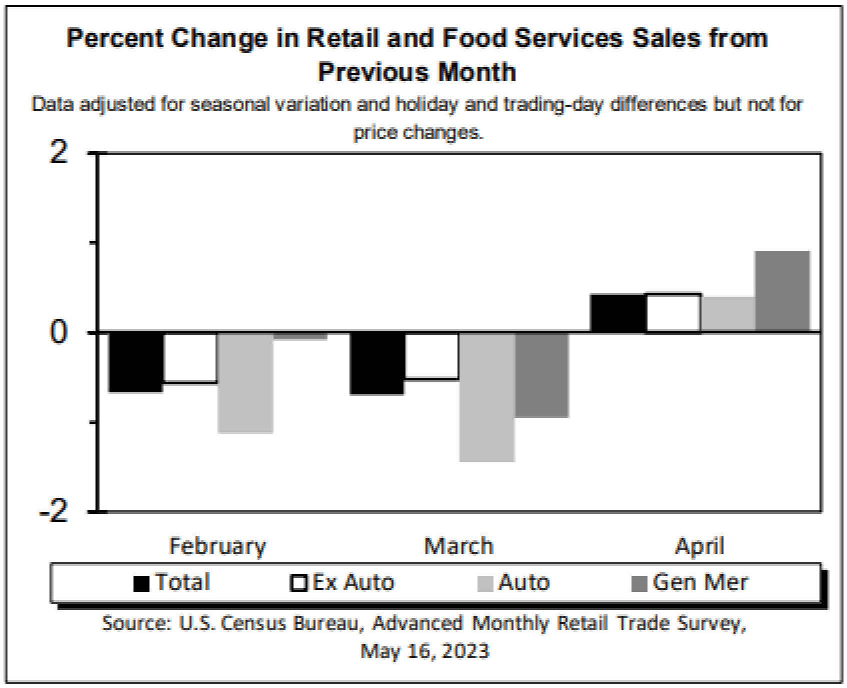
Economic Update, May 19, 2023
Submitted by Michael Mount

Summary: Economic news was mostly bad this week. Worsening leading economic indicators continue to point to the possibility of a recession this year or slower growth. Debt ceiling negotiators have until about June 1 to reach a deal to avoid a federal default (Reuters article). Industrial production and retail sales both improved but less than expected. Although three major U.S. banks have failed recently, Federal Reserve officials blame those failures on poor management and remain confident in the U.S. banking sector as a whole.

Federal Government Indicators and Reports

U.S. Census

Tuesday, Retail Sales: "Advance estimates of U.S. retail and food services sales for April 2023 . . . were $686.1 billion, up 0.4 percent from the previous month, and up 1.6 percent [from] April 2022."



Tuesday, Business Inventories: "Manufacturers' and trade inventories for March . . . were estimated at an end-of-month level of $2,490.0 billion, down 0.1 percent from February 2023, but were up 6.5 percent from March 2022."

Department of Labor

Thursday, Initial Claims: "In the week ending May 13, the advance figure for seasonally adjusted initial claims was 242,000, a decrease of 22,000 from the previous week's unrevised level of 264,000." There were 3,078 initial claims in Tennessee (not seasonally adjusted), an increase of 553 from the previous week.

Economic Indicators and Confidence

Federal Reserve

Monday, Supervision and Regulation Report: "The U.S. banking system is sound and resilient, with strong capital and liquidity. At the same time, recent stress in the banking system shows the need for us to be vigilant as we assess and respond to risks. The recent failures of three large U.S. banks have also demonstrated the risks of concentrated funding sources and poor management of interest rate risks."

Tuesday, Industrial Production and Capacity Utilization: "Industrial production rose 0.5 percent in April after moving sideways the previous two months. In April, manufacturing increased 1.0 percent, bolstered by a strong gain in the output of motor vehicles and parts; factory output excluding motor vehicles and parts moved up 0.4 percent."

Thursday, Philip N. Jefferson Speech: In a speech at the International Insurance Forum of the National Association of Insurance Commissioners, Fed Governor Philip N. Jefferson said, "Despite heightened uncertainty, due to banking-sector stress, geopolitical instability, and the aftermath of the pandemic, I expect the economy to grow in the second quarter. The pace of growth, however, will be slower than what we observed in the first quarter, when real GDP increased at an annual rate of 1.1 percent. . . . I expect spending and GDP growth to remain quite slow over the rest of 2023, due to continued tight financial conditions, low consumer sentiment, and a decline in household savings that had built up after the onset of the pandemic."

Friday, Michelle Bowman Speech: In a speech at the Texas Bankers Association Annual Convention Fed Governor Michelle Bowman said, "Are we in the same place today as we were at the onset of the 2008 financial crisis? Of course not. While we have seen stress in some parts of the banking system, overall the system is strong and resilient. U.S. banks have high levels of capital and liquidity, and banks of all sizes continue to support the economy."

The Conference Board

Thursday, Leading Economic Index: The index "for the U.S. declined 0.6 percent in April 2023 to 107.5 (2016=100), following a decline of 1.2 percent in March. The LEI is down 4.4 percent over the six-month period between October 2022 and April 2023—a steeper rate of decline than its 3.8 percent contraction over the previous six months (April–October 2022)." Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board, said, "Weaknesses among underlying components were widespread. . . . Only stock prices and manufacturers' new orders for both capital and consumer goods improved in April. Importantly, the [index] continues to warn of an economic downturn this year."

Mortgages and Housing Markets

National Association of Home Builders

Tuesday, Builder Confidence: "Limited existing inventory, which has put a renewed emphasis on new construction, resulted in a solid gain for builder confidence in May even as the industry continues to face several challenges, including building material supply chain disruptions and tightening credit conditions for construction loans. Builder confidence in the market for newly built single-family homes in May rose five points to 50. . . . 'New home construction is taking on an increased role in the marketplace because many home owners with loans well below current mortgage rates are electing to stay put, and this is keeping the supply of existing homes at a very low level,' said NAHB Chairman Alicia Huey, a custom home builder and developer from Birmingham, Ala."

Wednesday, Single-family Starts: "A lack of existing inventory and stabilizing mortgage rates helped push single-family production up to the highest rate thus far in 2023 even as builders continue to deal with high construction costs, persistent labor shortages and tightening credit conditions for construction loans. Overall housing starts in April increased 2.2 percent to a seasonally adjusted annual rate of 1.40 million units."

U.S. Census

Wednesday, New Residential Construction: "Privately-owned housing units authorized by building permits in April were at a seasonally adjusted annual rate of 1,416,000. This is 1.5 percent below the revised March rate of 1,437,000 and is 21.1 percent below the April 2022 rate of 1,795,000."

Mortgage Bankers Association

Wednesday, Mortgage Applications: "Mortgage applications decreased 5.7 percent from one week earlier." Joel Kan, MBA's Vice President and Deputy Chief Economist, said, "Purchase applications decreased 5 percent to its slowest pace in a month, as buyers remain wary of this rate volatility, but also as for-sale inventory in many parts of the country remains scarce."