Economic Update, May 22, 2020
Submitted by Dave Keiser

Summary: There were fewer economic indicators this week than normal as we enter the Memorial Day weekend. The top indicators are jobs and housing. Unemployment claims are down from last week but are still near record highs. The unemployment rate hit 14.7 percent both nationally and in Tennessee. The retail sector shed 114,327 jobs this year through April alone, more than the total job cuts for any single year for the industry on record. Although mortgage rates are at 3.3 percent, mortgage applications and home sales are down, and the percentage of home mortgages that are in forbearance plans is increasing. In potentially promising news, private-sector business contraction decreased slightly as economies started to reopen this month. But the Conference Board's chief economist cautioned that the "imminent re-opening of some sectors does not imply a fast rebound for the economy at large."

Federal Government Indicators and Reports:

Bureau of Economic Analysis

Monday, Real Personal Income by State and Metro Area: "Real state personal income grew 3.4 percent in 2018, after increasing 2.9 percent in 2017. . . . The percent change in real state personal income ranged from 6.7 percent in Wyoming to 0.9 percent in Mississippi. Across metropolitan areas, the percent change ranged from 15.6 percent in Midland, TX to -1.1 percent in Sebring-Avon Park, FL." In Tennessee, real sate personal income increased 3.0 percent.

Bureau of Labor Statistics

Wednesday, County Employment and Wages: "From December 2018 to December 2019, employment increased in 285 of the 355 largest U.S. counties. . . . In December 2019, national employment . . . increased to 149.9 million, a 1.2 percent increase over the year. . . . Among the 355 largest counties, 341 had over-the-year increases in average weekly wages. In the fourth quarter of 2019, average weekly wages for the nation increased to $1,185, a 3.5 percent increase over the year."

Friday, State Employment and Unemployment: "Unemployment rates were higher in April in all 50 states and the District of Columbia. . . . Similarly, all 50 states and the District had jobless rate increases from a year earlier. The national unemployment rate rose by 10.3 percentage points over the month to 14.7 percent and was 11.1 points higher than in April 2019. . . . In April, the largest unemployment rate increases occurred in Nevada (+21.3 percentage points), Hawaii (+19.9 points), and Michigan (+18.4 points). Rates rose over the month by at least 10.0 percentage points in an additional 17 states. The smallest over-the-month jobless rate increases occurred in Nebraska (+4.3 percentage points) and Connecticut (+4.5 points)." Tennessee's unemployment rate in April was 14.7 percent, an increase of 11.3 percentage points from March and 11.2 points from a year earlier.

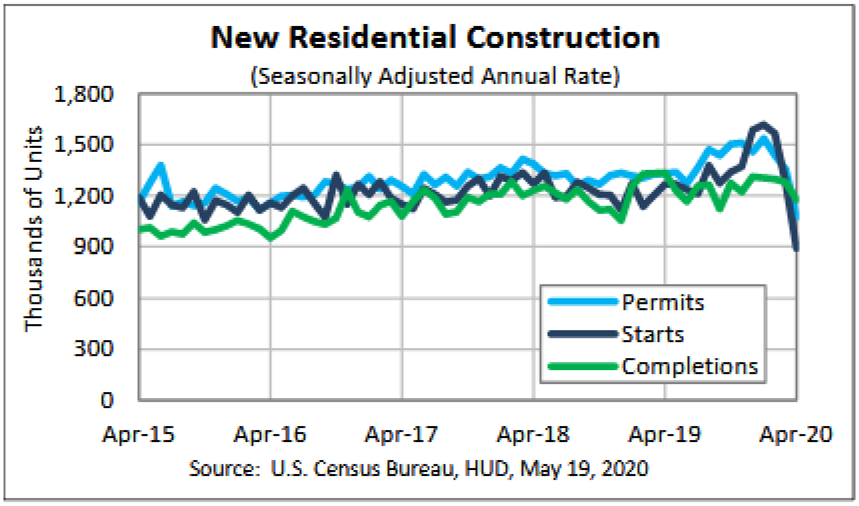
Bureau of Transportation Statistics

Wednesday, Passenger Airline Employment: Prior to reductions in air travel in response to the pandemic, employment in the passenger airline industry was up 3.2 percent in March 2020 (data collected March 15) compared to February 2020; the increase from a year earlier was also 3.2 percent and marked the 77th consecutive month that employment increased compared to the same month a year earlier. The 22 U.S. scheduled passenger airlines employed 459,190 full-time equivalent employees (FTE), the most since February 2003.

Thursday, International Cargo: "U.S. airlines carried 1.4% less cargo by weight in March 2020 than in March 2019. . . . March 2020 would be the third consecutive month and the sixth month in the last seven that the total weight of cargo on U.S. airlines declined from the same month of the previous year."

Census Bureau

Tuesday, New Residential Construction: For privately-owned housing units, seasonally adjusted annual rates for building permits, housing starts, and housing completions in April 2020 all decreased compared with March 2020 and April 2019. Building permits decreased 20.8 percent from March and 19.2 percent year-over-year; housing starts decreased 30.2 percent from March and 29.7 percent year-over-year; and housing completions decreased 8.1 percent from March and 11.8 percent year-over-year.



Wednesday, Advanced Selected Services Estimates: "Advance U.S. selected services total revenue for the first quarter of 2020, adjusted for seasonal variation but not for price changes, was $4,011.4 billion, a decrease of 2.8 percent from the fourth quarter of 2019 and up 0.8 percent from the first quarter of 2019."

Department of Labor

Thursday, Initial Unemployment Claims: "In the week ending May 16, the advance figure for seasonally adjusted initial claims was 2,438,000, a decrease of 249,000 from the previous week's revised level. . . . The 4-week moving average was 3,042,000, a decrease of 501,000 from the previous week's revised average."

Federal Reserve Bank of Atlanta

Tuesday, GDPNow: The "model estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2020 is -41.9 percent [on] May 19, up from -42.8 percent on May 15. After this morning's new residential construction report from the U.S. Census Bureau, the nowcast of second-quarter real gross private domestic investment growth increased from -69.4 percent to -66.0 percent."

Federal Reserve Bank of Chicago

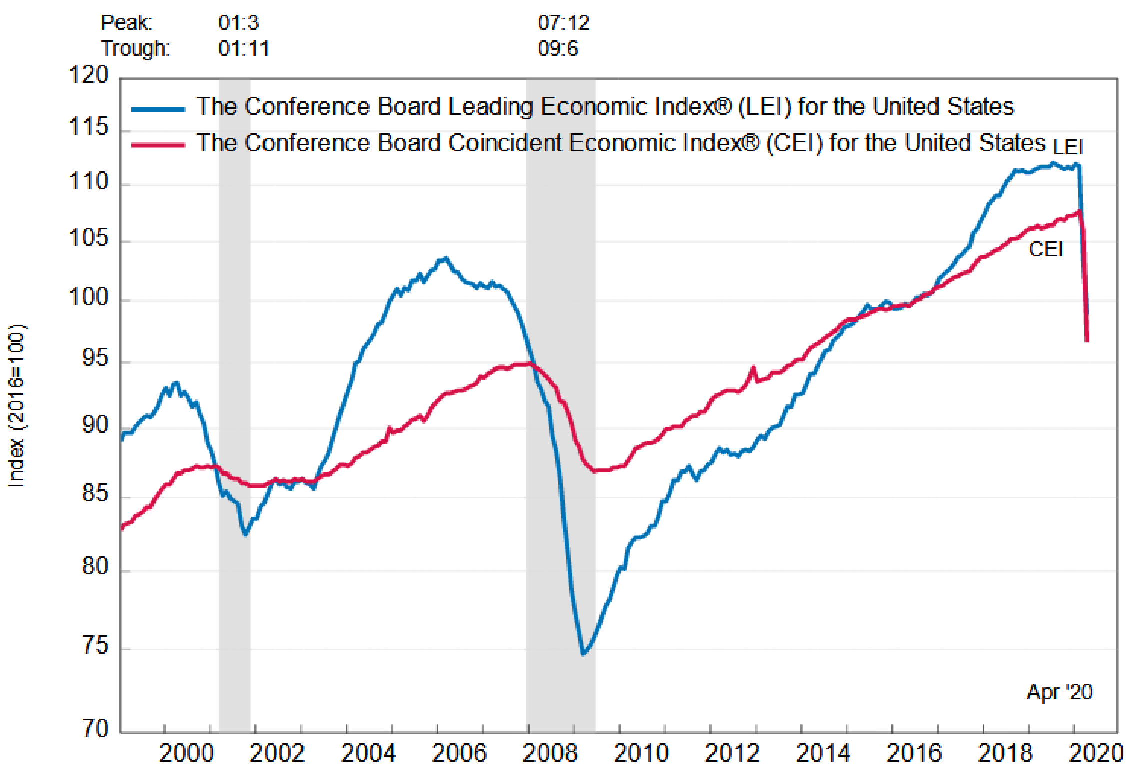
Wednesday, National Financial Conditions: The index "was –0.46 in the week ending May 15, down from a revised –0.38 (initially reported as –0.40). . . . Positive values of the NFCI have been historically associated with tighter-than-average financial conditions, while negative values have been historically associated with looser-than-average financial conditions.."

Economic Indicators and Confidence:

The Conference Board

Thursday, Leading Economic Index (LEI): The LEI "for the U.S. declined 4.4 percent in April to 98.8 (2016 = 100), following a 7.4 percent decline in March, and a 0.2 percent decline in February." According to Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board, "in April, the US LEI continued on a downward trajectory, after posting the largest decline in its 60-year history in March. The erosion has been very widespread, except for stock prices and the interest rate spread which partially reflect the rapid and large response of the Federal Reserve to offset the pandemic's impact and support financial conditions. The sharp declines in the LEI and CEI suggest that the US economy is now in recession territory." Bart van Ark, Chief Economist at The Conference Board, said "business conditions may recover for some sectors and industries over the next few months, but, the breadth and depth of the decline in the LEI suggests that an imminent re-opening of some sectors does not imply a fast rebound for the economy at large."

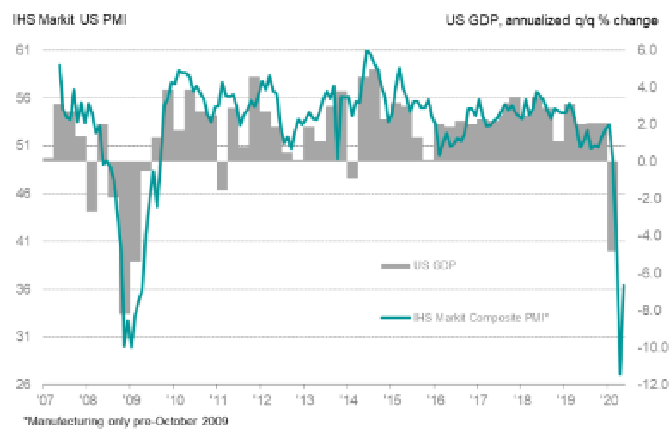
***The Conference Board Leading Economic Index®* (LEI) for the U.S. declined again in April**



HIS Markit

Thursday, Flash U.S. Composite PMI: "U.S. private-sector firms reported a slightly slower rate of contraction of activity in May, as the economy began to reopen. That said, the fall in output was substantial, as both manufacturers and service providers indicated marked declines in client demand."

IHS Markit Composite PMI and U.S. GDP



Sources: IHS Markit, U.S. Bureau of Economic Analysis

Employment and Businesses:

Challenger, Gray, & Christmas

Wednesday, Retail Jobs: "According to an analysis from Business Insider, 9,300 stores closed in 2019, breaking the record of 8,000 store closures in 2018. According to Coresight Research, another 15,000 stores could close in 2020. Meanwhile, Retailers have announced 114,327 job cuts through April in 2020, not only the highest January-April total, but also the highest annual total on record. It shatters the previous high of 100,518 cuts announced by Retailers in all of 2003." Commenting on these reports, Andrew Challenger, SVP of global outplacement and executive coaching firm Challenger, Gray & Christmas, Inc, said "retail has been undergoing technological updates, shifting consumer behavior and low foot traffic over the last three years that has led to mass closures of brick-and-mortar establishments and job cuts. The current COVID crisis is exacerbating Retail woes. Companies that did not have a robust online offering are being hit particularly hard."

Mortgages and Housing Markets:

Freddie Mac

Thursday, Primary Mortgage Market Survey: "For the fourth consecutive week, the 30-year fixed-rate mortgage has been below 3.30 percent, giving potential buyers a good reason to continue shopping even amid the pandemic," said Sam Khater, Freddie Mac's Chief Economist. "As states reopen, we're seeing purchase demand improve remarkably fast, now essentially flat relative to a year ago. Going forward, mortgage rates have room to decline as mortgage spreads remain elevated." Rates for 30-year fixed-rate mortgages "averaged 3.24 percent . . . for the week ending May 21, 2020, down from last week when it averaged 3.28 percent. A year ago at this time, the 30-year FRM averaged 4.06 percent." Rates for 15-year fixed-rate mortgages "averaged 2.70 percent . . . down from last week when it averaged 2.72 percent. A year ago at this time, the 15-year FRM averaged 3.51 percent

Mortgage Bankers Association

Monday, Forbearance and Call Volume Survey: The latest survey "revealed that the total number of loans now in forbearance increased from 7.91% of servicers' portfolio volume in the prior week to 8.16% as of May 10, 2020. According to MBA's estimate, 4.1 million homeowners are now in forbearance plans."

Wednesday, Weekly Mortgage Applications: "The Market Composite Index, a measure of mortgage loan application volume, decreased 2.6 percent on a seasonally adjusted basis from one week earlier." Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting, said, "Applications for home purchases continue to recover from April's sizeable drop and have now increased for five consecutive weeks. . . . As states gradually reopen and both home buyer and seller activity increases, we will be closely watching to see if these positive trends continue, or if they reflect shorter-term, pent-up demand."

National Association of Realtors

Tuesday, Existing Home Sales: "Existing-home sales dropped in April, continuing what is now a two-month skid in sales brought on by the coronavirus pandemic. . . . Each of the four major regions experienced a decline in month-over-month and year-over-year sales, with the West seeing the greatest dip in both categories."