Economic Update, June 5, 2020
Submitted by Dave Keiser

Summary: The big news this week is jobs. As economies started reopening in May, the national unemployment rate decreased to 13.3 percent, mainly from employment increases in leisure and hospitality, construction, education and health services, and retail trade. Initial claims for unemployment insurance were down last week. Other indicators were still negative. Air cargo was down, as well as construction spending and mortgage applications. Economic activity in the manufacturing sector contracted again, but not as severely as it did in April. Gross domestic product projections went down again, and the number of homeowners in forbearance plans continued to increase. A potential silver lining if you're one of those who can work from home (and enjoys doing so): over three-quarters of human resource departments see a shift to a more permanent telecommuting work-environment, even after the pandemic.

Federal Government Indicators and Reports:

Bureau of Economic Analysis

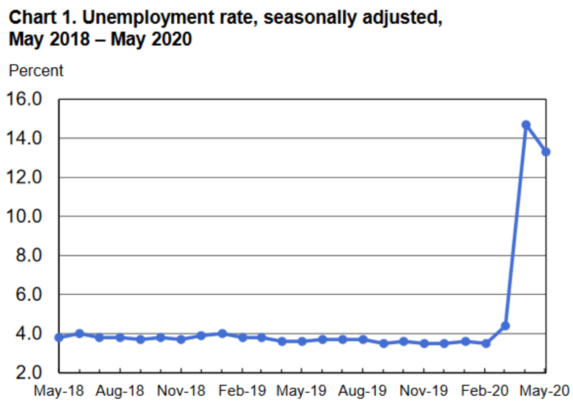
Thursday, U.S. International Trade in Goods and Services: "The goods and services deficit was $49.4 billion in April, up $7.1 billion from $42.3 billion in March, revised. April exports were $151.3 billion, $38.9 billion less than March exports. April imports were $200.7 billion, $31.8 billion less than March imports."

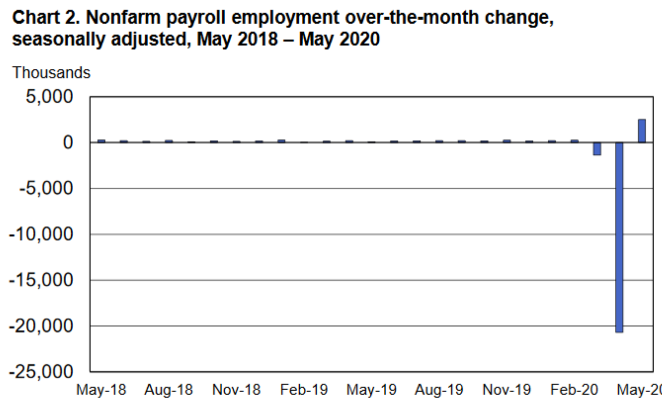
Bureau of Labor Statistics

Wednesday, Metropolitan Area Employment and Unemployment: "Unemployment rates were higher in April than a year earlier in all 389 metropolitan areas. . . . Nonfarm payroll employment decreased over the year in 377 metropolitan areas and was essentially unchanged in 12 areas. The national unemployment rate in April was 14.4 percent, not seasonally adjusted, up from 3.3 percent a year earlier." In Tennessee, the unemployment rate for the Morristown area rose to 16.3 percent in April, followed by Clarksville (16.0 percent), Nashville-Davidson-Murfreesboro-Franklin (15.2), Kingsport-Bristol-Bristol, VA (13.7), Jackson (13.6), Knoxville (13.5), Cleveland (13.5), Chattanooga (13.3), Johnson City (13.2), and Memphis (12.7). The unemployment rate for Tennessee stands at 15.0 percent for April.

Thursday, Productivity and Costs: "Nonfarm business sector labor productivity decreased 0.9 percent in the first quarter of 2020 . . . as output decreased 6.5 percent and hours worked decreased 5.6 percent. . . . From the first quarter of 2019 to the first quarter of 2020, productivity increased 0.7 percent, reflecting no change in output and a 0.7-percent decrease in hours worked."

Friday, Employment Situation: "Total nonfarm payroll employment rose by 2.5 million in May, and the unemployment rate declined to 13.3 percent. . . . These improvements in the labor market reflected a limited resumption of economic activity that had been curtailed in March and April due to the coronavirus (COVID-19) pandemic and efforts to contain it. In May, employment rose sharply in leisure and hospitality, construction, education and health services, and retail trade. By contrast, employment in government continued to decline sharply. . . . Among the major worker groups, the unemployment rates declined in May for adult men (11.6 percent), adult women (13.9 percent), Whites (12.4 percent), and Hispanics (17.6 percent). The jobless rates for teenagers (29.9 percent), Blacks (16.8 percent), and Asians (15.0 percent) showed little change over the month."



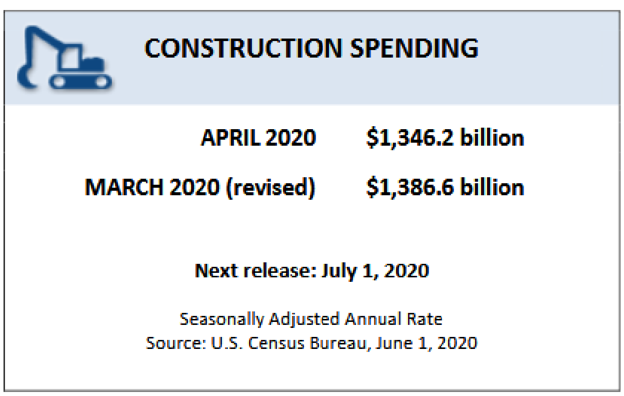


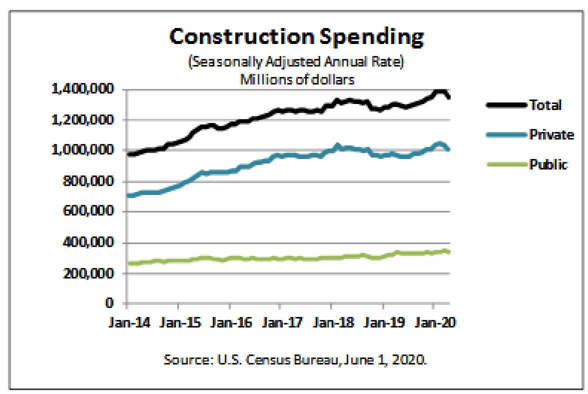
Bureau of Transportation Statistics

Thursday, [Air Cargo](): "U.S. and foreign airlines carried 15.2% less cargo by weight between the U.S. and foreign points in March 2020 than in March 2019."

Census Bureau

Monday, Construction Spending: "Construction spending during April 2020 was estimated at a seasonally adjusted annual rate of $1,346.2 billion, 2.9 percent below the revised March estimate of $1,386.6 billion. The April figure is 3.0 percent above the April 2019 estimate of $1,307.1 billion. During the first four months of this year, construction spending amounted to $412.5 billion, 7.1 percent above the $385.2 billion for the same period in 2019."

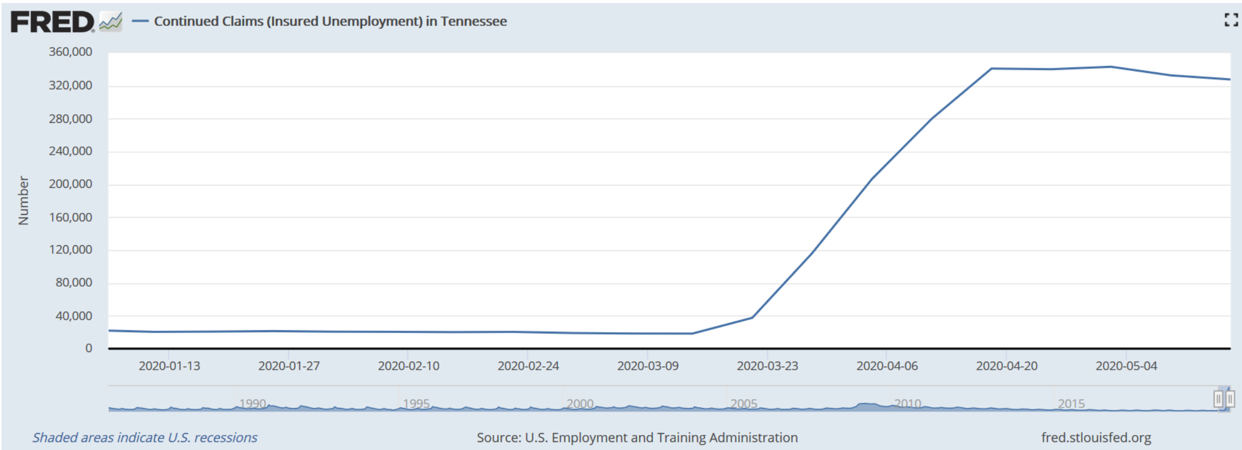




Wednesday, Manufacturers' Shipments, Inventories, and New Orders: "New orders for manufactured goods in April, down three of the last four months, decreased $57.5 billion or 13.0 percent to $384.3 billion. . . . This followed an 11.0 percent March decrease. Shipments, down four consecutive months, decreased $63.6 billion or 13.5 percent to $406.8 billion. This followed a 5.5 percent March decrease. Unfilled orders, down two consecutive months, decreased $17.6 billion or 1.6 percent to $1,107.6 billion. This followed a 2.1 percent March decrease. The unfilled orders-to-shipments ratio was 7.62, up from 6.70 in March. Inventories, down four consecutive months, decreased $2.6 billion or 0.4 percent to $686.5 billion. This followed a 1.1 percent March decrease. The inventories-to-shipments ratio was 1.69, up from 1.46 in March."

Department of Labor

Thursday, Initial Unemployment Claims: "In the week ending May 30, the advance figure for seasonally adjusted initial claims was 1,877,000, a decrease of 249,000 from the previous week's revised level. . . . The 4-week moving average was 2,284,000, a decrease of 324,750 from the previous week's revised average." The number of Tennesseans receiving unemployment for the week ended May 23 (not seasonally adjusted) was 313,639, down 14,129 from the week before. For the week ended May 30, there were 22,784 initial claims filed, 2,655 fewer than the prior week.



Federal Reserve Bank of Atlanta

Thursday, GDPNow: The "estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2020 is -53.8 percent on June 4, down from -52.8 percent on June 1. . . . The nowcast of second-quarter real gross private domestic investment growth decreased from -62.6 percent to -64.2 percent, while the nowcast of the contribution of the change in net exports to second-quarter real GDP growth decreased from 0.43 percentage points to 0.07 percentage points."

Federal Reserve Bank of Chicago

Wednesday, National Financial Conditions Index: "The NFCI edged down to –0.51 in the week ending May 29. . . . 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."

Economic Indicators and Confidence:

The Conference Board

Wednesday, Human Resources Survey: "As millions of Americans continue working from home, new survey results suggest why some of them should get comfortable. [Seventy-seven percent] of surveyed HR leaders expect the shift toward more teleworking to continue, even one year after COVID-19 substantially subsides. . . . The findings also reveal that, this summer, US workers should continue to brace for more permanent, sometimes painful changes at their organizations. Rather than continuing to enact more easily reversible decisions such as furloughs and hiring freezes, some HR executives said their companies will now focus on making long-lasting changes, including more layoffs and restructurings."

Thursday, Public Company Boards Survey: "Boards face a growing list of urgent priorities in reopening their businesses; fixing vulnerabilities in crisis management and executive succession planning; and addressing the sharp divide in corporate America over the pandemic's impact on corporate sustainability efforts. Smaller companies face the greatest challenges of all."

IHS Markit

Monday, U.S. Manufacturing Purchasing Managers' Index (PMI): "May data signaled a slightly softer, but nonetheless severe, contraction in U.S. manufacturing output. The decrease in output was largely driven by a further weakening of client demand and lower new order inflows from both domestic and foreign customers amid the coronavirus disease 2019 (COVID-19) outbreak. A marked decline in total sales and negative sentiment towards the outlook for output over the coming year drove employment down, as firms reduced workforce numbers substantially. At the same time, lower input buying and weaker overall demand conditions put pressure on suppliers to lower their prices. Consequently, input costs fell again, in turn helping manufacturers to cut their output charges at a record pace as firms sought to remain competitive."

Wednesday, U.S. Services Business Activity Index: "U.S. service providers indicated a further significant, albeit softer, contraction in business activity in May, as the impact of the coronavirus disease 2019 (COVID-19) continued to dampen client demand. At the same time, new order inflows declined at a slower rate than in April, despite domestic and foreign demand remaining subdued. Consequently, companies cut jobs at a considerable pace, and one that was only slightly slower than April's recent record. The reduction in employment partially stemmed from pessimism among firms towards the outlook for activity over the next year, as extreme levels of business uncertainty weighed on confidence."

Wednesday, U.S. Sector PMI: "The latest survey data, collected 12-28 May, pointed to a steep downturn across all areas of the US private sector economy with the exception of healthcare. May data signaled that healthcare activity fell slightly, after posting a survey-record expansion amid the COVID-19 pandemic in April. A gradual easing of social distancing and stay-at-home measures helped to ease the rates of contraction seen across the consumer segments during May. The consumer services and consumer goods sectors recorded much softer declines in business activity than in the previous month. Similar patterns were signaled in financials and industrials, with the downturns in business activity across both categories moderating from April's survey records."

Employment and Businesses:

ADP

Wednesday, National Employment: "Private sector employment decreased by 2,760,000 jobs from April to May. . . . 'The impact of the COVID-19 crisis continues to weigh on businesses of all sizes,' said Ahu Yildirmaz, co-head of the ADP Research Institute. 'While the labor market is still reeling from the effects of the pandemic, job loss likely peaked in April, as many states have begun a phased reopening of businesses.'"

Challenger, Gray, and Christmas

Thursday, Job Cuts: "Job cuts announced by U.S.-based employers totaled 397,016 in May, down 40.8% from April's total of 671,129, the highest monthly total on record. . . . The COVID-19 pandemic caused 209,147 cuts in May, followed by 119,018 job cuts due to market conditions, and 50,172 announced cuts due to demand downturn. . . . So far this year, 1,414,828 job cuts have been announced, 389.5% higher than the 289,010 announced in the first five months of 2019, and the highest January-May total on record."

Institute for Supply Management

Monday, Manufacturing Business Survey: "Economic activity in the manufacturing sector contracted in May, and the overall economy returned to expansion after one month of contraction, say the nation's supply executives." Tim Fiore, the chair of ISM's Manufacturing Business Survey Committee, said 'the May index was "43.1 percent, up 1.6 percentage points from the April reading of 41.5 percent. This figure indicates expansion in the overall economy after April's contraction, which ended a period of 131 consecutive months of growth. . . . The coronavirus pandemic impacted all manufacturing sectors for the third straight month. May appears to be a transition month, as many panelists and their suppliers returned to work late in the month. However, demand remains uncertain, likely impacting inventories, customer inventories, employment, imports and backlog of orders. Among the six biggest industry sectors, Food, Beverage & Tobacco Products remains the only industry in expansion. Transportation Equipment; Petroleum & Coal Products; and Fabricated Metal Products continue to contract at strong levels.'"

Wednesday, Non-manufacturing Business Survey: "Economic activity in the non-manufacturing sector contracted in May for the second consecutive month." The May index was 45.4 percent, 3.6 percentage points higher than the April reading of 41.8 percent.

National Federation of Independent Business

Thursday, Small Business Jobs: "[T]he small business labor market weakened further in May with firms reducing employment by an average of 0.17 workers per firm. Down from April, 6% of owners reported increasing employment an average 3.3 workers per firm, and 21% reported reducing employment an average of 5.1 workers per firm (seasonally adjusted)."

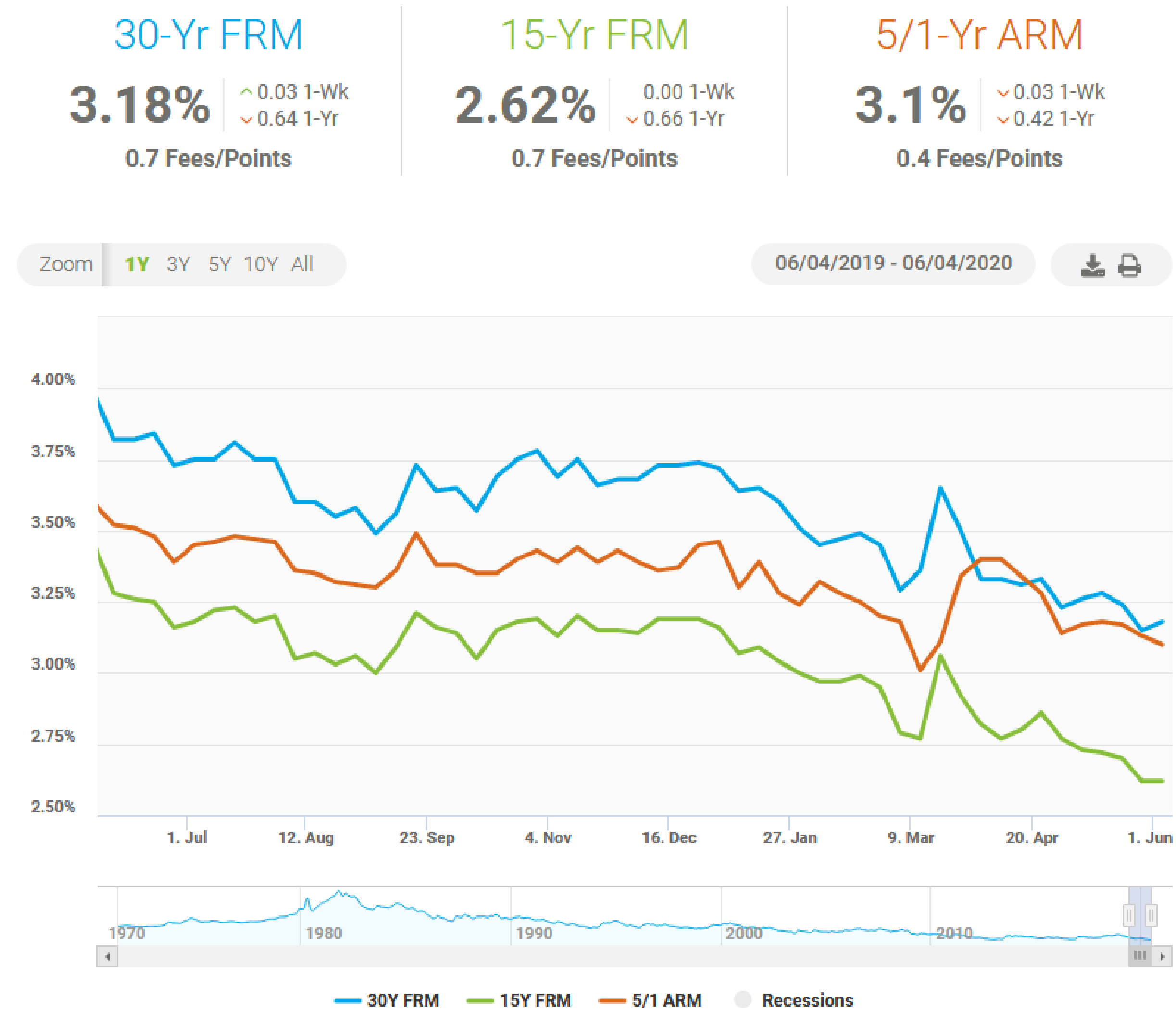
Paychex – IHS Markit

Tuesday, Small Business Employment: The latest index "shows that employment growth improved slightly in May, up 0.25 percent, as stay-at-home orders eased in most states. Amid the economic impacts of the COVID-19 pandemic, the jobs index has fallen 3.95 percent year-over-year, most of which (3.52 percent) occurred in the past quarter. The transition back to work also resulted in a 5.33 percent one-month annualized increase in weekly hours worked after a sharp drop in April."

Mortgages and Housing Markets:

Freddie Mac

Thursday, Primary Mortgage Market Survey: "While the economy is slowly rebounding, all signs continue to point to a solid recovery in home sales activity heading into the summer as prospective buyers jump back into the market. Low mortgage rates are a key factor in this recovery," said Sam Khater, Freddie Mac's Chief Economist. "While homebuyer demand is up and has been broad-based across most geographies, supply has been slower to improve. In fact, the gap between supply and demand has widened even further than the large gap that existed prior to the pandemic."



Mortgage Bankers Association

Monday, [Forbearance and Call Volume Survey](): "The total number of loans now in forbearance increased from 8.36 percent of servicers' portfolio volume in the prior week to 8.46 percent as of May 24, 2020. According to MBA's estimate, just over 4.2 million homeowners are now in forbearance plans."

Wednesday, [Mortgage Applications](): "The Market Composite Index, a measure of mortgage loan application volume, decreased 3.9 percent on a seasonally adjusted basis from one week earlier. . . . The Refinance Index decreased 9 percent from the previous week and was 137 percent higher than the same week one year ago. The seasonally adjusted Purchase Index increased 5 percent from one week earlier."