

## Economic Update, February 3, 2023

Submitted by Bob Moreo

Summary: The Federal Reserve raised interest rates by a quarter-point this week, a smaller increase than the past several rate hikes. Financial markets are expecting “at least two more interest-rate hikes,” [according to a Reuters report](#), “with a better than even chance seen that the Fed will continue get its policy rate to the 5%-5.25% range by June, if not by May.” Despite the hike, mortgage rates continued to decrease. The Conference Board reported decreasing consumer confidence in January, while a Gallup poll shows 72% of Americans say the economy is getting worse. Manufacturing activity is showing signs of an ongoing slowdown, but service sector activity shows some signs of improvement. The week ended with an employment report that [“blew past expectations;”](#) the 517,000 jobs gained beat economists’ expectations of 187,000, [MarketWatch reported](#).

### **Federal Government Indicators and Reports:**

Bureau of Labor Statistics

Tuesday, [Employment Cost Index](#): “Compensation costs for civilian workers increased 1.0 percent, seasonally adjusted, for the 3-month period ending in December 2022. . . . [and] increased 5.1 percent for the 12-month period ending in December 2022.”

Wednesday, [Job Openings and Labor Turnover Survey](#): “On the last business day of December, the number and rate of job openings increased to 11.0 million and 6.7 percent, respectively. . . . The number and rate of hires changed little at 6.2 million and 4.0 percent, respectively. . . . In December, the number of total separations changed little at 5.9 million, and the rate remained unchanged at 3.8 percent.”

Wednesday, [Metropolitan Area Employment and Unemployment](#): “Unemployment rates were lower in December than a year earlier in 244 of the 389 metropolitan areas, higher in 115 areas, and unchanged in 30 areas. . . . Nonfarm payroll employment increased over the year in 81 metropolitan areas and was essentially unchanged in 308 areas. The national unemployment rate in December was 3.3 percent, not seasonally adjusted, down from 3.7 percent a year earlier.”

**Table 1. Civilian labor force and unemployment by state and metropolitan area**

State and area	Civilian labor force				Unemployed							
	November		December		Number				Percent of labor force			
	2021	2022	2021	2022(P)	November		December		November		December	
					2021	2022	2021	2022(P)	2021	2022	2021	2022(P)
Tennessee	3,358,423	3,300,377	3,366,777	3,286,597	103,210	108,004	103,520	96,624	3.1	3.3	3.1	2.9
Chattanooga	278,476	269,554	276,886	269,198	7,765	8,221	7,839	7,698	2.8	3.0	2.8	2.9
Clarksville	120,079	117,258	120,311	117,511	4,256	4,571	4,516	4,200	3.5	3.9	3.8	3.6
Cleveland	58,001	56,319	58,113	55,982	1,729	1,993	1,737	1,755	3.0	3.5	3.0	3.1
Jackson	64,522	62,603	64,600	62,299	1,931	2,086	1,972	1,806	3.0	3.3	3.1	2.9
Johnson City	93,416	91,485	93,609	90,721	2,640	3,087	2,745	2,756	2.8	3.4	2.9	3.0
Kingsport-Bristol-Bristol	134,390	131,681	134,051	131,090	3,972	4,466	3,913	4,054	3.0	3.4	2.9	3.1
Knoxville	439,692	437,994	439,504	436,643	11,041	12,944	11,353	11,455	2.5	3.0	2.6	2.6
Memphis	642,129	631,993	646,075	629,481	27,430	25,813	27,082	23,245	4.3	4.1	4.2	3.7
Morristown	53,038	52,196	53,320	52,196	1,609	1,751	1,655	1,586	3.0	3.4	3.1	3.0
Nashville-Davidson--Murfreesboro--Franklin	1,116,333	1,114,034	1,124,910	1,111,047	28,790	29,322	28,178	25,847	2.6	2.6	2.5	2.3

**Table 3. Employees on nonfarm payrolls by state and metropolitan area, not seasonally adjusted**

[In thousands]

State and area	November		December		December 2021 to December 2022(P)	
	2021	2022	2021	2022(P)	Level change	Percent change
Tennessee	3,184.2	3,304.3	3,197.6	3,301.9	104.3	3.3
Chattanooga	271.1	274.5	269.7	274.3	4.6	1.7
Clarksville	96.8	98.8	96.7	99.1	2.4	2.5
Cleveland	47.3	48.1	47.4	47.9	0.5	1.1
Jackson	69.9	71.2	70.3	71.3	1.0	1.4
Johnson City	84.5	87.0	84.8	86.6	1.8	2.1
Kingsport-Bristol-Bristol	120.1	121.9	119.9	121.3	1.4	1.2
Knoxville	419.6	439.7	419.1	439.5	20.4	4.9
Memphis	655.8	677.3	660.7	676.3	15.6	2.4
Morristown	47.8	49.3	48.2	49.6	1.4	2.9
Nashville-Davidson--Murfreesboro--Franklin	1,086.1	1,145.2	1,096.3	1,145.2	48.9	4.5

Thursday, [Productivity and Costs](#): “Nonfarm business sector labor productivity increased 3.0 percent in the fourth quarter of 2022 . . . as output increased 3.5 percent and hours worked increased 0.5 percent. . . . Unit labor costs in the nonfarm business sector increased 1.1 percent in the fourth quarter of 2022, reflecting a 4.1-percent increase in hourly compensation and a 3.0-percent increase in productivity. . . . Manufacturing sector labor productivity declined in 5 of the last 6 quarters. In the third and fourth quarters of 2022, output also declined.”

Friday, [Employment Situation](#): “Total nonfarm payroll employment rose by 517,000 in January, and the unemployment rate changed little at 3.4 percent. . . . In January, average hourly earnings for all employees on private nonfarm payrolls rose by 10 cents, or 0.3 percent, to \$33.03. Over the past 12 months, average hourly earnings have increased by 4.4 percent.”

## Census Bureau

Tuesday, [Housing Vacancies and Homeownership](#): “National vacancy rates in the fourth quarter 2022 were 5.8 percent for rental housing and 0.8 percent for homeowner housing.” The homeownership rate was 65.9 percent. None of these rates was statistically different from the rates in the fourth quarter 2021 or third quarter 2022.

Wednesday, [Construction Spending](#): “Construction spending during December 2022 was estimated at a seasonally adjusted annual rate of \$1,809.8 billion, 0.4 percent below the revised November estimate of \$1,817.3 billion. . . . [and] 7.7 percent above the December 2021 estimate of \$1,681.0 billion.”

Thursday, [Manufactured Goods](#): “New orders for manufactured goods in December, up four of the last five months, increased \$10.0 billion or 1.8 percent to \$552.5 billion. . . . [Shipments] decreased \$4.0 billion or 0.7 percent to \$543.3 billion. . . . [Unfilled orders] increased \$14.4 billion or 1.3 percent to \$1,158.0 billion.”

New orders for transportation equipment “drove the increase, \$15.6 billion or 16.9 percent to \$108.0 billion. New orders for manufactured nondurable goods decreased \$5.2 billion or 1.9 percent to \$265.9 billion.”

## Department of Labor

Thursday, [Unemployment Insurance Weekly Claims](#): “In the week ending January 28, the advance figure for seasonally adjusted initial claims was 183,000, a decrease of 3,000 from the previous week's unrevised level of 186,000. The 4-week moving average was 191,750, a decrease of 5,750 from the previous week's unrevised average of 197,500.” The unadjusted advance number of claims in Tennessee for the week ending January 28 was 2,559 compared to 2,539 in the prior week.

## Federal Reserve Board

Wednesday, [FOMC Statement](#): “Recent indicators point to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation has eased somewhat but remains elevated. . . . The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 4-1/2 to 4-3/4 percent. The Committee anticipates that ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time.”

The Federal Open Market Committee, at its annual organization meeting this week, unanimously reaffirmed its “[Statement on Longer-Run Goals and Monetary Policy Strategy](#),” often known as the consensus statement, which articulates its approach to monetary policy.

## **Economic Indicators and Confidence:**

### The Conference Board

Tuesday, [Consumer Confidence Survey](#): “The Conference Board Consumer Confidence Index decreased in January following an upwardly revised increase in December 2022. The Index now stands at 107.1, down from 109.0 in December. The Present Situation Index . . . increased to 150.9 from 147.4 last month. The Expectations Index . . . fell to 77.8 from 83.4 partially reversing its December gain.”

IHS Markit

Wednesday, [S&P Global U.S. Manufacturing Purchasing Managers' Index \(PMI\)](#): “The health of the U.S. manufacturing sector continued to decline at the start of 2023, according to the latest PMI data from S&P Global, albeit deteriorating at a reduced rate compared to December. The overall downturn in January was driven by a sharp contraction in new orders, a further drop in output and ongoing efforts to reduce inventories. . . . The seasonally adjusted S&P Global U.S. Manufacturing PMI posted 46.9 in January, up slightly from 46.2 in December and broadly in line with the earlier released 'flash' estimate of 46.8.”

Friday, [S&P Global U.S. Services PMI](#): “January data signaled a solid contraction in business activity across the U.S. service sector at the start of 2023. . . . The seasonally adjusted final S&P Global U.S. Services PMI Business Activity Index registered 46.8 in January, up from 44.7 in December and broadly in line with the earlier released 'flash' estimate of 46.6. Weak client demand hampered business activity, as output fell at a solid pace.”

Friday, [S&P Global U.S. Sector PMI](#): “January data pointed to falling business activity in five of the seven sectors monitored. . . . Financials (index at 35.0) saw by far the steepest downturn in business activity, while the Consumer Services sector (46.9) experienced the least marked decline.”

Friday, [J.P. Morgan Global Composite PMI](#): “Global economic activity fell again in January. However, the start of the year also provided signs that the downturn may have passed its nadir. Declines in output and new orders were the weakest during their respective six-month sequences of contraction and moved closer to stabilization. Business optimism meanwhile rose to an eight-month high. . . . The J.P. Morgan Global Composite Output Index posted 49.8 in January, up from 48.2 in December. . . . Two out of the six sub-sectors covered by the survey registered expansions of output during January—business services and consumer goods.”

### **Employment and Businesses:**

ADP

Wednesday, [National Employment Report](#): “Private sector employment increased by 106,000 jobs in January and annual pay was up 7.3 percent year-over-year.” ADP chief economist Nela Richardson commented, “In January, we saw the impact of weather-related disruptions on employment during our reference week [January 12]. Hiring was stronger during other weeks of the month, in line with the strength we saw late last year.”

Challenger, Gray, & Christmas

Thursday, [Job Cuts Report](#): “U.S.-based employers announced 102,943 cuts in January, a 136 percent increase from the 43,651 cuts announced in December. . . . Last month’s total is the highest January total since 2009, when 241,749 were announced in the first month of the year. It is the highest monthly total since September 2020 when 118,804 job cuts were reported. . . . The Technology sector announced the most cuts with 41,829, 41 percent of all cuts announced in January.”

Gallup

Monday, [Economic Confidence Index](#): “Currently, more than four in five U.S. adults rate economic conditions in the country as only fair (38 percent) or poor (45 percent), with few describing conditions as excellent (2 percent) or good (15 percent). Furthermore, 72 percent of Americans say the economy is getting worse, 22 percent say it is improving, and 4 percent think it is staying the same. . . . The latest -39 [Economic Confidence Index] reading is identical to last month but well above the -58

score last June amid high gas prices and the record low of -72 in October 2008, during the Great Recession.”

Institute for Supply Management

Wednesday, [Manufacturing PMI](#): “Economic activity in the manufacturing sector contracted in January for the third consecutive month following a 28-month period of growth.” Said Timothy Fiore, the chair of the ISM Manufacturing and Business Survey Committee: “The January Manufacturing PMI registered 47.4 percent, 1 percentage point lower than the seasonally adjusted 48.4 percent recorded in December. . . . [This] figure is the lowest since May 2020, when it registered a seasonally adjusted 43.5 percent.”

Friday, [Services PMI](#): “Economic activity in the services sector grew in January after contracting in December following 30 consecutive months of growth, with the Services PMI registering 55.2 percent.” This was “6 percentage points higher than December’s seasonally adjusted reading of 49.2 percent.”

Paychex | IHS Markit

Tuesday, [Small Business Employment Watch](#): “The national jobs index (99.56) gained 0.18 percent in January, its first increase since January 2022. . . . Hourly earnings growth slowed to 4.66 percent in January, marking its lowest level since January 2022. . . . Improving to 98.94, construction gained 0.54 percent on the jobs index in January marking the strongest one-month change rate in nearly two years.” Tennessee is among the top states for small business employment growth.

## State Performance



Source: Paychex | IHS Markit Small Business Employment Watch

## Mortgages and Housing Markets:

### Freddie Mac

Thursday, [Primary Mortgage Market Survey](#): “Mortgage rates inched down again, with the 30-year fixed-rate down nearly a full point from November, when it peaked at just over seven percent,’ said Sam Khater, Freddie Mac’s Chief Economist. . . . [The] 30-year fixed-rate mortgage averaged 6.09 percent as of February 2, 2023, down from last week when it averaged 6.13 percent. A year ago at this time, the 30-year FRM averaged 3.55 percent.”



## Primary Mortgage Market Survey®

U.S. weekly average mortgage rates as of 02/02/2023



### Mortgage Bankers Association

Wednesday, [Weekly Mortgage Applications](#): “Mortgage applications decreased 9.0 percent from one week earlier, according to data from . . . the week ending January 27, 2023. . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances (\$726,200 or less) decreased to 6.19 percent from 6.20 percent.”

### S&P CoreLogic

Tuesday, [Case-Shiller National Home Price Index](#): “The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, covering all nine U.S. census divisions, reported a 7.7 percent annual gain in November, down from 9.2 percent in the previous month. . . . After seasonal adjustment, the U.S. National Index posted a month-over-month decrease of -0.3 percent, and the 10-City and 20-City Composites both posted decreases of -0.5 percent.”