Economic Update, August 21, 2020
Submitted by Bob Moreo

Summary: Indicators were up and down this week, depending on the period that was being reported. After falling below the 1 million mark for the first time in 21 weeks, unemployment claims jumped back above it again this week, an unexpected increase according to economists surveyed by Dow Jones. New residential construction soared in July, beating expectations according to Bloomberg and fueling record homebuilder optimism; sales of existing homes followed suit. The Conference Board's latest Leading Economic Index for July, however, showed signs that the recovery is "losing steam" and warned that "economic growth will weaken substantially during the final months of 2020." In contrast, IHS Markit's Flash Composite Purchasing Managers' Index showed "a strong upturn in business activity in August, with both manufacturers and service providers registering expansions."

The Nashville Area Chamber of Commerce updated its COVID-19 Economic Impact Model, which suggests "most sectors will return to pre-COVID-19 economic activity by third quarter in 2021." However, "the exception is the hospitality and leisure sector," which the analysis suggests "should see return to pre-COVID-19 employment by mid-2022." The hospitality sector is already showing signs of serious problems nationwide, says a report from the American Hotel and Lodging Association. Lodging has been "the most heavily hit sector of the commercial mortgage-backed securities market," as hotel owners are falling behind on payments and facing potential foreclosure—and the Nashville market is among those with the highest number of delinquencies.

Federal Government Indicators and Reports:

Bureau of Labor Statistics

Wednesday, County Employment and Wages: This release shows counties' employment and wage situations before the effects of COVID-19 began. "From March 2019 to March 2020, employment increased in 202 of the 357 largest U.S. counties. . . . In March 2020, national employment (as measured by the QCEW program) increased to 147.1 million, a 0.4-percent increase over the year. . . . Among the 357 largest counties, 335 had over-the-year increases in average weekly wages. In the first quarter of 2020, average weekly wages for the nation increased to $1,222, a 3.3-percent increase over the year." Six Tennessee counties are among the 357 included, "defined as having employment levels of 75,000 or greater." The following table contains data for the first quarter 2020 in these counties and for all of Tennessee:

County	Establishments, first quarter 2020 (thousands)	Employment			Average weekly wage		
		March 2020 (thousands)	Percent change, March 2019-20	Ranking by percent change	First quarter 2020	Percent change, first quarter 2019-20	Ranking by percent change
Davidson	25.4	513.2	1.8	41	$ 1,282	4.7	42
Hamilton	10.6	206.8	0.4	158	1,031	3.4	150
Knox	13.4	241.4	1.0	91	989	3.8	114
Rutherford	6.3	134.4	1.5	54	947	0.0	336
Shelby	21.6	495.5	0.3	240	1,117	0.8	312
Williamson	10.0	140.6	2.6	12	1,449	3.7	121
Tennessee (statewide)	171.2	3,033.5	1.0	9th of 50	1,027	3.1	26th (tie) of 50

Friday, State Employment and Unemployment: "Unemployment rates were lower in July in 30 states, higher in 9 states, and stable in 11 states and the District of Columbia. . . . The national unemployment rate fell by 0.9 percentage point over the month to 10.2 percent but was 6.5 points higher than in July 2019. Nonfarm payroll employment increased in 40 states and the District of Columbia, decreased in 1 state, and was essentially unchanged in 9 states in July 2020." In Tennessee, the preliminary July 2020 unemployment rate was 9.5 percent, down slightly from 9.6 percent in June. The rate in July 2019 was 3.4 percent. The preliminary number of unemployed in Tennessee for July

2020 was 300,071. There were 2,963,700 nonfarm employees on Tennessee payrolls in July 2020, just a few hundred more than a month ago and 160,600 fewer than July 2019.

Bureau of Transportation Statistics

Tuesday, US International Air Cargo: "U.S. and foreign airlines carried 5% less cargo by weight between the U.S. and foreign points in June 2020 than in June 2019, despite a rise of almost 11% in cargo between the U.S. and Asia. . . . June's decline was smaller than year-over-year decreases in March (down 17%), April (down 16%) and May (down 14%)."

Census Bureau

Tuesday, New Residential Construction: "Privately-owned housing units authorized by building permits in July were at a seasonally adjusted annual rate of 1,495,000. This is 18.8 percent above the revised June rate of 1,258,000 and is 9.4 percent above the July 2019 rate of 1,366,000. . . . Privately-owned housing starts in July were at a seasonally adjusted annual rate of 1,496,000. This is 22.6 percent above the revised June estimate of 1,220,000 and is 23.4 percent above the July 2019 rate of 1,212,000. . . . Privately-owned housing completions in July were at a seasonally adjusted annual rate of 1,280,000. This is 3.6 percent above the revised June estimate of 1,236,000 and is 1.7 percent above the July 2019 rate of 1,258,000."

Wednesday, Advance Quarterly Services: "Advance U.S. selected services total revenue for the second quarter of 2020, adjusted for seasonal variation but not for price changes, was $3,657.6 billion, a decrease of 8.9 percent from the first quarter of 2020 and down 9.2 percent from the second quarter of 2019."

Department of Labor

Thursday, Weekly Unemployment Claims: "In the week ending August 15, the advance figure for seasonally adjusted initial claims was 1,106,000, an increase of 135,000 from the previous week's revised level. . . . The 4-week moving average was 1,175,750. . . . The advance seasonally adjusted insured unemployment rate was 10.2 percent for the week ending August 8, a decrease of 0.4 percentage point from the previous week's unrevised rate. The advance number for seasonally adjusted insured unemployment during the week ending August 8 was 14,844,000, a decrease of 636,000 from the previous week's revised level." In Tennessee, the advance unadjusted number of initial claims filed the week ended August 15 was 13,806, an increase of 3,186 from the a week earlier. There were also 4,866 Pandemic Unemployment Assistance initial claims in Tennessee , an increase of 1,167 from the week before. The advance number of continuing claims in Tennessee the week ended August 8 was 213,640.

Federal Reserve / Federal Open Market Committee

Wednesday, Federal Open Market Committee Minutes: At the July 28-29 FOMC meeting, it was noted that "probabilities placed on rate hikes next year and in 2022 declined" since the previous meeting. The committee's review of the economic situation recognized that "labor market conditions improved considerably in June, but the improvements over May and June were modest relative to the substantial deterioration seen in March and April. . . . Indicators of business fixed investment suggested that investment had generally not begun to recover but that the pace of declines had moderated, on balance, in recent months." Reviewing financial conditions, the committee saw that "conditions for small businesses remained tight. . . . At the same time, the credit needs of small businesses remained high, as the prospect arose of many businesses having to shut down operations again in response to rising coronavirus cases. Small business loan performance deteriorated significantly; short-term delinquencies were comparable with levels seen in early 2008. . . . Participants noted that households' spending on discretionary services—such as leisure, travel, and hospitality—would likely be subdued for some time and thus would be a factor restraining the pace of recovery. . . . Participants generally agreed that actions of consumers and businesses in taking steps to slow the spread of the virus, along with developments in public health, would be critical in ensuring a durable reopening of businesses. . . . In their consideration of monetary policy at this meeting, participants reaffirmed their commitment to using the Federal Reserve's full range of tools to support the U.S. economy during this challenging time, thereby promoting its maximum employment and price stability goals."

Federal Reserve Bank of Chicago

Wednesday, National Financial Conditions Index: "The NFCI edged down to –0.53 in the week ending August 14," continuing a trend of loosening financial conditions.

Economic Indicators and Confidence:

The Conference Board

Thursday, US Leading Economic Index: The Index "increased 1.4 percent in July to 104.4 following a 3.0 percent increase in June and a 3.1 percent increase in May. 'The US LEI increased for the third consecutive month in July, albeit at a slower pace than the sharp increases in the previous two months,' said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. 'Despite the recent gains in the LEI, which remain fairly broad-based, the initial post-pandemic recovery appears to be losing steam. The LEI suggests that the pace of economic growth will weaken substantially during the final months of 2020.'"

IHS Markit

Friday, Flash U.S. Composite PMI: "Adjusted for seasonal factors, the IHS Markit Flash U.S. Composite PMI Output Index posted 54.7 in August, up from 50.3 at the start of the third quarter and signaled a strong increase in output. Moreover, it marked the sharpest upturn in private sector business activity since February 2019. . . . Total new business rose for the first time since February and at a solid rate. Manufacturing firms registered a steeper expansion in new order inflows than in July, while service providers signaled a renewed increase in sales." IHS Markit economist Sian Jones said, "Encouragingly, firms signaled an accelerated rise in hiring, as greater new business inflows led to increased pressure on capacity. Some also mentioned that time taken to establish safe businesses practices had now allowed them to expand their workforce numbers. However, expectations regarding output over the coming year dipped slightly from July due to uncertainty stemming from the pandemic and the upcoming election."

Friday, Flash Eurozone PMI: "The flash IHS Markit Eurozone Composite PMI posted 51.6 in August, down from July's reading of 54.9 and signaling a slowdown in the pace of output growth. July had seen the first expansion of activity in five months. . . . Service providers recorded broadly unchanged levels of business activity from those seen in July. On the other hand, manufacturing production rose sharply, with the rate of growth quickening to the fastest since April 2018."

S&P Dow Jones

Tuesday, Consumer Credit Default Indices: The composite rate of consumer default in July 2020 "was unchanged at 0.66%. The bank card default rate fell 37 basis points to 3.86%. The auto loan default rate rose 7 basis points to 0.47% and the first mortgage default rate was 3 basis points higher at 0.44%."

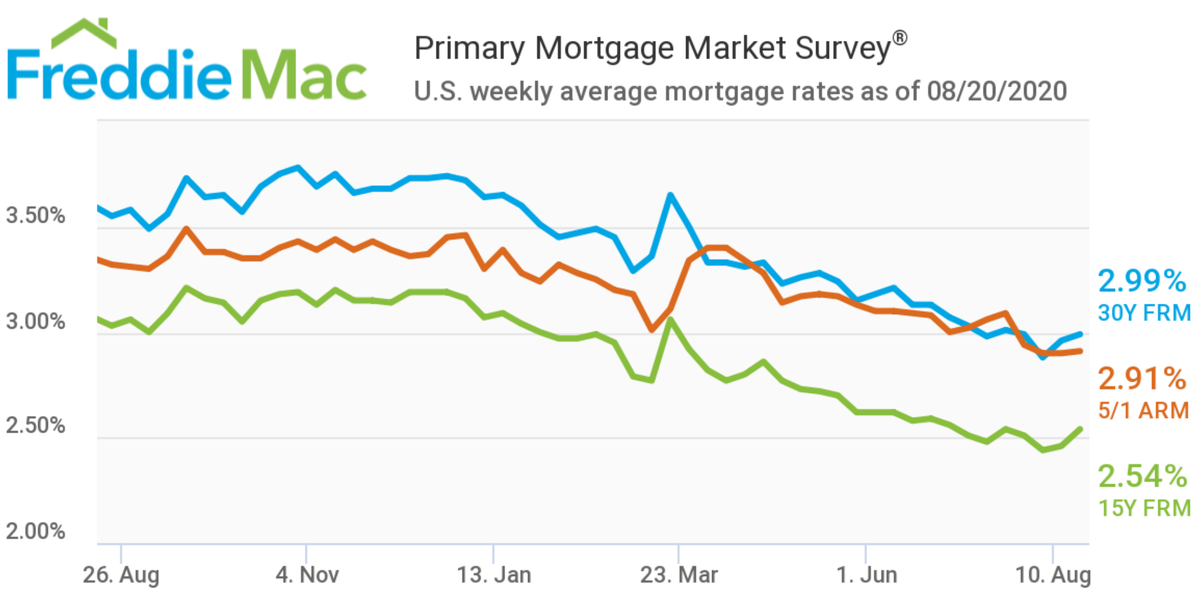
Mortgages and Housing Markets:

Fannie Mae

Monday, [Monthly Economic and Housing Outlook]: "The strong rate of economic recovery observed in May and June sets up the third quarter for a substantial rebound. . . . Third quarter GDP growth is now forecast to come in at 27.2 percent annualized. Further, the now-falling coronavirus case rate, supportive fiscal and monetary policy, and an elevated level of household savings supportive of future consumer spending are all expected to drive further recovery through the remainder of the year." Fannie Mae's Economic and Strategic Research Group "revised upward its expectations for home sales, as well as its estimate of total mortgage market originations, in 2020 and 2021." Doug Duncan, Fannie Mae Senior Vice President and Chief Economist, said, "Consumers have savings to draw on, but some are holding that savings in reserve until the economy and labor markets improve. Others are spending on a discretionary basis as they await evidence that the virus has receded sustainably. Our base scenario assumes that Congress will agree upon additional fiscal stimulus in support of consumers and businesses, and that the economy will only shrink 3.1 percent in 2020 relative to 2019, measured on a fourth-quarter-over-fourth-quarter basis."

Freddie Mac

Thursday, [Primary Mortgage Market Survey]: "Purchase housing demand continues to accelerate, ultimately providing support to an economy that otherwise has stagnated," said Sam Khater, Freddie Mac's Chief Economist. "The surge in sales led to a rapid increase in the demand for remodeling and home furnishings as consumers look to renovate while adjusting to home life during COVID." The survey showed a "30-year fixed-rate mortgage averaged 2.99 percent . . . for the week ending August 20, 2020, up from last week when it averaged 2.96 percent. A year ago at this time, the 30-year FRM averaged 3.55 percent."



Mortgage Bankers Association

Monday, [National Delinquency Survey]: "The delinquency rate for mortgage loans on one-to-four-unit residential properties increased to a seasonally adjusted rate of 8.22 percent of all loans outstanding at the end of the second quarter of 2020. . . . 'The nearly 4 percentage point jump in the delinquency rate was the biggest quarterly rise in the history of MBA's survey,' said Marina Walsh, MBA's Vice President of Industry Analysis. 'The second quarter results also mark the highest overall delinquency rate in nine years, and a survey-high delinquency rate for FHA loans.'"

Monday, Forbearance and Call Volume Survey: "The total number of loans now in forbearance decreased by 23 basis points from 7.44% of servicers' portfolio volume in the prior week to 7.21% as of August 9, 2020. According to MBA's estimate, 3.6 million homeowners are in forbearance plans."

Wednesday, Weekly Mortgage Applications Survey: "Mortgage applications decreased 3.3 percent from one week earlier, according to data . . . for the week ending August 14, 2020. . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($510,400 or less) increased to 3.13 percent from 3.06 percent."

National Association of Home Builders

Monday, Housing Market Index: "In a sign that housing continues to lead the economy forward, builder confidence in the market for newly-built single-family homes increased six points to 78 in August. . . . The HMI now stands at its highest reading in the 35-year history of the series, matching the record that was set in December 1998."

Thursday, Multifamily Market Survey: "Confidence in the market for new multifamily housing increased in the second quarter, however, it still remains in negative territory. . . . The Multifamily Production Index (MPI) rose 10 points to 37 compared to the previous quarter. Meanwhile, the Multifamily Vacancy Index (MVI) increased three points to 62, with higher numbers indicating more vacancies. . . . With a reading of 62, this is the highest level since 2009."

National Association of Realtors

Friday, Existing Home Sales: "Existing-home sales continued on a strong, upward trajectory in July, marking two consecutive months of significant sales gains. . . . Total existing-home sales . . . jumped 24.7% from June to a seasonally-adjusted annual rate of 5.86 million in July. The previous record monthly increase in sales was 20.7% in June of this year. Sales as a whole rose year-over-year, up 8.7% from a year ago (5.39 million in July 2019). 'The housing market is well past the recovery phase and is now booming with higher home sales compared to the pre-pandemic days,' said Lawrence Yun, NAR's chief economist. 'With the sizable shift in remote work, current homeowners are looking for larger homes and this will lead to a secondary level of demand even into 2021.' The median existing-home price for all housing types in July was $304,100, up 8.5% from July 2019 ($280,400), as prices rose in every region. . . . For the first time ever, national median home prices breached the $300,000 level."