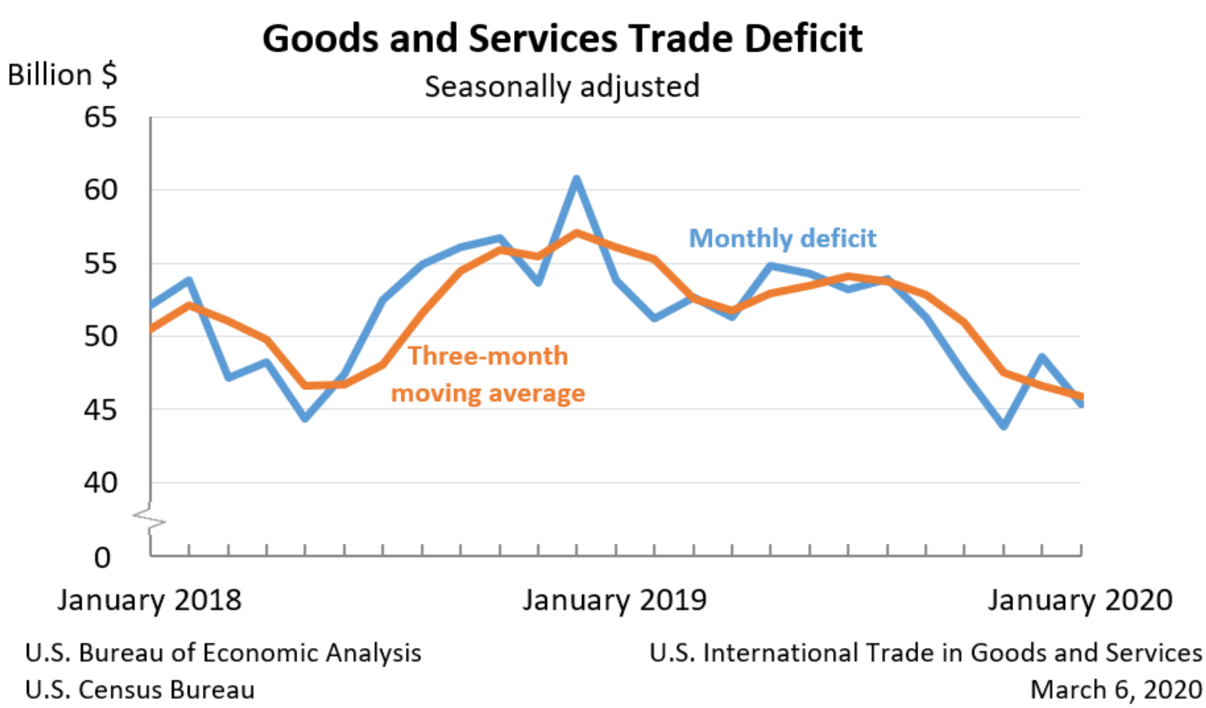
Economic Update, March 6, 2020
Submitted by Bob Moreo

Summary: On Monday, markets rebounded from last week's losses in anticipation that the international banking community would take actions this week to support the economy as it begins to feel the effects of the spreading Coronavirus. An emergency rate cut by the Fed on Tuesday was an attempt to do just that. "We saw a risk to the outlook for the economy and chose to act," Fed Chair Jerome H. Powell said at a news conference shortly after the rate-cut announcement, according to the Washington Post. Mortgage rates hit record lows this week as a result, but stocks remained volatile and a Reuters poll suggests economists expect further rate cuts and question the effectiveness of monetary policy to avoid a recession. Travel and tourism—an important sector for Tennessee's economy—showed signs of weakness in the Federal Reserve's Beige Book report. Friday's jobs report revised December's numbers upwards and showed much bigger gains in January than expected. "It is a good thing, not a bad thing that the U.S. economy ran into the coronavirus on strong footing," Neil Dutta, head of economics at Renaissance Macro Research, told Yahoo! Finance. "Yes, this was stale. But the economy is dealing with this from a position of strength."

Federal Government Indicators and Reports:

Bureau of Economic Analysis

Friday, International Trade in Goods and Services: "[T]he goods and services deficit was $45.3 billion in January, down $3.3 billion from $48.6 billion in December, revised. January exports were $208.6 billion, $0.9 billion less than December exports. January imports were $253.9 billion, $4.2 billion less than December imports. . . . Year-over-year, the goods and services deficit decreased $8.5 billion, or 15.8 percent, from January 2019. Exports increased $2.3 billion or 1.1 percent. Imports decreased $6.2 billion or 2.4 percent."



Bureau of Labor Statistics

Wednesday, Regional and State Unemployment—2019 Annual: "In 2019, annual average unemployment rates decreased in 10 states, increased in 1 state, and were little changed in 39 states and the District of Columbia. . . . The U.S. jobless rate declined by 0.2 percentage point from the prior year to 3.7 percent, and the national employment-population ratio rose by 0.4 point to 60.8 percent." Tennessee is one of 16 states plus the District of Columbia in the South Census region. Falling by 0.3 percent from 2018, "the South had the lowest jobless rate among the regions, 3.5 percent in 2019, while the West had the highest rate, 3.9 percent."

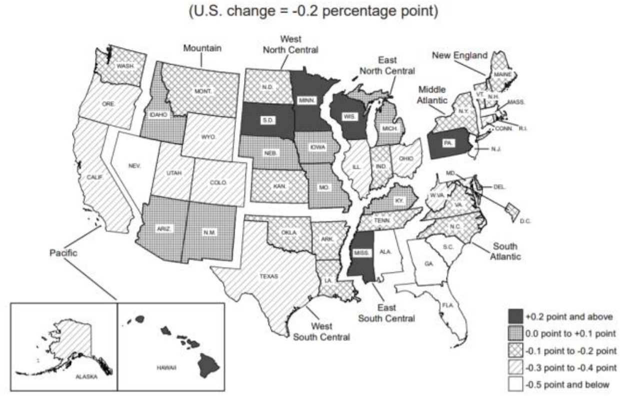
With a rate of 3.4 percent, Tennessee was among 18 states that "newly recorded the lowest annual average unemployment rates in their respective series in 2019. . . . In 2019, the largest employment-population ratio increase among the states occurred in Iowa (+1.5 percentage points), followed by West Virginia (+1.2 points) and New Jersey and Tennessee (+1.1 points each)."

Table C. States with statistically significant employment-population ratio changes, 2018–19 annual averages

State	Ratio 2018	Ratio 2019	Over-the-year ratio change
Alabama	55.4	56.3	0.9
Arizona	58.2	59.2	1.0
California	59.6	59.9	.3
Florida	57.1	57.5	.4
Hawaii	60.2	59.3	-.9
Iowa	67.0	68.5	1.5
Maryland	65.2	66.0	.8
Massachusetts	65.2	65.8	.6
Nevada	60.5	61.1	.6
New Jersey	60.2	61.3	1.1
New Mexico	54.7	55.4	.7
North Carolina	58.8	59.2	.4
Pennsylvania	59.9	60.4	.5
Tennessee	59.0	60.1	1.1
Virginia	63.5	64.3	.8
Washington	61.3	62.3	1.0
West Virginia	51.2	52.4	1.2
Wisconsin	65.6	64.8	-.8

Map 1. Over-the-year change in unemployment rates by state, 2018–19 annual averages

(U.S. change = -0.2 percentage point)



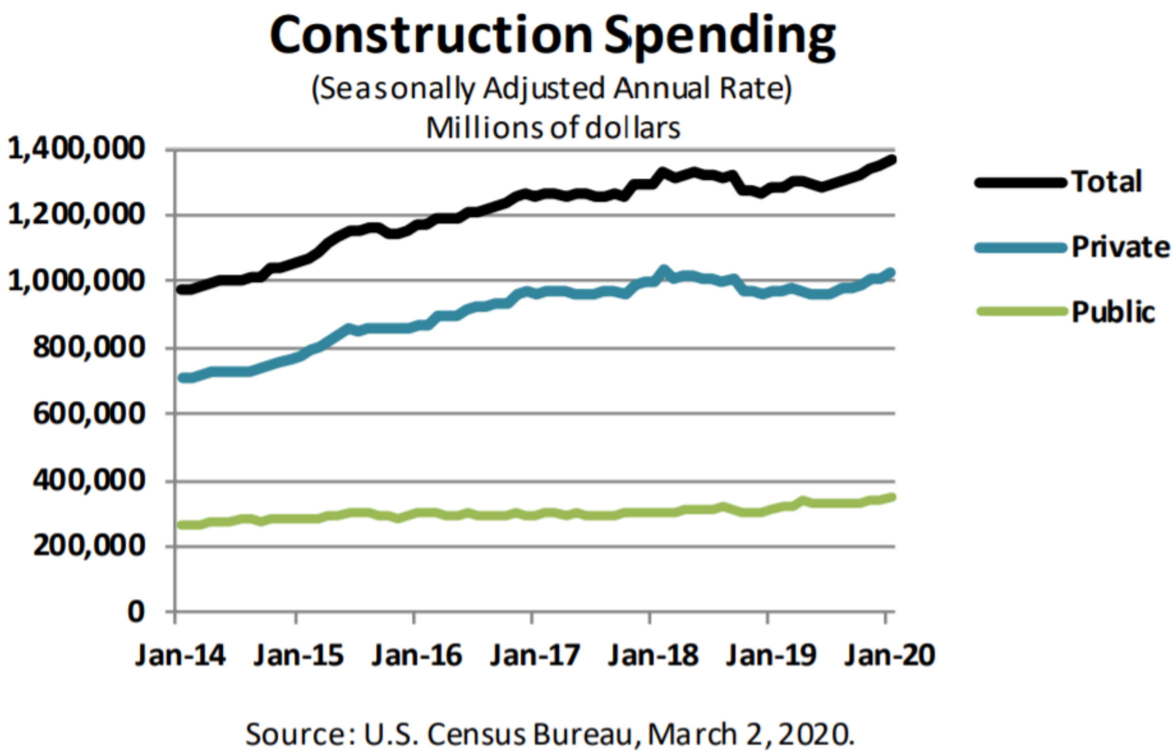
Thursday, Productivity and Costs: "Nonfarm business sector labor productivity increased 1.2 percent in the fourth quarter of 2019, . . . as output increased 2.4 percent and hours worked increased 1.2 percent. From the fourth quarter of 2018 to the fourth quarter of 2019, productivity increased 1.8 percent, reflecting a 2.6-percent increase in output and a 0.8-percent increase in hours worked. . . . Unit labor costs in the nonfarm business sector increased 0.9 percent in the fourth quarter of 2019 as hourly compensation grew at a faster rate (2.1 percent) than productivity (1.2 percent). Unit labor costs increased 1.7 percent over the last four quarters."

"Manufacturing sector labor productivity decreased 0.8 percent in the fourth quarter of 2019, as output decreased 0.4 percent and hours worked increased 0.4 percent. Total manufacturing sector productivity declined 0.6 percent over the last four quarters, as output decreased 1.1 percent and hours worked decreased 0.5 percent."

Friday, Employment Situation: "Total nonfarm payroll employment rose by 273,000 in February, and the unemployment rate was little changed at 3.5 percent. . . . Notable job gains occurred in health care and social assistance, food services and drinking places, government, construction, professional and technical services, and financial activities. . . . The unemployment rate has been either 3.5 percent or 3.6 percent for the past 6 months. . . . In 2019, job growth averaged 178,000 per month. . . . In February, average hourly earnings for all employees on private nonfarm payrolls increased by 9 cents to $28.52. Over the past 12 months, average hourly earnings have increased by 3.0 percent."

Census Bureau

Monday, Monthly Construction Spending: "[Total] Construction spending during January 2020 was estimated at a seasonally adjusted annual rate of $1,369.2 billion, 1.8 percent above the revised December estimate of $1,345.5 billion. The January figure is 6.8 percent above the January 2019 estimate of $1,282.5 billion."



Thursday, Manufacturers' Shipments, Inventories, and Orders: "New orders for manufactured goods in January, down two of the last three months, decreased $2.3 billion or 0.5 percent to $497.9 billion . . . This followed a 1.9 percent December increase. Shipments, down following three consecutive monthly increases, decreased $2.3 billion or 0.5 percent to $501.8 billion. This followed a 0.5 percent December increase. Unfilled orders, up three of the last four months, increased $0.1 billion or virtually unchanged to $1,157.0 billion. This followed a virtually unchanged December increase. . . . [New orders for] transportation equipment, down four of the last five months drove the decrease, $1.7 billion or 2.1 percent to $82.2 billion."

Friday, Monthly Wholesale Trade: "January 2020 sales of merchant wholesalers . . . were $504.6 billion, up 1.6 percent from the revised December level and were up 2.2 percent from the revised January 2019 level. The November 2019 to December 2019 percent change was revised from the preliminary estimate of down 0.7 percent to down 0.2 percent. Total inventories of merchant wholesalers . . . were $671.6 billion at the end of January, down 0.4 percent from the revised December level. Total inventories were up 0.4 percent from the revised January 2019 level. The December 2019 to January 2020 percent change was revised from the advance estimate of down 0.2 percent to down 0.4 percent. The January inventories/sales ratio . . . was 1.33. The January 2019 ratio was 1.35."

Department of Labor

Thursday, Initial Claims: "In the week ending February 29, the advance figure for seasonally adjusted initial claims was 216,000, a decrease of 3,000 from the previous week's unrevised level of 219,000. The 4-week moving average was 213,000, an increase of 3,250 from the previous week's unrevised average of 209,750."

Federal Reserve Board

Tuesday, FOMC Statement: "The fundamentals of the U.S. economy remain strong. However, the coronavirus poses evolving risks to economic activity. In light of these risks and in support of achieving its maximum employment and price stability goals, the Federal Open Market Committee decided today to lower the target range for the federal funds rate by 1/2 percentage point, to 1 to 1-1/4 percent."

Tuesday, Decisions Regarding Monetary Policy Implementation: "The Board of Governors of the Federal Reserve System voted unanimously to set the interest rate paid on required and excess reserve balances at 1.10 percent, effective March 4, 2020. . . . In light of recent and expected increases in the Federal Reserve's non-reserve liabilities, the Committee directs the Desk to continue purchasing Treasury bills at least into the second quarter of 2020 to maintain over time ample reserve balances at or above the level that prevailed in early September 2019. . . . In a related action, the Board of Governors of the Federal Reserve System voted unanimously to approve a 1/2 percentage point decrease in the primary credit rate to 1.75 percent, effective March 4, 2020."

Thursday, The Beige Book: "[Overall] Economic activity expanded at a modest to moderate rate over the past several weeks, according to the majority of Federal Reserve Districts. . . . Consumer spending generally picked up, but growth was uneven across the nation; . . . growth in tourism was flat to modest. . . . Manufacturing activity expanded in most parts of the country; however, some supply-chain delays were reported as a result of the coronavirus and several Districts said that producers feared further disruptions in the coming weeks. . . . Employment increased at a slight to moderate pace, overall, with hiring constrained by a tight labor market. Insufficient labor lowered growth for many firms and led to delays in construction projects. . . . Wages grew at a modest to moderate rate in most Districts, similar to last period."

Reports in the St. Louis District, which includes West Tennessee, "indicate that overall economic conditions have been mixed but are generally unchanged since our previous report. . . . Reports from manufacturing contacts indicate somewhat of a rebound in activity after consecutive reports of slowing growth." Middle and East Tennessee are in the Atlanta District, where "Economic activity grew modestly. The labor market remained tight and wages were steady, on balance. . . . Manufacturing declined, as new orders and production levels fell. Banking activity was stable."

Federal Reserve Bank of Chicago

Wednesday, National Financial Conditions Index: The latest index "points to tighter financial conditions" in the week ending February 28. "The NFCI was –0.76 in the week ending February 28, up slightly from a revised –0.78 (initially reported as –0.84) in the previous week. Risk indicators contributed –0.28, credit indicators contributed –0.33, and leverage indicators contributed –0.14 to the index in the latest week."

Wednesday, Chicago Fed Survey of Business Conditions: "The Chicago Fed Survey of Business Conditions (CFSBC) Activity Index moved up to −1 from −7, suggesting that growth in economic activity remained at a modest pace in January and early February. The CFSBC Manufacturing Activity Index increased to –10 from –16, and the CFSBC Nonmanufacturing Activity Index moved up to +4 from –2.

Respondents' outlooks for the U.S. economy for the next 12 months deteriorated, but remained optimistic on balance. . . . The pace of current hiring increased, though respondents' expectations for the pace of hiring over the next 12 months deteriorated. . . . Respondents' expectations for the pace of capital spending over the next 12 months increased."

Economic Indicators and Confidence:

Brookings Institution

Thursday, [Metro Monitor 2020](): The Metro Monitor features data for 192 metro areas—this year it's divided into 53 "very large" metros with over 1 million people, 53 "large" metros between 500,000 and 1 million, and 86 "midsized" metros with populations between 250,000 and 500,000—measuring each area's economic health based on 15 measures of growth, prosperity, and inclusion. Together, these metro areas "are home to 77% of the nation's population and contribute 85% of the nation's GDP." Brookings finds that ["job growth has increasingly concentrated in a smaller set of very large metro areas,"]() and that "very large metro areas outperformed others on growth, prosperity, and inclusion from 2008 to 2018."

FIGURE 2

Very large metro areas outperformed others on growth, prosperity, and inclusion from 2008 to 2018

In the past decade, some of Tennessee's metro areas have done well in terms of overall prosperity—Nashville ranks 8th among very large metros; Knoxville and Chattanooga are 7th and 12th respectively among large metros. Others have lagged behind—Memphis ranks 43rd among very large metros; Kingsport-Bristol ranks 68th and Clarksville 78th among midsized metros.

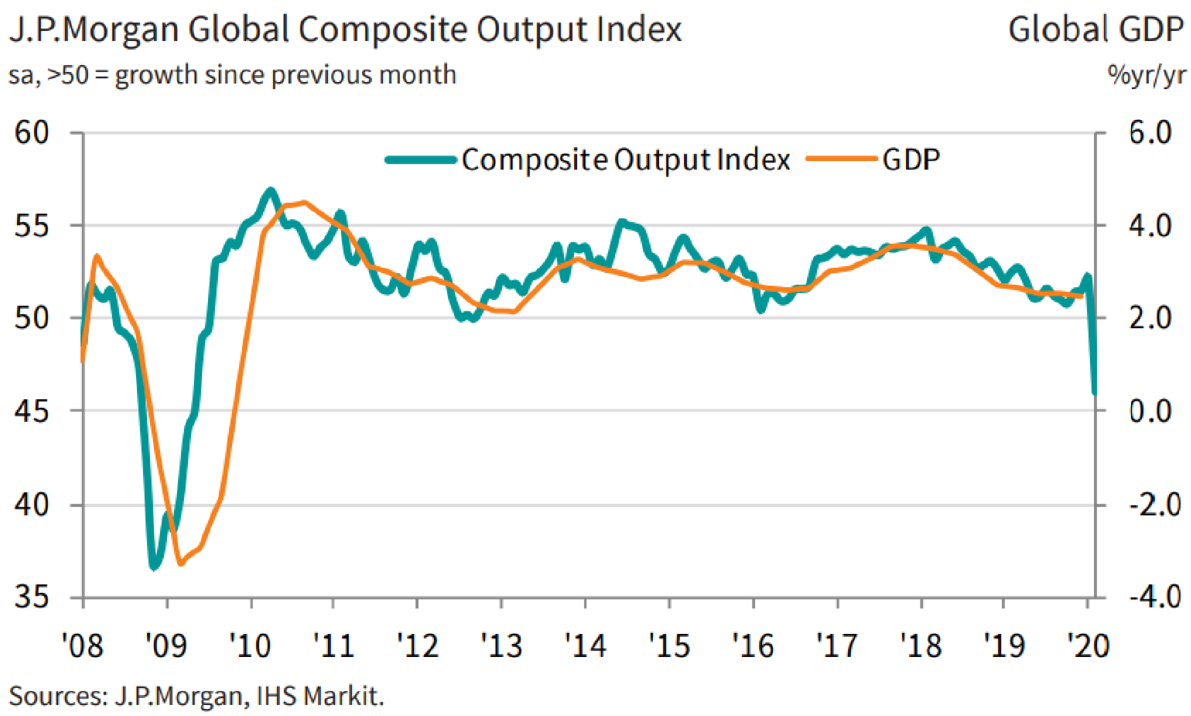

Very Large


Large


Midsized

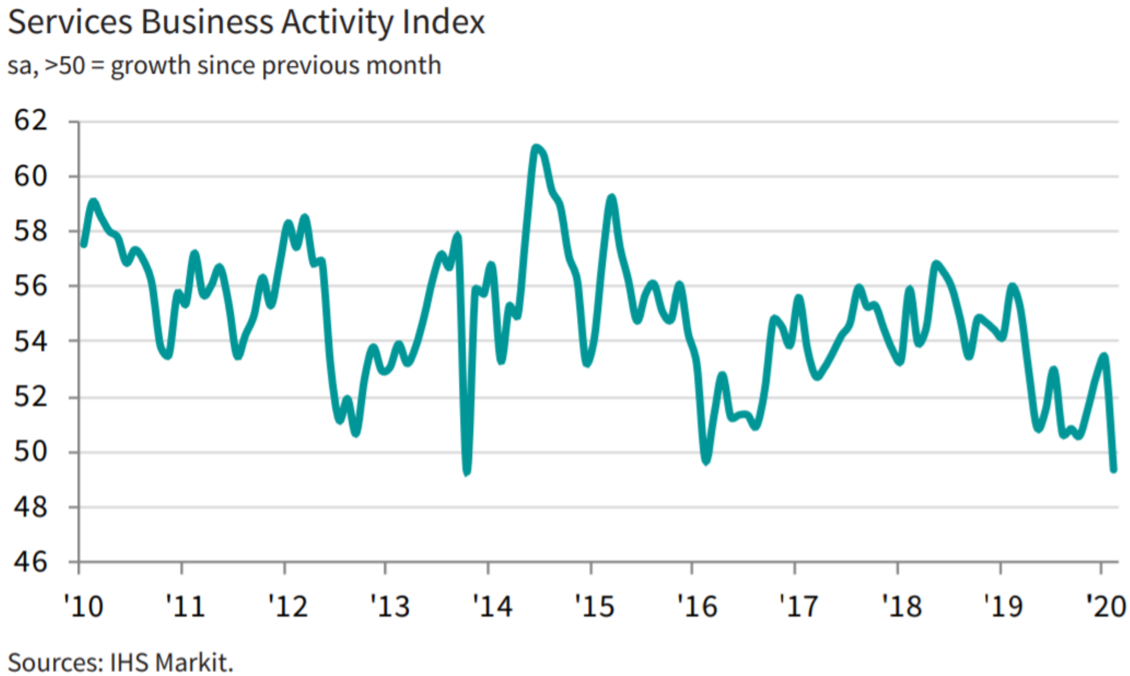
IHS Markit

Wednesday, J.P.Morgan Global Composite PMI: "Disruption to demand, supply chains and international trade flows resulting from the COVID-19 outbreak led to the steepest drops in global economic activity and new business since mid-2009 in February. The downturn was especially marked in China, where output and new business contracted at survey-record rates at manufacturers and service providers alike. The J.P.Morgan Global Composite Output Index . . . fell to 46.1 in February, down sharply from 52.2 in January and its lowest level since May 2009. The more than six-point drop in the headline index was the second sharpest in the survey history, the current record being set in October 2001 (the month directly following the 9/11 attacks)."



Wednesday, US Sector PMI Indices: "February data indicated that business activity decreased in three of the seven broad categories monitored by the US Sector PMI, with consumer services recording the fastest rate of decline. This category experienced its sharpest drop in business activity since the index began in October 2009. Basic materials also recorded a marked reduction in output volumes in February, with the pace of contraction the sharpest since May 2016." Technology firms also registered a "marginal" decline. "At the other end of the scale, business activity increased again in the financials category. Despite recording a slowdown in growth since January, financials remained the best-performing sector monitored by the survey."

Wednesday, US Services PMI: "February data signaled the first contraction of U.S. service sector business activity for four years. The decrease in output stemmed from only a fractional rise in client demand and a further contraction in new business from abroad as customers held back from placing orders amid global economic uncertainty and the coronavirus outbreak. As a result, business confidence remained historically subdued and employment growth slipped to the weakest since last November. . . . The seasonally adjusted final IHS Markit US Services Business Activity Index registered 49.4 in February, unchanged from the 'flash' figure, but notably down from 53.4 seen at the start of the year. The contraction in output was only marginal overall, but was nonetheless the fastest in over six years. Firms attributed the decline to less robust domestic demand conditions and a further fall in export sales."



Investor's Business Daily

Tuesday, Economic Optimism Index: "The U.S. economic outlook just suffered its biggest one-month drop since October 2013 amid the coronavirus emergency. . . . Still, the damage to consumer confidence has been limited. The IBD/TIPP Economic Optimism Index remained in moderately optimistic territory. Americans remained strongly positive about their own financial outlook, despite the Dow Jones sell-off that took hold last week. . . . The six-month economic outlook index fell to a modestly pessimistic 47.8 from a strongly optimistic 57.0. . . . The overall Economic Optimism Index fell to 53.9 — just a four-month low. Yet that was still a big comedown from the 16-year high 59.8 at the end of January."

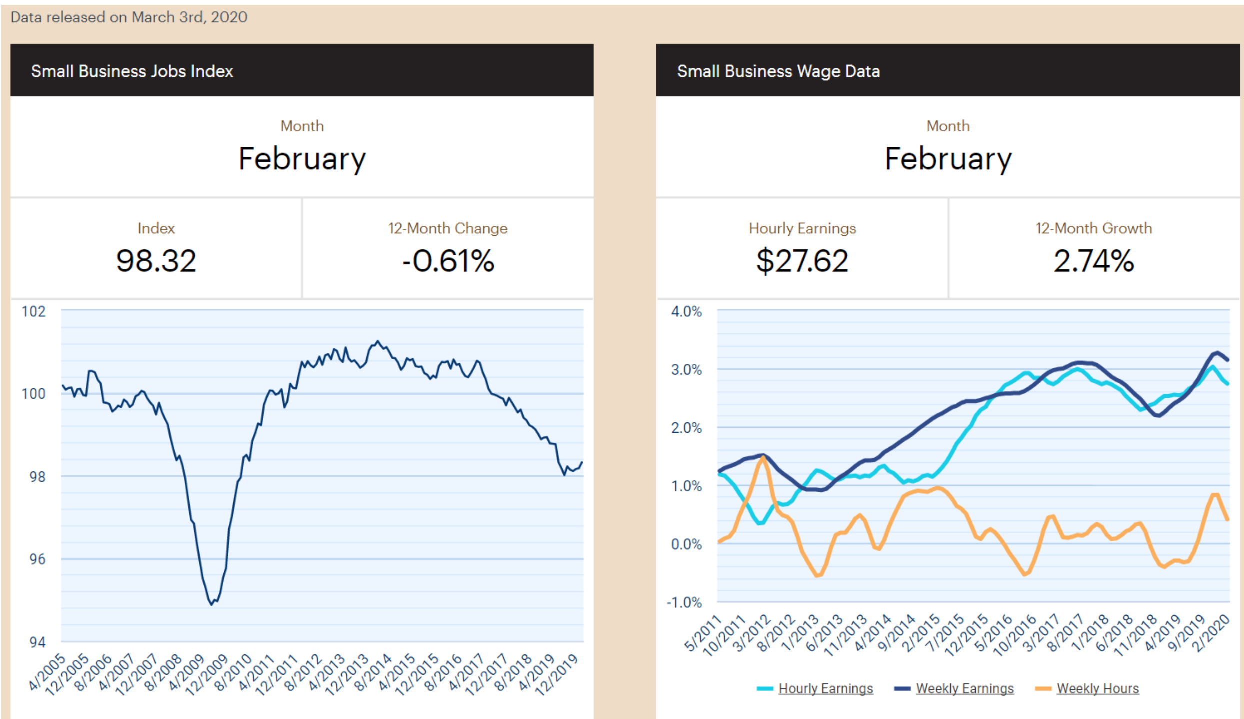
Employment and Businesses:

Institute for Supply Management

Monday, Manufacturing PMI: "Economic activity in the manufacturing sector grew in February, and the overall economy grew for the 130th consecutive month," according to the nation's supply executives. Timothy Fiore, Chair of the ISM Manufacturing Business Survey Committee, said "The February PMI registered 50.1 percent, down 0.8 percentage point from the January reading of 50.9 percent. The New Orders Index registered 49.8 percent, a decrease of 2.2 percentage points from the January reading of 52 percent. The Production Index registered 50.3 percent, down 4 percentage points compared to the January reading of 54.3 percent. . . . Comments from the panel were generally positive, with sentiment cautious compared to January. The PMI remained in expansion territory, but at a weak level."

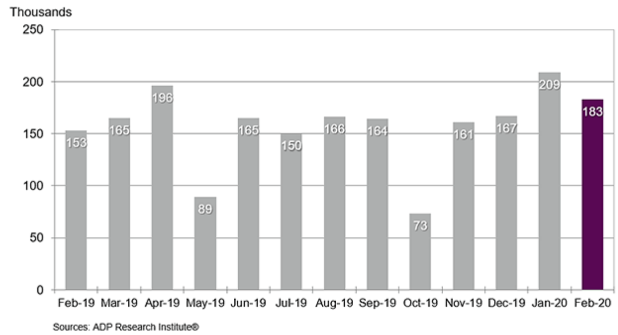
Paychex | IHS Markit

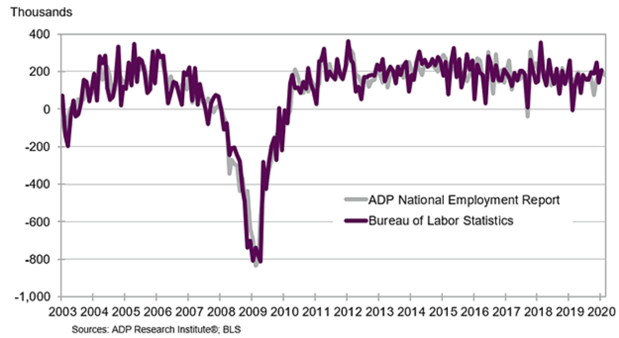
Tuesday, Small Business Employment Watch: Data through February 19 "shows an upturn in the pace of small business job growth for the third straight month, a trend last seen in early 2017. Though down 0.61 percent from last year, employment growth increased 0.15 percent from the previous month, and 0.22 percent in the past quarter, to 98.32. Hourly earnings growth dipped to 2.74 percent in February. Weekly hours worked also fell for the second consecutive month but remain up 0.41 percent from a year ago. . . . 'The past three months mark the longest string of job growth increases in nearly three years, indicating a positive start for small business hiring in 2020,' said Martin Mucci, Paychex president and CEO. 'However, these results have yet to reflect any impact from cases of the COVID-19 (coronavirus), which are expected to increase in the coming months.'"



ADP

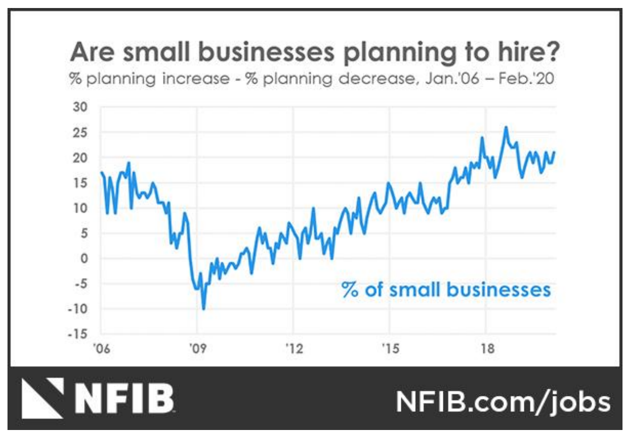
Wednesday, National Employment Report: "Private sector employment increased by 183,000 jobs from January to February. . . . 'The labor market remains firm, as private-sector payrolls continued to expand in February,' said Ahu Yildirmaz, vice president and co-head of the ADP Research Institute. 'Job creation remained heavily concentrated in large companies, which continue to be the strongest performer.' Mark Zandi, chief economist of Moody's Analytics, said, 'COVID-19 will need to break through the job market firewall if it is to do significant damage to the economy. The firewall has some cracks, but judging by the February employment gain it should be strong enough to weather most scenarios.'"





National Federation of Independent Business

Thursday, Small Business Jobs Report: "Small business owners are supporting a strong small business labor market with solid hiring, elevated levels of open positions, and higher employee compensation in February. . . . Finding qualified workers remains the top problem for owners, with 25% reporting this as their No. 1 problem. . . . 'The labor shortage remains one of the biggest obstacles to a more robust small business economy,' said NFIB Chief Economist Bill Dunkelberg. 'The lack of workers has slowed certain sectors like construction, manufacturing, and transportation. But overall, the economy is strong and growing at a good pace.'"



Mortgages and Housing Markets:

Mortgage Bankers Association

Tuesday, Commercial/Multifamily Delinquency Report: "Commercial and multifamily mortgages ended the fourth quarter of 2019 much the way they started the year—at or near record low delinquency rates," said Jamie Woodwell, MBA's Vice President of Commercial Real Estate Research. "The key drivers—solid property fundamentals, strong property values and low interest rates—continue to support the market. It is too early to tell if and how concerns tied to the coronavirus and the related global slowdown will affect commercial real estate loan performance, but the corresponding drop in financing costs are providing additional near-term support."

Wednesday, Weekly Mortgage Applications: "The Market Composite Index, a measure of mortgage loan application volume, increased 15.1 percent on a seasonally adjusted basis from one week earlier." Mike Fratantoni, MBA's Senior Vice President and Chief Economist, said "The 30-year fixed rate mortgage dropped to its lowest level in more than seven years last week, amidst increasing concerns regarding the economic impact from the spread of the coronavirus, as well as the tremendous financial market volatility. Refinance demand jumped as a result, with conventional refinance applications increasing more than 30 percent. . . . Given the further drop in Treasury rates this week, we expect refinance activity will increase even more until fears subside and rates stabilize."

Freddie Mac

Thursday, Primary Mortgage Market Survey: "The average 30-year fixed-rate mortgage hit a record 3.29 percent this week, the lowest level in its nearly 50-year history. Meanwhile, mortgage applications increased 10 percent last week from one year ago and show no signs of slowing down. Given these strong indicators in rates and sales, as well as recent increases in new construction, it's clear the housing market continues to be a positive force for the broader economy."