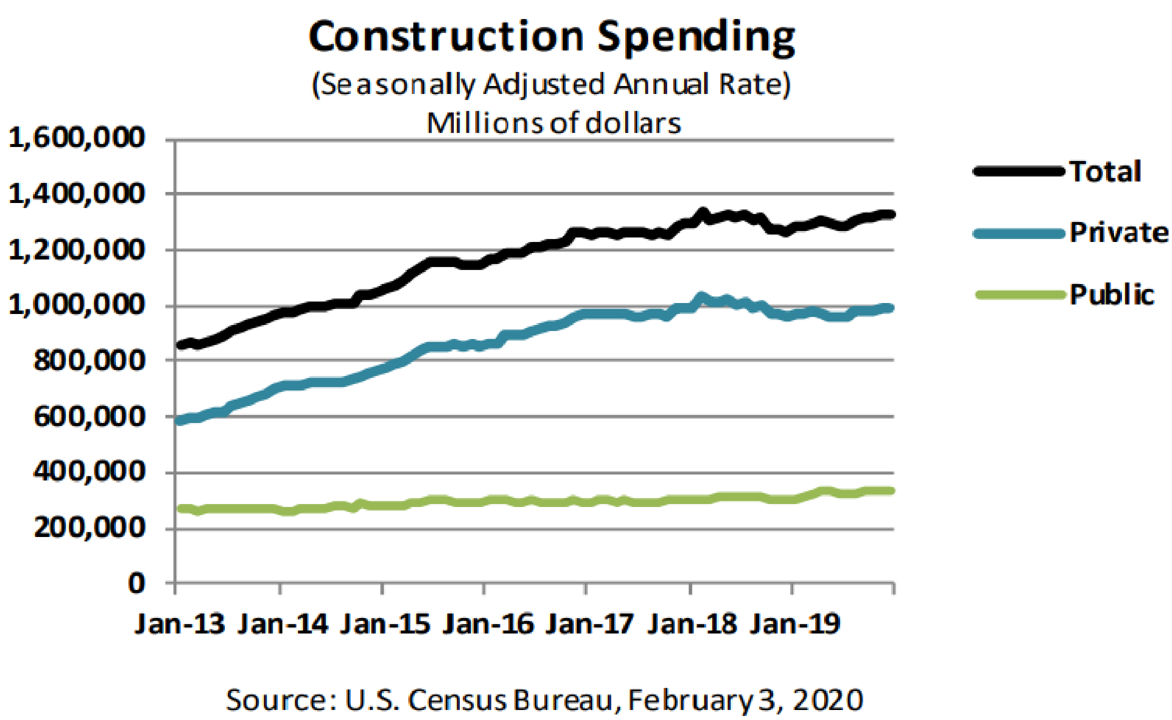
Economic Update, February 7, 2020
Submitted by Bob Moreo

Summary: News this week has mostly been positive—mixed with a little caution here and there. The economy added more jobs than expected, and labor force participation is on the rise. Stable employment paired with mortgage rates at multiyear lows have Americans optimistic about the housing market, although flat construction spending data may indicate that housing inventory will remain limited. Banks report less demand for land development loans and say they have tightened their lending standards. A big jump in new manufacturing orders looked good on the surface, but a closer look reveals sluggish non-defense spending. Broadly, however, indications are that U.S. monetary policy is on track; the Federal Reserve reported to Congress that any economic slowdowns are unlikely to accelerate into recession.

Census Bureau

Monday, Construction Spending: "Construction spending during December 2019 was estimated at a seasonally adjusted annual rate of $1,327.7 billion, 0.2 percent below the revised November estimate of $1,329.9 billion. The December figure is 5.0 percent above the December 2018 estimate of $1,264.8 billion. The value of construction in 2019 was $1,303.5 billion, 0.3 percent below the $1,307.2 billion spent in 2018."



Tuesday, Manufactured Goods: "New orders for manufactured goods in December, up two of the last three months, increased $8.6 billion or 1.8 percent to $499.3 billion . . . [following] a 1.2 percent November decrease. Shipments, up three consecutive months, increased $2.3 billion or 0.5 percent to $504.1 billion [following] a 0.3 percent November increase. Unfilled orders, down three of the last four months, decreased $0.6 billion or virtually unchanged to $1,156.2 billion [following] a 0.6 percent November decrease. . . . The inventories-to-shipments ratio was 1.40, unchanged from November." However, excluding defense, the value of new orders for manufactured goods decreased by 0.6 percent from November to December.

Wednesday, International Trade: The U.S. international trade deficit "was $48.9 billion in December, up $5.2 billion from $43.7 billion in November, revised. December exports were $209.6 billion, $1.6 billion more than November exports. December imports were $258.5 billion, $6.8 billion more than November imports. . . . For 2019, the goods and services deficit was $616.8 billion, down $10.9 billion from $627.7 billion in 2018. Exports were $2,499.8 billion, down $1.5 billion from 2018. Imports were $3,116.5 billion, down $12.5 billion from 2018. . . . As a percentage of U.S. gross domestic product, the goods and services deficit was 2.9 percent in 2019, down from 3.0 percent in 2018."

Friday, Wholesale Trade: December 2019 wholesale sales, seasonally adjusted, "were $494.4 billion, down 0.7 percent from the revised November level, but were up 0.5 percent from the revised December 2018 level. . . . Total inventories . . . were $674.5 billion at the end of December, down 0.2 percent from the revised November level, [but] up 2.1 percent from the revised December 2018 level." The December 2019 inventories/sales ratio was 1.36, up slightly from 1.34 a year ago.

Bureau of Labor Statistics

Wednesday, Metropolitan Area Employment: "Unemployment rates were lower in December than a year earlier in 266 of the 389 metropolitan areas, higher in 101 areas, and unchanged in 22 areas. . . . A total of 136 areas had jobless rates of less than 3.0 percent and 3 areas had rates of at least 10.0 percent. Nonfarm payroll employment increased over the year in 45 metropolitan areas and was essentially unchanged in the remaining 344 areas. The national unemployment rate in December was 3.4 percent, not seasonally adjusted, down from 3.7 percent a year earlier." Tennessee's statewide unemployment rate was 3.1 percent in December, unchanged from the month before and up slightly from 3.0 percent a year ago. Among the state's 10 metropolitan areas, seven had higher unemployment rates than a year ago, two were lower, and one was unchanged.

	Percent of Labor Force Unemployed (not seasonally adjusted)		
Metropolitan Statistical Area	**December 2019**	**November 2019**	**December 2018**
Chattanooga	3.3	2.9	3.1
Clarksville	3.7	3.8	3.5
Cleveland	3.3	3.1	3.0
Jackson	3.1	3.2	3.2
Johnson City	3.4	3.3	3.4
Kingsport-Bristol-Bristol	3.2	3.2	3.3
Knoxville	2.9	2.9	2.8
Memphis	3.9	3.9	3.7
Morristown	3.5	3.4	3.3
Nashville-Davidson—Murfreesboro—Franklin	2.4	2.4	2.3

Thursday, Productivity and Costs: "Nonfarm business sector labor productivity increased 1.4 percent in the fourth quarter of 2019 . . . as output increased 2.5 percent and hours worked increased 1.1 percent. From the fourth quarter of 2018 to the fourth quarter of 2019, productivity increased 1.8 percent, reflecting a 2.7-percent increase in output and a 0.9-percent increase in hours worked. . . . Unit labor costs in the nonfarm business sector increased 1.4 percent in the fourth quarter of 2019 as hourly compensation grew at a faster rate (2.8 percent) than productivity (1.4 percent). Unit labor costs increased 2.4 percent over the last four quarters."

Friday, Employment Situation: "Total nonfarm payroll employment rose by 225,000 in January, and the unemployment rate was little changed at 3.6 percent. . . . Notable job gains occurred in construction, in health care, and in transportation and warehousing. . . . The labor force participation rate edged up by 0.2 percentage point to 63.4 percent." The average monthly employment gain for 2019 was 175,000. "In January, average hourly earnings for all employees on private nonfarm payrolls rose by 7 cents to $28.44. Over the past 12 months, average hourly earnings have increased by 3.1 percent. Average hourly earnings of private-sector production and nonsupervisory employees were $23.87 in January, little changed over the month (+3 cents)."

Department of Labor

Thursday, Initial Claims: "In the week ending February 1, the advance figure for seasonally adjusted initial claims was 202,000, a decrease of 15,000 from the previous week's revised level. . . . The 4-week moving average was 211,750, a decrease of 3,000 from the previous week's revised average."

Federal Reserve

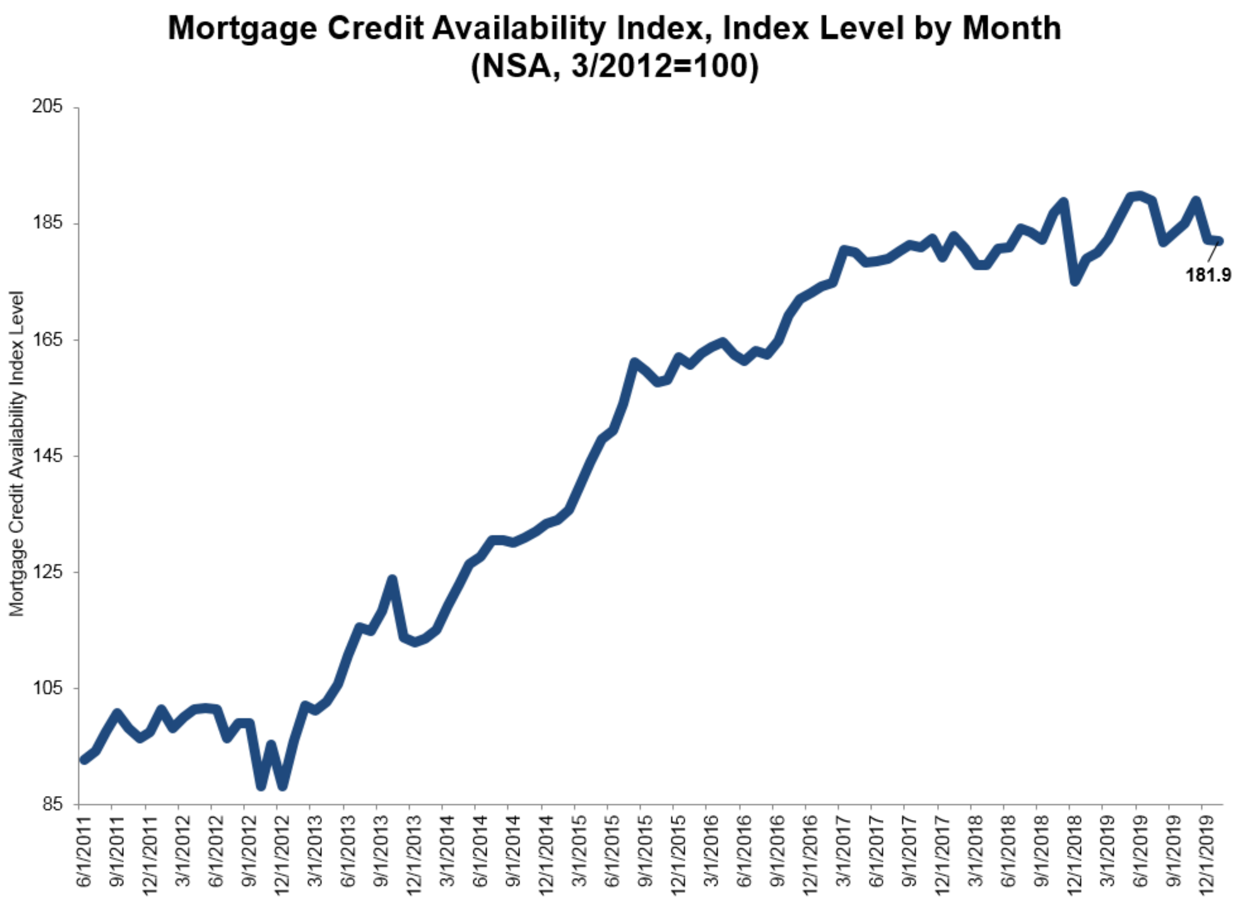
Monday, Senior Loan Officer Opinion Survey: Banks surveyed in January reported that "on balance over the fourth quarter, they left standards on commercial and industrial (C&I) loans basically unchanged, while demand weakened from firms of all sizes. Also, banks reported that lending standards and demand were unchanged for all commercial real estate (CRE) loan categories except construction and land development loans, for which standards tightened and demand weakened over the fourth quarter of 2019. . . . Banks reported expecting to tighten standards for most categories of business loans, credit card loans, and auto loans, but to leave standards unchanged for closed-end mortgage loans."

Friday, Monetary Policy Report: In its semiannual report to Congress, the Federal Reserve stated that "downside risks to the U.S. outlook seem to have receded in the latter part of the year, as the conflicts over trade policy diminished somewhat, economic growth abroad showed signs of stabilizing, and financial conditions eased." Noting that declining manufacturing output in 2019 "raised fears among some observers that the weakness could spread and potentially lead to an economy-wide recession," the Fed asserts for the coming year that "a decline in manufacturing similar to that in 2019 would not be large enough to initiate a major downturn for the economy." Internationally, it says "recent indicators provide tentative signs of stabilization. The global slowdown in manufacturing and trade appears to be nearing an end, and consumer spending and services activity around the world continue to hold up."

Mortgage Bankers Association

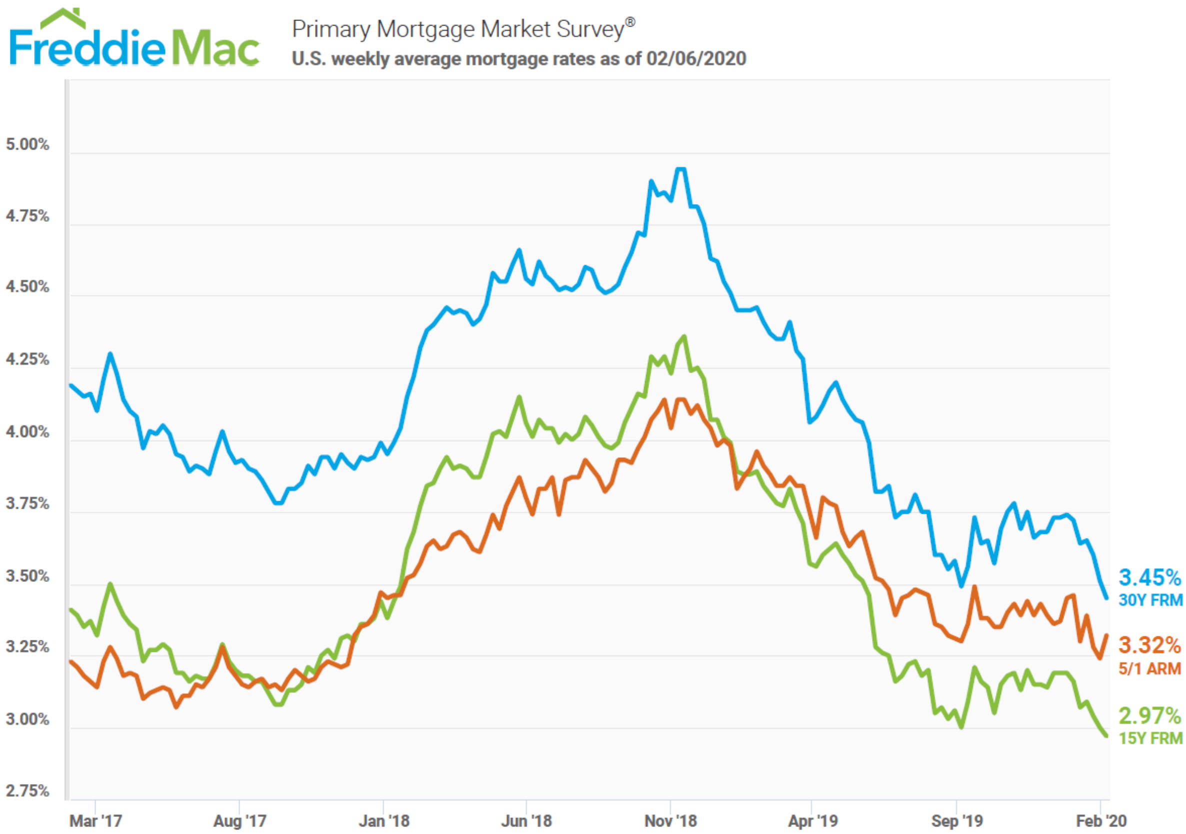
Wednesday, Mortgage Applications: "Mortgage applications increased 5.0 percent from one week earlier," with volume reaching its highest level since May 2013. Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting, said that homeowners are taking advantage of the lowest rates since October 2016, but added that prospective buyers "weren't as responsive to the decline in mortgage rates—likely because of suppressed supply levels. Purchase applications took a step back, but still remained 11 percent higher than a year ago."

Thursday, Mortgage Credit Availability: "Mortgage credit availability decreased in January . . . [falling] by 0.2 percent." The index, benchmarked to 100 in March 2012, was 181.9 in January 2020. MBA's Joel Kan said "the decline came from the reduction of low credit score, high-LTV programs," adding that "although credit supply has flattened these last two years, the meaningful increase seen overall since the Great Recession has been helpful to the growing share of first-time homebuyers, as well as refinance borrowers looking to act on lower mortgage rates."



Freddie Mac

Thursday, Primary Mortgage Market Survey: Rates fell for the third consecutive week, with those for 30-year fixed-rate mortgages reaching their lowest point in three years. Rates for a 30-year fixed-rate mortgage "averaged 3.45 percent with an average 0.7 point for the week ending February 6, 2020, down from last week when it averaged 3.51 percent. A year ago at this time, the 30-year FRM averaged 4.41 percent." According to Sam Khater, Freddie Mac's Chief Economist, "as rates fell for the third consecutive week, markets staged a rebound with increases in manufacturing and service sector activity. The combination of very low mortgage rates, a strong economy and more positive financial market sentiment all point to home purchase demand continuing to rise over the next few months."



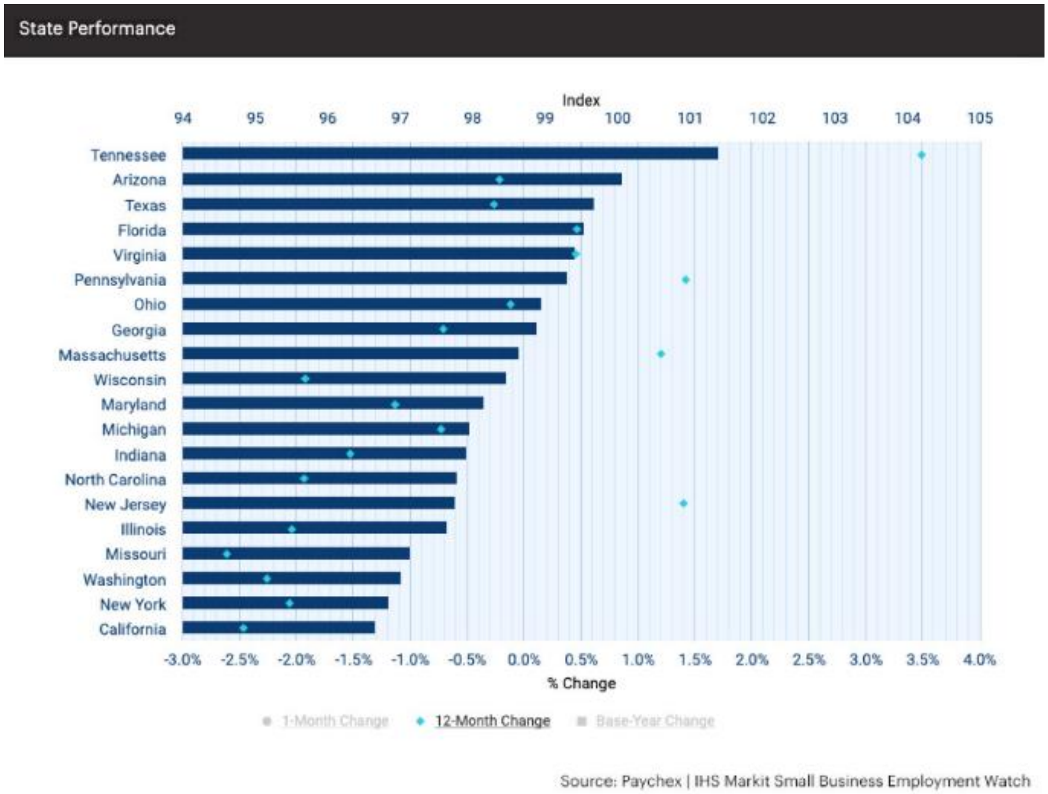
Fannie Mae

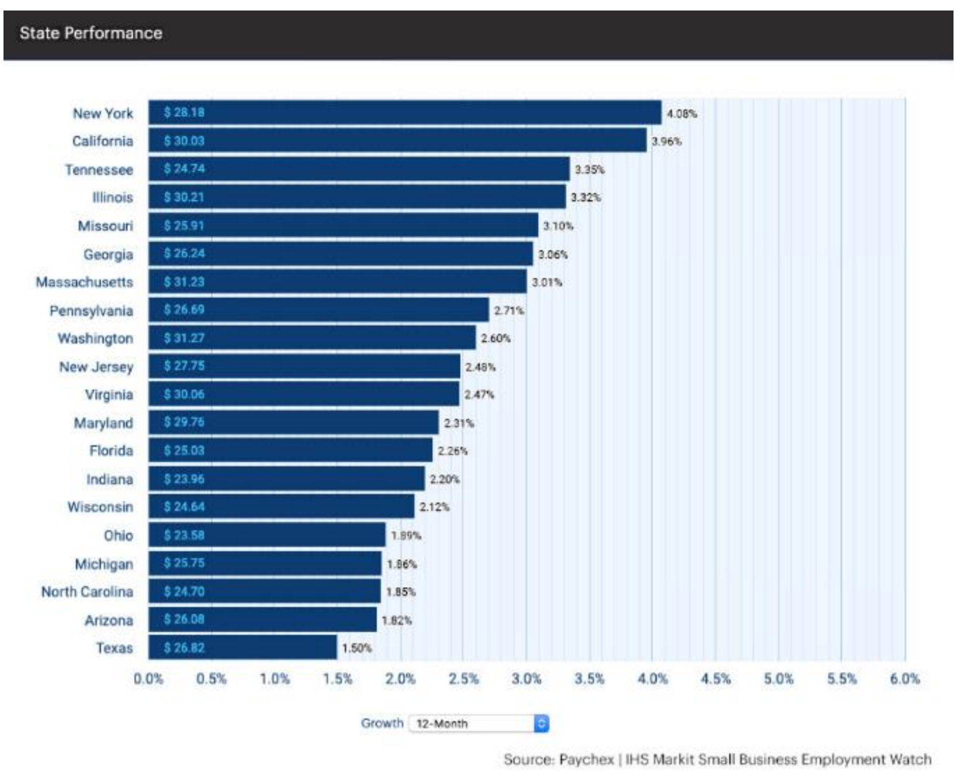
Friday, Home Purchase Sentiment: "The Fannie Mae Home Purchase Sentiment Index (HPSI) rose for the third consecutive month, increasing 1.3 points in January to 93.0 and moving closer to the survey high of 93.8 set last year. Four of the six HPSI components increased month over month, including the percentage of Americans who believe that mortgage rates will go down or stay the same over the next 12 months, which now sits at 55 percent. Year over year, the HPSI is up 8.3 points, reflecting in part consumers' increasingly positive view that it's a good time to both buy and sell a home." According to Fannie Mae Senior Vice President and Chief Economist Doug Duncan, "low rates continue to be a key driver of consumer optimism about both current homebuying and home-selling conditions. Favorable views on job security and personal financial expectations reflect the strength of the labor market, which we believe will continue to bolster housing demand."

IHS Markit

Tuesday, Small Business Employment Watch: "The latest Paychex IHS Markit Small Business Employment Watch reflects a continuation of the tight labor market to start 2020. Weekly earnings growth improved for the 13th consecutive month, reaching 3.59 percent in January. Weekly hours worked were up 0.83 percent from last year, contributing to the growth in weekly earnings. The pace of small business employment growth remains consistent, with the national jobs index increasing slightly (0.01 percent) in January to 98.18. 'The national index has been flat since mid-year 2019, signaling a continued tight labor market for small businesses,' said James Diffley, chief regional economist at IHS Markit."

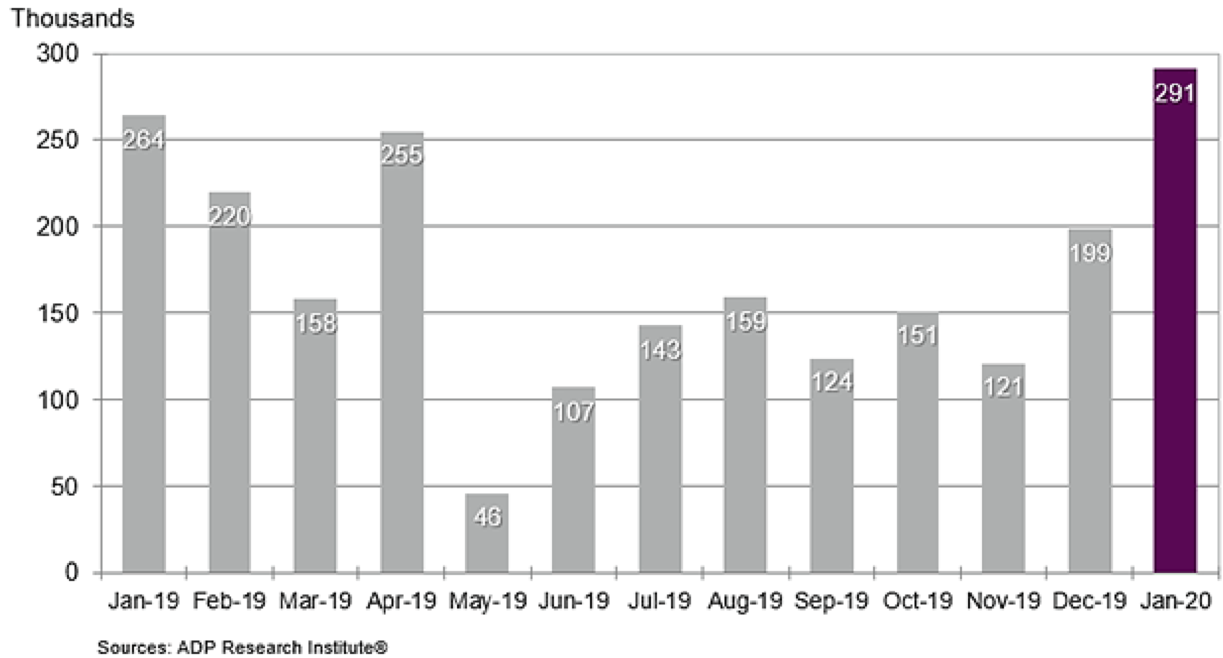
The January report said the South continues to be the top region for small business employment growth, with Tennessee ranked first among the 20 most-populated states the index tracks. Tennessee ranked third for state wage performance.





ADP

Wednesday, National Employment Report: "Private sector employment increased by 291,000 jobs from December to January. . . . 'The labor market experienced expanded payrolls in January,' said Ahu Yildirmaz, vice president and cohead of the ADP Research Institute. 'Goods producers added jobs, particularly in construction and manufacturing, while service providers experienced a large gain, led by leisure and hospitality. Job creation was strong among midsized companies, though small companies enjoyed the strongest performance in the last 18 months.'"



Institute for Supply Management

Wednesday, Non-Manufacturing Report On Business: "Economic activity in the non-manufacturing sector grew in January for the 120th consecutive month, say the nation's purchasing and supply executives. . . . The NMI registered 55.5 percent, which is 0.6 percentage point higher than the seasonally adjusted December reading of 54.9 percent. This represents continued growth in the non-manufacturing sector, at a slightly faster rate. The Non-Manufacturing Business Activity Index increased to 60.9 percent, 3.9 percentage points higher than the seasonally adjusted December reading of 57.0 percent, reflecting growth for the 126th consecutive month." According to Anthony Nieves, Chair of the ISM Non-Manufacturing Business Survey Committee, an NMI at 55.5 percent "corresponds to a 2.4-percent increase in real gross domestic product (GDP) on an annualized basis."