

Economic Update, April 14, 2023

Submitted by Bob Moreo

Summary: This week, our partners at the MTSU Business and Economic Research Center updated the [Tracking Tennessee's Economy](#) website with data and commentary for February 2023. They reported positive indications for employment and sales tax collections, while noting negative changes in real wages and year-over-year home construction.

Minutes from the Federal Open Market Committee meeting held March 21–22, 2023, [were released on Wednesday](#). Fed leaders “noted that the U.S. banking system is sound and resilient,” although “market contacts observed that the recent developments in the banking system will likely result in a pullback in bank lending,” while CNN reported that Fed economists’ project [“the fallout from the recent banking crisis is likely to push the U.S. economy into a mild recession later this year.”](#) Also at the meeting, “participants concurred that inflation remained well above the Committee’s longer-run goal of 2 percent and that the recent data on inflation provided few signs that inflation pressures were abating at a pace sufficient to return inflation to 2 percent over time. . . . Some participants . . . would have considered a 50 basis point increase in the target range to have been appropriate at this meeting in the absence of the recent developments in the banking sector.”

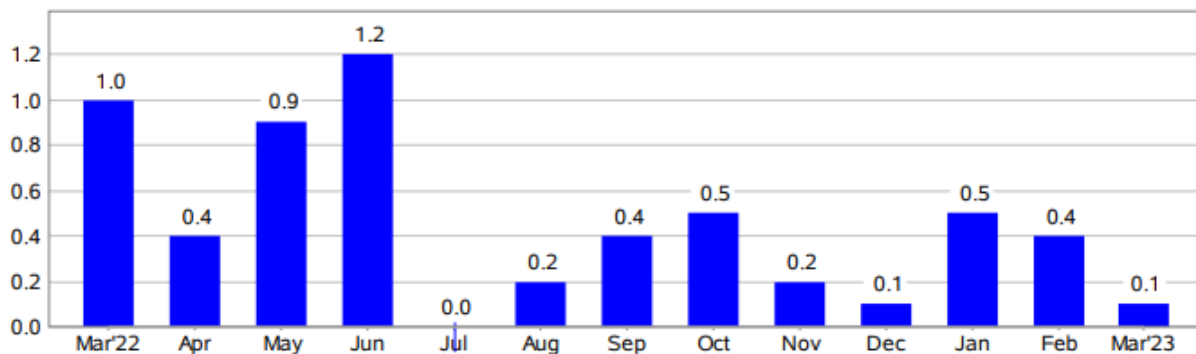
Despite those comments, inflation grew less in March than it had in January and February, and the 12-month figure is down to 5.0 percent. This helped produce an increase in real earnings, as hourly wages outpaced inflation. Producer prices declined as well, mostly due to falling oil and fuel costs. Initial unemployment claims jumped last week, and the seasonally adjusted number of people on unemployment has been trending upward since October. Overseas, Reuters reported that [“industrial production in the 20 countries sharing the euro rose 1.5 percent month-on-month in February for a 2.0 percent year-on-year increase,”](#) beating expectations.

Federal Government Indicators and Reports:

Bureau of Labor Statistics

Wednesday, [Consumer Price Index](#): “The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1 percent in March on a seasonally adjusted basis, after increasing 0.4 percent in February. . . . Over the last 12 months, the all items index increased 5.0 percent before seasonal adjustment. . . . The index for shelter was by far the largest contributor to the monthly all items increase.”

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Mar. 2022 - Mar. 2023
Percent change



Wednesday, [Real Earnings](#): “Real average hourly earnings for all employees increased 0.2 percent from February to March, seasonally adjusted. . . . This result stems from an increase of 0.3 percent in average hourly earnings combined with an increase of 0.1 percent in the Consumer Price Index. . . . Real average hourly earnings for production and nonsupervisory employees increased 0.3 percent from February to March. . . . From March 2022 to March 2023, real average hourly earnings increased 0.5 percent, seasonally adjusted.”

Thursday, [Producer Price Index](#): “The Producer Price Index for final demand declined 0.5 percent in March, seasonally adjusted. . . . Final demand prices were unchanged in February and increased 0.4 percent in January. On an unadjusted basis, the index for final demand advanced 2.7 percent for the 12 months ended in March. . . . Eighty percent of the March decline in the index for final demand goods can be traced to an 11.7-percent drop in prices for gasoline. . . . The indexes for chicken eggs and for meats moved higher. . . . Prices for final demand services moved down 0.3 percent in March, the largest decline since falling 0.5 percent in April 2020.”

Friday, [U.S. Import and Export Price Indexes](#): “U.S. import prices decreased 0.6 percent in March following a 0.2-percent decline in February. . . . Lower prices for fuel and nonfuel imports each contributed to the March drop. . . . Prices for U.S. exports fell 0.3 percent in March, after increasing 0.4 percent in February and 0.3 percent in January. . . . Import fuel prices declined 2.9 percent in March following a 5.7-percent drop the previous month. Prices for import fuel have not recorded a 1-month advance since June 2022. . . . Lower March prices for nonfuel industrial supplies and materials; consumer goods; foods, feeds, and beverages; capital goods; and automotive vehicles all contributed to the overall decrease in nonfuel import prices. . . . Prices for U.S. exports decreased 4.8 percent for the year ended in March, the largest 12-month decline since a 6.7- percent drop from May 2019 to May 2020.”

Bureau of Transportation Statistics

Wednesday, [Freight Transportation Services Index](#): “The Freight Transportation Services Index . . . rose 1.4 percent in February from January, rising after a one month decline. . . . From February 2022 to February 2023 the index fell 0.8 percent. . . . The level of for-hire freight shipments in February measured by the Freight TSI (138.7) was 2.0 percent below the all-time high level of 141.5 in August 2022.”

Census Bureau

Monday, [Monthly Wholesale Trade](#): “February 2023 sales of merchant wholesalers [seasonally adjusted] were \$669.5 billion, up 0.4 percent from the revised January level and were up 1.3 percent from the revised February 2022 level. . . . [Inventories] were \$919.2 billion at the end of February, up 0.1 percent from the revised January level. Total inventories were up 12.0 percent from the revised February 2022 level. . . . The February inventories/sales ratio . . . was 1.37. The February 2022 ratio was 1.24.”

Friday, [Advance Monthly Sales for Retail and Food Services](#): “Advance estimates of U.S. retail and food services sales for March 2023 [seasonally adjusted] . . . were \$691.7 billion, down 1.0 percent from the previous month, but up 2.9 percent above March 2022. Total sales for the January 2023 through March 2023 period were up 5.4 percent from the same period a year ago. . . . Nonstore retailers were up 12.3 percent from last year, while food services and drinking places were up 13.0 percent.”

Friday, [Manufacturing and Trade Inventories and Sales](#): “The combined value of distributive trade sales and manufacturers’ shipments for February [seasonally adjusted] . . . was estimated at \$1,817.9 billion, virtually unchanged from January 2023, but was up 3.3 percent from February 2022. . . .

[Inventories] were estimated at an end-of-month level of \$2,471.6 billion, up 0.2 percent from January 2023 and were up 9.1 percent from February 2022.”

Department of Labor

Thursday, [Unemployment Insurance Weekly Claims](#): “In the week ending April 8, the advance figure for seasonally adjusted initial claims was 239,000, an increase of 11,000 from the previous week's unrevised level of 228,000. The 4-week moving average was 240,000, an increase of 2,250 from the previous week's unrevised average of 237,750.”

For Tennessee in the week ending April 8, the advance figure (unadjusted) for initial claims was 2,315—an increase of 328 from the previous week. The advance figure for insured unemployment the week ending April 1 was 13,320—down 1,136 from the week prior.

Federal Reserve Board

Friday, [Industrial Production and Capacity Utilization](#): “Industrial production rose 0.4 percent in March and was little changed in the first quarter, increasing at an annual rate of 0.2 percent. In March, manufacturing and mining output each fell 0.5 percent. The index for utilities jumped 8.4 percent, as the return to more seasonal weather after a mild February boosted the demand for heating. At 103.0 percent of its 2017 average, total industrial production in March was 0.5 percent above its year-earlier level. Capacity utilization moved up to 79.8 percent in March, a rate that is 0.1 percentage point above its long-run (1972–2022) average.”

Economic Indicators and Confidence:

Federal Reserve Bank of Atlanta

Monday, [GDPNow](#): “The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the first quarter of 2023 is 2.2 percent on April 10, up from 1.5 percent on April 5.”

Federal Reserve Bank of New York

Monday, [Survey of Consumer Expectations](#): The survey for March 2023 showed “that inflation expectations increased at the short-term and medium-term horizons, but decreased slightly at the longer-term horizon. Expectations about year-ahead price increases for gas, food, cost of rent, and medical care all continued to decline, while expectations for the cost of college education increased. Home price growth expectations rose but remain below pre-pandemic levels. Credit access perceptions and expectations deteriorated.”

University of Michigan

Friday, [Index of Consumer Sentiment \(preliminary\)](#): “Consumer sentiment was essentially unchanged this month, inching up less than two index points from March. Sentiment is now about 3 percent below a year ago but 27 percent above the all-time low from last June. Rising sentiment for lower-income consumers was offset by declines among those with higher incomes. While consumers have noted the easing of inflation among durable goods and cars, they still expect high inflation to persist, at least in the short run. On net, consumers did not perceive material changes in the economic environment in April.”

Employment and Businesses:

The Conference Board

Monday, [Employment Trends Index](#): The index “declined in March to 116.24, down from a downwardly revised 116.75 in February 2023.” Selcuk Eren, senior economist at The Conference Board, noted: “The ETI declined slightly in February, but remains quite high, with minimal changes over the past year. . . . We expect the Federal Reserve will raise interest rates two more times by 25 basis points each in order to bring wage growth and inflation under control. That will trigger job losses and increased unemployment in the second half of 2023 and early part of 2024.”

National Federation of Independent Business

Tuesday, [Small Business Optimism Index](#): The index “decreased 0.8 points in March to 90.1, marking the 15th consecutive month below the 49-year average of 98. Twenty-four percent of owners reported inflation as their single most important business problem, down four points from last month. Small business owners expecting better business conditions over the next six months remain at a net negative 47 percent. . . . Forty-three percent of owners reported job openings that were hard to fill. . . . The net percent of owners who expect real sales to be higher deteriorated six points from February to a net negative 15 percent.”

Mortgages and Housing Markets:

Freddie Mac

Thursday, [Primary Mortgage Market Survey](#): “Mortgage rates decreased for the fifth consecutive week,” according to Sam Khater, Freddie Mac’s chief economist. “30-year fixed-rate mortgage averaged 6.27 percent as of April 13, 2023, down from last week when it averaged 6.28 percent. A year ago at this time, the 30-year FRM averaged 5.00 percent.”

Mortgage Bankers Association

Wednesday, [Weekly Mortgage Applications](#): “Mortgage applications increased 5.3 percent from one week earlier, according to data . . . for the week ending April 7, 2023. . . . ‘Incoming data last week showed that the job market is beginning to slow, which led to the 30-year fixed rate decreasing to 6.30 percent—the lowest level in two months,’ said Mike Fratantoni,” MBA’s chief economist.

National Association of Home Builders

Thursday, [Remodeling Market Index](#): The index for the first quarter of 2023 was at 70, “edging up one point compared to the previous quarter.” Said NAHB remodelers chair Alan Archuleta, “Remodelers are generally optimistic about the home improvement market, although some are noting negative effects of material shortages and higher interest rates.”