Economic Update, June 12, 2020

Submitted by Bob Moreo

Summary: On Monday, the National Bureau of Economic Research officially declared February 2020 as "a peak in monthly economic activity," marking the end of the 128-month expansion that was the longest in U.S. history and the beginning of a recession. Meanwhile, the Federal Reserve's Open Markets Committee didn't do or say anything unexpected when it met on Wednesday, as it left rates alone, citing the near- and medium-term economic risks of the ongoing public health crisis. The Bureau of Labor Statistics reported a net loss of 13.9 million jobs for the 12 months ending in April 2020; unsurprisingly almost all of the decrease came in March and April. Initial jobless claims for the week remained well above their pre-pandemic levels, though they continued to fall from their late March peak. Elsewhere, there are glimmers of optimism in a few surveys of consumers and small business owners, at least compared with April; however, many contain notes of caution about the months ahead. Mortgage rates remain near record lows, and applications for home loans increased by 9.3 percent last week, fueled by the low rates, pent up demand, and the reopening of more states.

Federal Government Indicators and Reports:

Bureau of Labor Statistics

Tuesday, Job Openings and Labor Turnover Summary: "The number of total separations decreased by 4.8 million to 9.9 million in April. . . . Despite the over the month decline, the total separations level is the second highest in series history. Within separations, the quits rate fell to 1.4 percent and the layoffs and discharges rate decreased to 5.9 percent. Job openings decreased to 5.0 million on the last business day of April. Over the month, hires declined to 3.5 million, a series low. . . . Over the 12 months ending in April, hires totaled 67.2 million and separations totaled 81.1 million, yielding a net employment loss of 13.9 million."

Chart 1. Job openings rate, seasonally adjusted, April 2017 - April 2020

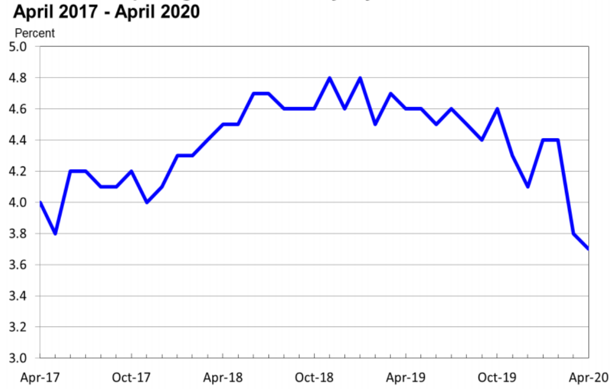
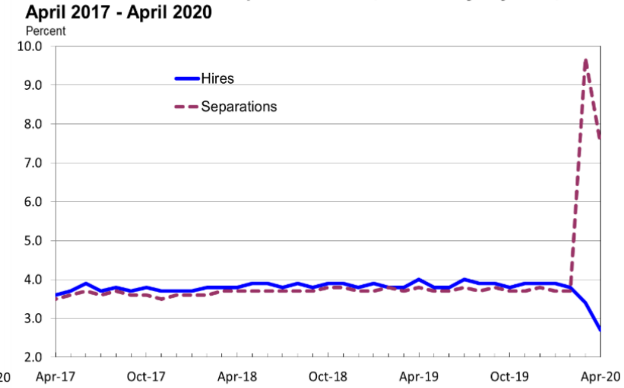


Chart 2. Hires and total separations rates, seasonally adjusted, April 2017 - April 2020



Wednesday, Consumer Price Index: "The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.1 percent in May on a seasonally adjusted basis after falling 0.8 percent in April. . . . The index for all items less food and energy fell 0.1 percent in May, its third consecutive monthly decline. This is the first time this index has ever declined in three consecutive months. . . . The all items index increased 0.1 percent for the 12 months ending May. The index for all items less food and energy increased 1.2 percent over the last 12 months."

Wednesday, Real Earnings: "Real average hourly earnings for all employees decreased 0.9 percent from April to May, seasonally adjusted . . . [the result of] a decrease of 1.0 percent in average hourly earnings combined with a decrease of 0.1 percent in the Consumer Price Index. . . . Real average hourly earnings increased 6.5 percent, seasonally adjusted, from May 2019 to May 2020."

Thursday, Producer Price Index: "The Producer Price Index for final demand rose 0.4 percent in May, seasonally adjusted, . . . [following] declines of 1.3 percent in April and 0.2 percent in March. On an unadjusted basis, the final demand index decreased 0.8 percent for the 12 months ended in May. . . . The index for final demand goods rose 1.6 percent in May, the largest increase since the index began in November 2009. . . . Two-thirds of the May increase in the index for final demand goods is attributable to a 40.4-percent jump in meat prices."

Friday, US Import and Export Price Indexes: "Prices for U.S. imports increased 1.0 percent in May . . . after declining 2.6 percent in April and 2.4 percent in March. The May advance was led by higher fuel prices. . . . Despite the May increase, the price index for U.S. imports decreased 6.0 percent from May 2019 to May 2020. . . . U.S. export prices increased 0.5 percent in May, after falling 3.3 percent in April, 1.4 percent in March, and 1.2 percent in February. . . . Despite the May advance, the price index for U.S. exports declined 6.0 percent over the past 12 months."

Bureau of Transportation Statistics

Wednesday, Freight Transportation Services Index: The index "fell 7.7% in April from March, falling for the third consecutive month. . . . From April 2019 to April 2020, the index fell 10.0% compared to a rise of 2.7% from April 2018 to April 2019."

Wednesday, Preliminary Air Traffic Data: "U.S. airlines carried 96% fewer scheduled service passengers in April 2020 than in April 2019, according to preliminary data. . . . the largest year-to-year decrease on record, larger than the 51% decline from March 2019 to March 2020."

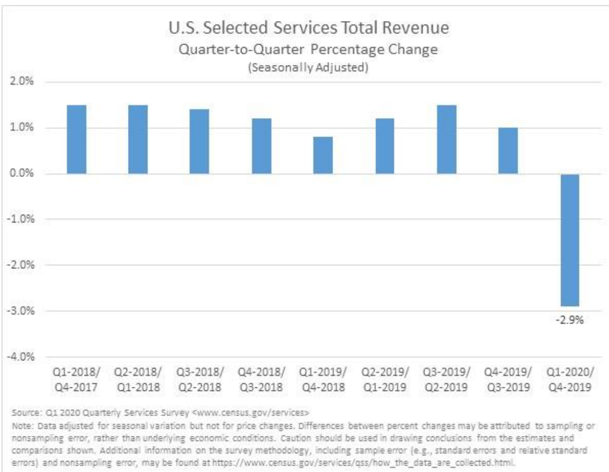
Census Bureau

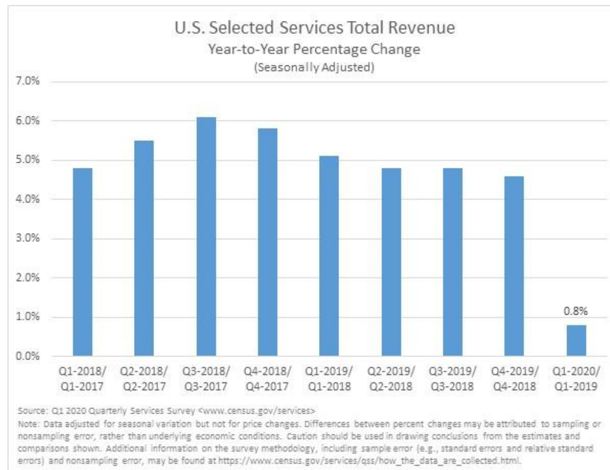
Monday, Quarterly Financial Report - Retail Trade: "Seasonally adjusted after-tax profits of U.S. retail corporations with assets of $50 million and over totaled $24.0 billion, down $5.6 billion from the $29.6 billion recorded in the fourth quarter of 2019, and down $3.9 billion from the $27.9 billion recorded in the first quarter of 2019. Seasonally adjusted sales for the quarter totaled $822.5 billion, up $11.5 billion from the $811.0 billion recorded in the fourth quarter of 2019, and up $45.9 billion from the $776.7 billion recorded in the first quarter of 2019."

Monday, Quarterly Financial Report - Manufacturing, Mining, Wholesale Trade, and Selected Service Industries: "U.S. manufacturing corporations' seasonally adjusted after-tax profits in the first quarter of 2020 totaled $111.7 billion, down $38.8 billion from the after-tax profits of $150.5 billion recorded in the fourth quarter of 2019, and down $43.2 billion from the after-tax profits of $154.9 billion recorded in the first quarter of 2019. Seasonally adjusted sales for the quarter totaled $1,637.4 billion, down $58.5 billion from the $1,695.9 billion recorded in the fourth quarter of 2019, and down $66.8 billion from the $1,704.2 billion recorded in the first quarter of 2019."

Tuesday, Monthly Wholesale Trade: "April 2020 sales of merchant wholesalers, except manufacturers' sales branches and offices . . . were $395.4 billion, down 16.9 percent from the revised March level and were down 20.7 percent from the revised April 2019 level. . . . Total inventories of merchant wholesalers, except manufacturers' sales branches and offices . . . were $650.4 billion at the end of April, up 0.3 percent from the revised March level. Total inventories were down 2.8 percent from the revised April 2019 level."

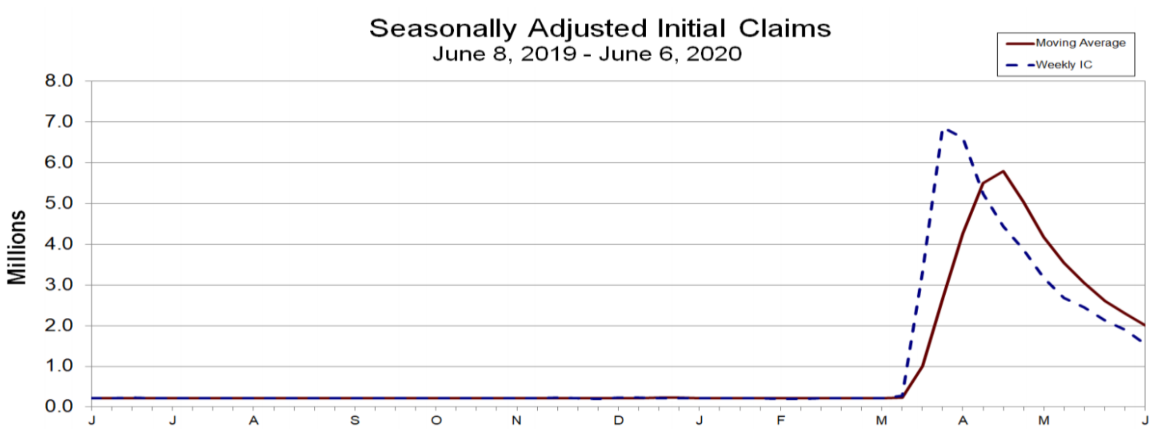
Thursday, Quarterly Selected Services: "U.S. selected services total revenue for the first quarter of 2020 . . . was $4,008.5 billion, a decrease of 2.9 percent from the fourth quarter of 2019 and up 0.8 percent from the first quarter of 2019." Sectors with increased revenue from the fourth quarter of 2019 to the first quarter of 2020 were the information sector ($441.8 billion, an increase of 0.2 percent) and real estate and rental and leasing ($190.6 billion, an increase of 0.3 percent). All other sectors reported decrease, with the largest percentage decreases in accommodations ($53.4 billion, a decrease of 18.6 percent), arts, entertainment, and recreation ($67.1 billion, a decrease of 11.3 percent), and educational services ($17.4 billion, a decrease of 8.1 percent).





Department of Labor

Thursday, Unemployment Insurance Weekly Claims: "In the week ending June 6, the advance figure for seasonally adjusted initial claims was 1,542,000, a decrease of 355,000 from the previous week's revised level. . . . The 4-week moving average was 2,002,000, a decrease of 286,250 from the previous week's revised average. . . . The advance seasonally adjusted insured unemployment rate was 14.4 percent for the week ending May 30, a decrease of 0.2 percentage point from the previous week's revised rate." In Tennessee, the advance number of initial claims (not seasonally adjusted) filed during the week ended June 6 was 21,417, a decrease of 838 from the week before.



The Federal Reserve

Wednesday, Federal Open Market Committee Statement: "The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. In light of these developments, the Committee decided to maintain the target range for the federal funds rate at 0 to 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals."

Federal Reserve Bank of Chicago

Wednesday, National Financial Conditions: "The NFCI edged down to –0.58 in the week ending June 5. . . . Positive values of the NFCI have been historically associated with tighter-than-average financial conditions, while negative values have been historically associated with looser-than-average financial conditions."

Wednesday, Survey of Business Conditions: "The Chicago Fed Survey of Business Conditions (CFSBC) Activity Index increased to −32 in May from –72 in April, suggesting that economic growth remained well below trend. The CFSBC Manufacturing Activity Index moved up to –21 in May from –95 in April, and the CFSBC Nonmanufacturing Activity Index increased to −37 in May from –61 in the previous month."

Federal Reserve Bank of New York

Monday, Survey of Consumer Expectations: In May, "consumers grew comparatively more optimistic about labor market outcomes with earnings growth, job finding, and job loss expectations all slightly improving, but remaining far off pre-COVID19 levels. . . . Median year-ahead household income growth expectations increased from 1.9% in April to 2.1% in May, after declining for three consecutive months. However, the median remains considerably below its year-ago level of 2.8% and a quarter of respondents expect a decrease of at least 0.3% in their household incomes over the next 12 months."

Economic Indicators and Confidence:

Investor's Business Daily

Tuesday, Economic Optimism Index: "Americans turned more pessimistic about their outlook for the U.S. economy and their personal finances over the past month, even as states let businesses reopen, employment jumped and the coronavirus stock market rally kept running, the June IBD/TIPP Poll finds. The IBD/TIPP Economic Optimism Index registered 47.0 in early June, down 2.7 points from May . . . and the lowest level since September 2016." The poll "finds that 47% of adults say a member of their household is unemployed and looking for work. . . . There's an unusually large gap between how self-described stock-market investors and non-investors feel about the outlook for the U.S. economy . . . with stock market investors modestly optimistic (52.8) and non-investors deeply pessimistic (42.1)."

University of Michigan

Friday, Preliminary Index of Consumer Sentiment: Preliminary results for June 2020 show the index rising 6.6 points to 78.9. According to Surveys of Consumers' Chief Economist, Richard Curtin, "the turnaround is largely due to renewed gains in employment, with more consumers expecting declines in the jobless rate than at any other time in the long history of the Michigan surveys." He added that "despite the expected economic gains, few consumers anticipate the reestablishment of favorable economic conditions anytime soon. Bad times financially in the economy as a whole during the year ahead were still expected by two-thirds of all consumers, and a renewed downturn was anticipated by nearly half over the longer term."

Employment and Businesses:

The Conference Board

Monday, Employment Trends Index: "The index now stands at 46.28, up from 42.53 (a downward revision) in April. However, the index is down 57.9 percent from a year ago." Gad Levanon, head of The Conference Board Labor Markets Institute, said that "seven of the eight components made positive contributions to the index, suggesting that the number of jobs will grow in the coming months." He cautioned, however, that "layoffs are far from over. According to a recent survey by The Conference Board, many human resource executives at large companies say their organizations plan on laying off workers in the coming months. By the end of 2020, the employment level in the US may still be 10 million below where it stood in February."

National Federation of Independent Business

Tuesday, Small Business Optimism Index: "The Small Business Optimism Index increased 3.5 points in May to 94.4, a strong improvement from April's 90.9 reading. Eight of the 10 Index components improved in May and two declined. . . . Owners are optimistic about future business conditions and expect the recession to be short-lived."

Mortgages and Housing Markets:

Fannie Mae

Monday, Home Purchase Sentiment Index: The index "increased 4.5 points in May to 67.5, building slightly after nearing its all-time survey low in April . . . with consumers reporting a somewhat more optimistic view of homebuying conditions and, to a lesser extent, home-selling conditions. Moreover, fewer consumers reported expectations that mortgage rates will go up over the next 12 months. Year over year, the HPSI is down 24.5 points."

Freddie Mac

Thursday, Primary Mortgage Market Survey: "The rebound in homebuyer demand continued this week, driven by mortgage rates that hover near record lows," said Sam Khater, Freddie Mac's Chief Economist. "This turnaround in demand, particularly by those who have higher incomes than the typical household, also reflects deferred sales from the Spring." Rates for a "30-year fixed-rate mortgage averaged 3.21 percent . . . for the week ending June 11, 2020, up slightly from last week when it averaged 3.18 percent. A year ago at this time, the 30-year FRM averaged 3.82 percent."

Mortgage Bankers Association

Monday, Forbearance and Call Volume Survey: This week's survey "revealed that the total number of loans now in forbearance increased from 8.46% of servicers' portfolio volume in the prior week to 8.53% as of May 31, 2020. According to MBA's estimate, almost 4.3 million homeowners are now in forbearance plans. . . . 'With the job market beginning to gradually improve, more homeowners are exiting forbearance, and we are seeing declines in forbearance volume among some servicers,' said Mike Fratantoni, MBA's Senior Vice President and Chief Economist."

Tuesday, Mortgage Credit Availability: "Mortgage credit availability decreased in May. . . . 'Mortgage lenders in May responded accordingly to the increased risk and uncertainty in the economy. Credit availability continued to decline, with MBA's overall index now at its lowest level since June 2014,' said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting."

Wednesday, Mortgage Applications: For the week ending June 5, 2020, mortgage loan application volume increased 9.3 percent on a seasonally adjusted basis from the week before. "Fueled again by low mortgage rates, pent-up demand from earlier this spring, and states reopening across the country, purchase mortgage applications and refinances both increased. The recovery in the purchase market continues to gain steam, with the seasonally adjusted index rising to its highest level since January. Purchase activity increased for the eighth straight week and was a notable 13 percent higher than a year ago," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting.