Economic Update, October 16, 2020
Submitted by Dave Keiser

Summary: There's always a bit of lag between indicators and the current situation, but this week the more recent indicators were more negative than those with a greater lag. On a positive note, retail and food services sales increased, including a 19.1% increase in building materials and garden equipment sales. Manufacturing and trade sales were up. Fannie Mae economists now predict a stronger housing market than they did previously. Another item that stood out was a 77.4% increase in business formations in the third quarter. The producer price index was also up, mainly from an increase in travel accommodations. However, some recent indicators show a different story. Real earnings were down over the previous month but up over this time last year. Despite record low mortgage rates and a dropping forbearance rate, consumer sentiment is lowering, and unemployment claims increased.

If you're interested in tracking economic indicators for Tennessee, check out Middle Tennessee State University's recently updated (October 5th) page.

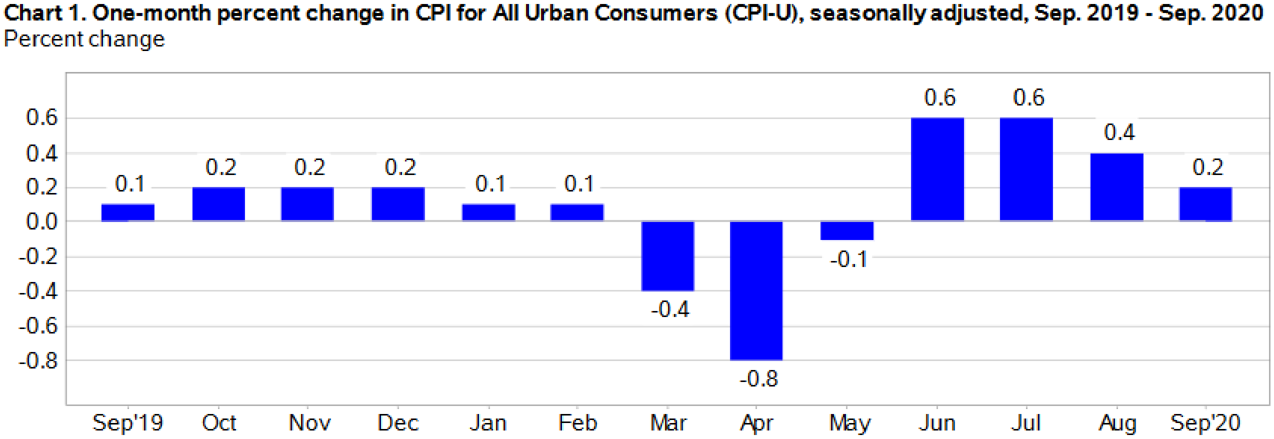
Federal Government Indicators and Reports:

Bureau of Labor Statistics

Tuesday, Real Earnings: "Real average hourly earnings for all employees decreased 0.1 percent from August to September, seasonally adjusted. . . . This result stems from an increase of 0.1 percent in average hourly earnings being more than offset by an increase of 0.2 percent in the Consumer Price Index for All Urban Consumers (CPI-U). Real average hourly earnings increased 3.3 percent, seasonally adjusted, from September 2019 to September 2020. The change in real average hourly earnings combined with an increase of 0.9 percent in the average workweek resulted in a 4.1-percent increase in real average weekly earnings over this period."

Tuesday, Consumer Price Index: "The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2 percent in September on a seasonally adjusted basis after rising 0.4 percent in August. . . . Over the last 12 months, the all items index increased 1.4 percent before seasonal adjustment. The index for used cars and trucks continued to rise sharply and accounted for most of the monthly increase in the seasonally adjusted all items index. The food index was unchanged, with an increase in the food away from home index offsetting a decline in the food at home index. The energy index rose 0.8 percent in September as the index for natural gas increased 4.2 percent."

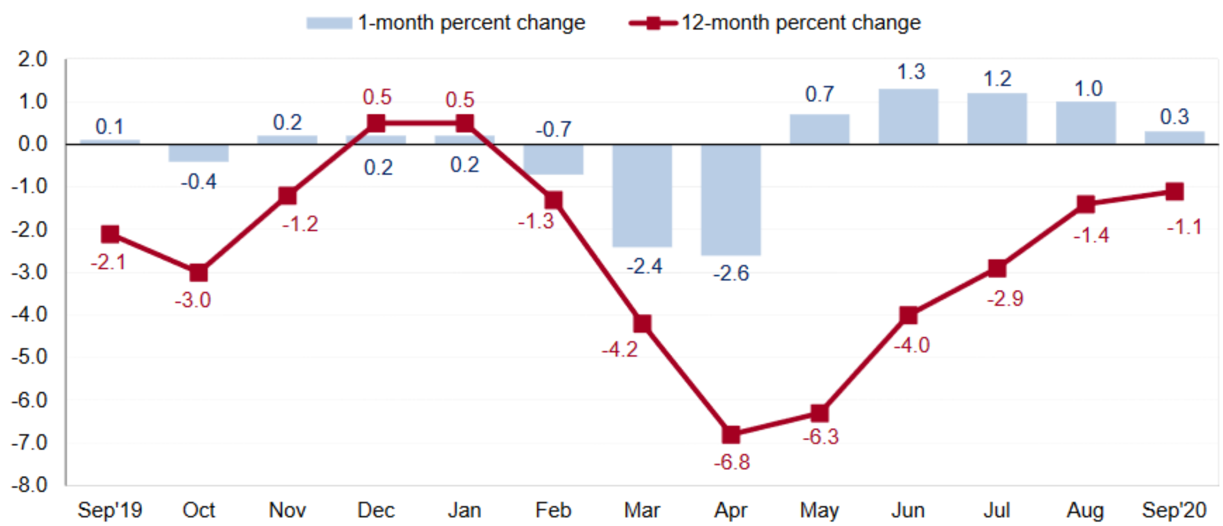
Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Sep. 2019 - Sep. 2020



Wednesday, [Producer Price Index](): "The Producer Price Index for final demand advanced 0.4 percent in September, seasonally adjusted. . . . Final demand prices rose 0.3 percent in August and 0.6 percent in July. On an unadjusted basis, the final demand index increased 0.4 percent for the 12 months ended in September, the first advance since moving up 0.3 percent for the 12 months ended in March. A 3.9-percent advance in the index for traveler accommodation services was a major factor in the September rise in prices for final demand services. The indexes for hardware, building materials, and supplies retailing; fuels and lubricants retailing; transportation of passengers (partial); food wholesaling; and hospital inpatient care also moved higher. In contrast, the index for food retailing fell 3.2 percent. Prices for truck transportation of freight and deposit services (partial) also decreased."

Thursday, U.S. Import and Export Prices Indexes: "Prices for U.S. imports increased 0.3 percent in September . . . following advances of 1.0 percent in August, 1.2 percent in July, and 1.3 percent in June. In September, rising prices for nonfuel imports more than offset lower fuel prices. U.S. export prices increased 0.6 percent in September, after advancing 0.5 percent the previous month."

Chart 1. One-month and 12-month percent changes in the Import Price Index: September 2019 – September 2020



Bureau of Transportation Statistics

Thursday, Freight Transportation Services Index: The index, "which is based on the amount of freight carried by the for-hire transportation industry, fell 1.3% in August from revised July, declining after two months of increases. . . . From August 2019 to August 2020, the index fell 7.4% compared to a rise of 3.9% from August 2018 to August 2019 and a rise of 5.7% from August 2017 to August 2018."

Census Bureau

Wednesday, Business Formation Statistics: "Business Applications for the third quarter of 2020, adjusted for seasonal variation, were 1,566,373, an increase of 77.4 percent compared to the second quarter of 2020."

Friday, Advance Monthly Sales for Retail and Food Services: "Advance estimates of U.S. retail and food services sales for September 2020, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $549.3 billion, an increase of 1.9 percent from the previous month, and 5.4 percent above September 2019. Total sales for the July 2020 through September 2020 period were up 3.6 percent from the same period a year ago. Retail trade sales were up 1.9 percent from August 2020, and 8.2 percent above last year. Nonstore retailers were up 23.8 percent from September 2019, while building material and garden equipment and supplies dealers were up 19.1 percent from last year."

Friday, Manufacturing and Trade Inventories and Sales: "The combined value of distributive trade sales and manufacturers' shipments for August, adjusted for seasonal and trading day differences but not for price changes, was estimated at $1,452.4 billion, up 0.6 percent from July 2020, but was down 0.4 percent from August 2019. Manufacturers' and trade inventories for August, adjusted for seasonal variations but not for price changes, were estimated at an end-of-month level of $1,919.2 billion, up 0.3 percent from July 2020, but were down 5.5 percent from August 2019."

Department of Labor

Thursday, Unemployment Insurance Weekly Claims: "In the week ending October 10, the advance figure for seasonally adjusted initial claims was 898,000, an increase of 53,000 from the previous week's revised level. . . . The 4-week moving average was 866,250. . . . The advance seasonally adjusted insured unemployment rate was 6.8 percent for the week ending October 3, a decrease of 0.9 percentage point from the previous week's revised rate." The advance figure for initial claims (unadjusted) filed in Tennessee for the week ending October 10 was 10,145—an increase of 68 from the previous week. Initial claims for Pandemic Unemployment Assistance (PUA) were also down, totaling 3,955 compared to 4,327 the week prior.

Tennessee: Total Claims for the Week Ending September 26 (not seasonally adjusted)

139,780	Advance Insured Unemployment
100	Unemployment Compensation program for Federal Employees (UCFE)
181	Unemployment Compensation for Ex-servicemembers (UCX)
156,388	Pandemic Unemployment Assistance (PUA) Continued Claims
57,428	Pandemic Emergency Unemployment Compensation (PEUC) Claims
2,401	Extended Benefits (EB) Claims
356,278	(down from 365,831 reported the week ended September 19)

Federal Reserve Bank of Chicago

Thursday, National Financial Conditions Index: "The NFCI was unchanged at –0.50 in the week ending October 9. Risk indicators contributed –0.26, credit indicators contributed –0.15, and leverage indicators contributed –0.08 to the index in the latest week."

Economic Indicators and Confidence:

University of Michigan

Friday, Consumer Sentiment: "Slowing employment growth, the resurgence in covid-19 infections, and the absence of additional federal relief payments prompted consumers to become more concerned about the current economic conditions. Those concerns were largely offset by continued small gains in economic prospects for the year ahead. The Current Conditions Index recorded its second small reversal, the first being in June, but even at its best, it has never come close to its December peak, being still down by 26.5%. The Expectations Index, despite the recent gain, is still down by 14.4% from its February peak."

Employment and Businesses:

National Federation of Independent Business

Tuesday, Small Business Job Report: "The small business labor market continues to make improvements in September despite continued state and federal employment regulations related to COVID-19. According to NFIB's monthly jobs report, 10% of owners reported increasing employment an average of 3.2 workers per firm and 16% reported reducing employment an average of 2.0 workers per firm (seasonally adjusted)."

Tuesday, Small Business Optimism: The index "rose 3.8 points to 104.0 in September, a historically high reading. Nine of the 10 Index components improved and one declined. The NFIB Uncertainty Index increased 2 points to 92, up from 75 in April."

Mortgages and Housing Markets:

Fannie Mae

Friday, Economic and Housing Outlook: "Despite the large decline in economic activity in the first half of the year, we continue to expect that the ongoing recovery will be sufficiently robust such that real gross domestic product (GDP) will only contract by 2.6 percent in 2020, before increasing by 3.5 percent in 2021. Risks to the forecast are unusually elevated given the ongoing pandemic and the November election. Meanwhile, housing data continues to show strength, which led to an upgrade of our forecast for home sales, starts, and home prices for the remainder of the year. We now expect total home sales in 2020 to be 3.6 percent higher than in 2019 and residential fixed investment in the third quarter to have rebounded above pre-COVID levels. Given the housing outlook and robust refinance volumes, we increased our forecast for mortgage originations in 2020 from $3.9 trillion to $4.1 trillion. However, we continue to expect that supply constraints and diminishing, pent-up demand will lead to a pullback in sales activity in 2021."

Freddie Mac

Thursday, Primary Mortgage Market Survey: "30-year fixed-rate mortgage[s] averaged 2.81 percent . . . for the week ending October 15, 2020, down from last week when it averaged 2.87 percent. A year ago at this time, the 30-year FRM averaged 3.69 percent." Sam Khater, Freddie Mac's Chief Economist, says "as we hit yet another record low, the tenth record this year, many people are benefitting as refinance activity remains strong. However, it's important to remember that not all people are able to take advantage of low rates given the effects of the pandemic."

Mortgage Bankers Association

Monday, Forbearance and Call Volume Survey: The "total number of loans now in forbearance decreased by 49 basis points from 6.81% of servicers' portfolio volume in the prior week to 6.32% as of October 4, 2020. According to MBA's estimate, 3.2 million homeowners are in forbearance plans." Mike Fratantoni, MBA's Senior Vice President and Chief Economist, says "the share of loans in forbearance declined across all loan types. With the forbearance program for federally backed loans under the CARES Act reaching the six-month mark, many borrowers saw their forbearance plans expire because they did not contact their servicer. Another reason for expirations was that borrower information needed to determine an appropriate loss mitigation option was not yet in place. Borrowers with federally backed mortgages need to contact their servicer to obtain another six months of reprieve if they are still impacted by the pandemic. As of now, some borrowers are exiting forbearance without making contact or without a plan in place. Servicers are making outreach efforts to attempt to work with these borrowers to determine the best options for them, including an extension. On a more positive note, nearly two-thirds of borrowers who exited forbearance remained current on their payments, repaid their forborne payments, or moved into a payment deferral plan. All of these borrowers have been able to resume - or continue - their pre-pandemic monthly payments."

Wednesday, Weekly Mortgage Applications Survey: "Mortgage applications decreased 0.7 percent from one week earlier, according to data . . . for the week ending October 9, 2020. 'Mortgage applications for refinances and home purchases both decreased slightly last week, despite the 30-year fixed mortgage rate declining to a new MBA survey low of 3.00 percent. Applications for government mortgages offset some of the overall decline by increasing 3 percent, driven by a solid gain in government purchase applications and an 11 percent jump in VA refinance applications,' said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. 'Refinance and purchase activity continue to run well ahead of last year's pace, fueled by record-low rates and strong homebuyer demand. Housing supply is a challenge for many aspiring buyers, but activity should continue to stay strong the rest of the year.' . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($510,400 or less) decreased to 3.00 percent from 3.01 percent."