

Economic Update, October 14, 2022

Submitted by Bob Moreo and Michael Mount

Summary: September inflation reports this week showed prices rose more than expected at both the producer and consumer level. Producer prices “rose 0.4 percent in September,” [Kiplinger reported](#), “well ahead of economists' estimate for a gain of 0.2 percent.” Consumer prices rose 0.4 percent as well, “more than the 0.3 percent Dow Jones estimate” [CNBC reported](#). These reports seem to support the sentiments expressed by Federal Reserve officials at September’s Federal Open Market Committee meeting that “the cost of taking too little action to bring down inflation likely outweighed the cost of taking too much action,” according to [minutes from the meeting](#) released this Wednesday. Fears of a weakening economy are causing mortgage lenders to tighten standards, while at the same time interest rates are nearing seven percent. Economists at Fannie Mae project “a modest recession in the first quarter of 2023,” lowering their forecasts for home sales in 2022 and 2023, and projecting home prices to decline 1.5 percent in 2023.

TACIR’s partners at the Business and Economic Research Center at MTSU updated our [Tracking Tennessee’s Economy](#) dashboard for August 2022. They say “economic indicators for Tennessee saw a nearly unanimous decline” in August, with lower unemployment claims the only favorable indicator among those tracked. Visit the interactive dashboard 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:

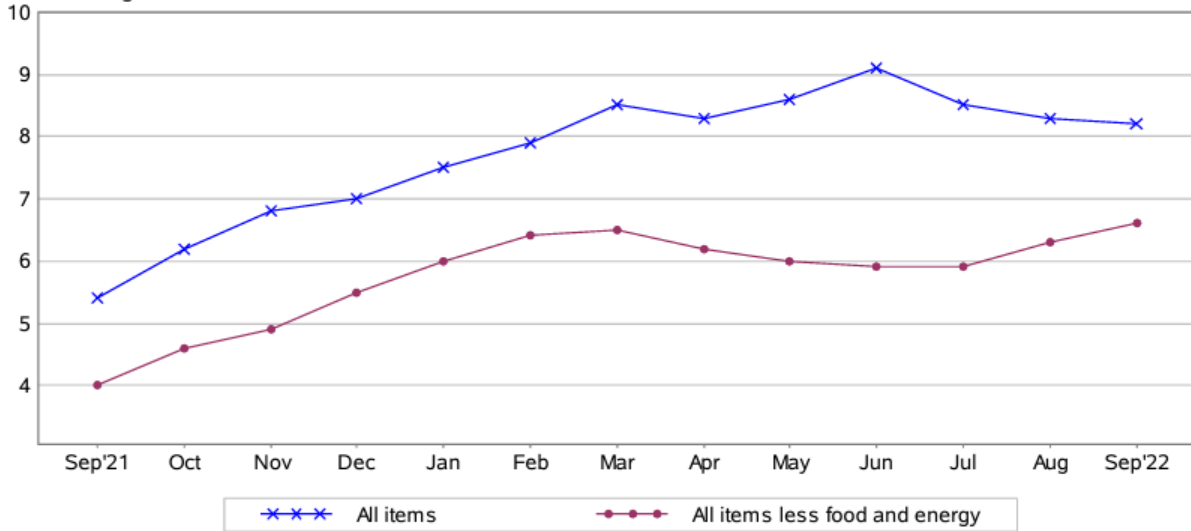
Bureau of Labor Statistics

Wednesday, [Producer Price Index](#): Following earlier declines in July and August, “the Producer Price Index for final demand increased 0.4 percent in September. . . . The index for final demand advanced 8.5 percent for the 12 months ended in September. . . . Sixty percent of the advance [in final demand goods] is attributable to a 1.2-percent increase in the index for final demand foods. Prices for final demand energy rose 0.7 percent. . . . Leading the September rise in the index for processed goods for intermediate demand, prices for diesel fuel advanced 9.1 percent.”

Thursday, [Consumer Price Index](#) and Real Earnings: “The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.4 percent in September on a seasonally adjusted basis after rising 0.1 percent in August. . . . Over the last 12 months, the all items index increased 8.2 percent before seasonal adjustment. . . . The food index continued to rise, increasing 0.8 percent over the month. . . . The energy index fell 2.1 percent over the month as the gasoline index declined, but the natural gas and electricity indexes increased. . . . The index for all items less food and energy rose 0.6 percent in September, as it did in August.”

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, Sep. 2021 - Sep. 2022

Percent change



Friday, [U.S. Import and Export Price Indexes](#): “U.S. import prices decreased 1.2 percent in September, after declining 1.1 percent the previous month. . . . Lower fuel and nonfuel prices in September contributed to the drop in U.S. import prices.”

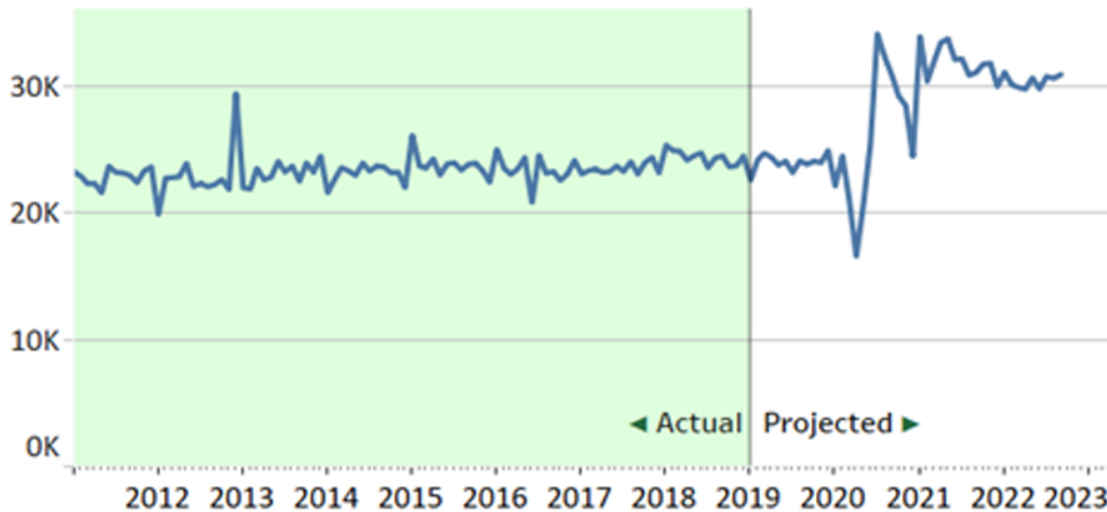
Bureau of Transportation Statistics

Wednesday, [Freight Transportation Services Index](#): “The Freight Transportation Services Index . . . rose 0.2 percent in August from July. . . . From August 2021 to August 2022 the index rose 5.0 percent. . . . The level of for-hire freight shipments in August measured by the Freight TSI (140.9) was 0.7 percent below the all-time high level of 141.9 in August 2019.”

Census Bureau

Thursday, [Business Formation Statistics](#): “Business Applications for September 2022, adjusted for seasonal variation, were 425,741, an increase of 1.0 percent compared to August 2022. . . . Projected Business Formations (within 4 quarters) for September 2022, adjusted for seasonal variation, were 30,935, an increase of 1.0 percent compared to August 2022.”

Monthly Business Formations within 4 Quarters
Spliced (Actual and Projected)
 (Seasonally Adjusted)



Friday, [Advance Monthly Sales for Retail and Food Services](#): “Advance estimates of U.S. retail and food services sales for September 2022 . . . were \$684.0 billion, virtually unchanged from the previous month, but 8.2 percent above September 2021.”

Friday, [Manufacturing and Trade Inventories and Sales](#): “Manufacturers’ and trade inventories for August . . . were estimated at an end-of-month level of \$2,453.2 billion, up 0.8 percent from July 2022 and were up 18.2 percent from August 2021.”

Department of Labor

Thursday, [Unemployment Insurance Weekly Claims](#): “In the week ending October 8, the advance figure for seasonally adjusted initial claims was 228,000, an increase of 9,000 from the previous week’s unrevised level of 219,000. The 4 week moving average was 211,500, an increase of 5,000 from the previous week’s unrevised average of 206,500.” The unadjusted advance number of initial claims filed in Tennessee the week ending October 8 was 2,261, an increase of 345 from the prior week.

Federal Reserve Board

Monday, [Speech by Vice Chair Lael Brainard](#): Vice Chair Brainard spoke at the National Association for Business Economics annual meeting in Chicago on Monday. She said high rates of inflation around the world reflect “the lingering imbalance between robust demand and constrained supply caused by the pandemic and Russia’s war against Ukraine,” and that “global supply chains have eased significantly, but by some measures they are still more constrained than at nearly any time since the late 1990s.” She said, “We are starting to see the effects [of tighter U.S. and foreign monetary policy] in some areas, but it will take some time for the cumulative tightening to transmit throughout the economy and to bring inflation down.” Brainard noted “large increases in retail trade margins in several sectors,” suggesting that a “return of retail margins to more normal levels could meaningfully help reduce inflationary pressures in some consumer goods.” She told the group that “market- and survey-based measures of longer-term inflation expectations are within ranges consistent with expectations that inflation will return to 2 percent over the medium term,” and while the Fed is “attentive to the risk of further adverse shocks . . . monetary policy will be restrictive for some time.”

Wednesday, [Speech by Governor Michelle W. Bowman](#): Board member Michelle Bowman spoke to a group of financial leaders at New York University on Wednesday, sharing her “perspective on the conduct of monetary policy in the current environment of unacceptably high inflation,” with a focus “on the use of explicit forward guidance as a tool for monetary policy.” She said, “To bring inflation down in a consistent and lasting way, the federal funds rate will need to move up to a restrictive level and remain there for some time,” but added that significant uncertainty about the outlook “makes it very challenging to provide precise guidance.” She questioned, “how can the Committee provide explicit forward guidance about the path of the federal funds rate when overall macroeconomic uncertainty makes it more challenging for the Committee to know beforehand the size and timing of its future policy moves?” In the end, she said the Fed should “continue to stress [its] unwavering resolve to do what is needed to restore price stability,” while acknowledging “that the outlook for inflation and economic activity is subject to unusual uncertainty.” She believes the best guidance the Fed can provide is that it “will remain ‘highly attentive to inflation risks’” and make its “policy decisions on a meeting-by-meeting basis.”

Economic Indicators and Confidence:

The Conference Board

Thursday, [CEO Confidence](#): “The Conference Board Measure of CEO Confidence . . . stands at 32 to start Q4 2022, down from 34 in Q3. . . . An overwhelming majority—98 percent—said they were preparing for a U.S. recession [over the next 12-18 months].” Conference Board trustee Roger W. Ferguson, Jr., said, “While the vast majority still expect the U.S. recession to be short and shallow, nearly 7 in 10 believe the EU will enter a deep recession with serious global spillovers.”

Federal Reserve Bank of New York

Tuesday, [Survey of Consumer Expectations](#): “Median one-year-ahead inflation expectations continued to decline in September, falling by 0.3 percentage point to 5.4 percent. . . . Median home price growth expectations declined by 0.1 percentage point to 2.0, its lowest reading since June 2020. . . . The mean perceived probability of losing one’s job in the next 12 months increased by 0.5 percentage point to 11.6 percent. . . . Median household spending growth expectations fell sharply to 6.0 percent from 7.8 percent in August, its steepest one month decline since the series’ inception in June 2013, and its lowest reading since January of this year. The decline was broad based across demographic groups.”

National Federation of Independent Business

Tuesday, [Small Business Optimism Index](#): “NFIB’s Small Business Optimism Index rose 0.3 points in September to 92.1, marking the ninth consecutive month below the 48-year average of 98. . . . Owners expecting better business conditions over the next six months decreased two points from September to a net negative 44 percent. . . . Owners’ plans to fill open positions remain elevated, with a seasonally adjusted net 23 percent of planning to create new jobs in the next three months. . . . Fifty-six percent of owners reported capital outlays in the last six months, up four points. . . . [But only] twenty-four percent plan capital outlays in the next few months, down one point.”

University of Michigan

Friday, [Index of Consumer Sentiment \(preliminary\)](#): “Consumer sentiment is essentially unchanged at 1.2 index points above September, in spite of a 23 percent improvement in current buying conditions for durables owing to an easing in supply constraints.”

Mortgages and Housing Markets:

Fannie Mae

Wednesday, [Economic and Housing Outlook](#): Fannie Mae’s Economic and Strategic Research (ESR) Group “upgraded [its] Q3 gross domestic product (GDP) forecast to 2.3 percent annualized from 1.3 percent due primarily to incoming data showing a rebound in near-term net exports and business inventory investment.” ESR “lowered [its] 2022 forecast for total home sales slightly to 5.64 million units, an 18.1 percent decline from 2021,” and its “total home sales outlook for 2023 was revised downward from 4.98 million to 4.47 million units.” The group now projects “home price declines of 1.5 percent” in 2023, down from its prior forecast of 4.4 percent growth.

Freddie Mac

Thursday, [Primary Mortgage Market Survey](#): “Rates resumed their record-setting climb this week, with the 30-year fixed-rate mortgage reaching its highest level [6.92 percent] since April of 2002,” said Sam Khater, Freddie Mac’s chief economist. “We continue to see a tale of two economies in the data: strong job and wage growth are keeping consumers’ balance sheets positive, while lingering inflation, recession fears and housing affordability are driving housing demand down precipitously.”

Mortgage Bankers Association

Tuesday, [Mortgage Credit Availability](#): The Mortgage Credit Availability Index “fell by 5.4 percent to 102.5 in September. . . . [indicating] that lending standards are tightening.” Joel Kan, MBA’s associate vice president of economic and industry forecasting, said “credit availability fell to the lowest level since March 2013—the seventh consecutive month of tightening.”

Wednesday, [Weekly Mortgage Applications](#): “Mortgage applications decreased 2.0 percent from one week earlier, according to data . . . for the week ending October 7, 2022. . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances (\$647,200 or less) increased to 6.81 percent from 6.75 percent.”