

Economic Update, October 23, 2020
Submitted by Bob Moreo

Summary: Home construction continues to be a bright spot for the economy. After a “brief pause” in August, residential construction resumed its rapid pace in September, with [Mortgage News Daily](#) reporting that new permits surpassed analysts’ expectations. The number of single-family permits issued year-to-date is nearly 10 percent higher than in 2019. Existing-home sales continued to grow as well, supported by record-low mortgage rates. Meanwhile, fewer than 800,000 new unemployment claims were reported last week nationwide, beating expectations, [according to Forbes](#), after claims had spiked a week prior. But this number is still high by historical standards. Although the number of continuing claims dropped by more than a million, *Forbes* notes this “likely reflects the loss of a significant number of workers who have been unemployed for 27 weeks or more” and have exhausted traditional state benefits—23.1 million Americans still claimed some type of unemployment benefit. Tennessee’s official unemployment rate improved in September, as the number of employees on nonfarm payrolls inched back above the 3 million mark. Two members of the Federal Reserve made speeches this week with regards to the Fed’s outlook for economic recovery, and both cited a need for further government support.

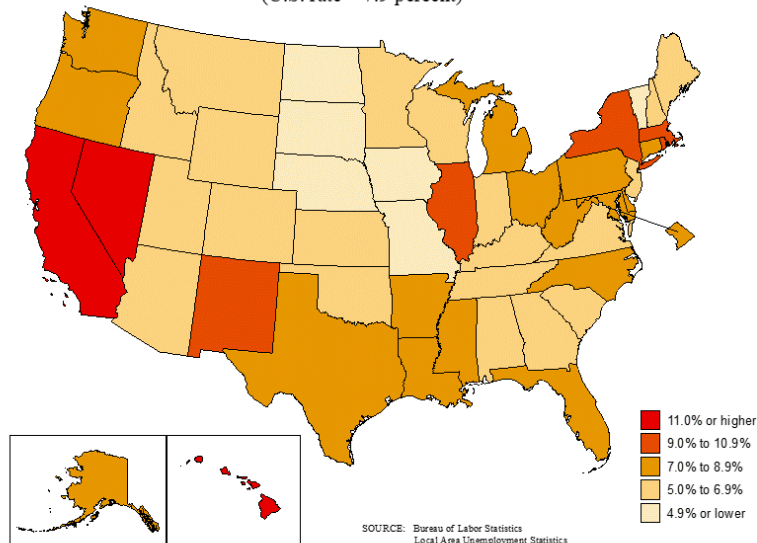
Federal Government Indicators and Reports:

Bureau of Labor Statistics

Tuesday, [State Employment and Unemployment](#): “Unemployment rates were lower in September in 30 states, higher in 8 states, and stable in 12 states and the District of Columbia. . . . The national unemployment rate declined by 0.5 percentage point over the month to 7.9 percent but was 4.4 points higher than in September 2019. Nonfarm payroll employment increased in 30 states, decreased in 3 states, and was essentially unchanged in 17 states and the District of Columbia in September 2020.” Tennessee’s unemployment rate for September 2020 was 6.3 percent, an improvement of 2.3 percentage points from August. The state gained 11,100 jobs from August to September, but statewide employment remains 131,500 (4.2 percent) below its number from a year ago.

**Unemployment rates by state,
seasonally adjusted, September 2020**

(U.S. rate = 7.9 percent)



Bureau of Transportation Statistics

Wednesday, [U.S. Passenger Airline Employment](#): “The 23 U.S. scheduled passenger airlines employed 1.0 % fewer full-time equivalents (FTEs) in mid-August 2020 than in mid-July 2020: Mid-August’s total number of FTEs (411,176) was down 4,000 FTEs from mid-July 2020 (415,154 FTEs) and down nearly 49,000 FTEs from mid-March 2020. August 2020 was the lowest FTE total for any August since 2015 (397,007 FTEs).”

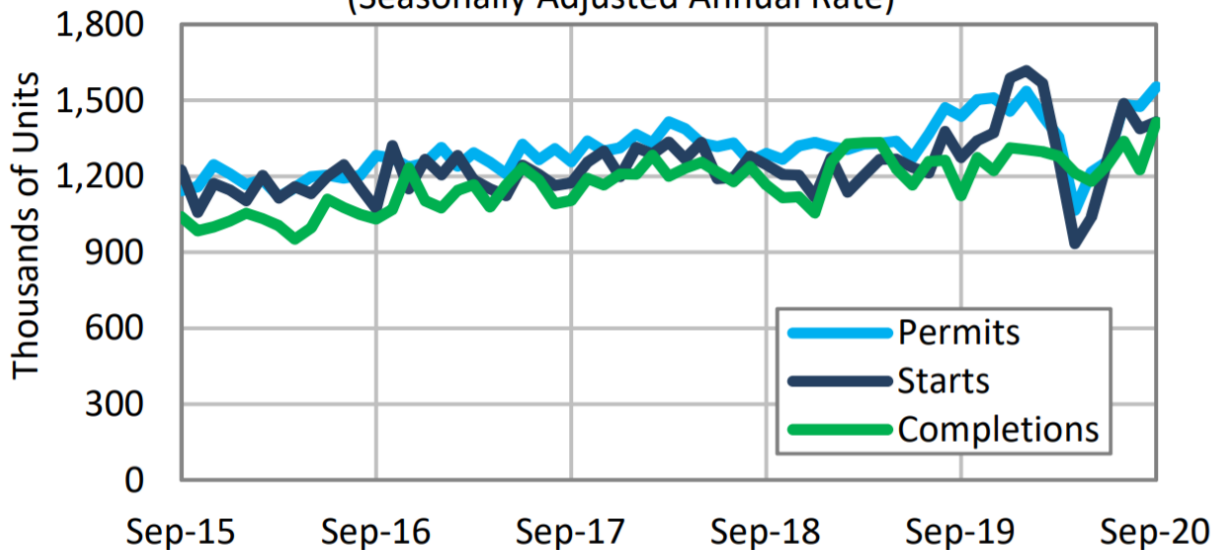
Thursday, [U.S. International Air Cargo](#): “U.S. and foreign airlines carried 5.9% less cargo by weight (preliminary) between the U.S. and foreign points in August 2020 than in August 2019, despite a 10.5% rise in cargo between the U.S. and Asia. . . . The decline in August was larger than the 3.8% (revised) drop from July 2019 to July 2020.” The 703,000 tons of cargo reported in August was less than the 1,045,000 tons reported in July.

Census Bureau

Tuesday, [New Residential Construction](#): “Privately-owned housing units authorized by building permits in September were at a seasonally adjusted annual rate of 1,553,000. This is 5.2 percent above the revised August rate of 1,476,000 and is 8.1 percent above the September 2019 rate of 1,437,000. Single-family authorizations in September were at a rate of 1,119,000; this is 7.8 percent above the revised August figure of 1,038,000. . . . Housing starts in September were at a seasonally adjusted annual rate of 1,415,000. This is 1.9 percent above the revised August estimate of 1,388,000 and is 11.1 percent above the September 2019 rate of 1,274,000. Single-family housing starts in September were at a rate of 1,108,000 . . . 8.5 percent above the revised August figure of 1,021,000.” The number of units authorized but not yet started at the end of September was the most since December 2019, as was the number of units completed.

New Residential Construction

(Seasonally Adjusted Annual Rate)



Source: U.S. Census Bureau, HUD, October 20, 2020

Department of Labor

Thursday, [Unemployment Insurance Weekly Claims](#): “In the week ending October 17, the advance figure for seasonally adjusted initial claims was 787,000, a decrease of 55,000 from the previous week’s revised level. . . . The 4-week moving average was 811,250, a decrease of 21,500 from the previous week’s revised average. . . . The advance seasonally adjusted insured unemployment rate was 5.7 percent for the week ending October 10, a decrease of 0.7 percentage point from the previous week’s revised rate.” In Tennessee, the advance figure for seasonally adjusted initial claims the week ending October 17 was 9,873—937 fewer than the week prior. For the same week, the advance number of Pandemic Unemployment Assistance claims was 3,120, which was 833 fewer than the previous week. The following table counts Tennesseans claiming benefits in all programs for the week ending October 3 (unadjusted):

Tennessee: Total Claims for the Week Ending October 3 (not seasonally adjusted)

100,911	Advance Insured Unemployment
63	Unemployment Compensation program for Federal Employees (UCFE)
86	Unemployment Compensation for Ex-servicemembers (UCX)
126,768	Pandemic Unemployment Assistance (PUA) Continued Claims
50,640	Pandemic Emergency Unemployment Compensation (PEUC) Claims
2,289	Extended Benefits (EB) Claims
280,757	

Federal Reserve Board

Monday, [Convention of the American Bankers Association](#): In his remarks, Federal Reserve Vice Chairman Richard Clarida acknowledged “that the economic outlook is unusually uncertain, and, moreover, that the ultimate course the economy follows will depend on the course of the virus, social-distancing norms, and mitigation efforts put in place to contain it.” He concluded that “full economic recovery from the COVID-19 recession has a long way to go. . . . It will take some time to return to the levels of economic activity and employment that prevailed at the business cycle peak in February, and additional support from monetary—and likely fiscal—policy will be needed.”

Wednesday, [Society of Professional Economists Conference](#): In her remarks, Board Governor Lael Brainard said that “the recovery remains highly uncertain and highly uneven—with certain sectors and groups experiencing substantial hardship,” adding that “these disparities risk holding back the recovery.” She pointed out that “financing conditions for small businesses remain tight, with lower lending activity and signs of deteriorating loan performance” and emphasized that “minority small businesses have been particularly hard hit.” She concluded that “strong support from monetary policy—if combined with additional targeted fiscal support—can turn a K-shaped recovery into a broad-based and inclusive recovery that delivers better outcomes overall.”

Federal Reserve Bank of Chicago

Friday, [Looking Down the Road with ALEX: Forecasting U.S. GDP](#): Economists at the Chicago Fed published a new model, named “ALEX,” that “uses 107 monthly and quarterly indicators of economic activity to forecast the near-term path of U.S. real gross domestic product (GDP).” They say that ALEX, like other forecasts, “trended higher over the course of the summer and into the fall as many economic indicators have come in above forecasters’ expectations.” However, they note that “this predicted growth for the remainder of 2020 and the first three quarters of 2021 . . . would not be sufficient to return real GDP to its pre-pandemic levels.”

Economic Indicators and Confidence:

The Conference Board

Tuesday, [CEO Confidence](#): CEO confidence “rose sharply in the final month of Q3, after a moderate increase in the first month of Q3. The measure stands at 64, up from 45.” (A reading above 50 points reflects more positive than negative responses.) While the report says “capital spending plans improved . . . the employment picture was more mixed . . . with one-third of CEOs saying they anticipate reducing their workforce over the next 12 months.”

Thursday, [US Leading Economic Index](#): Perhaps a sign that the recovery is stalling, the index “increased 0.7 percent in September to 107.2, following a 1.4 percent increase in August and a 2.0 percent increase in July.” Senior Director of Economic Research Ataman Ozyildirim said the increase was “driven primarily by declining unemployment claims and rising housing permits. However, the decelerating pace of improvement suggests the US economy could be losing momentum heading into the final quarter of 2020.”

IHS Markit

Friday, [Flash U.S. Composite PMI](#): “U.S. output growth regained growth momentum in October, as business activity rose at the fastest rate for 20 months and business optimism improved markedly. The upturn was largely driven by service providers, though manufacturing firms also reported a further solid increase in production. Adjusted for seasonal factors, the IHS Markit Flash U.S. Composite PMI Output Index posted 55.5 at the start of the final quarter of 2020, up from 54.3 in September and signaling the fastest increase in private sector business activity since February 2019.” However, Chief Business Economist Chris Williamson attributes some signs of slowing “to hesitancy in decision making ahead of the presidential election,” while adding that “firms have become increasingly positive about prospects for the coming year amid hopes of renewed stimulus, COVID-19 containment measures gradually easing, and greater certainty for businesses and households.”

S&P Dow Jones

Tuesday, [Consumer Credit Default Indices](#): Data through September “show that the composite [default] rate was down four basis points to 0.63%. The bank card default rate fell 45 basis points to 3.00%. The auto loan default rate rose three basis points to 0.56% and the first mortgage default rate was two basis points lower at 0.46%.”

Mortgages and Housing Markets:

Fannie Mae

Friday, [Economic and Housing Weekly Note](#): Fannie Mae’s Economic and Strategic Research Group says: “The strength in September existing home sales once again highlights the current resiliency in the housing market and suggests that we may need to increase our expectations for existing sales in the fourth quarter. However, inventories of existing homes for sale are at a record low, which is driving up prices and will likely limit the amount by which existing sales can rise. Although with builder sentiment hitting a record high in October and housing starts continuing their upward trend, we believe new home sales will likely continue to become a larger portion of total sales. The continued strength in single-family permits suggests even more new construction in the coming months, which should help inventories meet the impressive current level of demand.”

Freddie Mac

Thursday, [Primary Mortgage Market Survey](#): Reaching another record-low, the “30-year fixed-rate mortgage averaged 2.80 percent . . . for the week ending October 22, 2020, down from last week when it averaged 2.81 percent. A year ago at this time, the 30-year FRM averaged 3.75 percent.”

Mortgage Bankers Association

Monday, [Forbearance and Call Volume Survey](#): “The total number of loans now in forbearance decreased by 40 basis points from 6.32% of servicers’ portfolio volume in the prior week to 5.92% as of October 11, 2020. According to MBA’s estimate, 3.0 million homeowners are in forbearance plans.”

Wednesday, [Weekly Mortgage Applications Survey](#): “Mortgage applications decreased 0.6 percent from one week earlier, according to data . . . for the week ending October 16, 2020. . . . The refinance share of mortgage activity increased to 66.1 percent of total applications from 65.6 percent the previous week.”

National Association of Home Builders

Monday, [Builder Confidence](#): “In a further show of strength for the housing sector, builder confidence in the market for newly-built single-family homes increased two points to 85 in October, further surpassing the previous all-time high of 83 recorded in September, according to the latest NAHB/Wells Fargo Housing Market Index (HMI). . . . All the HMI indices posted or matched their highest readings ever in October. The HMI index gauging current sales conditions rose two points to 90, the component measuring sales expectations in the next six months increased three points to 88, and the measure charting traffic of prospective buyers held steady at 74.”

National Association of Realtors

Thursday, [Existing-Home Sales](#): “Existing-home sales grew for the fourth consecutive month in September to a seasonally-adjusted annual rate of 6.54 million – up 9.4% from the prior month and nearly 21% from one year ago. The median existing-home price was \$311,800, almost 15% more than in September 2019. Total housing inventory declined from the prior month and one year ago to 1.47 million, enough to last 2.7 months – a record low – at the current sales pace.”