Economic Update, March 26, 2021
Submitted by Bob Moreo

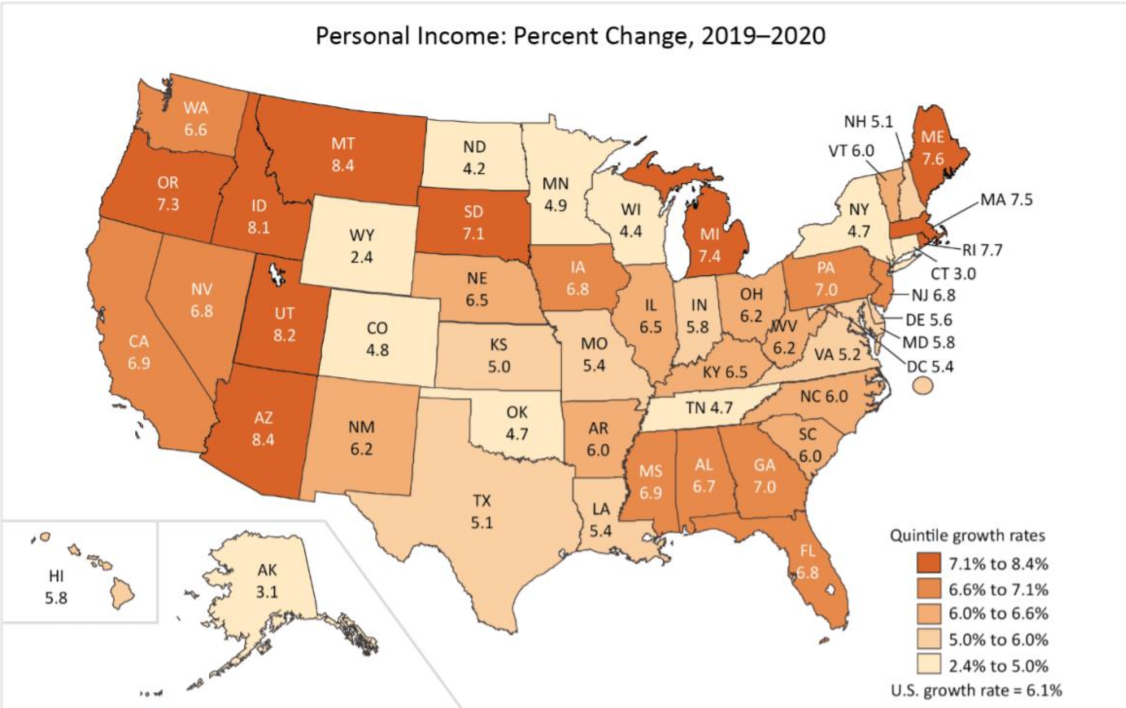
Summary: One year ago, unemployment claims had spiked by more than 6 million in a period of two weeks as businesses shut down to slow the spread of COVID-19. The latest report from the U.S. Department of Labor this week showed initial claims falling below the 700,000 mark for the first time since. More than 130,000 Tennesseans filed for unemployment over the last two weeks of March 2020—compared to 15,609 over the two most recent weeks this March. However, there were still about 175,000 Tennesseans collecting benefits as of March 6. As demand for goods and services improves, U.S. producers face supply chain disruptions and delays, driving up final prices according to Chris Williamson, IHS Markit. Mortgage rates continued to tick upward from their historic January lows, and Robert Dietz of the National Association of Home Builders says, "After sales [of new homes] exceeded construction starts by a historic margin at the end of the summer, the pace of sales has now slowed back to the post-Great Recession trend, which is limited by availability of lots, labor, lumber and other building inputs."

Federal Government Indicators and Reports:

Bureau of Economic Analysis

Monday, U.S. International Transactions: "The U.S. current account deficit, which reflects the combined balances on trade in goods and services and income flows between U.S. residents and residents of other countries, widened by $7.6 billion, or 4.2 percent, to $188.5 billion in the fourth quarter of 2020. . . . Exports of goods and services to, and income received from, foreign residents increased $40.8 billion, to $840.0 billion, in the fourth quarter. Imports of goods and services from, and income paid to, foreign residents increased $48.3 billion, to $1.03 trillion."

Wednesday, State Personal Income: "State [annual] personal income increased 6.1 percent in 2020 after increasing 3.9 percent in 2019. . . . Transfer receipts increased 36.6 percent, accounting for the entire $1.1 trillion increase in personal income for the nation in 2020. . . . For the nation, earnings increased 0.3 percent in 2020, the smallest increase since 2009." For the fourth quarter of 2020, "state personal income decreased 6.8 percent at an annual rate . . . after decreasing 11.3 percent in the third quarter. Increases in earnings and property income were more than offset by decreases in transfer receipts . . . [reflecting] the expiration of the temporary $600 per week increase in state unemployment insurance compensation." Trends in Tennessee were similar to those at the national level. Personal income increased 4.7 percent (44th overall) in 2020, with transfer receipts increasing 25.5 percent while earnings decreased by 0.3 percent.



U.S. Bureau of Economic Analysis

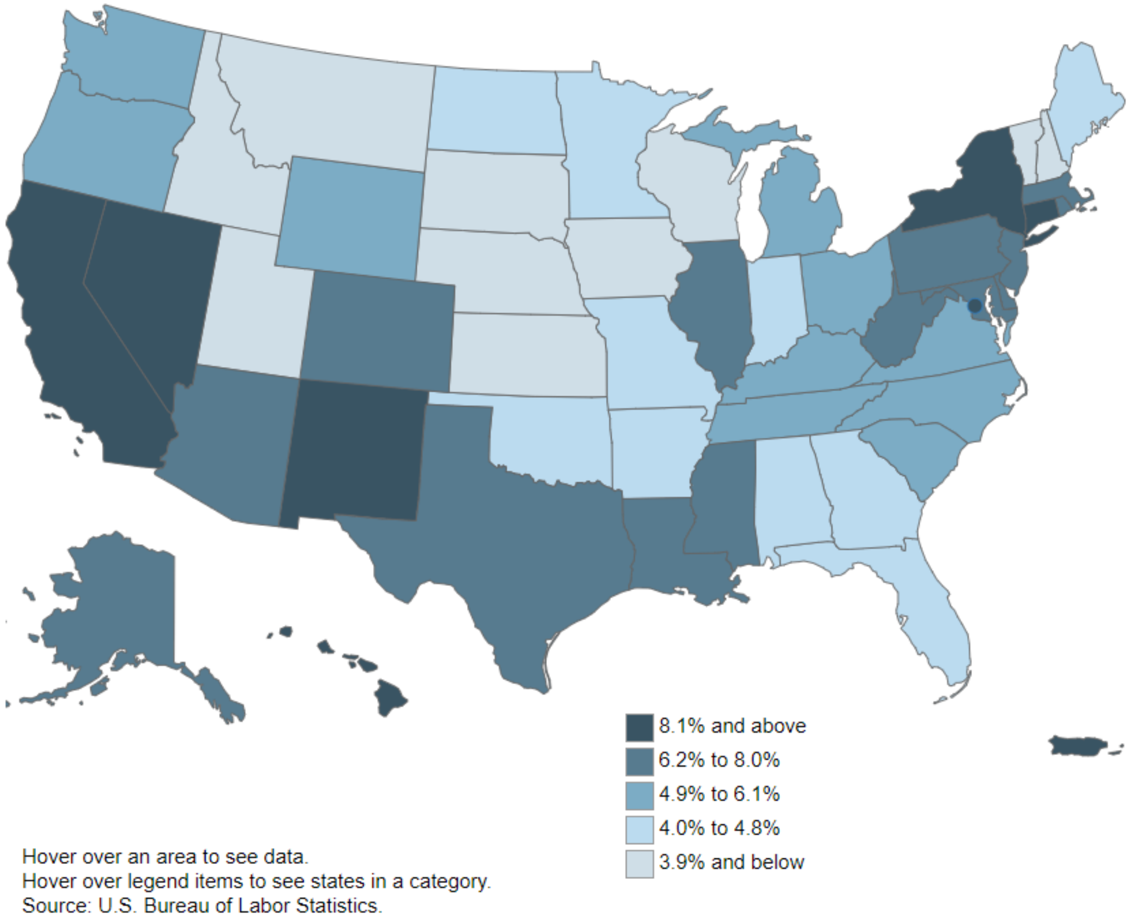
Thursday, GDP, Corporate Profits, and GDP by Industry (4th quarter 2020): "Real gross domestic product increased at an annual rate of 4.3 percent in the fourth quarter of 2020. . . . In the third quarter, real GDP increased 33.4 percent. The increase in real GDP reflected increases in exports, nonresidential fixed investment, personal consumption expenditures (PCE), residential fixed investment, and private inventory investment. . . . [Corporate] Profits from current production decreased $31.4 billion in the fourth quarter, in contrast to an increase of $499.6 billion in the third quarter. . . . In the fourth quarter, private goods-producing industries increased 6.1 percent, private services-producing industries increased 4.9 percent, and government decreased 1.1 percent. Overall, 17 of 22 industry groups contributed to the fourth-quarter increase in real GDP."

Friday, Personal Income and Outlays (February): "Personal income decreased $1,516.6 billion (7.1 percent) in February. . . . Disposable personal income (DPI) decreased $1,532.3 billion (8.0 percent) and personal consumption expenditures (PCE) decreased $149.0 billion (1.0 percent). . . . The PCE price index increased 0.2 percent. . . . Personal saving was $2.41 trillion in February and the personal saving rate—personal saving as a percentage of disposable personal income—was 13.6 percent."

Bureau of Labor Statistics

Friday, State Employment and Unemployment (February): "Unemployment rates were lower in February in 23 states and the District of Columbia, higher in 4 states, and stable in 23 states. . . . The national unemployment rate, 6.2 percent, was little changed over the month, but was 2.7 percentage points higher than in February 2020. Nonfarm payroll employment increased in 11 states, decreased in 3 states, and was essentially unchanged in 36 states and the District of Columbia in February 2021." The unemployment rate for Tennessee in February 2021 was 4.9 percent, down from 5.1 percent in January. The rate in February 2020 was 3.9 percent. Nonfarm payroll employment in February 2021 was 3,035,100—118,600 below February 2020 (-3.8 percent).

State unemployment rates, February 2021, seasonally adjusted



Bureau of Transportation Statistics

Wednesday, North American Transborder Freight: In January 2021, "$94.3 billion of transborder freight [between the U.S. and Canada and Mexico] moved by all modes of transportation, down 2.6% compared to December 2020 and down 2.9% compared to January 2020." Compared to January 2020, U.S.-Canada freight was down 4.5% and U.S.-Mexico freight was down 1.3%.

Census Bureau

Monday, Quarterly Financial Report - Manufacturing, Mining, Wholesale Trade, and Selected Service Industries: "U.S. manufacturing corporations' seasonally adjusted after-tax profits in the fourth quarter of 2020 totaled $144.1 billion, down $6.3 billion from the after-tax profits of $150.3 billion recorded in the third quarter of 2020, and down $2.1 billion from . . . the fourth quarter of 2019."

Monday, Quarterly Financial Report - Retail Trade: "Seasonally adjusted after-tax profits of U.S. retail corporations with assets of $50 million and over totaled $34.2 billion, down $8.7 billion from the $43.0 billion recorded in the third quarter of 2020, but up $4.7 billion from . . . the fourth quarter of 2019. Seasonally adjusted sales for the quarter totaled $887.7 billion, up $19.5 billion from the $868.2 billion recorded in the third quarter of 2020, and up $78.3 billion from the . . . fourth quarter of 2019."

Tuesday, New Residential Sales: "Sales of new single-family houses in February 2021 were at a seasonally adjusted annual rate of 775,000. . . . This is 18.2 percent below the revised January rate of 948,000, but is 8.2 percent above the February 2020 estimate of 716,000. The median sales price of new houses sold in February 2021 was $349,400. The average sales price was $416,000."

Wednesday, Advance Report on Durable Goods Manufacturers' Shipments, Inventories, and Orders: "New orders for manufactured durable goods in February decreased $2.9 billion or 1.1 percent to $254.0 billion. . . . This decrease, down following nine consecutive monthly increases, followed a 3.5 percent January increase. . . . Transportation, down following five consecutive monthly increases, led the decrease, $1.3 billion or 1.6 percent to $83.6 billion. Shipments of manufactured durable goods in February, down following five consecutive monthly increases, decreased $9.1 billion or 3.5 percent to $250.9 billion. . . . Nondefense new orders for capital goods in February increased $4.2 billion or 5.6 percent to $79.6 billion. Shipments decreased $2.2 billion or 2.9 percent to $74.5 billion."

Friday, Advance Economic Indicators Report: "The international trade deficit was $86.7 billion in February, up $2.1 billion from $84.6 billion in January. Exports of goods for February were $130.1 billion, $5.1 billion less than January exports. Imports of goods for February were $216.9 billion, $3.0 billion less than January imports. Wholesale inventories for February . . . were estimated at an end-of-month level of $681.1 billion, up 0.5 percent from January 2021, and were up 1.8 percent from February 2020. . . . Retail inventories for February . . . were estimated at an end-of-month level of $625.9 billion, virtually unchanged from January 2021, and were down 5.1 percent from February 2020."

Department of Labor

Thursday, Unemployment Insurance Weekly Claims: "In the week ending March 20, the advance figure for seasonally adjusted initial claims was 684,000, a decrease of 97,000 from the previous week's revised level. . . . The 4-week moving average was 736,000, a decrease of 13,000 from the previous week's revised average." The unadjusted advance number of new claims in Tennessee for the week ending March 20 was 7,332—a decrease of 945 from the previous week (8,227). The unadjusted advance number of new Pandemic Unemployment Assistance claims in Tennessee for the week ending March 20 was 2,306—674 fewer than the previous week (2,980). The PUA program has expired, and payments will end after next week.

(previous week)		**Tennessee: Total Claims for the Week Ending March 6 (not seasonally adjusted)**
50,633	47,464	State Insured Unemployment
85	75	Unemployment Compensation program for Federal Employees (UCFE)
34	38	Unemployment Compensation for Ex-servicemembers (UCX)
66,524	65,922	Pandemic Unemployment Assistance (PUA) Continued Claims
61,613	61,174	Pandemic Emergency Unemployment Compensation (PEUC) Claims
150	134	Extended Benefits (EB) Claims
179,039	**174,807**	

Federal Reserve Board

Tuesday, Testimony from Fed Chair Jerome Powell before the House Committee on Financial Services: CNBC reported Powell's prepared remarks on Monday, in which the Fed Chair said the U.S. economy is "much improved." Powell gave credit to Congress and the central bank both for providing "unprecedented" support, while warning that the recovery is still "far from complete." Testifying before the committee to note the one-year anniversary of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Powell said, "The recovery has progressed more quickly than generally expected and looks to be strengthening," although "the sectors of the economy most adversely affected by the resurgence of the virus, and by greater social distancing, remain weak, and the unemployment rate—still elevated at 6.2 percent—underestimates the shortfall, particularly as labor market participation remains notably below pre-pandemic levels."

The Wall Street Journal reported Powell "doesn't expect the $1.9 trillion stimulus package will lead to an unwelcome increase in inflation, [emphasizing] that the central bank has tools to deal with rising price pressures if necessary."

Thursday, Speech by Vice Chair Richard Clarida at the 2021 Institute of International Finance Washington Policy Summit: Speaking via webcast to the summit on the topic of economic outlook and monetary policy, Clarida said, "It is clear that the economy has proven to be much more resilient than many forecast or feared one year ago." He noted that although "the leisure and hospitality sector recouped about two-thirds of the jobs that were lost in December and January . . . employment is still 9.5 million below its pre-pandemic level for the economy as a whole." Clarida concluded, "It will take some time for economic activity and employment to return to levels that prevailed at the business cycle peak reached last February. We are committed to using our full range of tools to support the economy until the job is well and truly done to help ensure that the economic recovery will be as robust and rapid as possible."

Federal Reserve Bank of Chicago

Monday, Chicago Fed National Activity Index: "Led by declines in indicators related to production and personal consumption and housing, the Chicago Fed National Activity Index (CFNAI) fell to –1.09 in February from +0.75 in January. Two of the four broad categories of indicators used to construct the index made negative contributions in February, but all four categories decreased from January." Negative values are associated with below-average growth.

Economic Indicators and Confidence:

IHS Markit

Wednesday, Flash U.S. Composite PMI: "Adjusted for seasonal factors, the IHS Markit Flash U.S. Composite PMI Output Index posted 59.1 in March, down slightly from 59.5 in February, to signal the second-fastest private sector upturn for six years. Although capacity pressures stemming from extensive supply shortages constrained manufacturing output growth to the slowest for five months, goods producers reported the sharpest rise in new orders since June 2014. Service providers meanwhile recorded the steepest increase in new business for almost three years amid stronger client demand and looser coronavirus disease 2019 (COVID-19) restrictions.

University of Michigan

Friday, Surveys of Consumers: Surveys of Consumers chief economist Richard Curtin said, "Consumer sentiment continued to rise in late March, reaching its highest level in a year due to the third disbursement of relief checks and better than anticipated vaccination progress." He added, "The majority of consumers reported hearing of recent gains in the national economy, mainly net job gains. The data clearly point toward robust increases in consumer spending. The ultimate strength and duration of the spending surge will depend on the rate of draw-downs in savings since consumers anticipate a slower pace of income growth."

Employment and Businesses:

National Federation of Independent Business

Thursday, Covid-19 Small Business Survey: "Thirteen percent of small business owners report that they will have to close their doors if current economic conditions do not improve over the next six months, down from 25% in December." Holly Wade, Executive Director of NFIB's Research Center, said, "Economic conditions seem to be easing for some, but the overall recovery remains uneven across small business industries. It is crucial that small businesses are given the resources and flexibility needed to ensure they will have a successful recovery."

Mortgages and Housing Markets:

Freddie Mac

Thursday, Primary Mortgage Market Survey: "30-year fixed-rate mortgage averaged 3.17 percent . . . for the week ending March 25, 2021, up from last week when it averaged 3.09 percent. A year ago at this time, the 30-year FRM averaged 3.50 percent."

Mortgage Bankers Association

Wednesday, Weekly Mortgage Applications: "Mortgage applications decreased 2.5 percent from one week earlier, according to data . . . for the week ending March 19, 2021." According to Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting, "Refinance activity dropped to its slowest pace since September 2020. . . . Purchase applications were strong over the week, driven both by households seeking more living space and younger households looking to enter homeownership."

National Association of Realtors

Monday, Existing Home Sales: "Existing-home sales declined in February, following two prior months of gains. . . . Total existing-home sales . . . decreased 6.6% from January to a seasonally-adjusted annual rate of 6.22 million in February. Sales in total climbed year-over-year, up 9.1% from a year ago (5.70 million in February 2020)." 'Despite the drop in home sales for February – which I would attribute to historically-low inventory – the market is still outperforming pre-pandemic levels,' said Lawrence Yun, NAR's chief economist. Writing for the National Association of Home Builders, Fan-Yu Kuo adds that "rising lumber prices and shortage of labor and land make housing supply struggle to meet the increased level of demand. The imbalance between housing supply and demand could hamper future sales by driving up house prices and eroding affordability."