitted by Bob Moreo

Summary: The Federal Reserve kept interest rates unchanged on Wednesday, “decid[ing] against what would have been an 11th consecutive interest rate increase as it measures what the impacts have been from the previous 10,” [CNBC’s Jeff Cox reported](#). The decision to pause rate hikes, however, “came with a projection that another two quarter percentage point moves are on the way before the end of the year.”

Consumer prices in May were up 4.0 percent over a 12-month period, rising “at the slowest annual pace since March 2021,” [according to CNN’s Alicia Wallace](#), adding that the number for May is “a sharp pullback from April’s 4.9 percent and is slightly below economists’ expectations for a 4.1 percent gain.” Producer prices “fell more than expected in May,” [reported Reuters’ Lucia Mutikani](#), “signaling that inflation pressures were abating throughout the economy and could eventually provide relief to consumers.” In addition, “retail sales unexpectedly rose in May as consumers stepped up purchases of motor vehicles and building materials,” which [Mutikani says](#) “could help to stave off a dreaded recession in the near term.” On Friday, [MarketWatch’s Jeffrey Bartash reported](#), “Consumer sentiment rose in June to a four-month high of 63.9 as inflation eased and Washington ended the latest debt-ceiling fight,” but despite rising optimism, “Americans still expect difficult times ahead.” Nathaniel Drake, an economist with [Fannie Mae’s Economic and Strategic Research Group](#), believes “this week’s economic data is largely consistent with an economy that is growing at a rate that is below trend,” and cautions that “a relatively small shock would be likely to push the economy into a recession.”

TACIR’s partners at Middle Tennessee State University have updated the *Tracking Tennessee’s Economy* dashboard with data from April 2023. Dr. Murat Arik, director of the Business and Economic Research Center at MTSU said, “Tennessee’s economic indicators and employment by industry for April 2023 were primarily positive.” Please [visit the website](#) to learn more about Tennessee’s economic and labor market trends on monthly data from state and county levels as well as the 10 different metropolitan statistical areas.

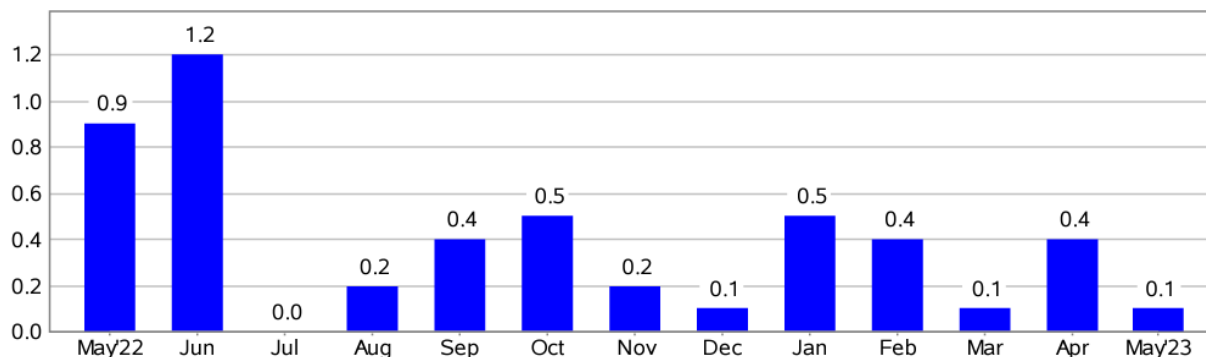
Federal Government Indicators and Reports:

Bureau of Labor Statistics

Tuesday, [Consumer Price Index](#) and [Real Earnings](#): “The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1 percent in May on a seasonally adjusted basis, after increasing 0.4 percent in April. . . . The index for all items less food and energy rose 0.4 percent in May, as it did in April and March. . . . The all items index increased 4.0 percent for the 12 months ending May; this was the smallest 12-month increase since the period ending March 2021. The all items less food and energy index rose 5.3 percent over the last 12 months.”

“Real average hourly earnings for all employees increased 0.3 percent from April to May, seasonally adjusted. . . . stem[ming] from an increase of 0.3 percent in average hourly earnings combined with an increase of 0.1 percent in the Consumer Price Index.”

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, May 2022 - May 2023
Percent change



Wednesday, [Producer Price Index](#): “The Producer Price Index for final demand declined 0.3 percent in May, seasonally adjusted. . . . On an unadjusted basis, the index for final demand moved up 1.1 percent for the 12 months ended in May. . . . [P]rices for final demand goods . . . fell 1.6 percent. The index for final demand services increased 0.2 percent.”

Thursday, [U.S. Import and Export Price Indexes](#): “U.S. import prices decreased 0.6 percent in May, after increasing 0.3 percent the previous month. . . . Import prices fell 5.9 percent for the year ended in May, the largest 12-month drop since the index declined 6.3 percent from May 2019 to May 2020. . . . Prices for U.S. exports declined 1.9 percent in May. . . . Export prices fell 10.1 percent for the year ended in May, the largest 12-month decline since the 12-month percent change series was first published in September 1984.”

Friday, [State Employment and Unemployment](#): “Unemployment rates were lower in May in 11 states and stable in 39 states [including Tennessee] and the District of Columbia. . . . Seventeen states had jobless rate decreases from a year earlier, 8 states and the District had increases, and 25 states [including Tennessee] had little change. The national unemployment rate rose by 0.3 percentage point over the month to 3.7 percent but was little changed from May 2022. . . . Nonfarm payroll employment increased in 5 states and was essentially unchanged in 45 states [including Tennessee] and the District of Columbia in May 2023. . . . Over the year, nonfarm payroll employment increased in 42 states [including Tennessee] and was essentially unchanged in 8 states and the District of Columbia.”

Census Bureau

Thursday, [Advance Monthly Sales for Retail and Food Services](#): “Advance estimates of U.S. retail and food services sales for May 2023 . . . were \$686.6 billion [seasonally adjusted], up 0.3 percent from the previous month, and up 1.6 percent above May 2022.”

Thursday, [Manufacturing and Trade Inventories and Sales](#): “The combined value of distributive trade sales and manufacturers’ shipments for April . . . was estimated at \$1,821.6 billion [seasonally adjusted], up 0.1 percent from March 2023, but was down 1.3 percent from April 2022. . . . [Inventories] were estimated at an end-of-month level of \$2,543.8 billion, up 0.2 percent from March 2023 and were up 5.2 percent from April 2022. . . . The total business inventories/sales ratio based on seasonally adjusted data at the end of April was 1.40.”

Department of Labor

Thursday, [Unemployment Insurance Weekly Claims](#): “In the week ending June 10, the advance figure for seasonally adjusted initial claims was 262,000, unchanged from the previous week’s revised

level. . . . The 4-week moving average was 246,750, an increase of 9,250 from the previous week's revised average. This is the highest level for this average since November 20, 2021 when it was 249,250." Tennessee (+732) was among the states with the largest increases in initial claims for the week ending June 3. However, the advance figure for initial claims (unadjusted) in Tennessee the week ending June 10 was 3,130—a decrease of 834 from the previous week's figure.

Federal Reserve Board

Wednesday, [Federal Open Market Committee Statement](#): At its June 13-14 meeting, the Federal Open Market Committee (FOMC) "decided to maintain the target range for the federal funds rate at 5 to 5-1/4 percent."

[Summary of FOMC Economic Projections](#): Members in March projected 2023 GDP in a range from -0.2 percent to +1.3 percent. With more growth projected in 2023, members adjusted projections for GDP growth in 2024 and 2025 slightly downward. Members' median projection for the federal funds rate at the end of 2023 rose from 5.1 percent to 5.6 percent, signaling an expectation for further rate hikes this year. Members now project interest rates to fall to 4.6 percent and 3.4 percent at the ends of 2024 and 2025, respectively.

Thursday, [Industrial Production and Capacity Utilization](#): "Industrial production edged down 0.2 percent in May following two consecutive months of increases. In May, the index for manufacturing ticked up 0.1 percent, while the indexes for mining and utilities fell 0.4 and 1.8 percent, respectively. . . . Capacity utilization moved down to 79.6 percent in May, a rate that is 0.1 percentage point below its long-run (1972–2022) average."

Economic Indicators and Confidence:

Federal Reserve Bank of New York

Monday, [Survey of Consumer Expectations](#): "Median inflation expectations declined by 0.3 percentage point at the one-year-ahead horizon to 4.1 percent, the lowest reading since May 2021. . . . Median home price growth expectations increased for the fourth consecutive month from 2.5 percent in April to 2.6 percent in May, the highest reading since July 2022. . . . Median one-year-ahead expected earnings growth declined to 2.8 percent. . . . The mean perceived probability of losing one's job in the next 12 months decreased by 1.3 percentage points to 10.9 percent, the lowest reading since April 2022. . . . Perceptions about households' current financial situations deteriorated in May with more respondents reporting being worse off than a year ago and fewer respondents reporting being better off. Similarly, year-ahead expectations deteriorated with fewer respondents expecting to be better off a year from now and more respondents expecting to be worse off."

National Federation of Independent Business

Tuesday, [Small Business Optimism Index](#): "The NFIB Small Business Optimism Index increased 0.4 points in May to 89.4, which is the 17th consecutive month below the 49-year average of 98. The last time the Index was at or above the average was in December 2021. . . . Forty-four percent of owners reported job openings that were hard to fill, down one point from April and remaining historically very high. The net percent of owners raising average selling prices decreased one point to a net 32 percent (seasonally adjusted), still an inflationary level but trending down."

University of Michigan

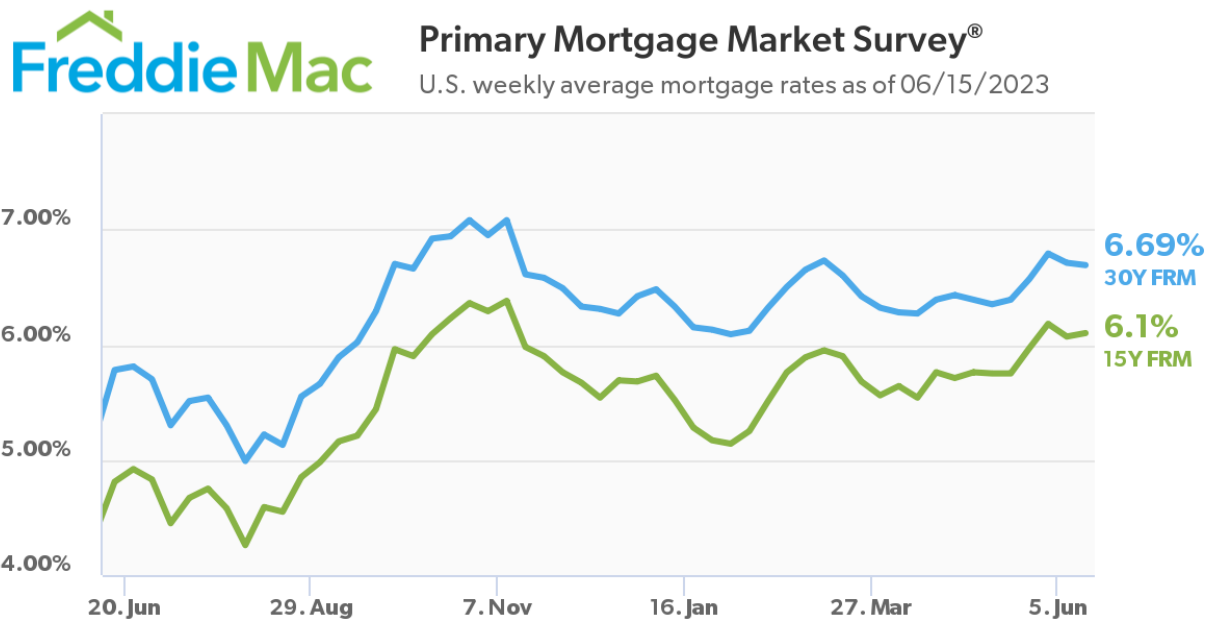
Friday, [Index of Consumer Sentiment \(Preliminary\)](#): "Consumer sentiment lifted 8 percent in June, reaching its highest level in four months, reflecting greater optimism as inflation eased and

policymakers resolved the debt ceiling crisis. The outlook over the economy surged 28 percent over the short run and 14 percent over the long run. Sentiment is now 28 percent above the historic low from a year ago and may be resuming its upward trajectory since then. As it stands, though, sentiment remains low by historical standards as income expectations softened. A majority of consumers still expect difficult times in the economy over the next year.”

Mortgages and Housing Markets:

Freddie Mac

Thursday, [Primary Mortgage Market Survey](#): “Mortgage rates decreased slightly this week in anticipation of the pause in rate hikes by the Federal Reserve,” said Sam Khater, Freddie Mac’s chief economist. “As inflation continues to decelerate, economic growth is slowing and the tightening cycle of monetary policy is reaching its apex, which means mortgage rates are expected to decrease later this year and into next.” The 30-year fixed-rate mortgage (FRM) averaged 6.69 percent.



Mortgage Bankers Association

Wednesday, [Weekly Mortgage Applications](#): “Mortgage applications increased 7.2 percent from one week earlier, according to data from . . . the week ending June 9, 2023.” Said Joel Kan, vice president and deputy chief economist for MBA: “Refinance applications accounted for less than a third of all applications and remained more than 40 percent behind last year’s pace.” Moreover, “the average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances (\$726,200 or less) decreased to 6.77 percent from 6.81 percent.”