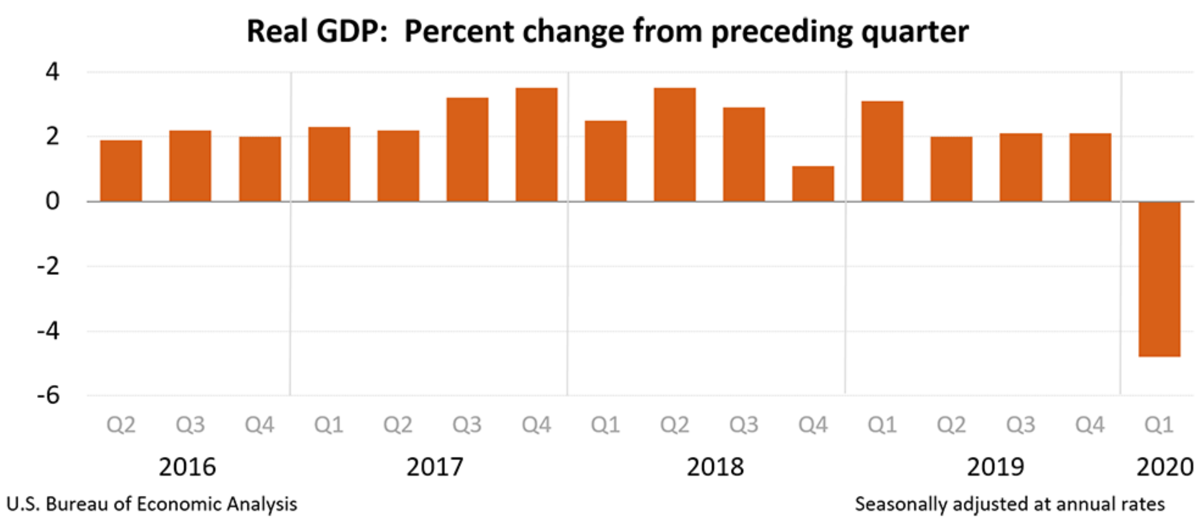
Economic Update, May 1, 2020
Submitted by Bob Moreo

Summary: Following this week's Federal Open Market Committee meeting, the central bank pledged to keep interest rates near zero until the economy recovers. Chairman Powell told reporters the Federal Reserve is committed to using its "full range of tools to support the economy in this challenging time . . . forcefully, proactively, and aggressively until we're confident that we're solidly on the road to recovery." In the first quarter, GDP fell 4.8 percent, and economists expect "a much deeper contraction" in the second quarter. Erik Lundh, senior economist at The Conference Board, said "the degree of the contraction will depend on the path the virus takes through June and the degree to which the economy is 'reopened.'" Since spiking to nearly 7 million at the end of March, weekly new unemployment claims declined for the fourth straight week. However, the 3.8 million new claims last week brought the total to more than 30 million over the past six weeks. Average mortgage rates decreased again, and purchase applications were up as a result, while existing homeowners continue to refinance.

Federal Government Indicators and Reports:

Bureau of Economic Analysis

Wednesday, Gross Domestic Product (1st Quarter Advance Estimate): "Real gross domestic product (GDP) decreased at an annual rate of 4.8 percent in the first quarter of 2020. . . . [N]egative contributions . . . were partly offset by positive contributions from residential fixed investment, federal government spending, and state and local government spending." Real GDP increased 2.1 percent in the fourth quarter of 2019.



Thursday, Personal Income and Outlays: "Personal income decreased $382.1 billion (2.0 percent) in March. . . . Disposable personal income (DPI) decreased $334.6 billion (2.0 percent) and personal consumption expenditures (PCE) decreased $1,127.3 billion (7.5 percent).

Bureau of Labor Statistics

Wednesday, Metropolitan Area Employment and Unemployment: "Unemployment rates were higher in March than a year earlier in 253 of the 389 metropolitan areas, lower in 123 areas, and unchanged in 13 areas. . . . 45 areas had jobless rates of less than 3.0 percent and 11 areas had rates of at least 10.0 percent. . . . The national unemployment rate in March was 4.5 percent, not seasonally adjusted, up from 3.9 percent a year earlier." The Nashville-Davidson—Murfreesboro—Franklin, TN, metropolitan area was among just 21 nationally with year-over-year increases in nonfarm payroll employment (+2.9 percent), and it had the largest percentage increase among metropolitan areas with a 2010 Census population of 1 million or more.

	Number unemployed			Percent of labor force unemployed			Nonfarm payroll employees (in thousands) Number		Change March 2019 – 2020	
	March 2019	March 2020	Change March 2019 – 2020	March 2019	March 2020	Change March 2019 – 2020	March 2019	March 2020	Number	Percent
Tennessee	116,176	124,665	+ 8,489	3.5	3.7	+ 0.2	3096.5	3149.5	53.0	+ 1.7
Chattanooga	9,320	10,344	+ 1,024	3.4	3.7	+ 0.3	265.9	271.5	5.6	+ 2.1
Clarksville	5,036	5,761	+ 725	4.3	4.8	+ 0.5	92.4	94.8	2.4	+ 2.6
Cleveland	2,144	2,361	+ 217	3.7	3.9	+ 0.2	46.5	49.2	2.7	+ 5.8
Jackson	2,372	2,425	+ 53	3.6	3.8	+ 0.2	69.5	69.0	-0.5	-0.7
Johnson City	3,571	3,768	+ 197	3.8	4.1	+ 0.3	81.9	81.0	-0.9	-1.1
Kingsport-Bristol-Bristol	5,319	5,739	+ 420	3.8	4.2	+ 0.4	120.9	120.2	-0.7	-0.6
Knoxville	14,382	15,094	+ 712	3.3	3.5	+ 0.2	402.5	407.1	4.6	+ 1.1
Memphis	26,549	27,824	+ 1,275	4.1	4.3	+ 0.2	650.5	654.9	4.4	+ 0.7
Morristown	2,062	2,221	+ 159	3.9	4.2	+ 0.3	46.9	47.3	0.4	+ 0.9
Nashville-Davidson--Murfreesboro--Franklin	29,556	31,364	+ 1,808	2.7	2.8	+ 0.1	1034.6	1064.7	30.1	+2.9

Tennessee data from BLS "Table 1. Civilian labor force and unemployment by state and metropolitan area" and "Table 3. Employees on nonfarm payrolls by state and metropolitan area," not seasonally adjusted.

Bureau of Transportation Statistics

Tuesday, Air Cargo Between the U.S. and World Regions: "Airlines carried 7.3% less cargo by weight between the U.S. and foreign points in February 2020 than in February 2019." There was little change between the U.S. and the Atlantic and Latin American regions, but cargo between the U.S. and the Pacific region (including China) was 24% less in February 2020 than a year ago. Air cargo trade with China alone was down 22% from February 2019 to 2020. "During February 2020, 69% of the freight was flown from China to the U.S. while 31% was carried from the U.S. to China."

Census Bureau

Tuesday, Advance Economic Indicators: "The international trade deficit was $64.2 billion in March, up $4.3 billion from $59.9 billion in February. Exports of goods for March were $127.6 billion, $9.1 billion less than February exports. Imports of goods for March were $191.9 billion, $4.8 billion less than February imports. Wholesale inventories for March, adjusted for seasonal variations but not for price changes, were estimated at an end-of-month level of $650.0 billion, down 1.0 percent from February 2020, and were down 2.0 percent from March 2019. . . . Retail inventories for March, adjusted for seasonal variations but not for price changes, were estimated at an end-of-month level of $666.8 billion, up 0.9 percent from February 2020, and were up 0.6 percent from March 2019."

Tuesday, Residential Vacancies and Homeownership: "The rental vacancy rate of 6.6 percent was 0.4 percentage points lower than the rate in the first quarter 2019 (7.0 percent), but not statistically different from the fourth quarter 2019 (6.4 percent). The homeowner vacancy rate of 1.1 percent was 0.3 percentage points lower than the rate in the first quarter 2019 (1.4 percent) and the rate in the fourth quarter 2019 (1.4 percent). The homeownership rate of 65.3 percent was 1.1 percentage points higher than the rate in the first quarter 2019 (64.2 percent) but was not statistically different from the rate in the fourth quarter 2019 (65.1 percent). . . . In the first quarter 2020, the median asking rent for vacant for rent units was $1,041. . . . [T]he median asking sales price for vacant for sale units was $225,200."

Friday, Monthly Construction Spending: "Construction spending during March 2020 was estimated at a seasonally adjusted annual rate of $1,360.5 billion, 0.9 percent above the revised February estimate of $1,348.4 billion. The March figure is 4.7 percent above the March 2019 estimate of $1,299.1 billion. During the first three months of this year, construction spending amounted to $297.0 billion, 6.7 percent above the $278.5 billion for the same period in 2019."

Department of Labor

Thursday, Initial Unemployment Claims: "In the week ending April 25, the advance figure for seasonally adjusted initial claims was 3,839,000, a decrease of 603,000 from the previous week's revised level. . . . The 4-week moving average was 5,033,250, a decrease of 757,000 from the previous week's revised average. . . . The advance seasonally adjusted insured unemployment rate was 12.4 percent for the week ending April 18, an increase of 1.5 percentage points from the previous week's revised rate. This marks the highest level . . . in the history of the seasonally adjusted series." The advance number of initial claims in Tennessee for the week ending April 25 was 43,792, a decrease of 23,434 from the number of claims filed the previous week. The number of Tennesseans receiving unemployment in the week ending April 18 was 336,089, an increase of 56,194 from the week before.

Federal Reserve

Wednesday, FOMC Statement: "The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. In light of these developments, the Committee decided to maintain the target range for the federal funds rate at 0 to 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals."

Federal Reserve Bank of Atlanta

Friday, GDPNow Estimate: "The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2020 is -16.1 percent on May 1, down from -12.1 percent on April 30."

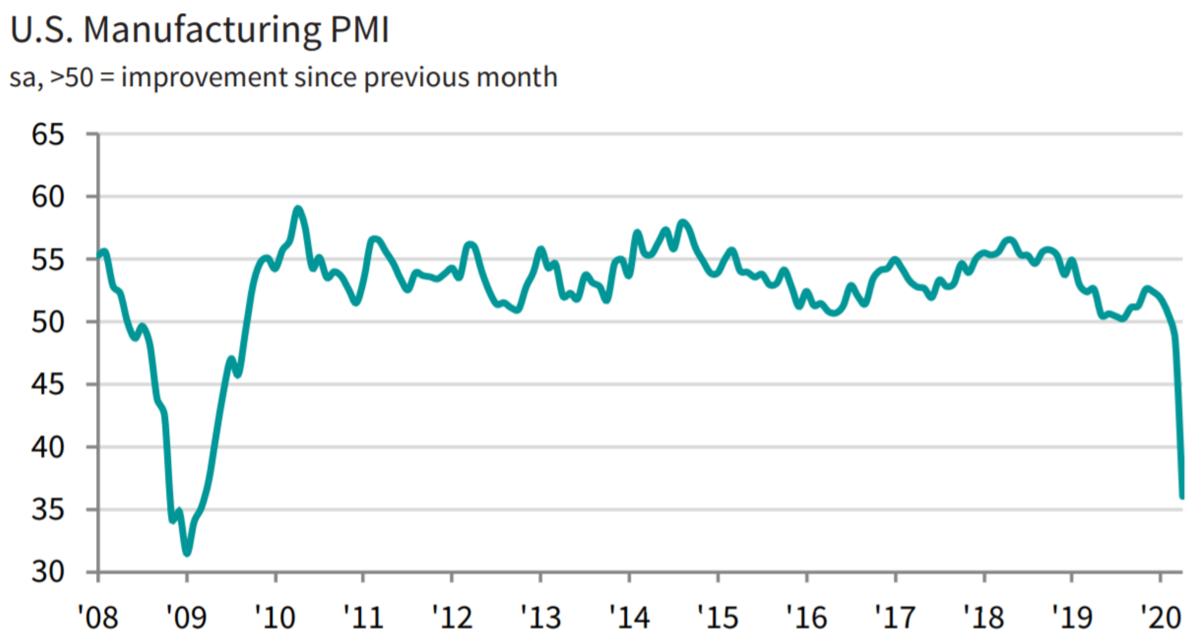
Economic Indicators and Confidence:

The Conference Board

Tuesday, Consumer Confidence: "The Conference Board Consumer Confidence Index deteriorated further in April, following a sharp decline in March. The Index now stands at 86.9 (1985=100), down from 118.8 in March. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – also declined considerably, from 166.7 to 76.4. However, the Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – improved from 86.8 in March to 93.8 this month." According to Lynn Franco, Senior Director of Economic Indicators at The Conference Board, "The 90-point drop in the Present Situation Index, the largest on record, reflects the sharp contraction in economic activity and surge in unemployment claims brought about by the COVID-19 crisis. Consumers' short-term expectations for the economy and labor market improved, likely prompted by the possibility that stay-at-home restrictions will loosen soon, along with a re-opening of the economy. However, consumers were less optimistic about their financial prospects and this could have repercussions for spending as the recovery takes hold. The uncertainty of the economic effects of COVID-19 will likely cause expectations to fluctuate in the months ahead."

IHS Markit

Friday, US Manufacturing PMI: "The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers' Index posted 36.1 in April, down from 48.5 in March and the previously released 'flash' figure of 36.9. The headline reading was the lowest for just over eleven years." Chris Williamson, Chief Business Economist at IHS Markit said "As restrictions are lifted, demand should gradually revive, but the trade-off between risking a second wave of infections and bringing the economy back to life looks set to be one of the greatest challenges faced by policy- and lawmakers in recent history. The process will inevitably be led by caution, meaning recovery will also be frustratingly slow."



State Street

Wednesday, Investor Confidence: "The Global Investor Confidence Index decreased to 73.0, down 0.7 points from March's revised reading of 73.7. The Asian ICI plummeted to 18.3 points, falling to 80.0 from 98.3. Meanwhile, North American ICI inched upward by 1.2 points to 68.0 and the European ICI rose from 95.5 to 102.8." According to Rajeev Bhargava, head of Investor Behavior Research at State Street, "despite an end of the lockdown in China, the Asia ICI fell to its lowest level since 2005, possibly a reflection of weaker economic data regionally and renewed concerns over the regions ability to sustainably exit lockdown as cases resurface in previously locked-down countries. In contrast, however, US and Europe showed stability in investor appetite this month with Europe actually seeing a material rise in investor confidence. The unprecedented amount of stimulus central banks have injected into markets as well as signs of a slowing in new COVID cases locally seem to have had a stabilizing effect on risk behavior."

Mortgages and Housing Markets:

Freddie Mac

Thursday, Primary Mortgage Market Survey: This week's survey showed "that the 30-year fixed-rate mortgage (FRM) averaged 3.23 percent, the lowest rate in our survey's history which dates back to 1971." The average rate was "down from last week when it averaged 3.33 percent. A year ago at this time, the 30-year FRM averaged 4.14 percent." According to Sam Khater, Freddie Mac's Chief Economist, "the size and depth of the secondary mortgage market is helping to keep rates at record lows. These low rates are driving higher refinance activity and have modestly helped improve purchase demand from their extremely low levels in mid-April."

Mortgage Bankers Association

Monday, Forbearance and Call Volume Survey: The latest survey, taken April 13-19, 2020, "revealed that the total number of loans now in forbearance increased from 5.95% of servicers' portfolio volume in the prior week to 6.99%. . . . In comparison, only 0.25% of all loans were in forbearance for the week of March 2." Mike Fratantoni, MBA's Senior Vice President and Chief Economist, said "while the pace of job losses have slowed from the astronomical heights of just a few weeks ago, millions of people continue to file for unemployment. We expect forbearance requests will pick up again as we approach May payment due dates."

Wednesday, Weekly Mortgage Applications: "Mortgage applications decreased 3.3 percent from one week earlier, according to data . . . for the week ending April 24, 2020. . . . 'The news in this week's release is that purchase applications, still recovering from a five-year low, increased 12 percent last week to the strongest level in almost a month,' said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. . . . 'Contributing to the uptick in purchase applications was that mortgage rates fell to another record low in MBA's survey, with the 30-year fixed rate decreasing to 3.43 percent.'"

National Association of Realtors

Wednesday, Pending Home Sales: "The Pending Home Sales Index, a forward-looking indicator based on contract signings, decreased 20.8% to 88.2 in March. Year-over-year, contract signings declined 16.3%. . . . 'The housing market is temporarily grappling with the coronavirus-induced shutdown, which pulled down new listings and new contracts,' said Lawrence Yun, NAR's chief economist. 'As consumers become more accustomed to social distancing protocols, and with the economy slowly and safely reopening, listings and buying activity will resume, especially given the record low mortgage rates.'"

S&P Dow Jones

Tuesday, S&P CoreLogic Case-Shiller Indices: "The . . . U.S. National Home Price NSA Index, covering all nine U.S. census divisions, reported a 4.2% annual gain in February, up from 3.9% in the previous month. The 10-City Composite annual increase came in at 2.9%, up from 2.6% in the previous month. The 20-City Composite posted a 3.5% year-over-year gain, up from 3.1% in the previous month. . . . 'The stable growth pattern established in the last half of 2019 continued into February,' says Craig J. Lazzara, Managing Director and Global Head of Index Investment Strategy at S&P Dow Jones Indices."