Economic Update, September 18, 2020
Submitted by Bob Moreo

Summary: Most reports this week seem to agree that the recovery will be a long, slow process. Retail spending was up for the fourth straight month in August, but the pace of growth appears to have flattened, and analysts fear the loss of supplemental unemployment benefits will have a significant effect on this month's sales. One economist [told *The Wall Street Journal*] that "the September spending data is going to be quite dour given the loss of $15 billion a week in income supplements." However, [NBC News reported] that Amazon is planning to hire 100,000 workers in addition to the 175,000 it has hired this year, and UPS plans to add 100,000 workers for the holiday season. Unemployment claims were down slightly, but again, not enough to signify the economic recovery is picking up any steam. Residential construction data for August was mixed, as single-family permits and starts increased, but multifamily units decreased sharply. The National Association of Home Builders reported builder confidence at an all-time high in the face of rising costs and delays for building materials. In a statement on Wednesday, Federal Reserve Chairman Jerome Powell said the central bank would keep its target interest rate at zero "until labor market conditions have reached . . . maximum employment and inflation . . . is on track to moderately exceed 2 percent for some time." Market analysts were not impressed: "This is dovish — lower rates for longer, higher equities, weaker dollar," [one strategist told CNBC.]

[MarketWatch chart]

Federal Government Indicators and Reports:

Bureau of Economic Analysis

Friday, [US International Transactions]: "The U.S. current account deficit, which reflects the combined balances on trade in goods and services and income flows between U.S. residents and residents of other countries, widened by $59.0 billion, or 52.9 percent, to $170.5 billion in the second quarter of 2020." The widening deficit "mostly reflected an expanded deficit on goods and reduced surpluses on primary income and on services."

Bureau of Labor Statistics

Tuesday, [U.S. Import and Export Price Indexes]: "U.S. import prices rose 0.9 percent in August . . . following advances of 1.2 percent in July and 1.4 percent in June. Higher prices for both fuel and nonfuel imports contributed to the August increase. Prices for U.S. exports also advanced in August, rising 0.5 percent, after increasing 0.9 percent the previous month. . . . Despite the increases in each of the past 4 months, import fuel prices fell 22.2 percent from August 2019 to August 2020. Prices for petroleum declined 24.1 percent. . . . The price index for nonfuel imports rose 0.8 percent from August 2019 to August 2020. . . . U.S. export prices declined 2.8 percent over the past 12 months . . . led by a 16.1-percent drop in corn prices, a 24.4-percent fall in nut prices, and a 5.0-percent decline in meat prices. . . . The price index for nonagricultural exports decreased 2.8 percent for the year ended in August."

Thursday, Employer Costs for Employee Compensation: "Employer costs for employee compensation for civilian workers averaged $38.20 per hour worked in June 2020. . . . Wages and salaries cost employers $26.17 while benefit costs were $12.04. The average cost for health insurance benefits was $3.18 per hour worked." Management and professional services firms spend more on employees' health care than service industry businesses do, and larger firms spend more than smaller firms.

Chart 3. Health insurance costs per employee hour worked by occupational group, June 2020

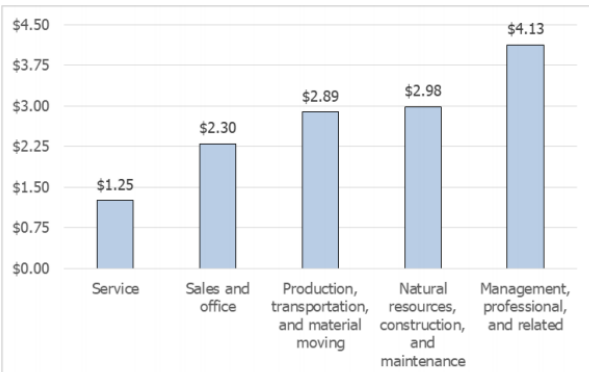
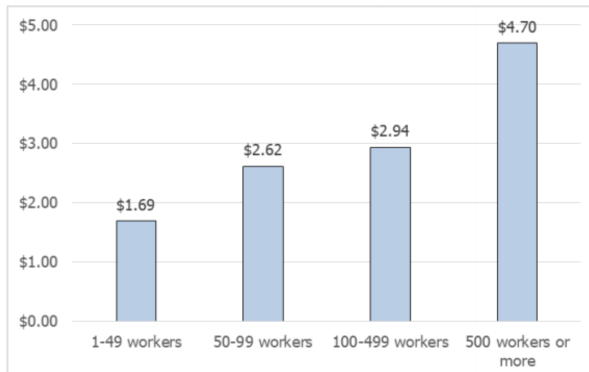


Chart 4. Health insurance costs per employee hour worked by establishment size, June 2020



Friday, State Employment and Unemployment: "Unemployment rates were lower in August in 41 states, higher in 2 states, and stable in 7 states and the District of Columbia. . . . The national unemployment rate fell by 1.8 percentage points over the month to 8.4 percent but was 4.7 points higher than in August 2019. Nonfarm payroll employment increased in 40 states and was essentially unchanged in 10 states and the District of Columbia in August 2020." Tennessee's August unemployment rate of 8.5 percent was not significantly different than the national rate. However, the state's rate only improved by 1.2 percent from July's rate, compared to a 1.8 percent improvement for the country as a whole. August unemployment rates in some neighboring states—Alabama (5.6 percent), Georgia (5.6 percent), and South Carolina (6.3 percent)—were much lower than the rate in Tennessee. Tennessee added 22,600 jobs to payrolls in August, a gain of 0.8 percent.

Bureau of Transportation Statistics

Thursday, International Air Cargo Data: Preliminary data for July 2020 showed "U.S. and foreign airlines carried 0.4% more cargo by weight between the U.S. and foreign points in July 2020 than in July 2019, including a 19% rise in cargo between the U.S. and Asia." The increase would be "the first month without an annual decline since October 2018."

Census Bureau

Wednesday, Advance Monthly Retail Trade: "Advance estimates of U.S. retail and food services sales for August 2020 . . . were $537.5 billion, an increase of 0.6 percent from the previous month, and 2.6 percent above August 2019. Total sales for the June 2020 through August 2020 period were up 2.4 percent from the same period a year ago." Motor vehicle and parts dealers represent the largest component of total retail trade, and although their sales have rebounded in recent months, they remain 3.4 percent below 8-month year-to-date sales in 2019. Nonstore retailers (e.g. Amazon), food and beverage stores, and building materials and garden supplies stores have reported the most growth this year.

Wednesday, Manufacturing and Trade Inventories and Sales: The seasonally adjusted value of trade sales and manufacturers' shipments for July was "estimated at $1,441.1 billion, up 3.2 percent from June 2020, but was down 1.2 percent from July 2019." Inventories "were estimated at an end-of-month level of $1,914.3 billion, up 0.1 percent from June 2020, but were down 5.9 percent from July 2019. The total business inventories/sales ratio based on seasonally adjusted data at the end of July was 1.33."

Thursday, New Residential Construction: "Privately-owned housing units authorized by building permits in August were at a seasonally adjusted annual rate of 1,470,000. This is 0.9 percent below the revised July rate of 1,483,000 and is 0.1 percent below the August 2019 rate of 1,471,000. Single-family authorizations in August were at a rate of 1,036,000; this is 6.0 percent above the revised July figure of 977,000. . . . Privately-owned housing starts in August were at a seasonally adjusted annual rate of 1,416,000. This is 5.1 percent below the revised July estimate of 1,492,000 but is 2.8 percent above the August 2019 rate of 1,377,000. Single-family housing starts in August were at a rate of 1,021,000; this is 4.1 percent above the revised July figure of 981,000."

Department of Labor

Thursday, Unemployment Insurance Weekly Claims: "In the week ending September 12, the advance figure for seasonally adjusted initial claims was 860,000, a decrease of 33,000 from the previous week's revised level. . . . The 4-week moving average was 912,000, a decrease of 61,000 from the previous week's revised average. . . . The advance seasonally adjusted insured unemployment rate was 8.6 percent for the week ending September 5, a decrease of 0.7 percentage point from the previous week's revised rate." Tennesseans filed 10,771 new claims for unemployment in the week ending September 12 (unadjusted). That was 1,539 fewer than the week before. For the week ending September 5, the advance number of continuing claims was 171,486—down from 192,911 the previous week.

Federal Reserve Board

Wednesday, FOMC Statement: "The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time." Two committee members voted against the decision. One of whom, Minneapolis Fed leader Neel Kashkari, told *The Wall Street Journal*, "while I believe the statement is a positive step forward . . . I would have preferred the Committee make a stronger commitment to not raising rates until we were certain to have achieved our dual mandate objectives." Economic projections released with the committee's statement indicate a consensus among members that GDP will fall less than they had projected at their June meeting—falling 3.7 percent instead of 6.5 percent.

However, the committee's forecasts for growth in 2021 and 2022 were revised downward, with inflation staying below 2 percent until 2023.

Federal Reserve Bank of Chicago

Wednesday, National Financial Conditions Index: "The NFCI edged up to –0.48 in the week ending September 11," indicating slightly tighter financial conditions than the previous week, but still looser than average.

Economic Indicators and Confidence:

The Conference Board

Friday, Leading Economic Index: "The Conference Board Leading Economic Index for the U.S. increased 1.2 percent in August to 106.5, following a 2.0 percent increase in July and a 3.1 percent increase in June. 'While the US LEI increased again in August, the slowing pace of improvement suggests that this summer's economic rebound may be losing steam heading into the final stretch of 2020,' said Ataman Ozyildirim, Senior Director of Economic Research. . . . 'Weakening in new orders for capital goods, residential construction, consumers' outlook, and financial conditions point to increasing downside risks to the economic recovery.'"

Federal Reserve Bank of New York

Monday, Survey of Consumer Expectations: The August 2020 survey "shows a continued decline in pessimism about households' financial situation. In particular, home price growth expectations returned to levels close to a year ago, while delinquency expectations remain low. However, year-ahead spending, household income and labor market expectations all remain weak compared to the pre-COVID-19 period. . . . The mean perceived probability of losing one's job in the next 12 months increased for the second consecutive month from 16.0% in July to 18.0% in August, well above its February reading of 13.8%."

S&P Dow Jones

Tuesday, Consumer Credit Default Indices: The overall rate of consumer credit defaults held steady in August. "The composite rate was up one basis point to 0.67%. The bank card default rate fell 41 basis points to 3.45%. The auto loan default rate rose 6 basis points to 0.53% and the first mortgage default rate was 4 basis points higher at 0.48%."

University of Michigan

Friday, Surveys of Consumers—Preliminary: The preliminary Index of Consumer Sentiment for September was 78.9, up from a reading of 74.1 in August. Sentiment towards current conditions and forward expectations both improved. Surveys of Consumers chief economist, Richard Curtin says "Over the next several months, there are two factors that could cause volatile shifts and steep losses in consumer confidence: how the election is decided and the delays in obtaining vaccinations."

Employment and Businesses:

Challenger, Gray, & Christmas

Tuesday, 2020 Seasonal Retail Hiring Outlook: "Retailers added 702,000 jobs for the holiday season in 2019, a 12.21% increase over the 625,600 hires for the 2018 holiday season. . . . Meanwhile, last holiday season, Retailers, Transportation, and Warehousing companies announced they were hiring 789,781 seasonal positions, 10.61% more than the 714,000 announced in 2018." What can we expect in 2020? "Amazon announced Monday it will add 100,000 workers ahead of this holiday season, a 50%

decrease over 2019. But [it] has been adding jobs throughout the COVID-19 pandemic. . . . Although many companies have not yet announced their hiring plans for the 2020 holiday season, most of those that have are increasing the number from 2019."

Mortgages and Housing Markets:

Fannie Mae

Tuesday, Economic and Housing Outlook: The agency's Economic and Strategic Research Group upgraded its outlook from the previous month. "Despite continued downside risks, full-year 2020 real GDP is now forecast to contract by 2.6 percent, an improvement from the prior month's forecast of a 3.1 percent contraction. . . . The upgrade was attributed to continued strength in consumer spending – and data suggesting that such spending is likely to support economic growth through the remainder of the year. In fact, the ESR Group also improved its forecast for real GDP growth for the third quarter 2020 to 30.4 percent – from the prior forecast of 27.2 percent – but reduced its expectations for fourth quarter growth to 6.2 percent from 8.7 percent due in part to the lack of further COVID 19-related legislative stimulus." The group also "substantially upgraded its full-year 2020 forecasts for both new and existing home sales—and, with robust refinance demand, for total mortgage originations to $3.87 trillion, which would be the highest nominal dollar annual total in the series' 32-year history."

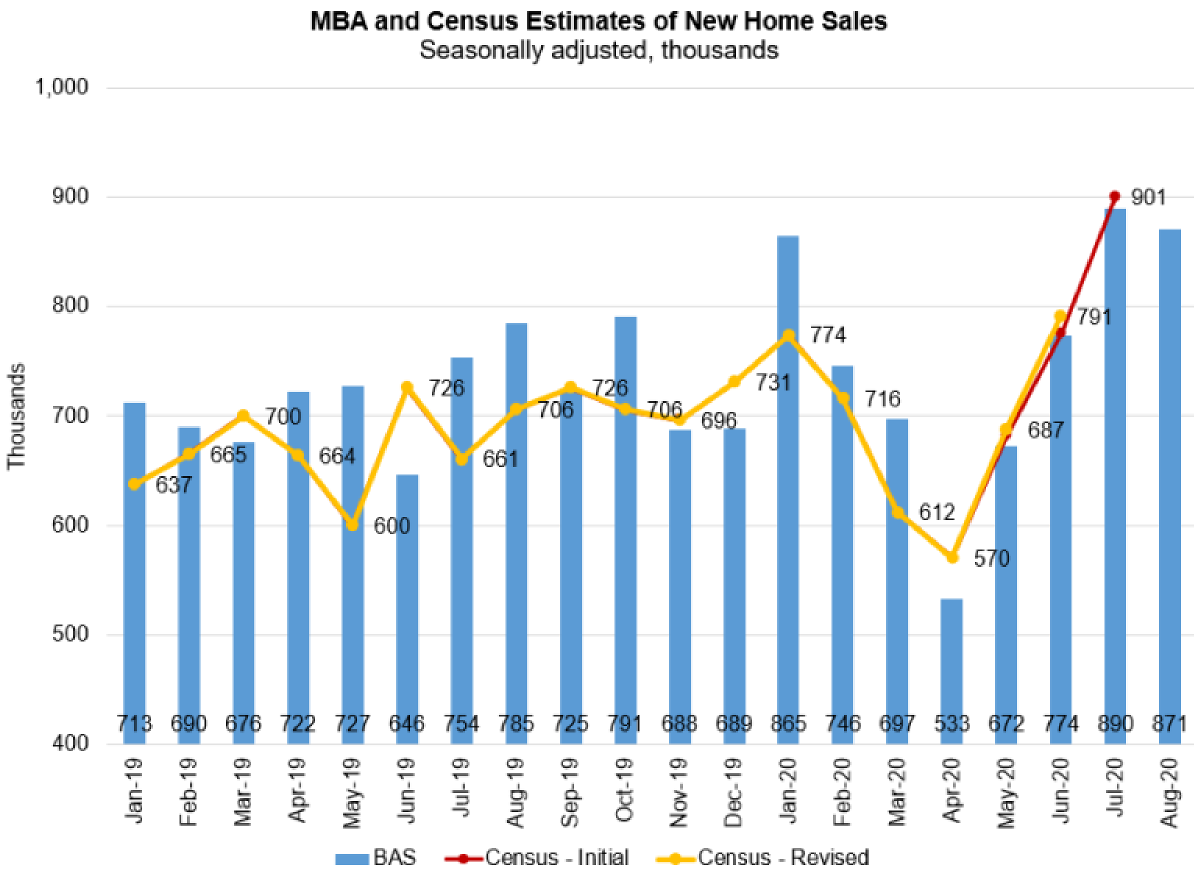
Freddie Mac

Thursday, Primary Mortgage Market Survey: This week's survey showed a "30-year fixed-rate mortgage averaged 2.87 percent . . . for the week ending September 17, 2020, up slightly from last week when it averaged 2.86 percent. A year ago at this time, the 30-year FRM averaged 3.73 percent." Chief Economist Sam Khater said, "In August, first-time homebuyer activity rose 19 percent from July to the highest monthly level ever for Freddie Mac."

Mortgage Bankers Association

Monday, Forbearance and Call Volume Survey: "The total number of loans now in forbearance decreased by 15 basis points from 7.16% of servicers' portfolio volume in the prior week to 7.01% as of September 6, 2020. According to MBA's estimate, 3.5 million homeowners are in forbearance plans." MBA Senior Vice President and Chief Economist Mike Fratantoni said, "Forbearance requests increased over the week, particularly for Ginnie Mae loans. With just under 1 million unemployment insurance claims still being filed every week, the lack of additional fiscal support for the unemployed could lead to even higher increases of those needing forbearance."

Tuesday, Builder Application Survey: "Survey data for August 2020 shows mortgage applications for new home purchases increased 33.3 percent compared from a year ago. Compared to July 2020, applications decreased by 4 percent." According to Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting, "despite economic uncertainty and the pandemic's distortion to typical seasonal patterns, the comparisons to August 2019 show strength. MBA's estimate of new home sales were up over 11 percent. The seasonally adjusted annualized rate of sales was 871,000 units in August, the second strongest of the year and well above the 785,000 units sold a year ago."



Wednesday, [Weekly Mortgage Applications Survey]: "Mortgage applications decreased 2.5 percent from one week earlier, according to data . . . for the week ending September 11, 2020." According to Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting, "a 5 percent decline in conventional refinances pulled the overall index lower, but activity was still 30 percent higher than last year. . . . Purchase activity has outpaced year-ago levels for 17 consecutive weeks, with a stronger growth in loans with higher balances pushing MBA's average loan size to a new survey high of $370,200."

National Association of Home Builders

Wednesday, [Housing Market Index]: "In a strong signal that housing is leading the economic recovery, builder confidence in the market for newly-built single-family homes increased five points to hit an all-time high of 83 in September." The rising confidence comes as "many in the industry are worried about rising costs and delays for building materials, especially lumber," said NAHB Chairman Chuck Fowke. "Lumber prices are now up more than 170 percent since mid-April, adding more than $16,000 to the price of a typical new single-family home," said NAHB Chief Economist Robert Dietz.