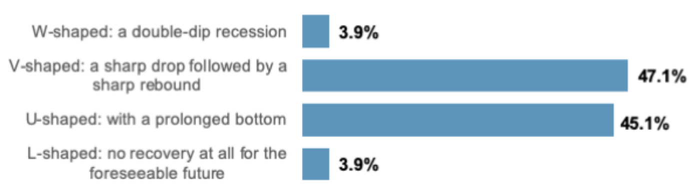
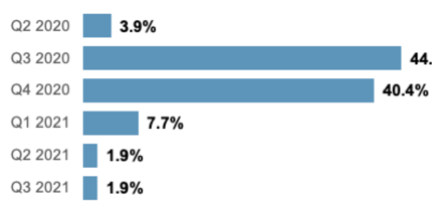
Economic Update, April 9, 2020
Submitted by Bob Moreo

Summary: Some of the last federal data from 2019 and early 2020 released this week reflect pre-pandemic conditions—moderate GDP growth and low unemployment—before stay-at-home measures began. Now that the US economy has been severely affected by the coronavirus outbreak, the question becomes how long it will take to recover. Widespread market volatility led the Federal Reserve to make two emergency rate cuts in March, and policymakers are considering the possibility that the economy will be slow to recover even after the current shutdown conditions are lifted. *The Wall Street Journal* reported that "some officials worried that the public might view the Fed's tools as limited after the second rate cut" and that "a few officials thought a large rate reduction might send an overly negative signal about the economy." The Federal Reserve says it intends to keep rates where they are until it is certain the economy is stable. University of Michigan Surveys of Consumers chief economist Richard Curtin warns that "anticipating a quick and sustained economic expansion is likely to be a failed expectation, resulting in a renewed and deeper slump in confidence." He cautions consumers "to be prepared for a longer and deeper recession rather than the now discredited message that pent-up demand will spark a quick, robust, and sustained economic recovery." Economists surveyed by *The Wall Street Journal* are divided regarding the shape of the recession and the timing of recovery:

Shape of the Recession



Timing of the Recovery



Federal Government Indicators and Reports:

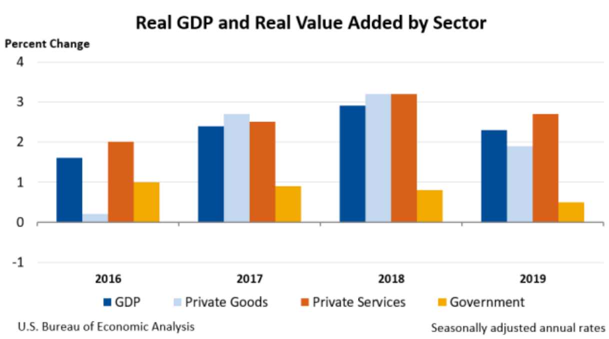
Bureau of Economic Analysis

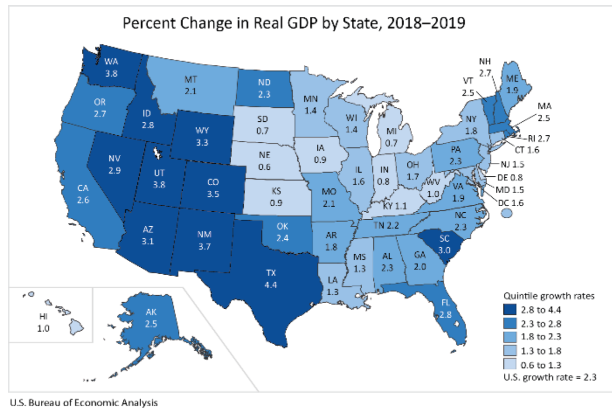
Monday, Gross Domestic Product by Industry: "Retail trade, finance and insurance, and utilities were the leading contributors to the increase in U.S. economic growth in the fourth quarter of 2019. . . . Overall, 17 of 22 industry groups contributed to the 2.1 percent increase in real GDP in the fourth quarter. . . . Real GDP growth in the fourth quarter was the same as that in the third quarter. Upturns in finance and insurance, utilities, and construction were largely offset by downturns in nondurable goods manufacturing and wholesale trade, and a slowdown in professional, scientific, and technical services.

Real GDP increased 2.3 percent in 2019 (from the 2018 annual level to the 2019 annual level). The private goods- and services-producing sectors, as well as the government sector, contributed to the increase. Growth was widespread, with 20 of 22 industry groups contributing to the increase.

Professional, scientific, and technical services; finance and insurance; and information were the leading contributors to the increase in real GDP in 2019."

Tuesday, Gross Domestic Product by State: Percent changes in real gross domestic product in the fourth quarter of 2019 "ranged from 3.4 percent in Washington and Utah to -0.1 percent in West Virginia." Real GDP grew by 2.0 percent in Tennessee, trailing the 2.1 percent rate of growth for the nation as a whole. "Real GDP increased in all 50 states and the District of Columbia in 2019. The percent change in real GDP ranged from 4.4 percent in Texas to 0.6 percent in Nebraska." Real GDP in Tennessee grew by 2.2 percent in 2019.





Bureau of Labor Statistics

Tuesday, Job Openings and Labor Turnover Survey: "The number of job openings was little changed at 6.9 million on the last business day of February. . . . Over the month, hires and separations were little changed at 5.9 million and 5.6 million, respectively. Within separations, the quits rate was unchanged at 2.3 percent and the layoffs and discharges rate was little changed at 1.2 percent."

Wednesday, Metropolitan Area Employment and Unemployment: "Unemployment rates were lower in February than a year earlier in 277 of the 389 metropolitan areas, higher in 80 areas, and unchanged in 32 areas. . . . Nonfarm payroll employment increased over the year in 34 metropolitan areas and was essentially unchanged in the remaining 355 areas. The national unemployment rate in February was 3.8 percent, not seasonally adjusted, down from 4.1 percent a year earlier."

Unemployment rates were higher than a year earlier in all of Tennessee's metropolitan areas. In February 2020, three areas had unemployment rates lower than the national rate, one was the same, and six areas had rates higher than the national rate.

State of Tennessee and metropolitan areas	Unemployed percent of labor force				Nonfarm employment percent change February 2019 - 2020
	January 2019	January 2020	February 2019	February 2020	
Tennessee	3.9	3.8	3.4	3.8	+1.8
Chattanooga	3.8	3.6	3.5	3.6	+1.8
Clarksville	4.5	4.6	4.2	4.4	+3.1
Cleveland	4.0	3.8	3.5	3.8	+5.6
Jackson	4.0	3.8	3.5	3.9	+1.5
Johnson City	4.3	4.3	3.8	4.3	-1.1
Kingsport-Bristol-Bristol	4.3	4.2	3.8	4.1	-0.4
Knoxville	3.7	3.5	3.2	3.6	+1.6

Memphis	4.6	4.4	4.1	4.4	+1.0
Morristown	4.4	4.6	4.0	4.6	+2.4
Nashville-Davidson--Murfreesboro--Franklin	2.9	2.8	2.5	2.8	+3.1

Thursday, Producer Price Index: "The Producer Price Index for final demand fell 0.2 percent in March. . . . Final demand prices declined 0.6 percent in February and increased 0.5 percent in January. On an unadjusted basis, the final demand index advanced 0.7 percent for the 12 months ended in March. . . . The index for final demand goods fell 1.0 percent in March, the largest decline since moving down 1.1 percent in September 2015. . . . Eighty percent of the March decrease in the index for final demand goods can be traced to prices for gasoline, which dropped 16.8 percent."

Bureau of Transportation Statistics

Wednesday, Freight Transportation Services Index: "The Freight Transportation Services Index (TSI), which is based on the amount of freight carried by the for-hire transportation industry, rose 0.2% in February from January, rising for the second consecutive month. . . . From February 2019 to February 2020, the index rose 0.1% compared to a rise of 2.6% from February 2018 to February 2019 and a rise of 7.2% from February 2017 to February 2018. . . . The Freight TSI grew in February from January due to growth in air freight and significant growth in pipeline, and despite declines in rail carload, rail intermodal and water, and no change in trucking."

Census Bureau

Thursday, Monthly Wholesale Trade: "February 2020 sales of merchant wholesalers, except manufacturers' sales branches and offices, after adjustment for seasonal variations and trading day differences but not for price changes, were $500.7 billion, down 0.8 percent from the revised January level, but were up 1.1 percent from the revised February 2019 level. . . . [Inventories] were $655.8 billion at the end of February, down 0.7 percent from the revised January level [and] down 1.3 percent from the revised February 2019 level. . . . The February inventories/sales ratio . . . was 1.31. The February 2019 ratio was 1.34."

Department of Labor

Thursday, Initial Unemployment Claims: "In the week ending April 4, the advance figure for seasonally adjusted initial claims was 6,606,000, a decrease of 261,000 from the previous week's revised level. The previous week's level was revised up by 219,000 from 6,648,000 to 6,867,000. . . . The advance number for seasonally adjusted insured unemployment during the week ending March 28 was 7,455,000, an increase of 4,396,000 from the previous week's revised level. This marks the highest level of seasonally adjusted insured unemployment in the history of the seasonally adjusted series. The previous high was 6,635,000 in May of 2009."

In Tennessee, the 116,141 new claims last week (unadjusted) were up sharply from the 92,500 claimed the week before.

Federal Reserve Board

Wednesday, Minutes of the Federal Open Market Committee: The board published minutes from two unscheduled videoconference meetings, held March 2 and March 15 to address immediate concerns related to the spread of the novel coronavirus in the US. The March 2 meeting led to an emergency half-point rate cut effective March 4. Members on the March 2 call said that markets "had interpreted Chair Powell's February 28 statement as indicating the FOMC was prepared to lower the target range for the federal funds rate at or before the March meeting." Staff presented how "greater spread of the coronavirus and more severe social-distancing actions would be associated with a greater shutdown of production and disruption of supply chains, larger negative effects on consumer and business sentiment, more significant increases in unemployment, and worsening financial conditions." The committee chose to cut rates in order to "provide a clear signal to the public that policymakers recognized the potential economic significance of the situation and were willing to move decisively . . . [to] help shore up the confidence of households, businesses, and financial markets; ease financial strains of consumers and firms; and provide meaningful support to the economy in the face of a large shock to demand."

At the March 15 meeting, the committee voted to reduce interest rates another full point, to a range of zero to ¼ point. The minutes show that one member voted against this action, "because she preferred to reduce the target range for the federal funds rate to ½ to ¾ percent at this meeting." Encouragingly, members "noted that available economic data showed that the U.S. economy came into this challenging period on a strong footing. Information received since the Committee met in January indicated that the labor market remained strong through February and that economic activity rose at a moderate rate. Job gains had been solid, on average, in recent months, and the unemployment rate had remained low." Looking ahead, "staff provided two plausible economic scenarios that spanned a range of possibilities," explaining that "the future performance of the economy would depend on the evolution of the virus outbreak and the measures undertaken to contain it." In one scenario, "economic activity started to rebound in the second half of this year." But in a more adverse scenario, "the economy entered recession this year, with a recovery much slower to take hold and not materially under way until next year."

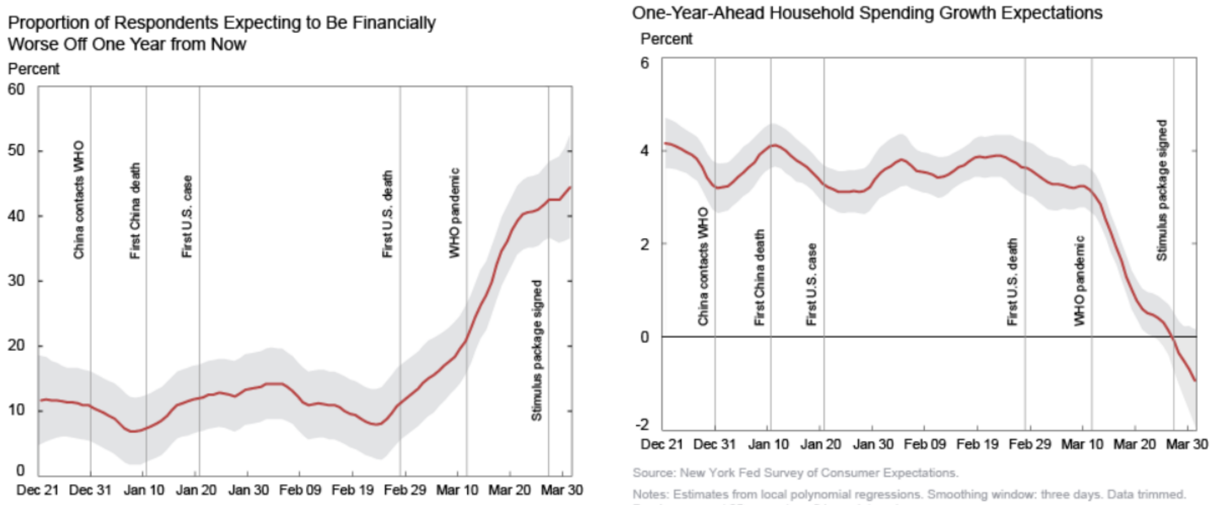
Federal Reserve Bank of Chicago

Wednesday, National Financial Conditions Index: The latest NFCI update "points to continued, but less pronounced, tightening of financial conditions in the week ending April 3. The NFCI was 0.07 in the week ending April 3, up from a revised –0.04 (initially reported as 0.05) in the previous week and reaching its highest level since mid-December 2011. Risk indicators contributed 0.17, credit indicators contributed –0.06, and leverage indicators contributed –0.04 to the index in the latest week." The adjusted index (ANFCI) "increased in the latest week to 0.48 from a revised 0.42 (initially reported as 0.61), recording its highest reading since early July 2009."

Federal Reserve Bank of New York

Monday, Survey of Consumer Expectations: March survey data "shows a considerable deterioration in households' expectations regarding their labor market and financial situation across all age, education, and income groups. The perceived probability of losing one's job reached 18.5%, its highest level since the inception of the survey in June 2013. The expected growth in households' income and spending fell sharply and the perceived availability of credit worsened. Additionally, the perceived risk of missing future debt payments increased substantially." [Charts via Liberty Street]

Households' Financial Situation and Spending Growth Expectations Deteriorate Sharply in March



Source: New York Fed Survey of Consumer Expectations.

Notes: Estimates from local polynomial regressions. Smoothing window: three days. Data trimmed. Bands represent 95 percent confidence intervals.

Economic Indicators and Confidence:

The Conference Board

Monday, Employment Trends Index: The ETI for March "stands at 60.39, down from 109.27 (an upward revision) in February. The index is down 45.0 percent from a year ago."

"The Employment Trends Index plummeted in March, almost entirely due to the historically large increase in initial claims for unemployment," said Gad Levanon, Head of The Conference Board Labor Markets Institute. "This period of declining employment is historically severe but could also be historically short. The most likely scenario is that within a couple of months, most of the orders to shut down non-essential businesses and stay at home will be lifted. While many employers will continue to shed workers after that time, these job losses will be more than offset by the millions who will return to work in the reopened businesses. Nevertheless, the total number of workers is likely to remain well below preCOVID-19 levels for the remainder of the year, and the unemployment rate will remain in double digits after peaking at 15 percent in May."

IHS Markit

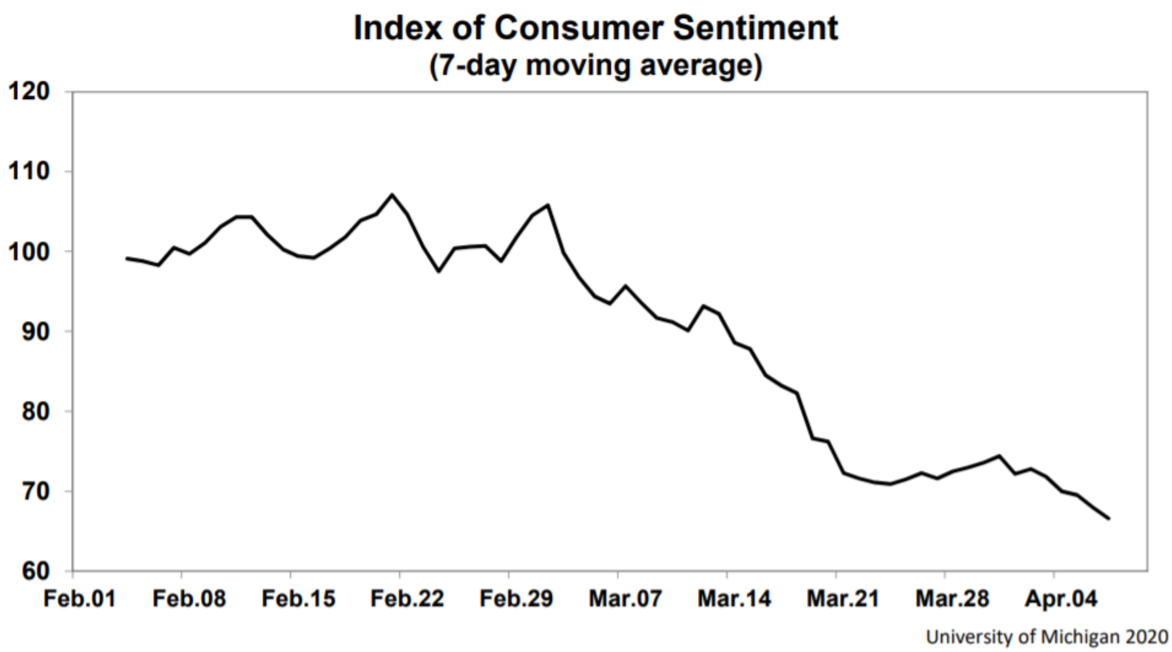
Tuesday, Global Sector PMI: "The coronarvirus disease 2019 (COVID-19) outbreak hit the global economy hard in March, especially in service-related sectors. All sectors monitored saw declining output except beverages & food. . . . While in February a number of manufacturing sectors had posted record falls—with global trends heavily influenced by Chinese shutdowns—in March it was services that bore the brunt of the disruption as the virus spread accelerated in Europe and the US. Ten global service sectors registered the fastest declines in activity on record during the month, led by tourism & recreation, real estate and transportation."

Investor's Business Daily

Tuesday, Economic Optimism Index: "The overall Economic Optimism Index slid 6.2 points to 47.8, falling into pessimistic territory for the first time since the fall of 2016. . . . Optimism about the U.S. economy had surged to a 16-year high 59.8 at the end of January. . . . The six-month economic outlook index . . . tumbled 9.8 points to 38, the lowest level since October 2011. The outlook index for personal finances sank 11 points to 50.2, remaining barely optimistic," but still its lowest level since October 2013.

University of Michigan

Thursday, Index of Consumer Sentiment: "Consumer sentiment plunged 18.1 Index-points in early April, the largest monthly decline ever recorded. When combined with last month's decline, the two-month drop of 30.0 Index-points was 50% larger than the prior record. Of the two Index components, the Current Conditions Index plunged by 31.3 Index-points, nearly twice the prior record decline of 16.6 points set in October 2008. In contrast, the Expectations Index fell by 9.7 points, a substantial decline, but not nearly as steep as the record 16.5 point drop in December of 1980. This suggests that the free-fall in confidence would have been worse were it not for the expectation that the infection and death rates from COVID-19 would soon peak and allow the economy to restart."



Employment and Businesses:

Challenger, Gray, & Christmas

Wednesday, CEO Turnover: Chief Executive Officer turnover fell for the second month in a row to 94, down 27% from the 128 who left their posts in February. It is the lowest monthly total in 20 months [and] . . . 30% lower than the same month last year. . . . In the first quarter of 2020, 441 chief executives left their posts, . . . the highest Q1 total since the firm began tracking in 2002. . . . March's total was led by Hospitals, which saw 13 chief executive exits, for a total of 43 this year." According to Andrew Challenger, Vice President of Challenger, Gray & Christmas, Inc., "CEOs of Hospitals and Hospital systems are truly being tested right now. Many are losing money due to the need to cancel elective procedures that typically propel these entities into the black at a time when cost-cutting would only hurt communities, patients, and health professionals."

National Federation of Independent Business

Tuesday, Small Business Optimism: "The NFIB Small Business Optimism Index fell 8.1 points in March to 96.4, the largest monthly decline in the survey's history. Nine of the 10 Index components declined, which is evidence that economic disruptions are escalating on Main Street as small businesses struggle to keep their doors open. . . . Real sales expectations in the next six months declined 31 points to a net negative 12%, the largest monthly decline in the survey's history."

February's index was at 104.5. Survey responses received in the first half of March produced an index of 100.7, while those from the second half resulted in an index of 92.1.

Mortgages and Housing Markets:

Fannie Mae

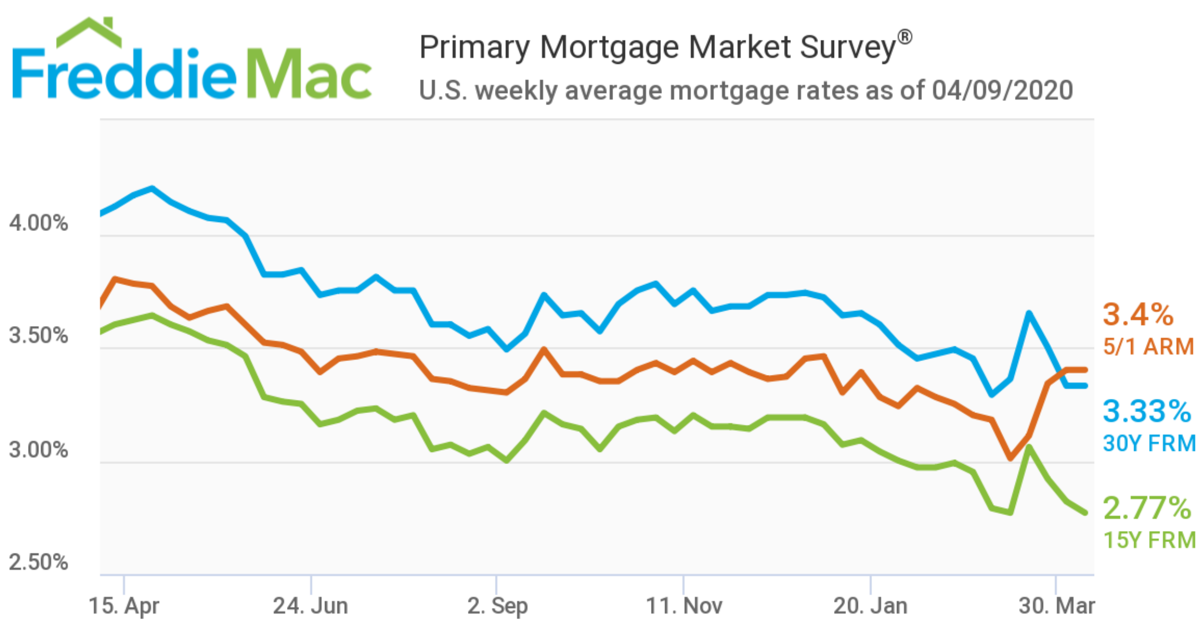
Tuesday, Home Purchase Sentiment Index: The HPSI "fell 11.7 points to 80.8 in March, its lowest reading since December 2016. Five of the six HPSI components decreased month over month, including the percentage of Americans expressing concern about losing their job within the next 12 months. Consumers also reported that homebuying and home-selling conditions have worsened and took a more pessimistic view of home price growth. Year over year, the HPSI is down 9.0 points."

Senior Vice President and Chief Economist Doug Duncan said, "A survey record one-month drop in optimism about the direction of the economy appears to have weakened consumers' views of both the current home-selling and homebuying environment, though the latter is likely buffered in part by low mortgage rates."

Freddie Mac

Thursday, Primary Mortgage Market Survey: Rates for "30-year fixed-rate mortgage[s] averaged 3.33 percent with an average 0.7 point for the week ending April 9, 2020, unchanged from last week. A year ago at this time, the 30-year FRM averaged 4.12 percent." Rates for "15-year fixed-rate mortgage[s] averaged 2.77 percent with an average 0.6 point, down from last week when it averaged 2.82 percent. A year ago at this time, the 15-year FRM averaged 3.60 percent."

"While mortgage rates remained flat over the last week, there is room for rates to move down," said Sam Khater, Freddie Mac's Chief Economist.



Mortgage Bankers Association

Wednesday, Mortgage Applications: "Mortgage applications decreased 17.9 percent from one week earlier, according to data . . . for the week ending April 3, 2020. . . . 'Mortgage applications fell last week, as economic weakness and the surge in unemployment continues to weigh heavily on the housing market. Purchase activity declined again, with the index dropping to its lowest level since 2015 and now down 33 percent compared to a year ago,' said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting."

"The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($510,400 or less) increased to 3.49 percent from 3.47 percent, with points decreasing to 0.28 from 0.33. . . . The average contract interest rate for 30-year fixed-rate mortgages with jumbo loan balances (greater than $510,400) increased to 3.87 percent from 3.84 percent, with points decreasing to 0.26 from 0.31. . . . The average contract interest rate for 30-year fixed-rate mortgages backed by the FHA decreased to 3.54 percent from 3.57 percent, with points decreasing to 0.19 from 0.28."

National Association of Realtors

Thursday, Economic Pulse Flash Survey: "The majority of Realtors believe buyers and sellers will return to the market as delayed transactions following the end of the health crisis. Nearly six out of 10 members—59%—said buyers are delaying home purchases for a couple of months, while a similar share of members—57%—said sellers are delaying home sales for a couple of months. "'Home sales will decline this spring season because of unique economic and social consequences resulting from the coronavirus outbreak, but much of the activity looks to reappear later in the year,' said NAR Chief Economist Lawrence Yun. 'Home prices will remain stable because of a pandemic-induced reduction in inventory coupled with less immediate concerns over foreclosures.'"