Economic Update, March 20, 2020
Submitted by Michael Mount

Summary: A recession at some point during 2020 seems more likely than not, according to economists, thanks to COVID-19. Bloomberg Economics puts the probability at 53 percent, and the National Association of Home Builders' forecasting model indicates that for the second quarter of 2020 we can expect the largest single-quarter decline in GDP in decades (11 percent). Most of the economic releases in this summary reflect pre-COVID-19 conditions when the economy was doing relatively well, but the more up-to-date ones indicate worsening conditions. For instance, initial claims for unemployment insurance increased by 70,000 since last week.

Federal Government Indicators and Reports

Bureau of Labor Statistics

Monday, State Employment and Unemployment: In January 2020, "North Dakota had the lowest unemployment rate in January, 2.3 percent, while Alaska had the highest rate, 6.0 percent." Tennessee's was at 3.3 percent. From January 2019 to January 2020, Tennessee added 46,100 jobs.

Tuesday, Job Opening and Labor Turnover Survey: "The number of job openings rose to 7.0 million (+411,000) on the last business day of January." In January 2020, hires were 5.8 million and separations were 5.6 million.

Thursday, Employment Situation of Veterans: "The unemployment rate for veterans who served on active duty in the U.S. Armed Forces at any time since September 2001—a group referred to as Gulf War-era II veterans—was 3.5 percent in 2019, little changed from 2018, the U.S. Bureau of Labor Statistics reported today. The jobless rate for all veterans declined in 2019 to 3.1 percent. In August 2019, 41 percent of Gulf War-era II veterans had a service-connected disability, compared with 25 percent of all veterans."

Thursday, Employer Costs for Employee Compensation: "Private industry employers spent an average of $34.72 per hour worked for total employee compensation in December 2019." This represents a $0.05 decrease from $34.77 in September 2019 (see table 1).

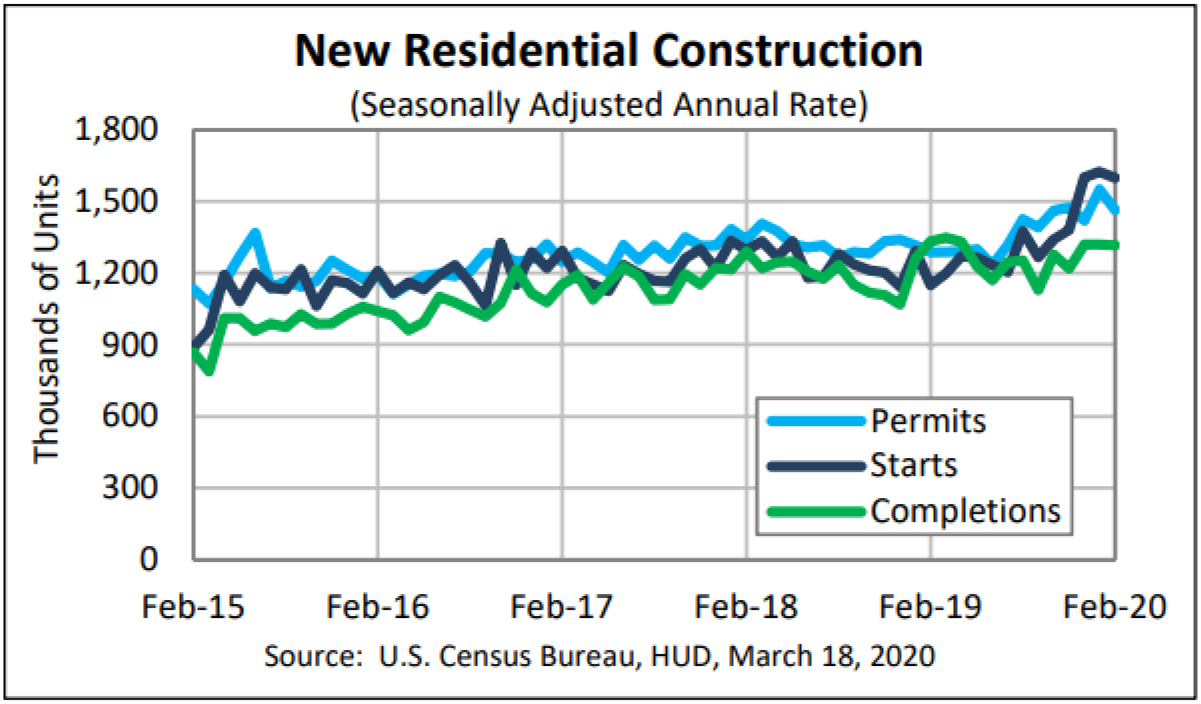
US Census

Tuesday, Retail Sales: In February, "retail trade sales were down 0.5 percent from January 2020, but 4.2 percent above last year." This followed a 0.6 percent increase in January 2020.

Tuesday, Manufacturing and Trade: "The combined value of distributive trade sales and manufacturers' shipments for January . . . was estimated at $1,471.2 billion, up 0.6 percent from

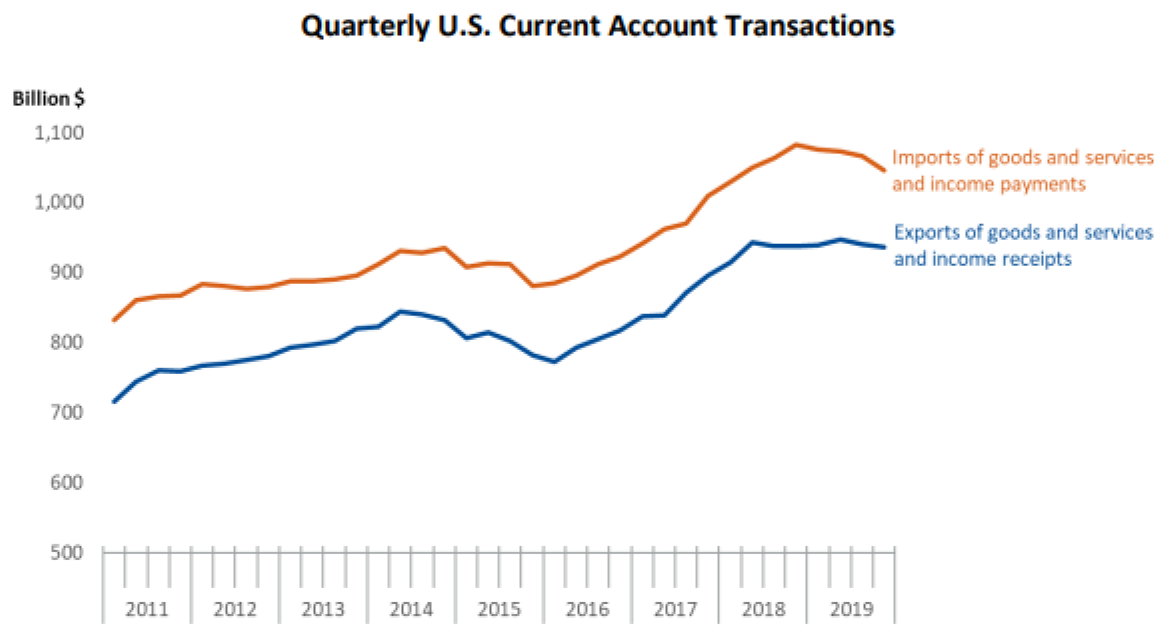
December 2019 and was up 2.1 percent from January 2019." Business inventories decreased 0.1 percent in January 2020 after staying flat in December 2019.

Wednesday, New Residential Construction: "Privately-owned housing starts in February were at a seasonally adjusted annual rate of 1,599,000. This is 1.5 percent below the revised January estimate of 1,624,000 but is 39.2 percent above the February 2019 rate of 1,149,000."



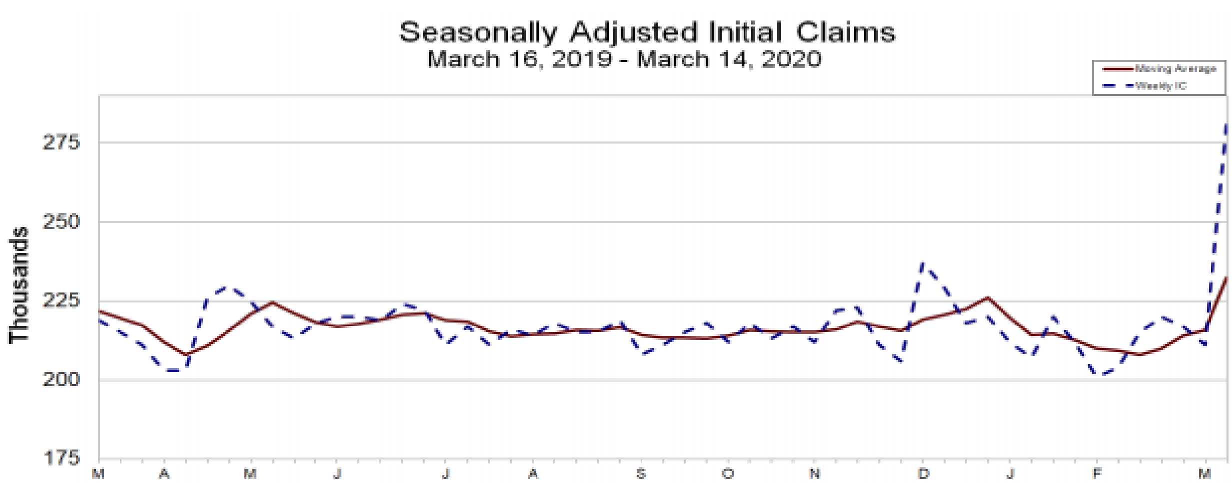
Bureau of Economic Analysis

Thursday, International Transactions: "The U.S. current account deficit, which reflects the combined balances on trade in goods and services and income flows between U.S. residents and residents of other countries, narrowed by $15.6 billion, or 12.4 percent, to $109.8 billion in the fourth quarter of 2019. . . . The fourth quarter deficit was 2.0 percent of current dollar gross domestic product (GDP), down from 2.3 percent in the third quarter."



Department of Labor

Thursday, [Initial Claims](): "In the week ending March 14, the advance figure for seasonally adjusted initial claims was 281,000, an increase of 70,000 from the previous week's unrevised level of 211,000. This is the highest level for initial claims since September 2, 2017 when it was 299,000." In a note at the top of the report, the Department of Labor says "the increase in initial claims are clearly attributable to impacts from the COVID-19 virus. A number of states specifically cited COVID-19 related layoffs, while many states reported increased layoffs in service related industries broadly and in the accommodation and food services industries specifically, as well as in the transportation and warehousing industry, whether COVID-19 was identified directly or not."



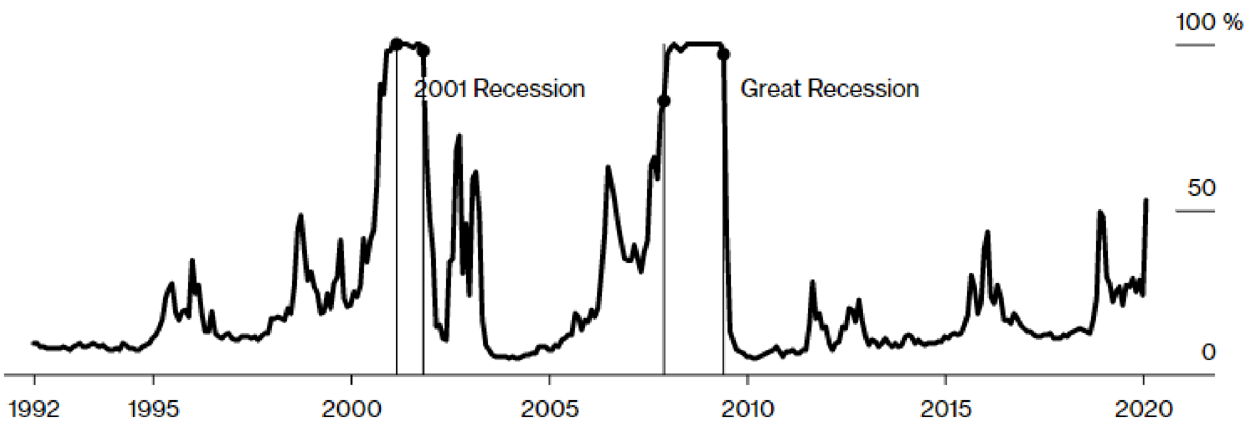
Forecasts and Economic Indicators

Bloomberg Economics

Last Tuesday, [Recession Probability Tracker](): Bloomberg Economics estimates the probability that the US Economy will be in a recession within 12 months at 53 percent. "As the virus spurs more and more cancellations of travel, conferences and large events, economic indicators may deteriorate. This could push the model's probability of recession even higher in the coming months."

Risks Mount

Probability of U.S. recession within 12 months



Source: Bloomberg Economics

Federal Reserve

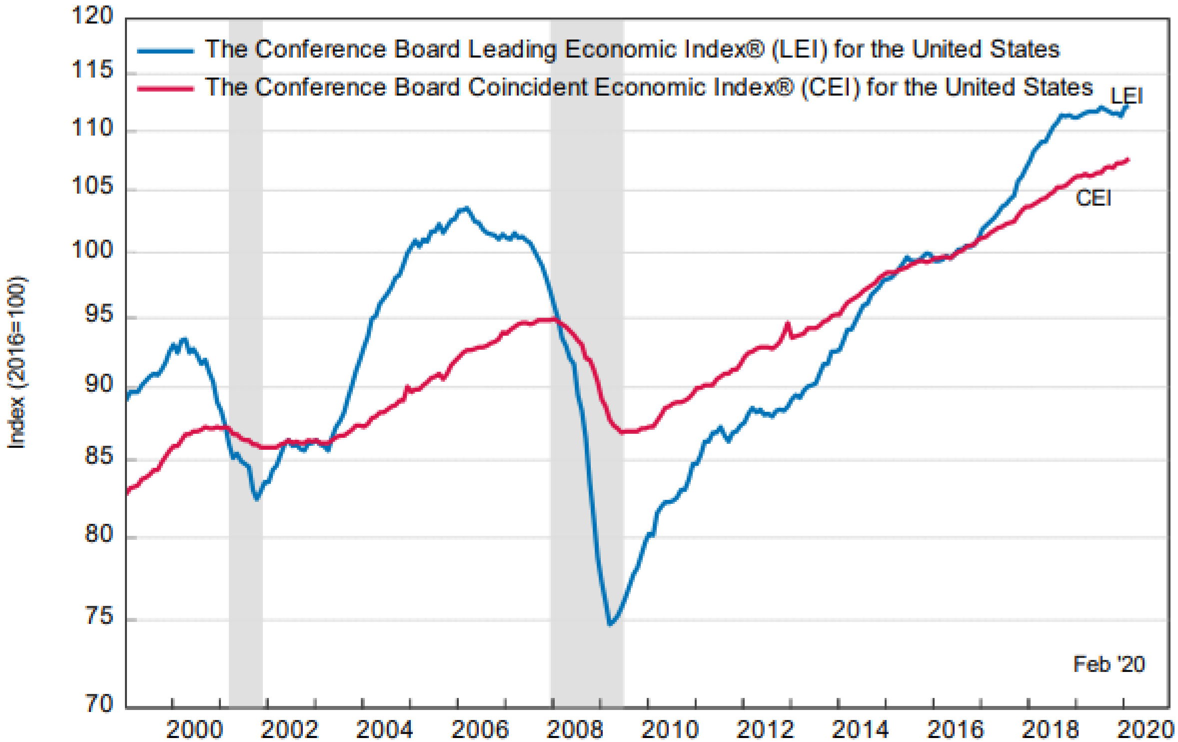
Monday, Federal Open Market Committee Statement: "The coronavirus outbreak has harmed communities and disrupted economic activity in many countries, including the United States. . . . In light of these developments, the Committee decided to lower the target range for the federal funds rate to 0 to 1/4 percent."

Challenger Gray

COVID-19 Update: "Entertainment/Leisure have pushed job cuts due to the COVID-19 outbreak to 3,634. . . . We are certainly beginning to see the cracks in the foundation. Slowing demand, brought on by the need for Americans to practice social distancing, is going to very likely immediately hurt those who work in at the nation's hotels, restaurants, and bars."

The Conference Board

Thursday, Leading Economic Indicator: The leading economic indicator improved slightly in February, but that does not reflect the impact of COVID-19. The press release starts with this statement: "Improvement in Index will not continue into March."



Gallup

Wednesday, Economic Confidence: "Americans' economic confidence, which last month reached its highest point in almost 20 years, has been shaken in the midst of the novel coronavirus threat. The COVID-19 pandemic fueled major stock market losses in recent weeks, and Gallup's Economic Confidence Index fell from +41 in February to +22 in March."

National Association of Home Builders

Wednesday, GDP Growth: "NAHB has made significant forecast revisions given the growing "pause" of the U.S. economy. . . . For the second quarter, we are forecasting a minus 11% GDP growth rate, which would be the largest decline in decades for a single-quarter. The unemployment rate is expected to rise to close to 7%, with the March and April job reports showing millions of layoffs. The third quarter is likely to post a negative growth rate as well, due to economic damage in the spring. . . . While we are forecasting declines for housing construction on net in 2020 (and particularly in the spring), housing was on solid footing coming into the year."

Mortgage Bankers Association

Wednesday, Mortgage Applications: "Mortgage applications decreased 8.4 percent from one week earlier. . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($510,400 or less) increased to 3.74 percent from 3.47 percent. . . . The average contract interest rate for 15-year fixed-rate mortgages increased to 3.10 percent from 2.90 percent.