Economic Update, January 31, 2020
Submitted by Bob Moreo

Summary: As was expected, the Federal Reserve left its target interest rate alone this week, with Chairman Jerome Powell saying that "monetary policy is well positioned to serve the American people by supporting continued economic growth, a strong job market, and a return of inflation to our . . . 2 percent goal." Consumers seem to agree; The Conference Board and University of Michigan both reported their consumer confidence indexes were at their highest levels in months. Global investors, however, are increasingly cautious, and the bullish U.S. stock markets hit the brakes this week. On Wednesday, the S&P 500 recorded a single-day decrease of more than 1 percent for the first time since October, and markets dropped Friday amid concerns about China's economy as the coronavirus spreads, with major airlines suspending flights to China. The U.S. housing market appears strong, with low vacancy rates and a sizeable jump for new homes sold in 2019, although realtors remain concerned about low inventory and affordability. Mortgage rates remain very low.

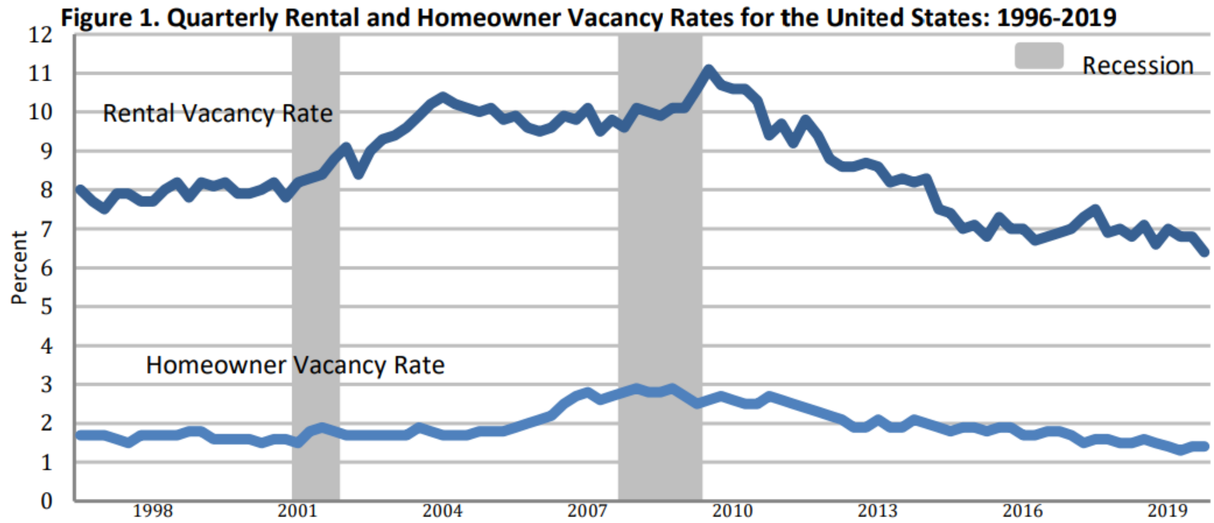
Census Bureau

Monday, Monthly New Residential Sales: "Sales of new single-family houses in December 2019 were at a seasonally adjusted annual rate of 694,000 . . . 0.4 percent below the revised November rate of 697,000, but . . . 23.0 percent above the December 2018 estimate of 564,000. An estimated 681,000 new homes were sold in 2019. This is 10.3 percent above the 2018 figure of 617,000. The median sales price of new houses sold in December 2019 was $331,400. The average sales price was $384,500."

Tuesday, Advance Report on Durable Goods: "New orders for manufactured durable goods in December increased $5.7 billion or 2.4 percent to $245.5 billion. . . . This increase, up two of the last three months, followed a 3.1 percent November decrease. . . . Excluding defense, new orders decreased 2.5 percent. . . . Shipments of manufactured durable goods in December, down six consecutive months, decreased $0.5 billion or 0.2 percent to $250.4 billion. . . . Unfilled orders . . . down three of the last four months, decreased $0.8 billion or 0.1 percent to $1,156.0 billion."

Wednesday, Advance Economic Indicators: "The international trade deficit was $68.3 billion in December, up $5.3 billion from $63.0 billion in November. Exports of goods for December were $137.0 billion, $0.4 billion more than November exports. Imports of goods for December were $205.3 billion, $5.8 billion more than November imports. Wholesale inventories for December . . . were estimated at an end-of-month level of $675.6 billion, down 0.1 percent from November 2019, and were up 2.3 percent from December 2018. . . . Retail inventories for December . . . were estimated at an end-of-month level of $661.2 billion, virtually unchanged from November 2019, and were up 1.2 percent from December 2018."

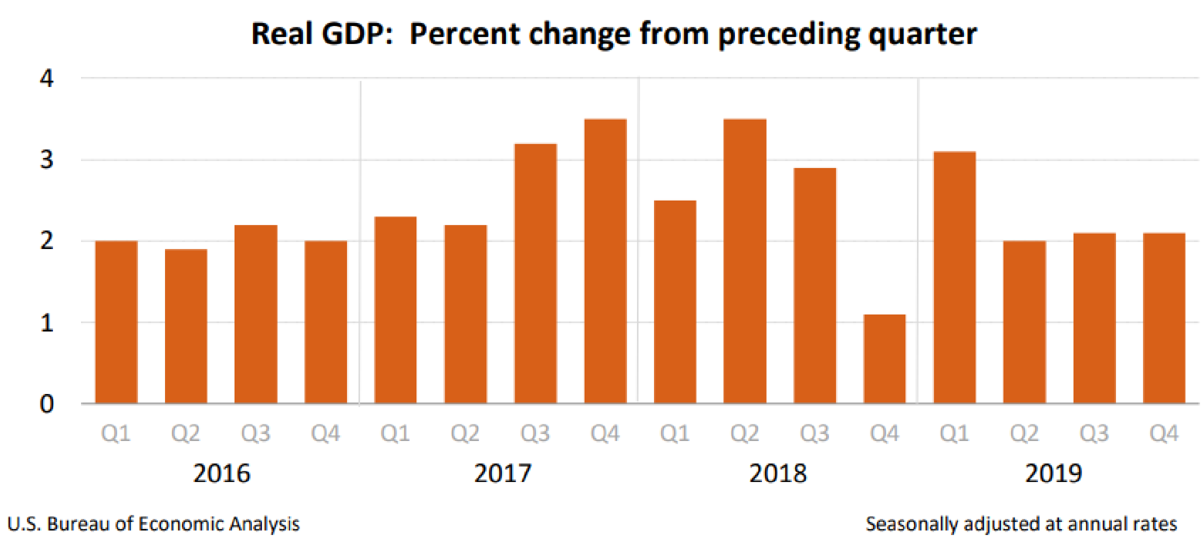
Thursday, Residential Vacancies and Homeownership: The national vacancy rate for rental housing in the fourth quarter 2019 was 6.4 percent, "not statistically different from the rate in the fourth quarter 2018 (6.6 percent), but 0.4 percentage points lower than the rate in the third quarter 2019 (6.8 percent). The homeowner vacancy rate of 1.4 percent was not statistically different from the rate in the fourth quarter 2018 (1.5 percent) and virtually unchanged from the rate in the third quarter 2019. The homeownership rate of 65.1 percent was not statistically different from the rate in the fourth quarter 2018 (64.8 percent) nor from the rate in the third quarter 2019 (also 64.8 percent). In the fourth quarter 2019, the median asking rent for vacant for rent units was $1,005 . . . [and] the median asking sales price for vacant for sale units was $226,800."



Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, January 30, 2020.
Recession data: National Bureau of Economic Research, <www.nber.org>

Bureau of Economic Analysis

Thursday, Gross Domestic Product: "Real gross domestic product (GDP) increased at an annual rate of 2.1 percent in the fourth quarter of 2019," according to the bureau's advance estimate. "In the third quarter, real GDP increased 2.1 percent. . . . Real GDP increased 2.3 percent in 2019 (from the 2018 annual level to the 2019 annual level), compared with an increase of 2.9 percent in 2018."



Friday, Personal Income and Outlays: "Personal income increased $40.7 billion (0.2 percent) in December. . . . Personal consumption expenditures (PCE) increased $46.6 billion (0.3 percent). . . . The PCE price index increased 0.3 percent. Excluding food and energy, the PCE price index increased 0.2 percent. . . . Personal saving was $1.28 trillion in December and the personal saving rate, personal saving as a percentage of disposable personal income, was 7.6 percent."

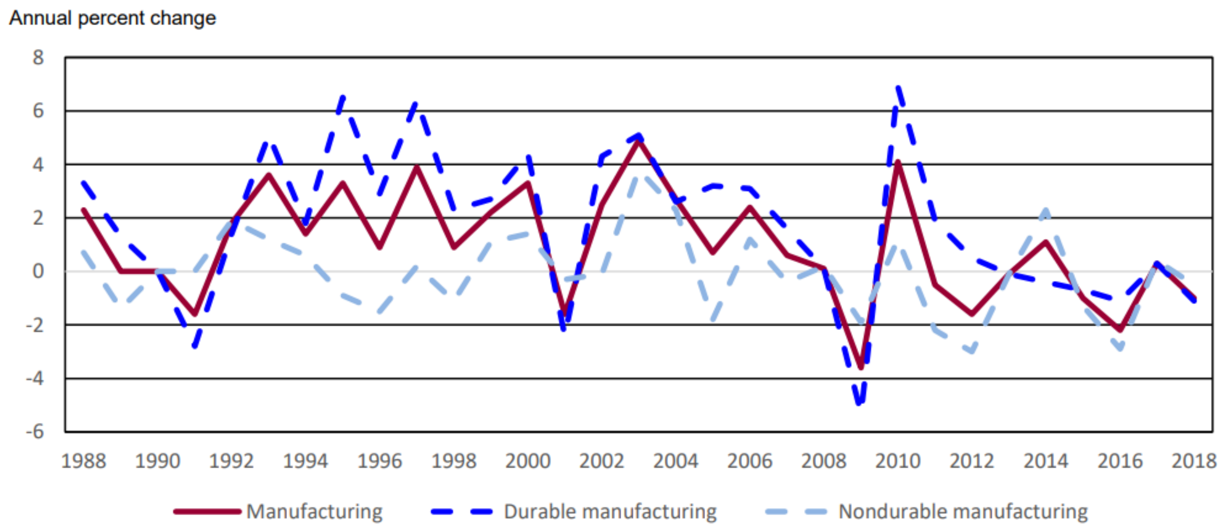
Department of Labor

Thursday, Initial Claims: "In the week ending January 25, the advance figure for seasonally adjusted initial claims was 216,000, a decrease of 7,000 from the previous week's revised level. . . . The 4-week moving average was 214,500, a decrease of 1,750 from the previous week's revised average."

Bureau of Labor Statistics

Tuesday, Multifactor Productivity Trends in Manufacturing: "Manufacturing sector multifactor productivity declined 1.0 percent in 2018 . . . reflect[ing] a 0.6-percent decrease in sectoral output and a 0.3-percent increase in combined inputs. The decrease in multifactor productivity followed a revised 0.3-percent increase in 2017. . . . Over the longer term, multifactor productivity in the manufacturing sector grew at an average annual rate of 0.9 percent from 1987 to 2018. . . . During the same period, labor productivity grew at an average annual rate of 2.5 percent."

Chart 1. Multifactor productivity in the manufacturing, durable manufacturing, and nondurable manufacturing sectors, 1987-2018



Wednesday, Business Employment Dynamics: "From March 2019 to June 2019, gross job gains from opening and expanding private-sector establishments were 7.6 million, an increase of 230,000 jobs from the previous quarter. . . . Over this period, gross job losses from closing and contracting private-sector establishments were 7.4 million, an increase of 573,000 jobs from the previous quarter. The difference between the number of gross job gains and the number of gross job losses yielded a net employment gain of 182,000 jobs in the private sector during the second quarter of 2019. . . . Gross job gains exceeded gross job losses in 26 states, the District of Columbia, Puerto Rico, and the Virgin Islands in the second quarter of 2019." Tennessee saw 142,792 job gains and 131,387 job losses over the quarter, a net gain of 11,405.

Friday, Employment Cost Index: "Compensation costs for civilian workers increased 0.7 percent, seasonally adjusted, for the 3-month period ending in December 2019. . . . Wages and salaries increased 0.7 percent and benefit costs increased 0.5 percent from September 2019. . . . Compensation costs for civilian workers increased 2.7 percent for the 12-month period ending in December 2019, compared to 2.9 percent in December 2018."

Federal Reserve

Wednesday, Federal Open Market Committee: "Information received since the Federal Open Market Committee met in December indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although household spending has been rising at a moderate pace, business fixed investment and exports remain weak. On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2 percent." Based on this analysis, "the Committee decided to maintain the target range for the federal funds rate at 1-1/2 to 1-3/4 percent."

S&P Dow Jones Indices

Tuesday, CoreLogic Case-Shiller Indices: "The . . . National Home Price NSA Index . . . reported a 3.5% annual gain in November, up from 3.2% in the previous month." Seasonally adjusted, the national index increased 0.5% in the month of November. "The U.S. housing market was stable in November," says Craig J. Lazzara, Managing Director and Global Head of Index Investment Strategy at S&P Dow Jones Indices. "With the month's 3.5% increase in the national composite index, home prices are currently 59% above the trough reached in February 2012, and 15% above their pre-financial crisis peak."

National Association of Realtors

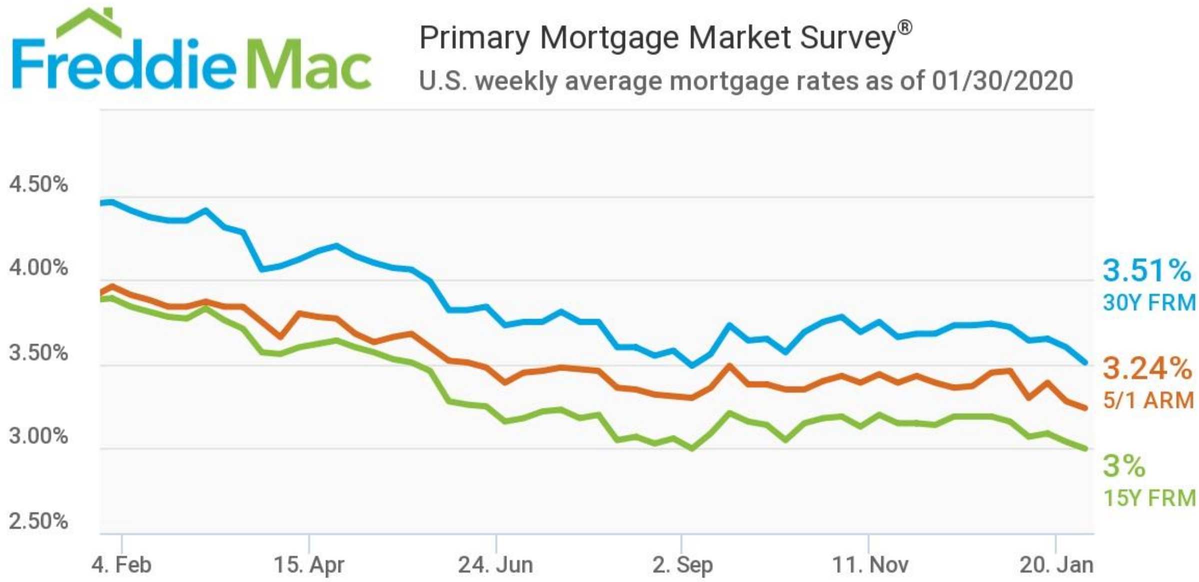
Wednesday, Pending Home Sales: "Pending home sales fell in December, taking a step back after increasing slightly in November. . . . However, year-over-year pending home sales activity was up nationally compared to one year ago. The Pending Home Sales Index . . . fell 4.9% to 103.2 in December. Year-over-year contract signings increased 4.6%."

Mortgage Bankers Association

Wednesday, Mortgage Applications: "Mortgage applications increased 7.2 percent from one week earlier. . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($510,400 or less) decreased to 3.81 percent from 3.87 percent." Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting, said "With the 30-year fixed rate at its lowest level since November 2016, refinances jumped 7.5 percent. Purchase applications grew 2 percent and were 17 percent higher than the same week last year. Thanks to low rates and the healthy job market, purchase activity continues to run stronger than in 2019."

Freddie Mac

Thursday, Primary Mortgage Market Survey: "This week's mortgage rates were the second lowest in three years, supporting homebuyer demand and leading to higher refinancing activity," said Sam Khater, Freddie Mac's Chief Economist.



Conference Board

Tuesday, Consumer Confidence Survey: Consumer confidence "increased in January, following a moderate increase in December. The Index now stands at 131.6 (1985=100), up from 128.2 (an upward revision) in December. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – increased from 170.5 to 175.3. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – increased from 100.0 last month to 102.5 this month."

State Street Global Markets

Wednesday, Global Investor Confidence Index: "The Global Investor Confidence Index decreased to 76.5, down 3.2 points from December's revised reading of 79.7. The North American ICI fell 3.4 points to 68.2 and the European ICI dropped from 109.4 to 105.5, a 3.9-point decline. Meanwhile, the Asian ICI rose 4.8 points to 93.9."

University of Michigan

Friday, Index of Consumer Sentiment: The final index for January 2020 was 99.8, up 0.5 points from December. Surveys of Consumers chief economist Richard Curtin said that the index remains close to its cyclical peak of 101.4. "The maintenance of consumer sentiment near cyclical peak levels is surprising given the overall slow pace of economic growth," Curtin said. "The resilience of consumers is remarkable and due to record low unemployment, record gains in income and wealth, as well as near record lows in inflation and interest rates."