Economic Update, August 30, 2019
Submitted by Bob Moreo

Summary: The week began with reports of slowing business investment and cooling home prices, and ended with discouraging consumer sentiment reaching a three-year low. Pending home sales fell in July, "reversing course on two consecutive months of gains," according to the National Association of Realtors. Marketwatch said of the news, "The eight-month drop in mortgage rates is sparking much more refinancing activity than home buying." But, as has been the case most weeks, other indications were positive, reflecting an economy that continues to expand—even at a tepid pace. Unemployment remains low, as the week's new claims were in line with expectations. Corporate profits jumped in the second quarter, buoyed by higher-than-expected consumer spending. CNBC reported that "consumer spending, which accounts for more than two-thirds of U.S. economic activity, rose 0.6% last month after an unrevised 0.3% gain in June," beating expectations.

Census Bureau

Monday, Advance Report on Durable Goods: "New orders for manufactured durable goods in July increased $5.0 billion or 2.1 percent to $250.4 billion. . . .Transportation equipment [primarily a $4.3 billion increase in orders for defense and nondefense aircraft and parts] drove the increase, $5.7 billion or 7.0 percent to $86.3 billion."

"Orders for non-defense capital goods excluding aircraft, a closely watched proxy for business spending plans, increased 0.4% last month," Reuters reported, "driven by strong demand for electrical equipment, appliances and components." However, "Shipments of core capital goods fell 0.7% . . . the biggest drop since October 2016, . . . [suggesting] business spending on equipment softened at the start of the third quarter, which could weigh on overall business investment and GDP growth. Business investment contracted in the second quarter for the first time since the first quarter of 2016."

Thursday, Monthly Advance Economic Indicators: "The international trade deficit [Advance International Trade in Goods] was $72.3 billion in July, down $1.8 billion from $74.2 billion in June. Exports of goods for July were $137.3 billion, $0.9 billion more than June exports. Imports of goods for July were $209.7 billion, $0.9 billion less than June imports."

Advance "Wholesale Inventories for July, adjusted for seasonal variations but not for price changes, were estimated at an end-of-month level of $679.4 billion, up 0.2 percent from June 2019, and were up 7.1 percent from July 2018."

Advance "Retail Inventories for July, adjusted for seasonal variations but not for price changes, were estimated at an end-of-month level of $666.1 billion, up 0.8 percent from June 2019, and were up 4.5 percent from July 2018."

Federal Reserve Bank of Chicago

Monday, Chicago Fed National Activity Index (CFNAI): "The Chicago Fed National Activity Index (CFNAI) fell to –0.36 in July, from +0.03 in June. All four broad categories of indicators that make up the index decreased from June, and all four categories made negative contributions to the index in July. The index's three-month moving average, CFNAI-MA3, moved up to –0.14 in July from –0.30 in June."

S&P CoreLogic

Tuesday, Case-Shiller U.S. National Home Price NSA Index: "The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, covering all nine U.S. census divisions, reported a 3.1% annual gain in June, down from 3.3% in the previous month." According to Philip Murphy, Managing Director and Global Head of Index Governance at S&P Dow Jones Indices, "Home price gains continue to trend down, but may be leveling off to a sustainable level. . . . While housing has clearly cooled off from 2018, home price gains in most cities remain positive in low single digits. Therefore, it is likely that current rates of change will generally be sustained barring an economic downturn."

The housing industry website HousingWire.com reported "the nation's home-price gains fell to the lowest level in nearly seven years."

The Conference Board

Tuesday, Consumer Confidence Survey: "The Conference Board Consumer Confidence Index declined marginally in August, following July's rebound. The Index now stands at 135.1 (1985=100), down from 135.8 in July. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – increased from 170.9 to 177.2. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – declined from 112.4 last month to 107.0 this month."

The slight dip still keeps the index near its post-recession peak of 137.9, reports Marketwatch. "Economists polled by MarketWatch had predicted the index would fall to 127.8 in the wake of an escalating U.S. trade war with China that slammed stocks earlier in the month and sent interest rates plunging."

Bureau of Labor Statistics

Wednesday, Metropolitan Area Employment and Unemployment: "Unemployment rates were lower in July than a year earlier in 217 of the 389 metropolitan areas, higher in 141 areas, and unchanged in 31 areas. . . . The national unemployment rate in July was 4.0 percent, not seasonally adjusted, little changed from a year earlier." The unemployment rate in July 2019 was higher than July 2018 in nine of Tennessee's ten metropolitan areas and unchanged in Chattanooga, the tenth, with rates ranging from 3.4% in Nashville-Davidson–Murfreesboro–Franklin to 5.2% in Clarksville. Tennessee's July 2019 statewide unemployment rate of 4.3% was higher than the 3.9% rate of a year prior.

Mortgage Bankers Association

Wednesday, Weekly Mortgage Applications Survey: "Mortgage applications decreased 6.2 percent from one week earlier." Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting, said "Purchase applications were still up around 2 percent year-over-year, but the drop in rates this summer have not yet led to a significant boost in activity."

The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($484,350 or less) increased to 3.94 percent from 3.90 percent. The average contract interest rate for 30-year fixed-rate mortgages with jumbo loan balances (greater than $484,350) increased to 3.89 percent from 3.88 percent, and the average contract interest rate for 15-year fixed-rate mortgages increased to 3.31 percent from 3.30 percent.

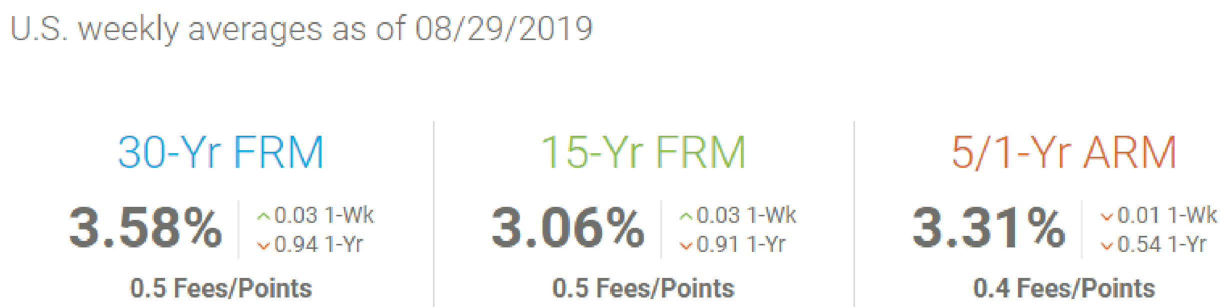
National Association of Realtors

Thursday, Pending Home Sales Index: "The Pending Home Sales Index . . . decreased 2.5% to 105.6 in July, down from 108.3 in June. Year-over-year contract signings fell 0.3%, doing an about-face of the prior month's increase."

"Super-low mortgage rates have not yet consistently pulled buyers back into the market," said Lawrence Yun, NAR chief economist. "Economic uncertainty is no doubt holding back some potential demand, but what is desperately needed is more supply of moderately priced homes."

Freddie Mac

Thursday, Primary Mortgage Market Survey: "Mortgage rates inched up slightly this week, closing the month with the 30-year fixed-rate mortgage rate averaging 3.6 percent – almost a full percent lower from the same time last year. Low mortgage rates along with a strong labor market are fueling the consumer-driven economy by boosting their purchasing power, which will certainly support housing market activity in the coming months."



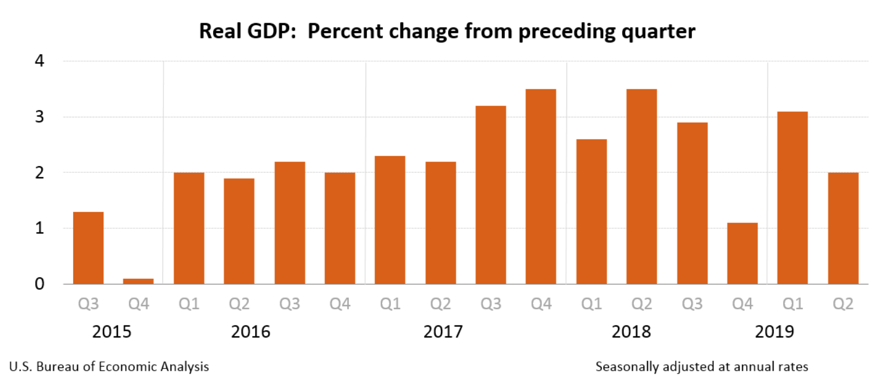
Department of Labor

Thursday, Unemployment Weekly Claims: "In the week ending August 24, the advance figure for seasonally adjusted initial claims was 215,000, an increase of 4,000 from the previous week's revised level. The previous week's level was revised up by 2,000 from 209,000 to 211,000. The 4-week moving average was 214,500, a decrease of 500 from the previous week's revised average. The previous week's average was revised up by 500 from 214,500 to 215,000."

Bureau of Economic Analysis

Thursday, Gross Domestic Product: "Real gross domestic product (GDP) increased at an annual rate of 2.0 percent in the second quarter of 2019. . . . In the first quarter, real GDP increased 3.1 percent. . . . The deceleration in real GDP in the second quarter primarily reflected downturns in inventory investment, exports, and nonresidential fixed investment." The revised rate of 2.0 percent was slightly below last month's advance estimate of 2.1 percent.

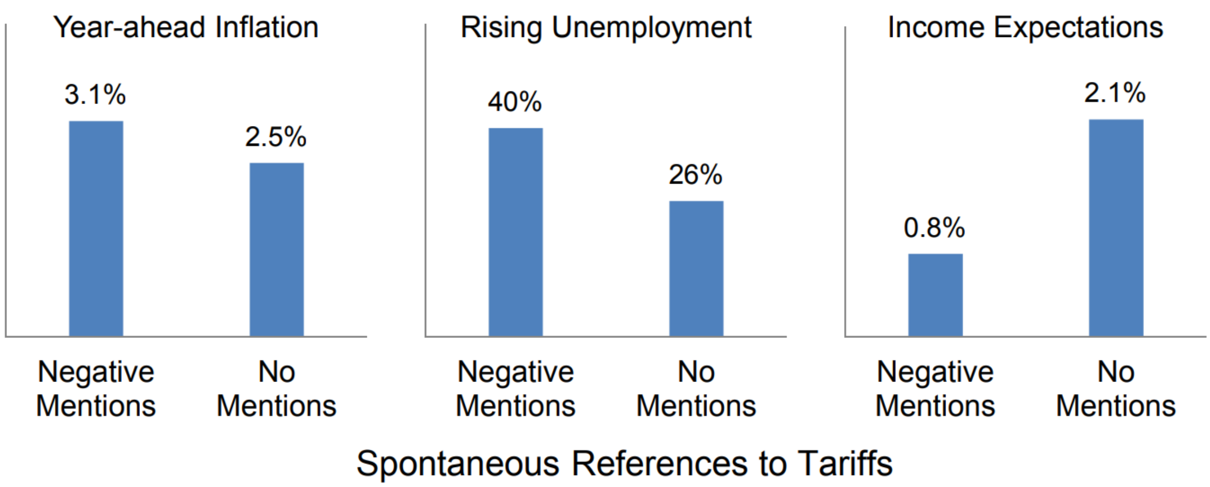
Corporate profits, however, "increased $105.8 billion in the second quarter, in contrast to a decrease of $78.7 billion in the first quarter." Marketwatch reported "Consumer spending was even stronger in the second quarter than it first looked. The government upped its estimate to 4.7% from 4.4%, marking the biggest gain since the end of 2014. Americans spent more on new cars and trucks, clothes and eating out, . . . [helping] businesses churn out the first increase in profits in three quarters and the biggest since the middle of 2014."



Friday, [Personal Income and Outlays:]() "Personal income increased $23.9 billion (0.1 percent) in July . . . Disposable personal income (DPI) increased $44.4 billion (0.3 percent) and personal consumption expenditures (PCE) increased $93.1 billion (0.6 percent). . . . The PCE price index [a measurement of inflation] increased 0.2 percent. Excluding food and energy, the PCE price index increased 0.2 percent." The change in PCE from July 2018 to 2019 was 1.4 percent, 1.6 percent excluding food and energy.

University of Michigan

Friday, [Index of Consumer Sentiment:]() The final Index of Consumer Sentiment for August 2019 was 89.8, the largest monthly decline "(-8.6 points) . . . since December 2012 (-9.8 points)." Surveys of Consumers chief economist, Richard Curtin, said "The recent decline is due to negative references to tariffs, which were spontaneously mentioned by one-in-three consumers. . . .Compared with those who did not reference tariffs, consumers who made spontaneous negative references to tariffs also voiced higher year-ahead inflation expectations, more frequently expected rising unemployment, and expected smaller annual gains in household incomes."



University of Michigan 2019

Institute for Supply Management

Friday, [ISM-Chicago Business Survey:]() "The Chicago Business Barometer . . . rose 6.0 points to 50.4 in August, up from 44.4 in July. The index had been in contractionary territory for two months before this month's gain. Only two of the Business Activity components saw a monthly decline, as Supplier Deliveries saw a sharp fall, dropping to 50.3 from July's 55.6. Production remains muted, despite a pickup of 6.7 points. Demand recovered slightly, highlighted by an increase in New Orders, which saw the largest single component monthly gain and shifted back into expansion. Inventories witnessed the largest monthly percentage decline, falling by 11.2% to 47.9, indicating that firms started to run down inventories in August."

When asked about their business investment plans for the remainder of 2019, 63% of firms "intend to leave their current plans unchanged, with firms noting global uncertainties as their main concern." The survey reports that 27% "are planning to increase their investments [and] the balance of 10% intend to reduce theirs."