Economic Update, March 27, 2020
Submitted by Dave Keiser

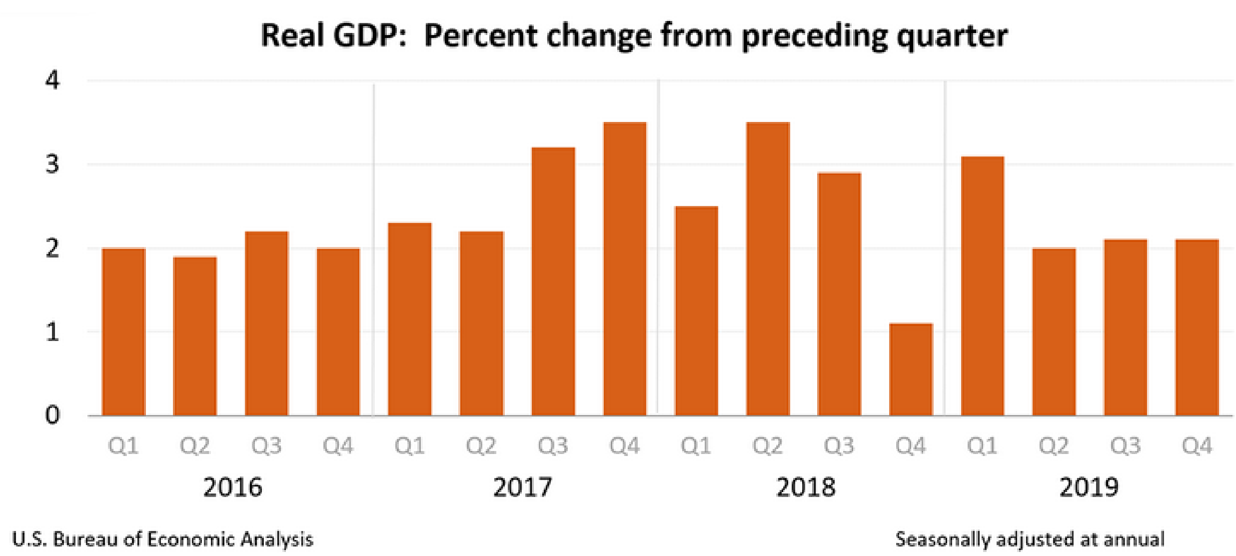
Summary: Indicators are starting to show the first signs of the COVID-19 pandemic's effect on the economy. Although most of the data for March won't be released until April, the numbers out so far look bad. Unemployment insurance claims saw a record increase of 3,001,000 (1,068 percent increase). The National Federation of Independent Business reports that 76 percent of small businesses surveyed have been negatively affected by the pandemic, a "dramatic escalation" from just 10 days ago. Financial conditions are tightening, according to the Federal Reserve Bank of Chicago; and the University of Michigan reports that consumer sentiment recorded its fourth largest single-month decline in nearly 50 years in March. As in weeks past, most of the indicators released by the federal government rely on data collected in February or earlier. As a result, they continue to look great, but they do not yet reflect the effects of the pandemic.

Federal Government Indicators and Reports:

Bureau of Economic Analysis

Tuesday, State Personal Income: "State personal income increased 4.4 percent in 2019, after increasing 5.6 percent in 2018. . . . In 2019, increases in earnings, property income (dividends, interest, and rent), and transfer receipts contributed to personal income growth in all states and the District of Columbia. The percent change in personal income across all states ranged from 6.1 percent in Colorado to 2.8 percent in West Virginia." Personal income increased 4.9 percent in Tennessee in 2019.

Thursday, Gross Domestic Product: "Real gross domestic product (GDP) increased at an annual rate of 2.1 percent in the fourth quarter of 2019. . . . In the third quarter, real GDP also increased 2.1 percent. . . . The increase in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures (PCE), exports, residential fixed investment, federal government spending, and state and local government spending that were partly offset by negative contributions from private inventory investment and nonresidential fixed investment. Imports, which are a subtraction in the calculation of GDP, decreased."



Friday, Personal Income and Outlays: "Personal income increased $106.8 billion (0.6 percent) in February. . . . Disposable personal income (DPI) increased $88.7 billion (0.5 percent) and personal consumption expenditures (PCE) increased $27.7 billion (0.2 percent). Real DPI increased 0.4 percent in February and Real PCE increased 0.1 percent."

Bureau of Labor Statistics

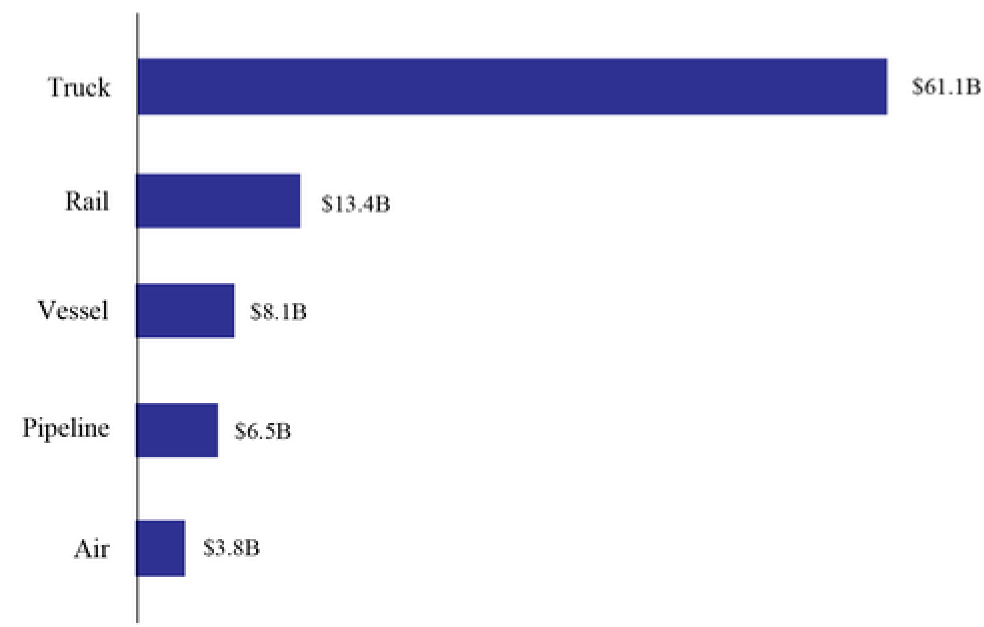
Friday, State Employment and Unemployment: "Unemployment rates were lower in February in 8 states, higher in 1 state, and stable in 41 states and the District of Columbia. . . . Eleven states had jobless rate decreases from a year earlier, 1 state had an increase, and 38 states and the District had little or no change. The national unemployment rate, 3.5 percent, was little changed over the month but was 0.3 percentage point lower than in February 2019." Unemployment in Tennessee was 3.4 percent in February 2020.

Bureau of Transportation Statistics

Wednesday, North American Transborder Freight: Total transborder freight moved by all modes of transportation between the U.S., Mexico, and Canada for January 2020 was $97.1 billion, up 1.5 percent from January 2019. Most of the freight was moved by trucks with $61.1 billion of freight, down 3.2 percent from January 2019. Railways moved $13.4 billion over the same period, up 3.9 percent.

Figure 1: North American Freight by Mode, January 2020

(Dollars in Billions)



Census Bureau

Monday, U.S. Manufacturing, Mining, Wholesale Trade, and Selected Service Industries: "U.S. manufacturing corporations' seasonally adjusted after-tax profits in the fourth quarter of 2019 totaled $152.9 billion, up $7.6 billion from the after-tax profits of $145.3 billion recorded in the third quarter of 2019, and up $5.5 billion from the after-tax profits of $147.4 billion recorded in the fourth quarter of 2018."

Monday, Retail Trade: "Seasonally adjusted after-tax profits of U.S. retail corporations with assets of $50 million and over totaled $30.8 billion, up $5.7 billion from the $25.1 billion recorded in the third quarter of 2019, and up $10.1 billion from the $20.7 billion recorded in the fourth quarter of 2018.

Seasonally adjusted sales for the quarter totaled $813.6 billion, up $13.2 billion from the $800.5 billion recorded in the third quarter of 2019, and up $31.1 billion from the $782.5 billion recorded in the fourth quarter of 2018."

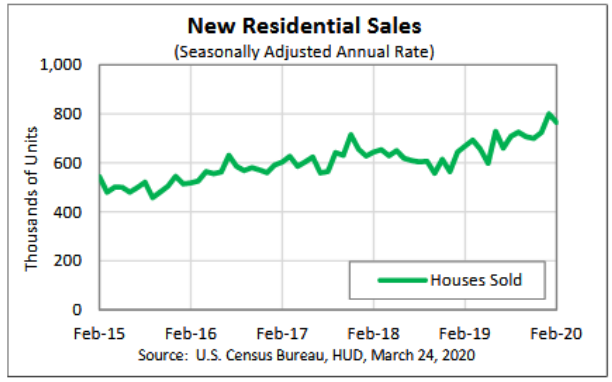
Tuesday, New Residential Sales: "Sales of new single-family houses in February 2020 were at a seasonally adjusted annual rate of 765,000. . . . This is 4.4 percent below the revised January rate of 800,000, but is 14.3 percent above the February 2019 estimate of 669,000. . . . The seasonally-adjusted estimate of new houses for sale at the end of February was 319,000. This represents a supply of 5.0 months at the current sales rate."

NEW RESIDENTIAL SALES FEBRUARY 2020

New Houses Sold[1]:	**765,000**
New Houses For Sale[2]:	**319,000**
Median Sales Price:	**$345,900**

Next Release: April 23, 2020

[1]Seasonally Adjusted Annual Rates
[2]Seasonally Adjusted
Source: U.S. Census Bureau, HUD, March 24, 2020



Wednesday, Durable Goods Manufacturers' Shipments, Inventories, and Orders: "New orders for manufactured durable goods in February increased $2.9 billion or 1.2 percent to $249.4billion. . . . This increase, up four of the last five months, followed a 0.1 percent January increase. . . . Shipments of manufactured durable goods in February, up following seven consecutive monthly decreases, increased $2.1 billion or 0.8 percent to $252.3 billion. . . . Inventories of manufactured durable goods in February, up seventeen of the last eighteen months, increased $0.1 billion or virtually unchanged to $434.9 billion."

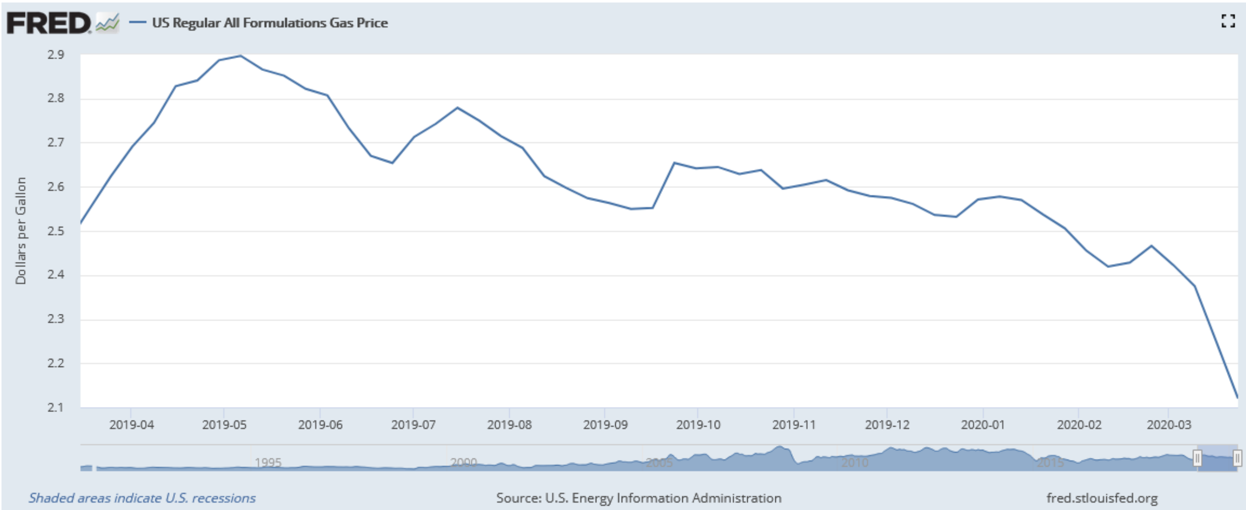
Thursday, Advance Economic Indicators: "The international trade deficit was $59.9 billion in February, down $6.0 billion from $65.9 billion in January. Exports of goods for February were $136.5 billion, $0.7 billion more than January exports. Imports of goods for February were $196.4 billion, $5.3 billion less than January imports. Whole sale inventories for February . . . were estimated at an end-of-month level of $657.3 billion, down 0.5 percent from January 2020, and were down 1.0 percent from February 2019. . . . Retail inventories for February . . . were estimated at an end-of-month level of $657.4 billion, down 0.3 percent from January 2020, and were down 0.6 percent from February 2019."

Department of Labor

Thursday, Initial Claims: "In the week ending March 21, the advance figure for seasonally adjusted initial claims was 3,283,000, an increase of 3,001,000 from the previous week's revised level. This marks the highest level of seasonally adjusted initial claims in the history of the seasonally adjusted series. The previous high was 695,000 in October of 1982. . . . The 4-week moving average was 998,250, an increase of 765,750 from the previous week's revised average." The Department of Labor says in a note that nearly every state providing comments cited the effects of the COVID-19 virus.

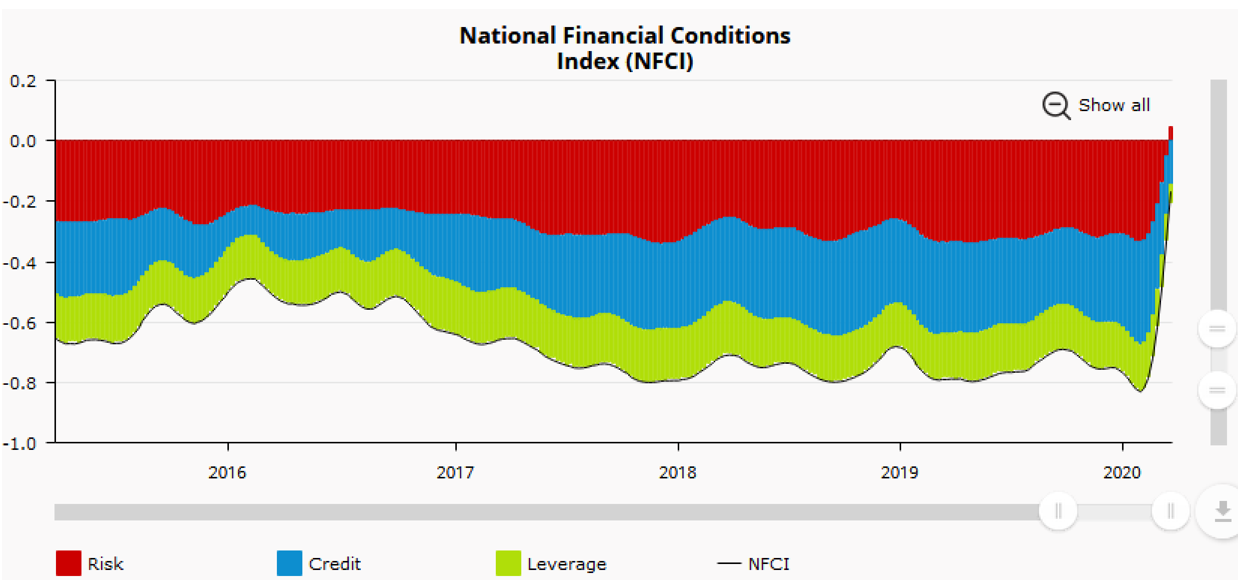
Energy Information Administration

Monday, Gasoline and Diesel Fuel Update: The price of gas continues its downward trend. The national average price per gallon decreasing almost 13 cents (5.7 percent) since last week and is down almost 50 cents (19.2 percent) since this point last March. It will be interesting to see the extent to which the pandemic affects the price of gas in next week's report as more state and local governments ask residents to stay home.



Federal Reserve Bank of Chicago

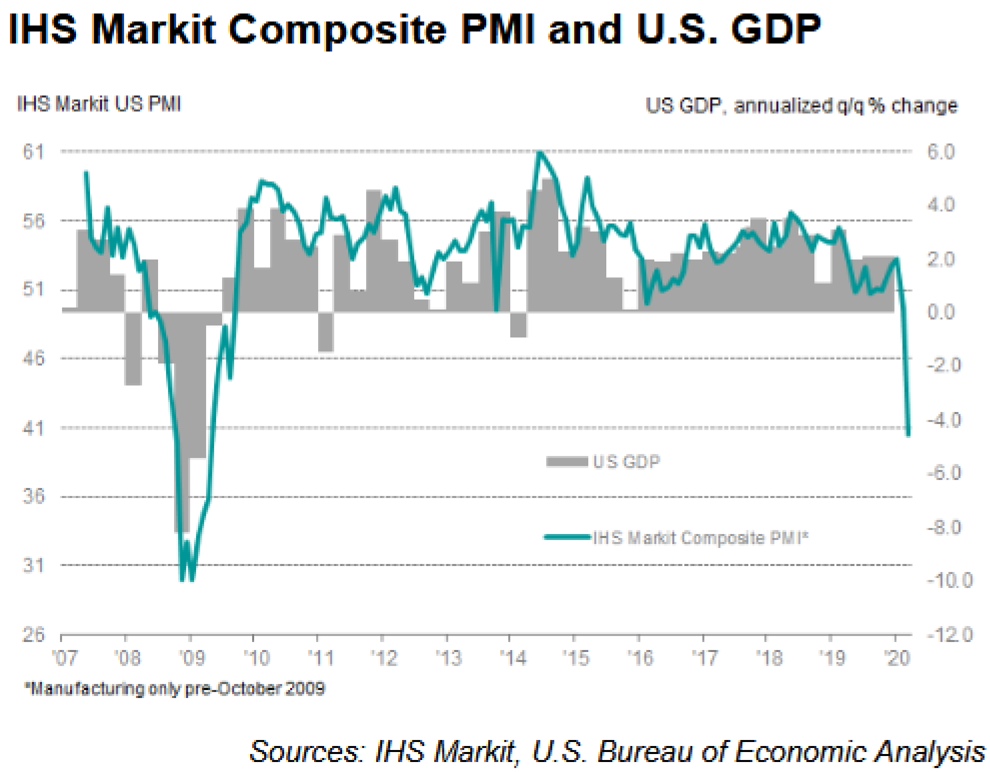
Wednesday, National Financial Conditions Index: The index "was –0.17 in the week ending March 20, up from a revised –0.33 (initially reported as –0.48) in the previous week and reaching its highest level since mid-June 2012. Risk indicators contributed 0.05, credit indicators contributed –0.14, and leverage indicators contributed –0.06 to the index in the latest week." Positive values of the index "have been historically associated with tighter-than-average financial conditions, while negative values have been historically associated with looser-than-average financial conditions."



Economic Indicators and Confidence:

IHS Markit

Tuesday, Purchasing Managers' Index: "U.S. private sector firms indicated a marked contraction in overall business activity in March following the escalation of the coronavirus disease 2019 (COVID-19) outbreak. The overall decline was the steepest recorded since comparable survey data were available in October 2009 and reflected widespread falls in activity across the manufacturing and service sectors."



State Street

Wednesday, Investor Confidence Index: The index "decreased to 74.5, down 4.0 points from February's revised reading of 78.5 due to concerns over the coronavirus. The North American ICI fell 2.9 points to 67.8 and the European ICI dropped from 110.6 to 95.6, a 15.0 point decline. In contrast, the Asian ICI rose 8.7 points to 94.5."

University of Michigan

Friday, Consumer Sentiment: "Consumer sentiment dropped 11.9 Index-points in March, the fourth largest one-month decline in nearly a half century. The steepest monthly decline was barely larger at -12.7 Index-points in response to the deepening recession in October 2008, and there were two declines of 12.2 points in response to the 1980 recession and Hurricane Katrina in September 2005. The 1980 and 2008 collapses in consumer confidence sparked long and deep recessions. The Katrina decline was reversed within three months, and some observers compared that "V" shaped economic episode to the expected impact of the coronavirus. What didn't show a "V" shape response was the recovery of New Orleans, a closer comparison to today's national economy. A more comparable prior decline occurred in August 1990, when the Sentiment Index fell by 11.8 points due to the invasion of Kuwait, and subsequently recorded an all-time record gain of 17.3 points in March 1991. Those two outsized changes in the Sentiment Index defined the start and end of the 1990-91 recession. Just as in the 1990-91 episode, the Sentiment Index can be expected to decline in the months ahead."

Employment and Businesses:

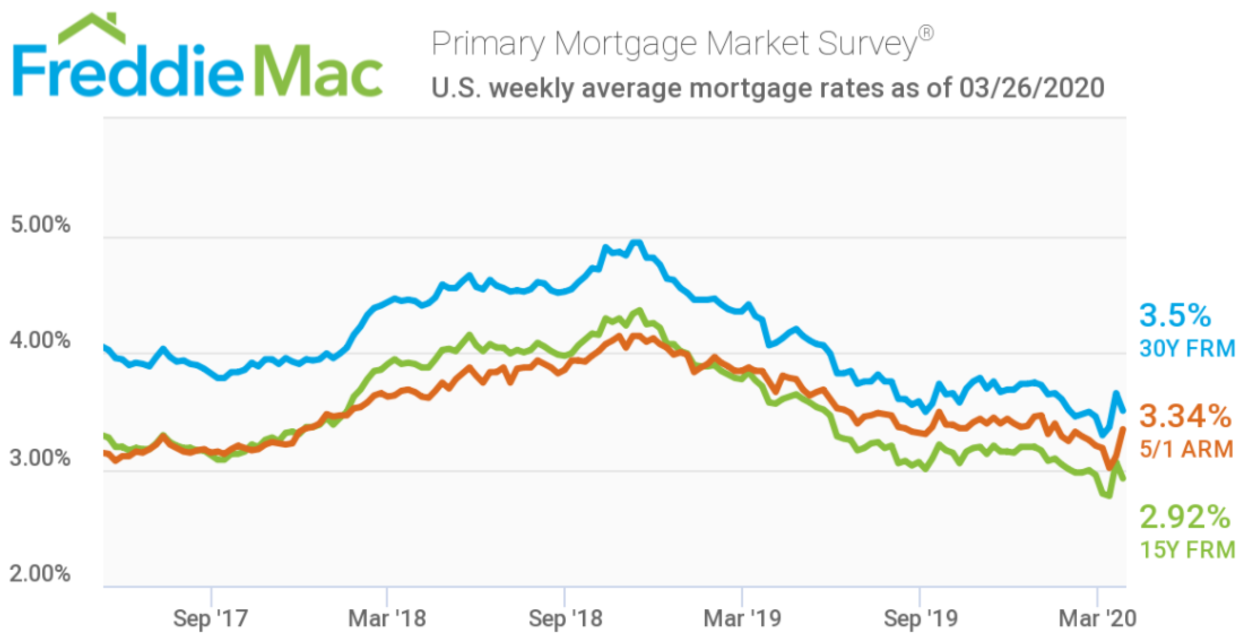
National Federation of Independent Business

Monday, Coronavirus Impact on Small Businesses: The "latest survey on the current impact of the Covid-19 outbreak on small business offers a stark contrast from the survey released 10 days ago. The magnitude of disruption now on the small business sector is profound. Currently, 76% of small businesses are negatively impacted by the outbreak of the coronavirus, a dramatic escalation from just under one-quarter of small businesses reporting the same earlier this month. About 5% are positively impacted. These firms are likely experiencing stronger sales due to a sharp rise in demand for certain products, goods, and services. This will presumably ease in the coming weeks as consumers feel more secure about their personal supply levels."

Mortgages and Housing Markets:

Freddie Mac

Thursday, Mortgage Rates: "The Federal Reserve's swift and significant efforts to stabilize the market were much needed and helped mortgage rates drop for the first time in three weeks. Similar to other segments of the economy, real estate demand is softening. However, the combination of the Fed's actions and pending economic stimulus will provide substantial support to the mortgage markets."



Mortgage Bankers Association

Wednesday, Mortgage Applications: "Mortgage applications decreased 29.4 percent from one week earlier **. . .** for the week ending March 20, 2020. 'The 30-year fixed mortgage rate reached its highest level since mid-January last week . . .' said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. 'With these higher rates, refinance activity fell 34 percent, and both the conventional and government indices dropped to their lowest level in a month. Looking ahead, this week's additional actions taken by the Federal Reserve to restore liquidity and stabilize the mortgage-backed securities market could put downward pressure on mortgage rates, allowing more homeowners the opportunity to refinance.'"

National Association of Home Builders

Tuesday, New Home Sales: "New home sales were solid in February before challenges associated with the coronavirus set in on the economy. . . . Moreover, the January and February sales figures, helped by warm weather during the winter, were the best recorded seasonally adjusted annualized rates since the Great Recession."