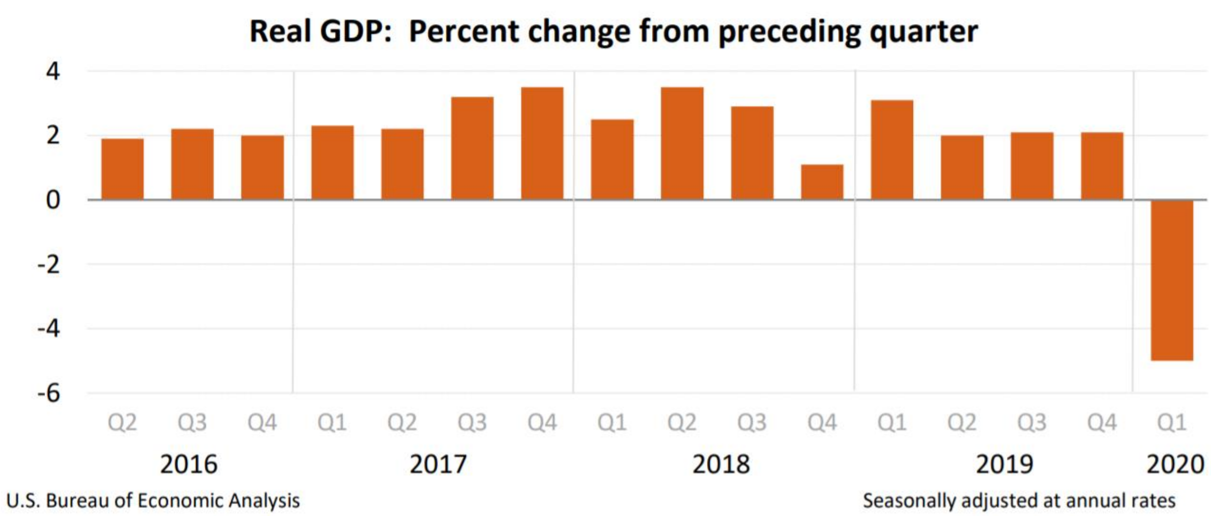
Economic Update, May 29, 2020
Submitted by Bob Moreo

Summary: Most indications show that the worst of the economic slowdown is behind us, but this week's reports show mixed and uncertain expectations for a recovery. The Conference Board reported consumer confidence was up slightly; consumers' assessment of current conditions declined but expectations for the near future increased. The University of Michigan's survey was also up slightly, but with consumers' sentiment of current conditions doing better than future expectations. Global investor confidence improved, particularly in Europe. Businesses, however, seem more pessimistic and concerned that recovery will be slow throughout the next year. They report that bringing low-wage workers back to work from unemployment, workers' personal health concerns, and child care costs as barriers to a return to normal. Entertainment, tourism, and recreation businesses—sectors important to Tennessee's economy—have been hardest hit and see a difficult road ahead if distancing restrictions continue. Mortgage rates again hit new lows, and a variety of homeowners are refinancing, putting money into other parts of the economy.

Federal Government Indicators and Reports:

Bureau of Economic Analysis

Thursday, [Gross Domestic Product, 1st Quarter 2020]: "Real gross domestic product (GDP) decreased at an annual rate of 5.0 percent in the first quarter of 2020, according to the 'second' estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 2.1 percent. . . . In [last month's] advance estimate, the decrease in real GDP was 4.8 percent. With the second estimate, a downward revision to private inventory investment was partly offset by upward revisions to personal consumption expenditures (PCE) and nonresidential fixed investment. . . . Real gross domestic income (GDI) decreased 4.2 percent in the first quarter, in contrast to an increase of 3.1 percent (revised) in the fourth quarter."



Thursday, [Corporate Profits, First Quarter 2020]: "Profits from current production (corporate profits with inventory valuation and capital consumption adjustments) decreased $295.4 billion in the first quarter, in contrast to an increase of $53.0 billion in the fourth quarter. . . . Profits of domestic financial corporations decreased $67.4 billion in the first quarter, in contrast to an increase of $0.7 billion in the fourth quarter. Profits of domestic nonfinancial corporations decreased $169.5 billion, in contrast to an increase of $53.7 billion."

Friday, [Personal Income and Outlays]: "Personal income increased $1.97 trillion (10.5 percent) in April. . . . Disposable personal income increased $2.13 trillion (12.9 percent) and personal consumption expenditures decreased $1.89 trillion (13.6 percent). . . . The increase in personal income in April primarily reflected an increase in government social benefits to persons as payments were made to individuals from federal economic recovery programs in response to the COVID-19 pandemic. . . . Personal outlays decreased $1.91 trillion in April. Personal saving was $6.15 trillion in April and the personal saving rate—personal saving as a percentage of disposable personal income—was 33.0 percent."

Bureau of Labor Statistics

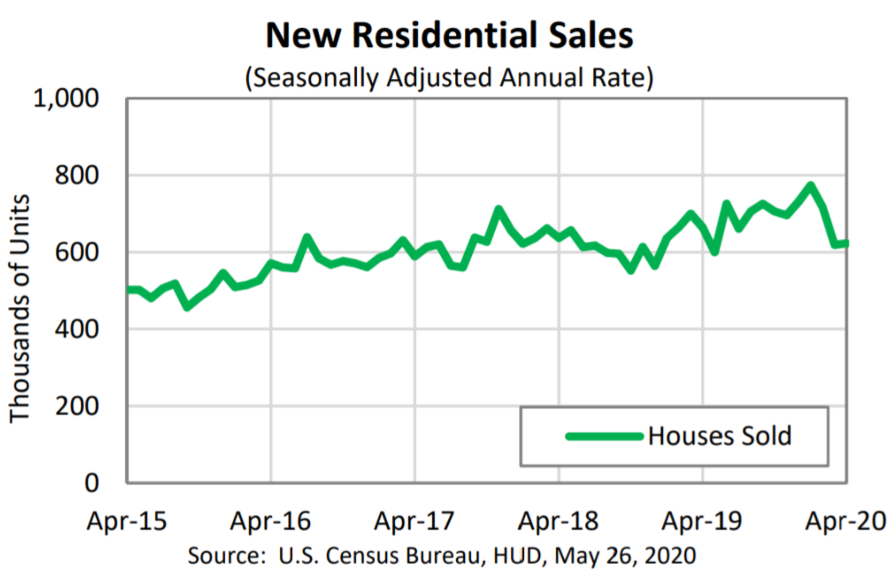
Thursday, Productivity and Costs by Industry: "Labor productivity rose in 14 of 29 selected service-providing industries in 2019. . . . This was one-third fewer industries compared to 2018 when labor productivity increased in 21 of 29 industries. . . . Unit labor costs declined in 5 industries in 2019. Each of the industries with a decline in unit labor costs also recorded an increase in productivity. . . . Each of the industries where productivity fell also recorded an increase in unit labor costs. Hourly compensation rose in 27 of the 29 industries measured."

Bureau of Transportation Statistics

Wednesday, North American Transborder Freight: The value of freight moved by all modes of transportation between the U.S. and other North American countries (Canada and Mexico) in March 2020 totaled $98.8 billion, down 7.9% compared to March 2019. "Trucks moved $62.6 billion of freight, down 7.1% compared to March 2019. . . . Railways moved $15.0 billion of freight, down 7.7% compared to March 2019. Transborder freight value in March was up 2.9% from February, reaching the highest monthly value since November 2019."

Census Bureau

Tuesday, New Residential Sales: "Sales of new single-family houses in April 2020 were at a seasonally adjusted annual rate of 623,000. . . . This is 0.6 percent above the revised March rate of 619,000 but is 6.2 percent below the April 2019 estimate of 664,000. The median sales price of new houses sold in April 2020 was $309,900. The average sales price was $364,500. The seasonally-adjusted estimate of new houses for sale at the end of April was 325,000. This represents a supply of 6.3 months at the current sales rate."



Thursday, Advance Report on Durable Goods: "New orders for manufactured durable goods in April decreased $35.4 billion or 17.2 percent to $170.0 billion. . . . This decrease, down three of the last four months, followed a 16.6 percent March decrease. Excluding transportation, new orders decreased 7.4 percent. . . . Transportation equipment, also down three of the last four months, led the decrease, $23.9 billion or 47.3 percent to $26.6 billion. . . . Shipments of manufactured durable goods in April, down three of the last four months, decreased $41.5 billion or 17.7 percent to $192.3 billion. This followed a 5.5 percent March decrease. . . . Nondefense new orders for capital goods in April increased $3.8 billion or 8.2 percent to $50.1 billion."

Friday, Advance Economic Indicators Report: "The international trade deficit was $69.7 billion in April, up $4.7 billion from $65.0 billion in March. Exports of goods for April were $95.4 billion, $32.2 billion less than March exports. Imports of goods for April were $165.0 billion, $27.5 billion less than March imports. Wholesale inventories for April, adjusted for seasonal variations but not for price changes, were estimated at an end-of-month level of $651.5 billion, up 0.4 percent from March 2020, and were down 2.6 percent from April 2019. . . . Retail inventories for April, adjusted for seasonal variations but not for price changes, were estimated at an end-of-month level of $644.9 billion, down 3.6 percent from March 2020, and were down 3.1 percent from April 2019."

Department of Labor

Thursday, Initial Unemployment Claims: "In the week ending May 23, the advance figure for seasonally adjusted initial claims was 2,123,000, a decrease of 323,000 from the previous week's revised level. . . . The 4-week moving average was 2,608,000, a decrease of 436,000 from the previous week's revised average. . . . The advance seasonally adjusted insured unemployment rate was 14.5 percent for the week ending May 16, a decrease of 2.6 percentage points from the previous week's revised rate. . . . The advance number for seasonally adjusted insured unemployment during the week ending May 16 was 21,052,000, a decrease of 3,860,000 from the previous week's revised level."

The advance number of Tennesseans receiving unemployment for the week ended May 16 (not seasonally adjusted) was 322,094, down 10,651 from the week before. For the week ended May 23, 26,041 initial claims were filed, 1,949 fewer than the prior week. With 332,745 Tennesseans on unemployment the week ended May 9, the state's rate was 10.1 percent.

Federal Reserve

Tuesday, Minutes of the Board's April 29 Discount Rate Meeting: "In a joint meeting of the Federal Open Market Committee (FOMC) and the Board today, the FOMC decided to maintain the target range for the federal funds rate at 0 to 1/4 percent, effective April 30, 2020. . . . [T]he Board also approved the establishment of the interest rate on discounts and advances made under the primary credit program (the primary credit rate) at the existing level (0.25 percent)."

"Directors reported significant declines in economic activity across sectors and Districts, most notably in the retail, travel, and tourism sectors. . . . Citing recent and projected job losses, several directors also expected the unemployment rate to continue increasing over the coming months. Most directors commented on the need for sustained accommodation provided by fiscal policy, monetary policy, and lending programs to support the economy. . . . No sentiment was expressed by the Board at today's meeting for changing the primary credit rate at this time."

Wednesday, Beige Book: "Economic activity declined in all Districts–falling sharply in most–reflecting disruptions associated with the COVID-19 pandemic. Consumer spending fell further as mandated closures of retail establishments remained largely in place during most of the survey period. Declines were especially severe in the leisure and hospitality sector, with very little activity at travel and tourism businesses. . . . Commercial real estate contacts mentioned that a large number of retail tenants had deferred or missed rent payments. . . . Although many contacts expressed hope that overall activity would pick-up as businesses reopened, the outlook remained highly uncertain and most contacts were pessimistic about the potential pace of recovery."

In the Atlanta District, "Many contacts reported success in securing a PPP loan, which allowed them to avoid layoffs. Although more furloughs and layoffs were announced, most contacts were furloughing employees with medical benefits rather than laying off in hopes of re-engaging them when demand returned." In the St. Louis District, "Contacts reported that reopening firms were limited by labor shortages, which they ascribed to increased unemployment benefits, personal health concerns, and childcare responsibilities leading potential workers to stay home."

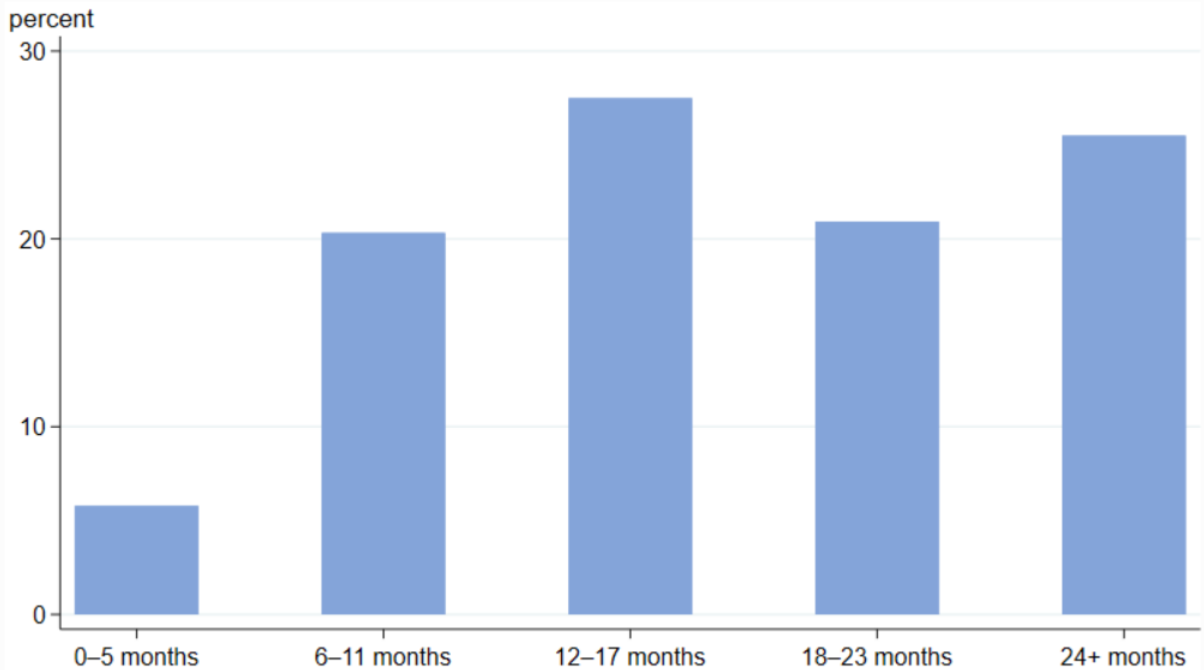
Federal Reserve Bank of Chicago

Tuesday, Chicago Fed National Activity Index: "Led by declines in production- and employment-related indicators, the Chicago Fed National Activity Index (CFNAI) fell to –16.74 in April from –4.97 in March. All four broad categories of indicators used to construct the index made negative contributions in April, and all four categories decreased from March."

Tuesday, Special Survey of Business Conditions: "In late April, the Federal Reserve Bank of Chicago collaborated with the executive associations of the chambers of commerce in its five District states (Illinois, Indiana, Iowa, Michigan, and Wisconsin) to conduct a survey on the impact of the Covid-19 pandemic. . . . About 60% of the respondents were from firms with fewer than ten employees and another 25% were from firms with ten to 49 workers. Only 16 respondents (2%) were from firms with more than 500 employees."

"At least 40% of those in the restaurant, entertainment, and retail sectors indicated they had shut down temporarily; nearly all reported large or medium declines in revenues; and at least 60% reported large or medium drops in employment and hours per worker. . . . [I]mpacts of the Covid-19 pandemic were smaller for industries such as finance and technology, which are more amenable to telecommuting, and for industries such as transportation and wholesale, which were largely deemed essential. . . . Under moderate social distancing requirements with gathering size limits of 50, the vast majority of restaurants and entertainment, tourism, and recreation companies are expected to be in serious financial trouble after three months."

Figure 1. Expected number of months until the U.S. economy returns to its pre-Covid-19 level



Thursday, National Financial Conditions Index: Showing "some continued easing of financial conditions . . . the NFCI was –0.51 in the week ending May 22, down from a revised –0.45 (initially reported as –0.46). . . . The ANFCI edged down in the latest week to 0.10 from a revised 0.13 (initially reported as 0.25). Risk indicators contributed –0.33, credit indicators contributed –0.33, leverage indicators contributed –0.04, and the adjustments for prevailing macroeconomic conditions contributed 0.80 to the index in the latest week."

Economic Indicators and Confidence:

The Conference Board

Tuesday, Consumer Confidence Survey: "The Conference Board Consumer Confidence Index held steady in May, following a sharp decline in April. The Index now stands at 86.6 (1985=100), up from 85.7 in April. The Present Situation Index–based on consumers' assessment of current business and labor market conditions–declined from 73.0 to 71.1. However, the Expectations Index–based on consumers' short-term outlook for income, business and labor market conditions–improved from 94.3 in April to 96.9 this month." Lynn Franco, Senior Director of Economic Indicators at The Conference Board, said, "While the decline in confidence appears to have stopped for the moment, the uneven path to recovery and potential second wave are likely to keep a cloud of uncertainty hanging over consumers' heads."

State Street

Wednesday, Investor Confidence: "The Global Investor Confidence Index [(ICI)] increased to 73.3, up 0.3 points from April's revised reading of 73.0. The increase was primarily driven by the European ICI, which rose 6.3 points to 108.6. Meanwhile the North American ICI and Asian ICI each dropped 0.3 points, to 67.8 and 80.5 respectively." According to Marvin Loh, senior macro strategist, State Street Global Markets, "The slowing of COVID-19 cases in Europe and the phased restart of its most impacted economies lifted sentiment by 6 points, recovering most of the losses from the prior few months. Expectations of additional fiscal and/or monetary stimulus from Europe also contributed to the improving tone. However, the North America ICI was minimally impacted, as the progression of the virus is still on a path towards peaking, while concerns remain over reinfections as all U.S. states have at least begun to partially reopen."

University of Michigan

Friday, Index of Consumer Sentiment: The final Index of Consumer Sentiment for May is 72.3, up slightly from April's reading of 71.8. The index of current economic conditions for May is 82.3, eight points higher than April. Consumer expectations, however, fell more than four points to 65.9. Surveys of Consumers chief economist Richard Curtin warns "The gap between economic growth and the current performance of the economy is likely to grow significantly when the disastrous 2nd quarter GDP is announced," and that "Adding to consumers' concerns about a significant expected drop in income growth, year-ahead inflation expectations rose sharply, putting extra pressure on consumers' abilities to maintain their living standards."

Mortgages and Housing Markets:

Freddie Mac

Thursday, Primary Mortgage Market Survey: Hitting an all-time low, rates for 30-year fixed-rate mortgages "averaged 3.15 percent with an average 0.8 point for the week ending May 28, 2020, down from last week when it averaged 3.24 percent. A year ago at this time, the 30-year FRM averaged 3.99 percent." According to Sam Khater, Freddie Mac's Chief Economist, "These unprecedented rates have certainly made an impact as purchase demand rebounded from a 35 percent year-over-year decline in mid-April to an 8 percent increase as of last week—a remarkable turnaround given the sharp contraction in economic activity. Additionally, refinance activity remains elevated and low mortgage rates have been accompanied by a $70,000 decline in the average loan size of refinance borrowers this year. This means a broader base of borrowers are taking advantage of the record low rate environment, which will benefit the economy."

Mortgage Bankers Association

Tuesday, Forbearance and Call Volume Survey: "The total number of loans now in forbearance increased from 8.16% of servicers' portfolio volume in the prior week to 8.36% as of May 17, 2020. According to MBA's estimate, 4.2 million homeowners are now in forbearance plans. 'Although job losses continue at extremely high rates, mortgage servicers are reporting only modest increases in the share of loans in forbearance as of May 17,' said Mike Fratantoni, MBA's Senior Vice President and Chief Economist. 'The decline in employment and income is hitting FHA and VA borrowers harder, leading to 11.6 percent of Ginnie Mae loans currently in forbearance.'"

Wednesday, Mortgage Applications: "The Market Composite Index, a measure of mortgage loan application volume, increased 2.7 percent on a seasonally adjusted basis from one week earlier. . . . The Refinance Index decreased 0.2 percent from the previous week. . . . The seasonally adjusted Purchase Index increased 9 percent. . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($510,400 or less) increased to 3.42 percent from 3.41 percent, with points remaining unchanged at 0.33 (including the origination fee) for 80 percent loan-to-value ratio (LTV) loans."

National Association of Realtors

Thursday, Pending Home Sales: "Brought on by the coronavirus pandemic, pending home sales decreased in April, making two straight months of declines. . . . .Every major region experienced a drop in month-over-month contract activity and a decline in year-over-year pending home sales transactions. The Pending Home Sales Index . . . fell 21.8% to 69.0 in April. Year-over-year, contract signings shrank 33.8%. . . . 'While coronavirus mitigation efforts have disrupted contract signings, the real estate industry is 'hot' in affordable price points with the wide prevalence of bidding wars for the limited inventory,' said Lawrence Yun, NAR's chief economist. 'In the coming months, buying activity will rise as states reopen and more consumers feel comfortable about homebuying in the midst of the social distancing measures.'"

S&P CoreLogic

Tuesday, Case-Shiller U.S. National Home Price NSA Index: Home prices nationally showed "a 4.4% annual gain in March, up from 4.2% in the previous month. The 10-City Composite annual increase came in at 3.4%, up from 3.0% in the previous month. The 20-City Composite posted a 3.9% year-over-year gain, up from 3.5% in the previous month. . . . 'March's data witnessed the first impact of the COVID-19 pandemic on the S&P CoreLogic Case-Shiller Indices,' says Craig J. Lazzara, Managing Director and Global Head of Index Investment Strategy at S&P Dow Jones Indices. 'That said, housing prices continue to be remarkably stable. . . . March's year-over-year gains were ahead of February's, continuing a trend of gently accelerating home prices that began last autumn.' Lazzara notes, however, 'Housing prices have not yet registered any adverse effects from the governmental suppression of economic activity in response to the COVID-19 pandemic. As much of the U.S. economy remained shuttered in April, next month's data may show a more noticeable impact.'"