Economic Update, March 13, 2020
Submitted by Dave Keiser

Summary: The World Health Organization officially declared the COVID-19 coronavirus outbreak a pandemic on Wednesday, and U.S. stock markets suffered their worst day since the "Black Monday" crash of 1987, with Yahoo Finance reporting the Dow Jones index plunged 2,352 points (9.99%). Tennessee Governor Bill Lee declared a state of emergency, freeing up state resources to address the outbreak. As of Thursday, Nashville alone had lost potentially $35 million in direct spending from the cancelation of 135 group meetings and conference cancelations, including the SEC men's basketball tournament according to the Nashville Convention and Visitors Corporation. So, it's been quite a week. Most of the indicators are for February and were quite positive, but more recent ones like consumer sentiment and CEO turnover are down; job cuts in response to the coronavirus are up with over 600 jobs cut, half of which were in the entertainment/leisure sector.

The future is uncertain. According to the Conference Board, "If the economy resumes its previous course by April or May, the impact over the next few months will primarily be reflected in a drop in hours worked and perhaps in reduced hiring among the most impacted industries. However, if economic activity remains disrupted through early summer, then companies in travel, entertainment, lodging, food and hospitality are likely to reduce their workforce, including layoffs, especially of less skilled workers."

Federal Government Indicators and Reports:

Bureau of Labor Statistics

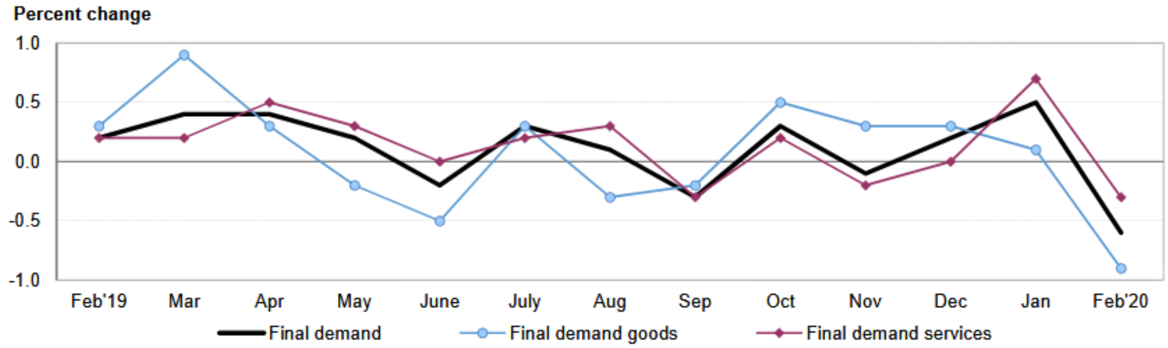
Wednesday, Real Earnings: "Real average hourly earnings for all employees increased 0.3 percent from January to February. . . . This result stems from an increase of 0.3 percent in average hourly earnings combined with an increase of 0.1 percent in the Consumer Price Index for All Urban Consumers (CPI-U). Real average weekly earnings increased 0.5 percent over the month due to the change in real average hourly earnings combined with a 0.3-percent increase in the average workweek."

Wednesday, Consumer Price Index: "The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1 percent in February on a seasonally adjusted basis, the same increase as in January. . . . Over the last 12 months, the all items index increased 2.3 percent before seasonal adjustment.

Increases in the indexes for shelter and for food were the main causes of the increase in the seasonally adjusted all items index, more than offsetting a decline in the energy index. The food index increased 0.4 percent over the month, with the food at home index rising 0.5 percent, its largest monthly increase since May 2014. The index for energy fell 2.0 percent in February, with all of its major component indexes declining."

Thursday, Producer Price Index: "The Producer Price Index for final demand fell 0.6 percent in February, seasonally adjusted. . . . Final demand prices advanced 0.5 percent in January and 0.2 percent in December. On an unadjusted basis, the final demand index increased 1.3 percent for the 12 months ended in February. In February, 60 percent of the decline in the final demand index can be traced to a 0.9-percent decrease in prices for final demand goods. The index for final demand services moved down 0.3 percent."

Chart 1. One-month percent changes in selected PPI final demand price indexes, seasonally adjusted



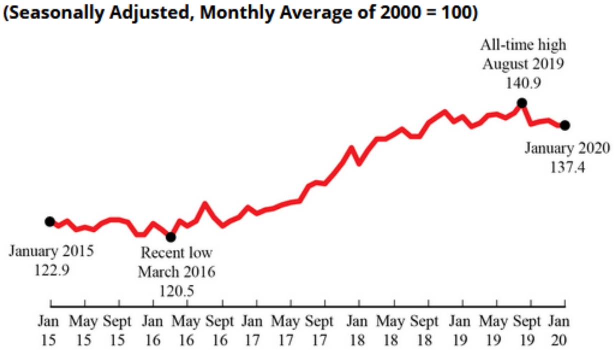
Friday, [U.S. Import and Export Price Indexes](): "U.S. import prices declined 0.5 percent in February . . . after ticking up 0.1 percent in January. In February, falling import fuel prices more than offset higher prices for nonfuel imports. Prices for U.S. exports decreased 1.1 percent in February, after advancing 0.6 percent the previous month."

Bureau of Transportation Statistics

Wednesday, [Freight Transportation Services Index](): The index, "which is based on the amount of freight carried by the for-hire transportation industry, was unchanged in January from December. . . . From January 2019 to January 2020, the index fell 1.0% compared to a rise of 5.5% from January 2018 to January 2019 and a rise of 6.0% from January 2017 to January 2018. The level of for-hire freight shipments in January measured by the Freight TSI (137.4) was 2.5% below the all-time high level of 140.9 in August 2019."

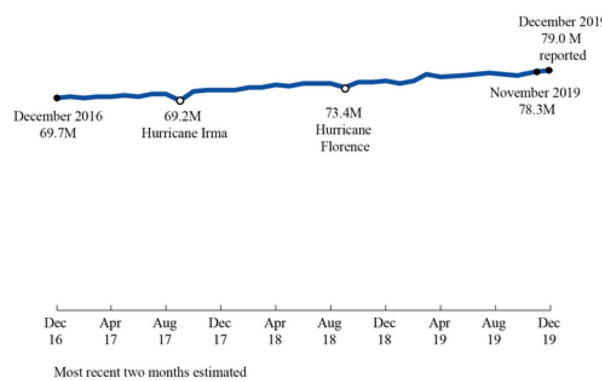
Freight Transportation Services Index, January 2015 - January 2020

(Seasonally Adjusted, Monthly Average of 2000 = 100)



Source:
Bureau of Transportation Statistics

Figure 1. Monthly Passengers on U.S. Scheduled Airlines (Domestic + International), Seasonally Adjusted Dec 2016 - Dec 2019



Thursday, [U.S. Airline Traffic](): "U.S. airlines carried 79.0 million systemwide (domestic and international) scheduled service passengers in December 2019, reaching a new seasonally-adjusted all-time high, up 0.9% from November. . . . U.S. airlines carried 69.3 million domestic passengers and 9.70 million international passengers on flights in December. The Bureau of Transportation Statistics (BTS) is withholding the scheduled release of estimated U.S. airlines' traffic data for January and February because the estimates are statistical forecasts based on previous trends. The estimates do not account for the impact of the coronavirus."

Census Bureau

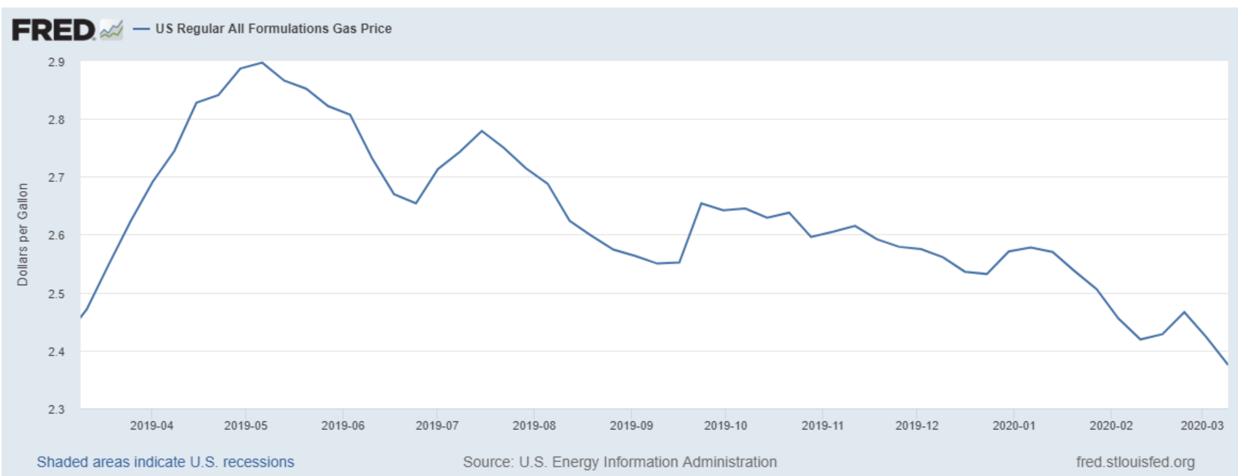
Thursday, Quarterly Selected Services: "U.S. selected services total revenue for the fourth quarter of 2019, adjusted for seasonal variation but not for price changes, was $4,127.1 billion, an increase of 1.0 percent from the third quarter of 2019 and up 4.6 percent from the fourth quarter of 2018. The third quarter of 2019 to fourth quarter of 2019 percentage change was not revised from the advance estimate of 1.0 percent."

Department of Labor

Thursday, Initial Claims: "In the week ending March 7, the advance figure for seasonally adjusted initial claims was 211,000, a decrease of 4,000 from the previous week's revised level. The previous week's level was revised down by 1,000 from 216,000 to 215,000. The 4-week moving average was 214,000, an increase of 1,250 from the previous week's revised average. The previous week's average was revised down by 250 from 213,000 to 212,750."

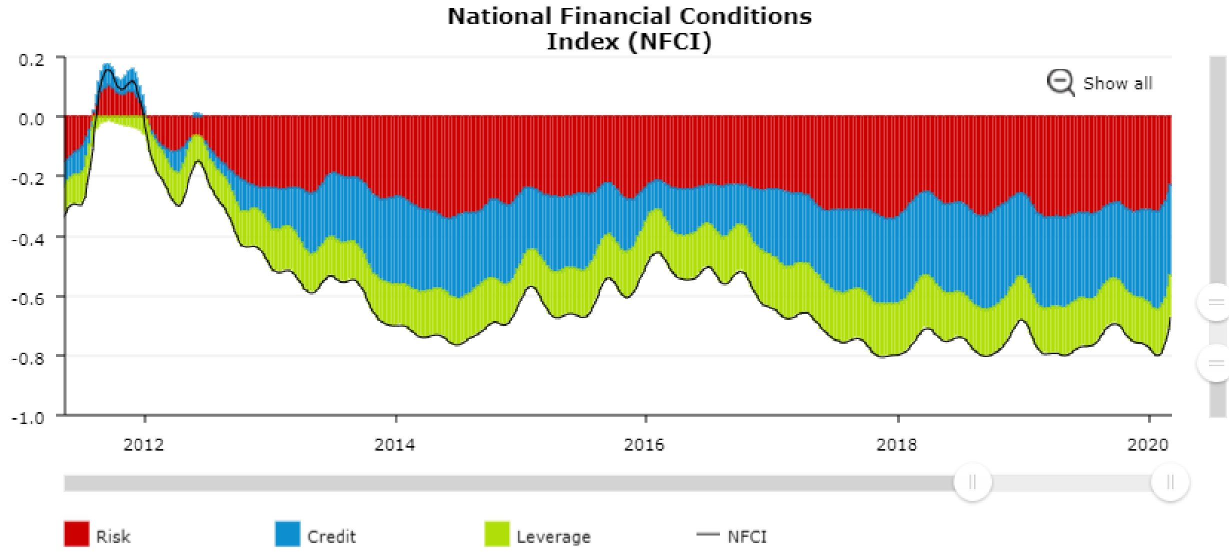
Energy Information Administration

Monday, Gasoline and Diesel Fuel Update: The price of gas went down almost five cents (2.0%) since last week and is down almost ten cents (3.9%) since this point last March. It will be interesting to see how the oil war plays out between Saudi Arabia and Russia.



Federal Reserve Bank of Chicago

Wednesday, National Financial Conditions Index: "The NFCI was –0.67 in the week ending March 6, up from a revised –0.71 (initially reported as –0.76) in the previous week and reaching its highest level since late April 2017. Risk indicators contributed –0.23, credit indicators contributed –0.30, and leverage indicators contributed –0.13 to the index in the latest week. Sixty-three indicators tightened, while 42 indicators loosened from the previous week."



Federal Reserve Board

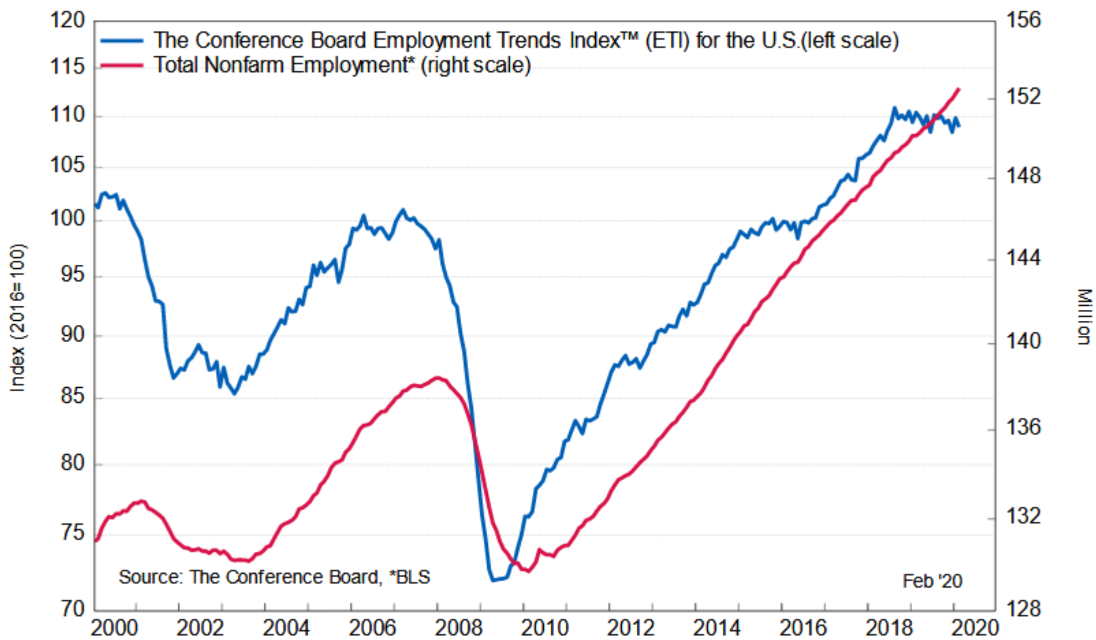
Thursday, Tennessee Tornado Statement: "The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Tennessee Department of Financial Institutions, collectively the agencies, recognize the serious impact of tornadoes in Tennessee on the customers and operations of many financial institutions and will provide appropriate regulatory assistance to affected institutions subject to their supervision. The agencies encourage institutions operating in the affected areas to meet the financial services needs of their communities."

Economic Indicators and Confidence:

The Conference Board

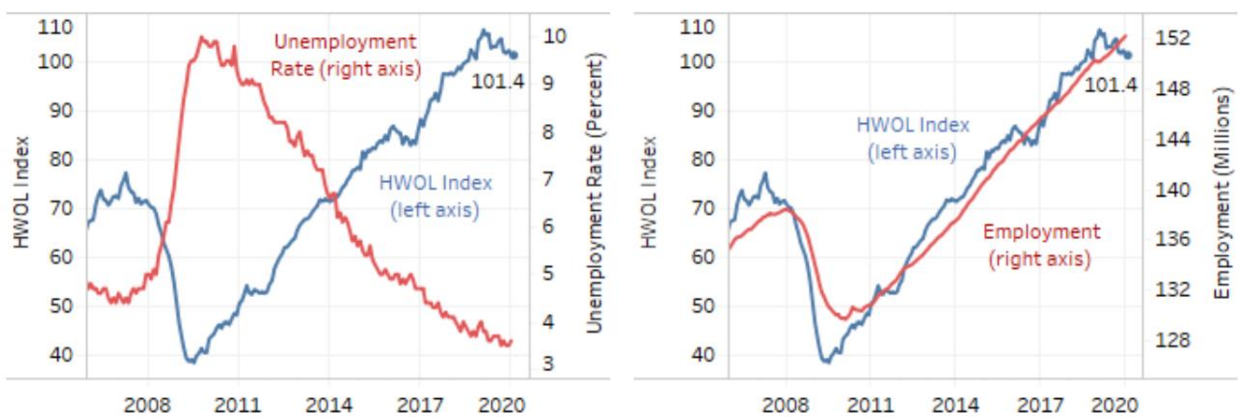
Monday, Employment Trends Index: The index "declined in February, following an increase in January. The index now stands at 108.96, down from 109.85 (a downward revision) in January. The index is down 1.3 percent from a year ago." According to Gad Levanon, Head of The Conference Board Labor Markets Institute, "The drop in February was the result of a large negative contribution from the 'Jobs Hard to Get' component. The total contribution of the other seven components was slightly positive. We therefore do not interpret the drop in the ETI in February as a sign of a weakening labor market prior to the COVID-19 outbreak. The outbreak had little impact, if any, on the index in February."

"Despite strong job growth over the last three months, the prospects for the coming months are uncertain. 'The impact of the COVID-19 outbreak on the labor market will depend on the amount of time it disrupts economic activity in the US,' adds Levanon. 'If the economy resumes its previous course by April or May, the impact over the next few months will primarily be reflected in a drop in hours worked and perhaps in reduced hiring among the most impacted industries. However, if economic activity remains disrupted through early summer, then companies in travel, entertainment, lodging, food and hospitality are likely to reduce their workforce, including layoffs, especially of less skilled workers.'"



Wednesday, [Burning Glass Help Wanted Online (HWOL) Index](): The HWOL Index "was unchanged in February and remains at 101.4 (July 2018=100). The Index declined 1.0 percent (from December to January) and is down 4.9 percent from a year ago. Despite being on a slightly downward trend over the past year, the HWOL Index is still hovering at high levels. However, the COVID-19 outbreak will likely cause the number of online job ads to decline in the coming months."

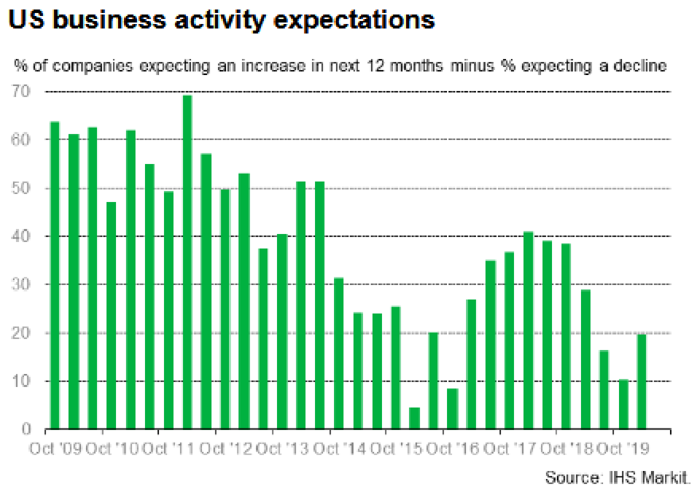
Help Wanted OnLine™ (HWOL) Index: United States, seasonally adjusted, February 2020
[July 2018=100]



Sources: The Conference Board, Burning Glass Technologies, Bureau of Labor Statistics

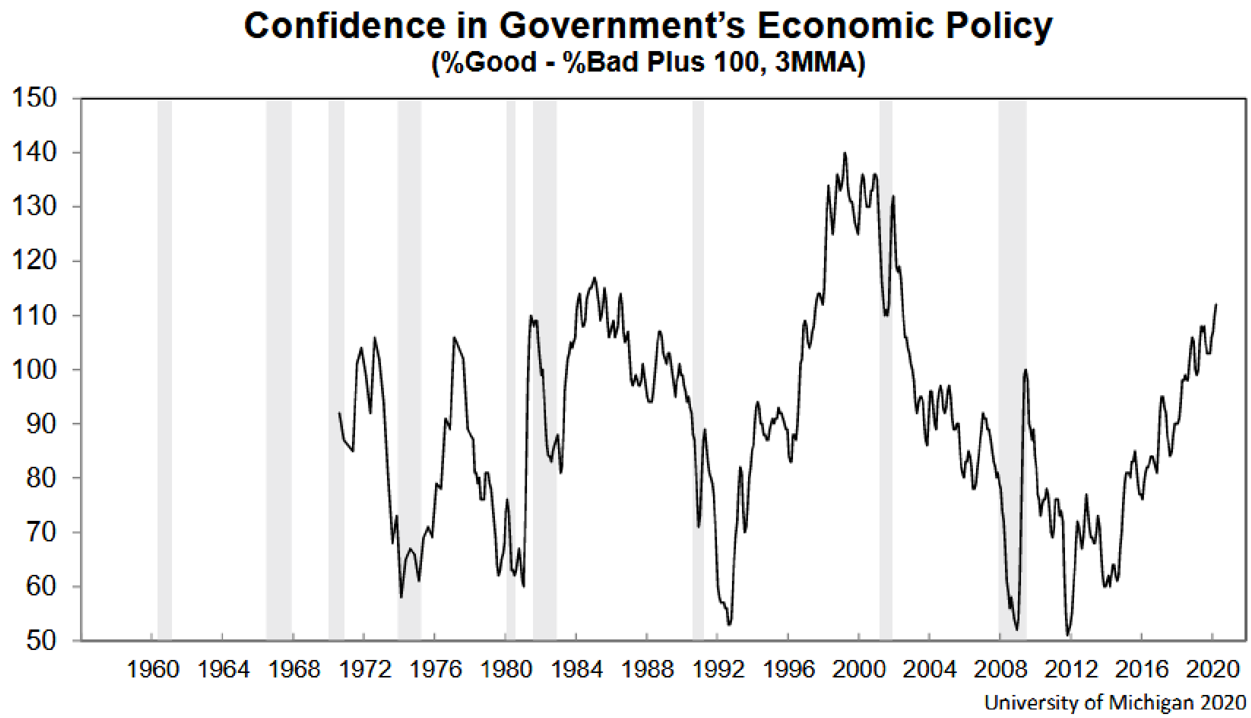
IHS Markit

Tuesday, [US Business Outlook](): "The latest IHS Markit Business Outlook survey signals that U.S. private sector firms are more optimistic regarding the outlook for output over the coming 12 months in February compared to October. The net balance of firms expecting a rise in business activity (+20%, up from +10% in October) is the highest for a year, but well below the series average (+39%). That said, optimism is stronger than the global average (+18%) and in line with the developed market trend. . . . [Moreover], there are concerns towards the outlook stemming from the outbreak of the coronavirus disease 2019 (COVID-19) and its impact on client demand and supply chains. Meanwhile, firms have also stated that confidence is being weighed on by greater competition, greater uncertainty surrounding the election later in the year, potential government spending inactivity in the buildup and policy change following the result."



University of Michigan

Friday, [Consumer Sentiment](): "Consumer sentiment fell in early March due to the spreading coronavirus and the steep declines in stock prices. Importantly, the initial response to the pandemic has not generated the type of economic panic among consumers that was present in the runup to the Great Recession. Nonetheless, the data suggest that additional declines in confidence are still likely to occur as the spread of the virus continues to accelerate. Perhaps the most important factor limiting consumers' initial reactions is that the pandemic is widely regarded as a temporary event. The component of the Sentiment Index that posted the greatest loss involved judgements about prospects for the economy during the year ahead; this component fell by 29 points, accounting for 83% of the total point decline in early March. In sharp contrast, consumers more favorably judged the economic outlook over the next five years than last month. While the most effective containment efforts are widespread closures and self-isolation, those same actions have the largest negative impact on the economy and significantly increase the probability that the pandemic will be followed by a recession that lasts longer than the virus."



Employment and Businesses:

Challenger, Gray, & Christmas

Wednesday, Chief Executive Officer Turnover: "Chief Executive Officer turnover fell 42%, from the record 219 who left their posts in January to 128 in February. Last month's total is 3% higher than the same month last year, when 124 CEOs left their posts. So far this year, 347 CEOs have left their posts, 23.5% higher than the 281 who left their posts through February last year. It is the highest January-February total on record, followed by last year's total for the first two months of the year. The third-highest total occurred in 2008, when 248 CEOs left their posts."

"The slowdown could be a reaction to the outbreak of COVID-19, as companies hunker down and determine their next steps. Making a leadership change during a time of such uncertainty will not inspire confidence in workers nor shareholders," said Andrew Challenger, Vice President of Challenger, Gray & Christmas, Inc."

Thursday, Job Cuts Due to COVID-19: "Through the morning of March 12th, U.S.-companies have announced 633 job cuts specifically tied to the outbreak of novel coronavirus. . . . 'We are indeed seeing job cuts from companies that are grappling with Supply Shock. The Port of Los Angeles cut 145 drivers after shipments from China stalled, and a toy maker cut 18 jobs due to a work stoppage in China,' said Andrew Challenger, Senior VP of Challenger, Gray & Christmas, Inc. 'Meanwhile, cancelled events in the US contributed to 300 job cuts. We also tracked cuts announced by an energy company that blamed not only the outbreak, but also the tightening oil sector. Circuit breakers on the major exchanges have been triggered twice, and the Dow is currently down 1,700 points. These will not be the last job cuts we see from this outbreak,' he added."

National Federation of Independent Business

Tuesday, Optimism Index: "Small business owners expressed slightly higher levels of optimism in February with the NFIB Optimism Index moving up 0.2 points to 104.5, a reading among the top 10 percent in the 46-year history of the survey. Those expecting better business conditions increased and job creation and openings improved as well. Real sales expectations declined along with capital expenditure and inventory plans."

"The small business economic expansion continued its historic run in February, as owners remained focused on growing their businesses in this supportive tax and regulatory environment," said NFIB Chief Economist William Dunkelberg. "February was another historically strong month for the small business economy, but it's worth noting that nearly all of the survey's responses were collected prior to the recent escalation of the coronavirus outbreak and the Federal Reserve rate cut. Business is good, but the coronavirus outbreak remains the big unknown."

Small Business Optimism

Small Business Optimism Starts New Year as Solid as Ever

Index Component	Net %	Change From Jan.
Plans to Increase Employment	21%	▲ 2
Plans to Make Capital Outlays	26%	▼ -2
Plans to Increase Inventories	2%	▼ -2
Expect Economy to Improve	22%	▲ 8
Expect Real Sales Higher	19%	▼ -4
Current Inventory	-4%	▼ -1
Current Job Openings	38%	▲ 1
Expected Credit Conditions	-1%	▲ 3
Now a Good Time to Expand	26%	▼ -2
Earnings Trends	-4%	▼ -1

NFIB NFIB.com/sboi

Friday, [Coronavirus Impact on Small Businesses](): "The vast majority of small businesses (74%) are not currently impacted by the coronavirus outbreak. However, the coronavirus outbreak is negatively impacting about 23% of small business owners. Three percent are positively impacted. Of those small business owners not currently impacted, 43% anticipate their business being impacted if the coronavirus outbreak spreads to, or spreads more broadly in, their immediate area over the next three months. Twenty percent do not expect to be impacted if the outbreak spreads, and another 37% are not sure."

Mortgages and Housing Markets:

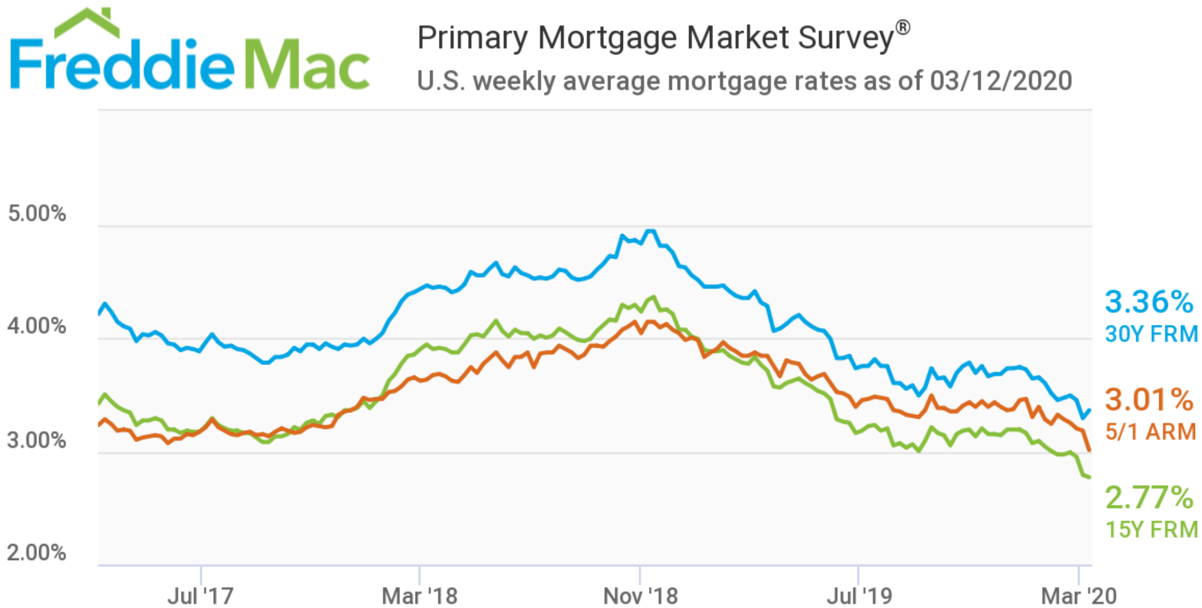
Fannie Mae

Monday, Home Purchase Sentiment Index: The index "dipped slightly in February, decreasing 0.5 points to 92.5 but remaining near its survey high of 93.8. Three of the six HPSI components decreased month over month, including the percentage of Americans who believe that now is a good time to buy a home. Year over year, the HPSI is up 8.2 points, reflecting in part consumers' more favorable mortgage rate expectations, despite that index component moderating this month."

Thursday, Mortgage Lender Sentiment Survey: "Mortgage lenders' profit margin outlook for the next three months reached a new survey high based on data collected in the first half of February. . . . This quarter, 51% of lenders believe profit margins will increase compared to the prior quarter, while 44% believe profits will remain the same and 4% believe profits will decrease. The increased optimism supplements prior quarter MLSS results revealing already-strong lender expectations of profitability. Strong consumer demand for both purchase and refinance mortgages continued to drive lenders' expectations of increased profitability, with operational efficiency cited by lenders as the second most common reason for the optimistic outlook."

Freddie Mac

Thursday, Mortgage Rates: "As refinance applications continue to surge and lenders work to manage capacity, the 30-year fixed-rate mortgage ticked up from last week's all-time low. Mortgage rates remain at extraordinary levels and many homeowners are smartly weighing their options to refinance, potentially saving themselves money."



Mortgage Bankers Association

Tuesday, Mortgage Credit Availability Index: "The MCAI fell by 0.3 percent to 181.3 in February. A decline in the MCAI indicates that lending standards are tightening, while increases in the index are indicative of loosening credit. The index was benchmarked to 100 in March 2012. The Conventional MCAI decreased 1.2 percent, while the Government MCAI increased by 0.7 percent. Of the component indices of the Conventional MCAI, the Jumbo MCAI decreased by 1.0 percent, and the Conforming MCAI fell by 1.6 percent. 'Mortgage credit supply decreased in February, as both conforming and jumbo segments of the market saw a decline,' said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. 'There were also reductions in ARM program offerings, as well as in low credit score programs offered by investors.'"

Wednesday, Mortgage Applications: "Mortgage applications increased 55.4 percent from one week earlier, according to data from . . . the week ending March 6, 2020. In response to the current interest rate environment, MBA now forecasts total mortgage originations to come in around $2.61 trillion this year--a 20.3 percent gain from 2019's volume ($2.17 trillion). Refinance originations are expected to double earlier MBA projections, jumping 36.7 percent to around $1.23 trillion. Purchase originations are now forecasted to rise 8.3 percent to $1.38 trillion."

National Association of Home Builders

Wednesday, Home Building Geography Index: "Over the course of 2019, exurbs outside medium-sized cities, i.e., outlying counties of small metro areas, performed best at 2.9% growth rate. Small towns (micro counties) performed next best at 2.8%, although this region represents only 6% of single-family starts. The gains in these regions owe to cheaper land and lower regulations, thus making development easier."

National Association of Realtors

Thursday, Happiness Index: "Iowans appear to be the happiest home owners, a 'New Homebuyer Happiness Index' shows. The state ranks number one in the consumer survey that asked about neighbor friendliness and safety, job market, raising a family potential, and homeowner regret. It's not just Iowans who are happy, but overall, home buyers appear happy with where they are, according to the survey of 5,672 consumers who purchased a home in 2019. . . . The overall reading on the index was 81 on a 100-point scale, with 100 being the happiest ranking. Residents of Iowa were happiest with a score of 86.6, followed by those in Wisconsin, Nebraska, Alabama, and North Dakota." Tennesseans ranked 14th at 82.35.