Economic Update, March 3, 2023
Submitted by Michael Mount

Summary: Although U.S. manufacturing contracted and consumer confidence weakened in February, the services sector expanded, and the durable goods data from January indicate that investment in the economy remains strong. The labor market continued to tighten, with Tennessee's unemployment rate decreasing to 3.4 percent over the past year, below the national rate of 3.6 percent. With inflation still well above the 2 percent target, Governor Waller of the Federal Reserve said that the tight labor market could lead to higher interest rates than previously thought necessary.

Federal Government Indicators and Reports

U.S. Census

Monday, Durable Goods: "New orders for manufactured durable goods in January, down two of the last three months, decreased $13.0 billion or 4.5 percent to $272.3 billion. . . . This followed a 5.1 percent December increase." New orders for non-defense capital goods, excluding aircraft, increased 0.8 percent.

Tuesday, Economic Indicators: "Wholesale inventories for January . . . were estimated at an end-of-month level of $929.7 billion, down 0.4 percent from December 2022, and were up 15.9 percent from January 2022."

Wednesday, Construction Spending: "Construction spending during January 2023 was estimated at a seasonally adjusted annual rate of $1,825.7 billion, 0.1 percent below the revised December estimate of $1,827.5 billion. The January figure is 5.7 percent above the January 2022 estimate of $1,726.6 billion."

Bureau of Labor Statistics

Wednesday, State Unemployment: "The U.S. jobless rate declined by 1.7 percentage points from the prior year to 3.6 percent." Tennessee's jobless rate declined 1.1 percentage points to 3.4 percent.

Friday, Productivity and Costs: "Nonfarm business sector labor productivity increased 1.7 percent in the fourth quarter of 2022 . . . as output increased 3.1 percent and hours worked increased 1.4 percent."

Department of Labor

Friday, Initial Claims: "In the week ending February 25, the advance figure for seasonally adjusted initial claims was 190,000, a decrease of 2,000 from the previous week's unrevised level of 192,000."

Economic Indicators and Confidence

National Association of Realtors

Monday, Economic Outlook: The NAR forecasts that the real gross domestic product of the United States will grow 1.1 percent in 2023, a decrease from 2.1 percent in 2022.

The Conference Board

Tuesday, Consumer Confidence: The index "decreased in February for the second consecutive month. The Index now stands at 102.9 (1985=100), down from 106.0 in January (a downward revision)."

S&P Global

Wednesday, Manufacturing: "Surveys showed the U.S. manufacturing sector remaining in steep decline in February. A lack of new orders suggest that production could deteriorate further in the coming months." The index "rose slightly, up from 46.9 in January to a three-month high of 47.3, it continues to signal one of the steepest downturns outside of pandemic lockdown months since 2009."

Institute for Supply Management

Wednesday, Manufacturing: "Economic activity in the manufacturing sector contracted in February for the fourth consecutive month." The index "registered 47.7 percent, 0.3 percentage point higher than the 47.4 percent recorded in January."

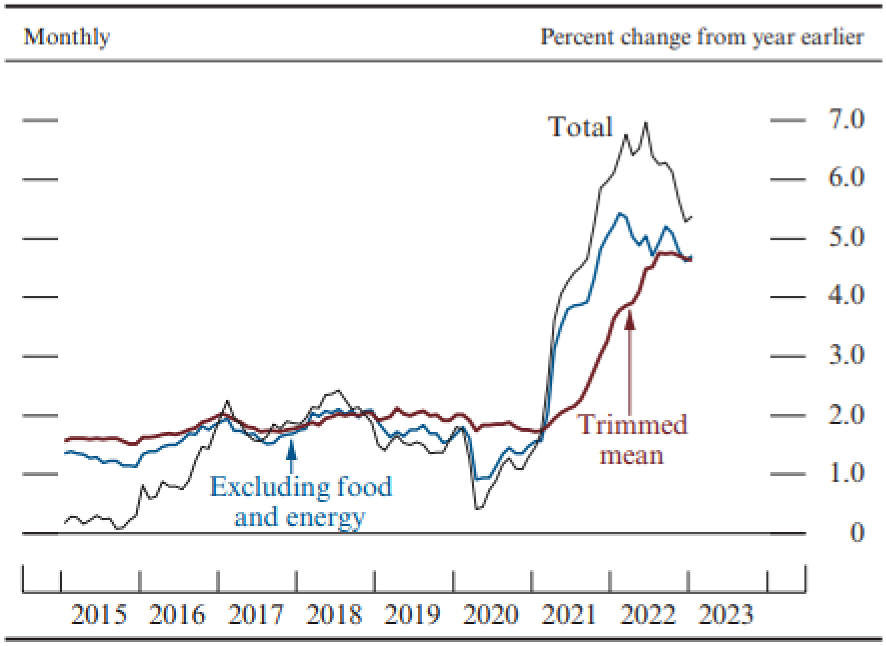
Friday, Services: "Economic activity in the services sector grew in January after contracting in December following 30 consecutive months of growth." The index registered 55.2 percent.

Federal Reserve

Thursday, Waller Speech: Speaking at the Mid-Size Bank Coalition of America in Los Angeles, Fed Governor Christopher Waller said, "Although inflation has been coming down since the middle of last year, the recent data indicate that we haven't made as much progress as we thought. . . . If job creation drops back down to a level consistent with the downward trajectory seen late last year and CPI inflation pulls back significantly from the January numbers and resumes its downward path, then I would endorse raising the target range for the federal funds rate a couple more times, to a projected terminal rate between 5.1 and 5.4 percent. On the other hand, if those data reports continue to come in too hot, the policy target range will have to be raised this year even more to ensure that we do not lose the momentum that was in place before the data for January were released."

Friday, Monetary Policy Report: "Although inflation has slowed since the middle of last year as supply bottlenecks eased and energy prices declined, it remains well above the Federal Open Market Committee's (FOMC) objective of 2 percent. The labor market remains extremely tight, with robust job gains, the unemployment rate at historically low levels, and nominal wage growth slowing but still elevated."

1. Personal consumption expenditures price indexes



SOURCE: For trimmed mean, Federal Reserve Bank of Dallas; for all else, Bureau of Economic Analysis; all via Haver Analytics.

Mortgages and Housing Markets

National Association of Realtors

Monday, Pending Home Sales: In January 2023, pending home sales index was up 8.1 percent month-over-month. The increase was 8.3 percent for the South region.

S&P/Case Schiller

Tuesday, Home Price Index: The index "reported a 5.8 percent annual gain in December, down from 7.6 percent in the previous month. . . . 'The cooling in home prices that began in June 2022 continued through year end, as December marked the sixth consecutive month of declines for our National Composite Index,' says Craig J. Lazzara, Managing Director at S&P DJI."

Federal Housing Finance Administration

Tuesday, House Price Index: "U.S. house prices rose 8.4 percent between the fourth quarters of 2021 and 2022. . . . FHFA's seasonally adjusted monthly index for December was down 0.1 percent from November."

Mortgage Bankers Association

Wednesday, Mortgage Applications: "Mortgage applications decreased 5.7 percent from one week earlier. . . . 'After a brief revival in application activity in January when mortgage rates dropped to 6.2 percent, there has now been three straight weeks of declines in applications as mortgage rates have jumped 50 basis points over the past month,' said Joel Kan, MBA's Vice President and Deputy Chief Economist."