Economic Update, July 10, 2020
Submitted by Dave Keiser

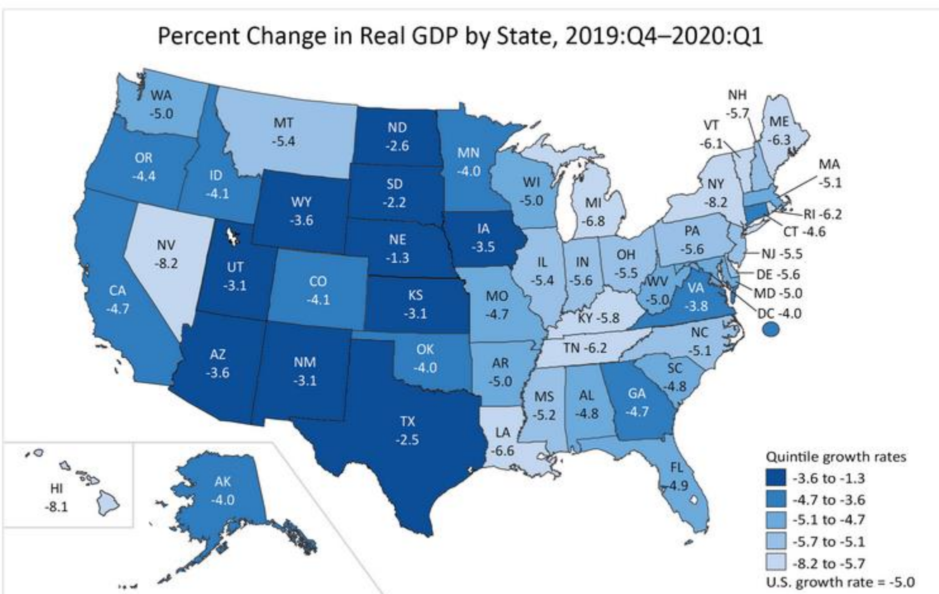
Summary: Indicators this week are mixed. On the positive side, wholesale trade was up, freight was up slightly, electricity production was up, mortgage applications were up, teen employment increased, hires were up while unemployment claims were down, forbearance rates were down, and separations were down. However, financial conditions are worsening, airline jobs decreased, producer prices decreased, consumer credit was down, and economic optimism went down. Communities are reporting worsening economic conditions as jobs are lost and incomes decrease. We'll have a better idea of the effect of the recent surge in COVID-19 cases on the economy later this summer as the data catch up.

Federal Government Indicators and Reports:

Bureau of Economic Analysis

Monday, Gross Domestic Product by Industry: "Accommodation and food services; finance and insurance; and health care and social assistance industries were the leading contributors to the 5.0 percent (annual rate) decrease in gross domestic product (GDP) in the first quarter of 2020. . . . All sectors of the U.S. economy contributed to the decrease, led by a decline in private services-producing industries."

Tuesday, Gross Domestic Product by State: "Real gross domestic product (GDP) decreased in all 50 states and the District of Columbia in the first quarter of 2020. . . . The percent change in real GDP in the first quarter ranged from -1.3 percent in Nebraska to -8.2 percent in New York and Nevada." Tennessee had a 6.2 percent decrease.



U.S. Bureau of Economic Analysis

Bureau of Labor Statistics

Tuesday, Job Openings and Labor Turnover: "The number of hires increased by 2.4 million to a series high of 6.5 million in May. . . . Total separations decreased by 5.8 million to 4.1 million, the single largest decrease since the series began. Within separations, the quits rate rose to 1.6 percent while the layoffs and discharges rate fell to 1.4 percent. Job openings increased to 5.4 million on the last business day of May. 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."

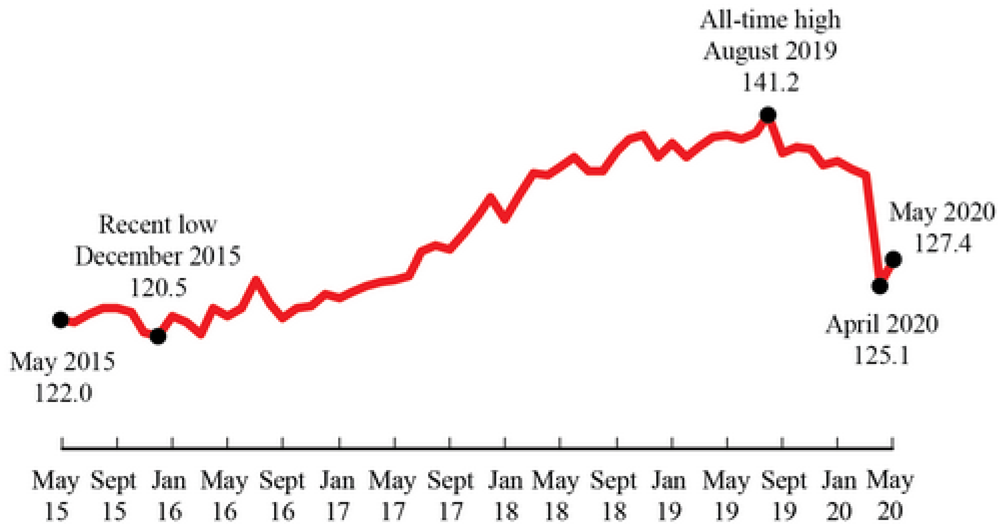
Friday, Producer Price Index: The index "for final demand fell 0.2 percent in June, seasonally adjusted. . . . This decrease followed a 0.4-percent increase in May and a 1.3-percent decline in April. On an unadjusted basis, the final demand index moved down 0.8 percent for the 12 months ended in June."

Bureau of Transportation Statistics

Thursday, Freight Transportation Shipment Index: The index, "which is based on the amount of freight carried by the for-hire transportation industry, rose 1.6% in May from April, rising after a three-month decline. . . . From May 2019 to May 2020, the index fell 8.5% compared to a rise of 2.1% from May 2018 to May 2019 and a rise of 8.4% from May 2017 to May 2018."

Figure 1: Freight Transportation Services Index, May 2015 - May 2020

(Seasonally Adjusted, Monthly Average of 2000 = 100)



Source:

SOURCE: Bureau of Transportation Statistics

Friday, Airline Employment: "U.S. airlines employed 696,534 workers in the middle of May 2020, 20,100 fewer than in mid-April 2020 and 42,282 fewer than in May 2019. The May 2020 numbers consist of 588,802 full-time and 107,732 part-time workers."

Census Bureau

Thursday, Wholesale Trade: "May 2020 sales of merchant wholesalers . . . were $419.1 billion, up 5.4 percent from the revised April level, but were down 16.2 percent from the revised May 2019 level. . . . Total inventories of merchant wholesalers . . . were $642.5 billion at the end of May, down 1.2 percent from the revised April level. Total inventories were down 4.2 percent from the revised May 2019 level. . . . The May inventories/sales ratio for merchant wholesalers . . . was 1.53. The May 2019 ratio was 1.34."

Department of Labor

Thursday, Unemployment Insurance Weekly Claims: "In the week ending July 4, the advance figure for seasonally adjusted initial claims was 1,314,000, a decrease of 99,000 from the previous week's revised level. . . . The 4-week moving average was 1,437,250, a decrease of 63,000 from the previous week's revised average. . . . The advance seasonally adjusted insured unemployment rate was 12.4 percent for the week ending June 27, a decrease of 0.5 percentage point from the previous week's revised rate." In Tennessee, there were 25,843 initial claims filed during the week ended July 4, an increase of 4,299 from the week prior.

Federal Reserve

Wednesday, Consumer Credit: "In May, consumer credit decreased at a seasonally adjusted annual rate of 5.25 percent. Revolving credit decreased at an annual rate of 28.5 percent, while nonrevolving credit increased at an annual rate of 2.25 percent."

Federal Reserve Bank of Atlanta

Tuesday, Community Survey on Pandemic's Economic Impact: "COVID-19 continues to have a profound effect on people nationwide. . . . Sixty percent of respondents indicated COVID-19 was significantly disrupting economic conditions in the communities they serve, and they said they expect recovery to be difficult. The most frequently cited impacts of COVID-19 were income loss and job loss/unemployment. Nearly half indicated it will take longer than 12 months for the communities and people they serve to return to economic conditions they were experiencing prior to the pandemic. About 1 in 5 said their organization could operate for less than three months in the current environment before exhibiting financial distress."

Wednesday, Business Confidence: "CFOs and other financial decision-makers said they were more optimistic about the financial prospects of their firms and the direction of the U.S. economy in the second quarter of 2020 compared to the first quarter. In spite of the improvement in the optimism indexes, the trajectory of the recovery was not clear, according to survey responses. 'Firms continued to express concerns around the shape and strength of the recovery—for their firms, their industries, and their customers,' said Brent Meyer, policy advisor and economist at the Federal Reserve Bank of Atlanta. 'The comments from CFOs and financial decision-makers from firms across industries indicate that the COVID-19 pandemic has dramatically affected their views of the U.S. economy and the financial prospects of their firms.'"

Federal Reserve Bank of Chicago

Wednesday, National Financial Conditions Index (NFCI): "The NFCI ticked down to –0.39 in the week ending July 3. . . . 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."

Federal Reserve of New York

Thursday, Weekly Economic Index: "The WEI is currently -6.83 percent, scaled to four-quarter GDP growth, for the week ended July 4 and -7.66 percent for June 27; for reference, the WEI stood at 1.54 percent for the week ended February 29. Today's increase in the WEI for the week of July 4 is driven by increases in electricity production and rail traffic (relative to the same time last year) and a small decrease in initial unemployment insurance (UI) claims, which more than offset declines in fuel sales and tax withholdings. . . . The WEI is scaled to the four-quarter GDP growth rate; for example, if the

WEI reads -2 percent and the current level of the WEI persists for an entire quarter, we would expect, on average, GDP that quarter to be 2 percent lower than a year previously."

Economic Indicators and Confidence:

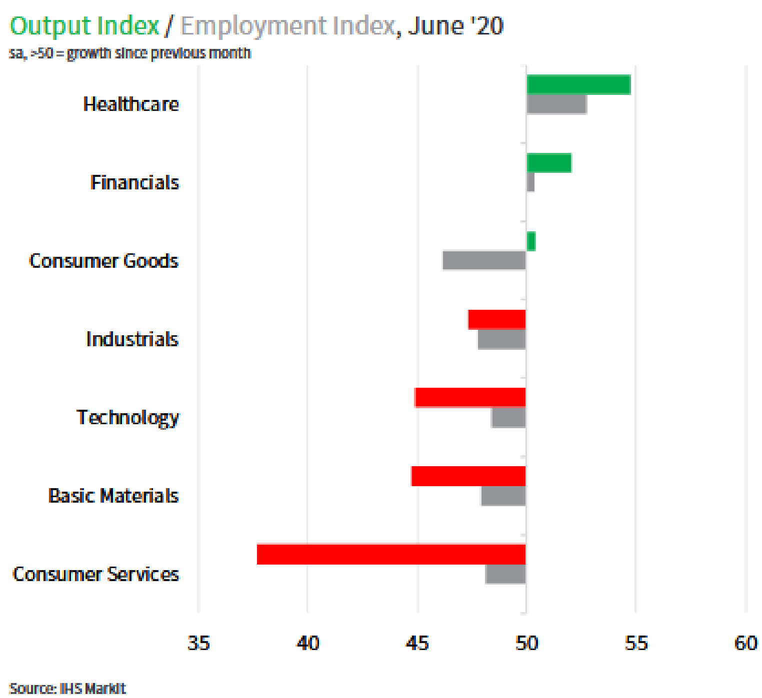
The Conference Board

Monday, Employment Trends Index: The index "increased in June, further stabilizing from sharp declines in recent months. The index now stands at 49.05, up from 45.27 (a downward revision) in May. However, the index is still down 54.8 percent from a year ago." Gad Levanon, Head of The Conference Board Labor Markets Institute, said that "the Employment Trends Index increased for the second consecutive month, but the virus's recent proliferation threatens those gains and puts the US labor market's future in an even more precarious position."

IHS Markit

Monday, Services Business Activity Index: June "data signaled a notably softer rate of contraction in business activity across the U.S. service sector as many companies began to reopen following the easing of coronavirus disease 2019 (COVID-19) restrictions. The loosening of lockdown measures also led to the broad stabilization of new orders, while export sales rose for the first time so far in 2020. As a result, the rate of job shedding softened markedly as some firms highlighted the hiring of new employees to help fulfil new business inflows. Excess capacity also eased as backlogs fell only fractionally. Although business confidence was historically muted, it signaled renewed optimism as hopes of stronger demand drove sentiment higher."

Monday, Sector Purchasing Managers' Index: "June data unsurprisingly pointed to a mixed picture across the seven broad categories of activity as the COVID-19 pandemic continued to have an uneven impact on industry sectors."



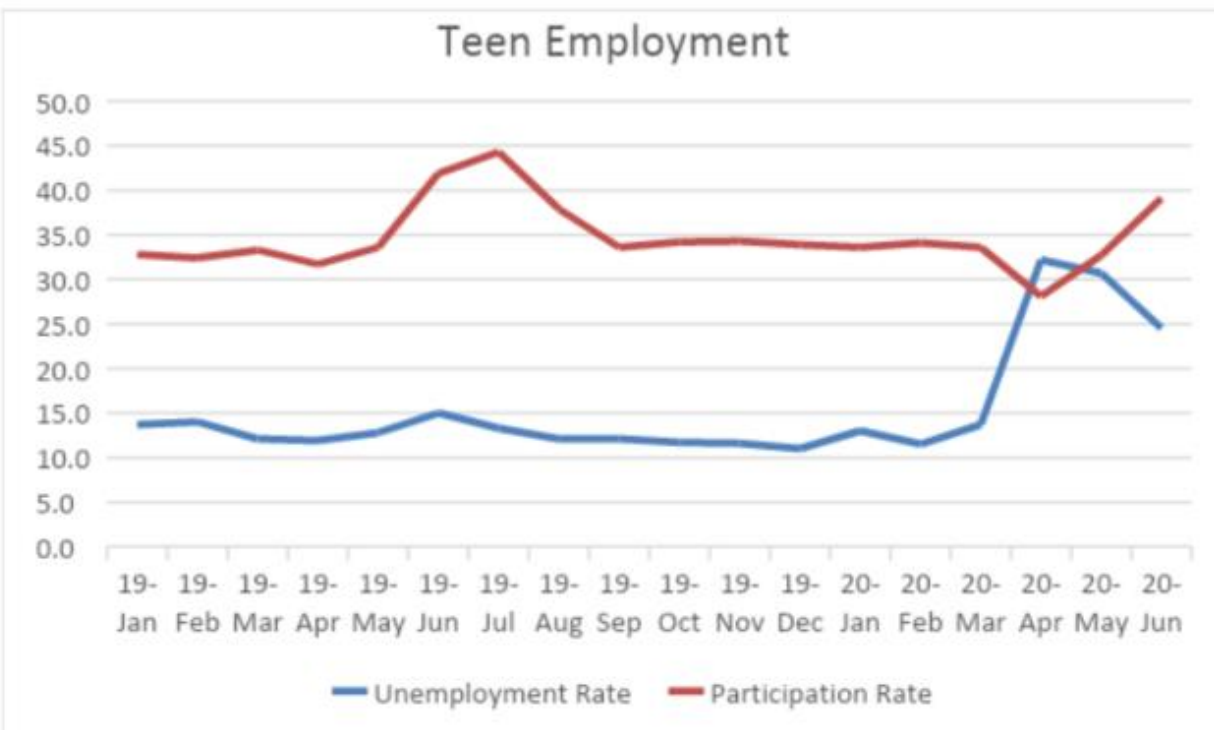
Investor's Business Daily

Tuesday, Economic Optimism: "Americans have grown more pessimistic about the U.S. economy's recovery from the coronavirus lockdown, as Covid-19 cases surged anew, the July IBD/TIPP Poll shows. The six-month economic outlook index relapsed, falling through April's Covid-19 floor to the lowest level since September 2015."

Employment and Businesses:

Challenger, Gray, & Christmas

Thursday, Teen Employment: "The number of jobs added for workers aged 16 to 19 soared in June to 1,129,000, the highest June total in over two decades, according to the latest employment data from the Bureau of Labor Statistics (BLS). This after 594,000 jobs were gained in May. . . . The 1,723,000 jobs added in May and June is a 36% jump from the 1,269,000 jobs added for teens in those two months last year. Teen hiring is on track to reach levels not seen since 1999, when 2,017,000 jobs were added. . . . Despite the huge jump in the number of jobs added, 4,884,000 teens were employed in June, the lowest number of employed teens in the month of June since 2010, when 4,833,000 teens were employed. Last June, 5,941,000 teens were employed, before hitting the peak employment number of 6,409,000 in July. In 1999, 7,900,000 teens were employed in June."



Kronos

Tuesday, Workforce Activity: "In alignment with the national July 4 holiday observance, total volume of shifts worked decreased by 11.4% from June 29-July 5, mirroring–and, in fact, falling short of–the decline in shifts that occurred the week of July 4, 2019 (-26.9%). According to the latest U.S. Workforce Activity Report . . . prior to the July 4 holiday, U.S. businesses had grown shifts by 32% since shift work hit "the bottom" the week ending April 12. Overall, shift volume remains down 24.3% since the week ending March 15–the last week of "normal" shift work activity before the U.S. declared a national emergency."

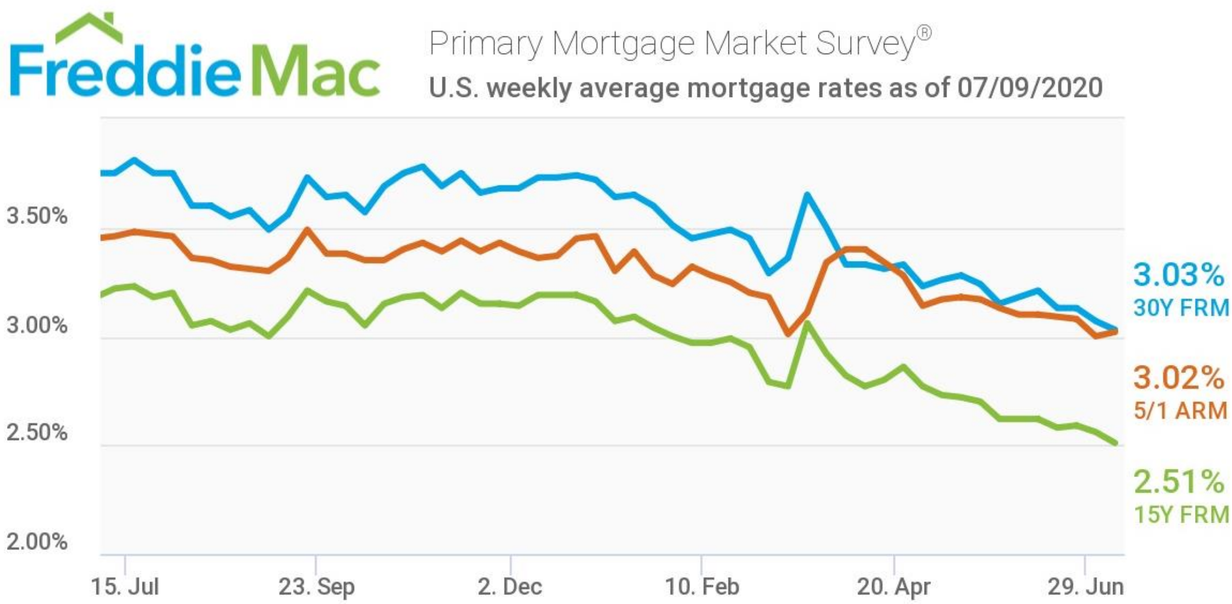
Mortgages and Housing Markets:

Fannie Mae

Tuesday, Home Purchase Sentiment Index: The index "increased 9.0 points in June to 76.5, building further on the prior month's advance after approaching a survey low in April. Four of the six HPSI components increased month over month, with consumers reporting a significantly more positive view of homebuying and home-selling conditions, as well as greater optimism regarding home price appreciation. Year over year, the HPSI is down 15.0 points."

Freddie Mac

Thursday, Primary Mortgage Market Survey: Mortgage rates remain at all-time lows. The "30-year fixed-rate mortgage averaged 3.03 percent . . . for the week ending July 9, 2020, down from 3.07 percent. A year ago at this time, the 30-year FRM averaged 3.75 percent."



Mortgage Bankers Association

Tuesday, Forbearance and Call Volume Survey: The latest survey "revealed that the total number of loans now in forbearance decreased by 8 basis points from 8.47% of servicers' portfolio volume in the prior week to 8.39% as of June 28, 2020. According to MBA's estimate, almost 4.2 million homeowners are in forbearance plans."

Wednesday, Mortgage Applications: "Mortgage applications increased 2.2 percent from one week earlier."