

Economic Update, November 4, 2016
Submitted by Reuben Kyle

Summary: It's the first Friday of the month so the big news, as usual, is the BLS jobs report, and the number is 161,000 new jobs in October. While not great, October was another month of new jobs in the U.S. economy. In other economic news, this week there were some positive signs in the manufacturing sector, though it was job loser last month. Motor vehicle sales were strong, led by truck sales. Personal income was up as were average hourly earnings. The two purchasing managers' surveys indicate that both manufacturing and service sectors are expanding. The consumer confidence measures once again give a mixed message. Be sure to check out the TACIR sponsored "Tracking Tennessee's Economy" story and Web site.

Dr. Ratajczak's [Weekly Commentary](#)

Monday: Dr. R begins with an explanation of why his GDP growth prediction of 2.2% missed the actual 2.9%. He goes through his methodology for arriving at his estimate. His conclusion is that his tracking methodology was correct but his information was incomplete. If you are interested, he dissects the GDP report carefully. His estimate for October's jobs report is 182,000 jobs and a 4.9% unemployment rate.

Census Bureau

Tuesday, [Construction Spending](#): In September 2016, construction spending was 0.4% below that in August and 0.2% lower than in September 2015, but for the year-to-date, it is 4.4% higher than in 2015. Private construction spending was 0.2% less than in the previous month, though residential spending was up by 0.5%. Public sector construction spending was down by 0.9% with educational spending lower by 1.1%, while highway construction increased by 0.9%.

Thursday, [Manufacturers' Shipments, Inventories, and Orders](#): In September 2016, new orders and shipments of manufactured goods both increased, while unfilled orders and inventories both decreased. New orders increased by 0.3%, and shipments increased by 0.8%. Unfilled orders fell by 0.4%, while inventories fell by \$0.2 billion (less than 0.1%).

Friday, [U.S. International Trade in Goods and Services](#): In September 2016, the U.S. Balance of Trade in Goods and Services deficit fell by \$4.0 billion. Exports increased by \$1 billion and imports fell by \$3.0 billion. The deficit in goods alone declined by \$2.6 billion while the surplus in services increased by \$1.4 billion. Year-to-date, the deficit has fallen by 2.5%.

Bureau of Labor Statistics

Wednesday, [Metropolitan Area Employment and Unemployment](#): In September 2016, compared with September 2015 unemployment rates were lower in 224 of 387 Metropolitan Statistical Areas (MSAs), higher in 141, and unchanged in 22. The lowest unemployment rate was in Sioux Falls, South Dakota, at 2.0% and the highest was in El Centro, California, at 22.7%. Total nonfarm employment increased year-over-year in 315 MSAs, fell in 65, and was unchanged in seven. Among the 10 Tennessee MSAs, two had lower unemployment rates in September than in August, three had higher rates, and five were unchanged. Comparing September 2016 to September 2015, all 10 had lower unemployment rates. Nine of 10 Tennessee MSAs added jobs from August to September with only Memphis losing 600 jobs for the month. All 10 had increased employment year-over-year with employment in the Cleveland MSA increasing by 5.2% followed by Morristown gaining 2.9%.

Thursday, [Productivity and Cost](#): In the 3rd quarter of 2016, nonfarm, business sector labor productivity increased at an annual rate of 3.1% as output increased by 3.4% and labor-hours worked increased by 0.3%. Combined with a 3.4% increase in compensation, the 3.1% increase in productivity means that cost per labor-hour increased by 0.3% for the quarter.

Friday, [Employment Situation](#): In October 2016, total nonfarm employment increased by 161,000 and the unemployment rate fell to 4.9%. The report points out the Hurricane Matthew affected economic activity on the east coast of the U.S. during the month. According to the [Household Survey](#), the labor force fell by 195,000 and the Labor Force Participation Rate fell by 0.1% to 62.8%. Unemployment rates for every demographic group, except Black or African-Americans, fell. The [Establishment Survey](#) has private-sector jobs increasing by 142,000 and government jobs gaining 19,000. Construction added 11,000 while motor vehicles and parts lost 100. The biggest gainers in service-producing were Business and Professional Services with 43,000 new jobs followed by Health Care and Social Assistance with 39,100. The diffusion index for 262 private industries was 59.2% and for 79 manufacturing industries it was 48.1%.

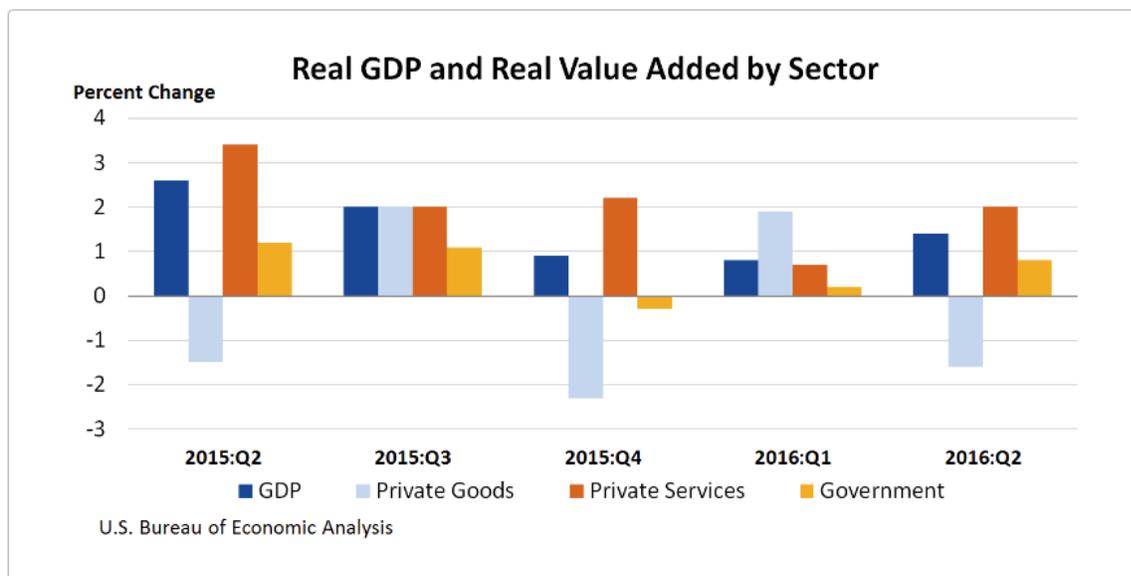
ADP.com

Wednesday, [ADP Employment Report](#): In October 2016 the private sector added 147,000 jobs in total with the service sector gaining 165,000, while the goods-producing sector lost 18,000. The losses included 15,000 construction jobs and 1,000 manufacturing jobs. Among the gainers, trade, transportation, and utilities added 17,000 new jobs and professional and business employment increased by 69,000.

Bureau of Economic Analysis

Monday, [Personal Income](#): In September 2016, Personal Income and Disposable Personal Income (DPI) both increased by \$46.7 billion (0.3%). Personal Consumption Expenditures (PCE) increased by 0.5%. Adjusted for inflation, DPI rose by less than 0.1%, while PCE increased by 0.3%. The Personal Consumption Expenditure Price Index was up by 0.2% from August.

Thursday, [Gross Domestic Product by Industry, 2nd Quarter 2016](#): "Transportation and warehousing; health care and social assistance; and professional, scientific, and technical services were the leading contributors to the increase in U.S. economic growth in the second quarter of 2016. According to gross domestic product (GDP) by industry statistics released by the Bureau of Economic Analysis, 15 of 22 industry groups contributed to the overall 1.4 percent increase in real GDP in the second quarter." The chart below shows quarterly GDP growth by industry sector since Q2 2015.



U.S. Department of Labor

Thursday, [Initial Claims](#): New claims for unemployment insurance in the week ending October 29, 2016, increased by 7,000 to 265,000, and the four-week moving average increased by 4,750 to 257,750. "This marks 87 consecutive weeks of initial claims below 300,000, the longest streak since 1970." In the previous week ending October 22, three states reported increases of 1,000 or more initial claims and four states reported decreases of 1,000 or more. Tennessee reported a decrease of 131 new claims.

Board of Governors of the Federal Reserve

Wednesday, [Federal Open Market Committee Meeting Announcement](#): The committee voted eight to two to maintain the federal funds rate at the current 1/4% to 1/2%. "The Committee judges that the case for an increase in the federal funds rate has continued to strengthen but decided, for the time being, to wait for some further evidence of continued progress toward its objectives."

Autodate.com

Tuesday, [Motor Vehicles Sales](#): In October 2016, the seasonally-adjusted, annual rate of sales of light motor vehicles was 18.02 million units, the highest rate in 2016. Compared with October 2015, car sales by all three Tennessee assemblers were down. General Motors car sales were 14.1% below those of the previous October, Nissan's were 13.3% lower, and Volkswagen's sales were down by 18.5%. Year-to-date sales were lower for all three compared to 2015. Sales of light trucks were up for both General Motors and Nissan. In fact, Nissan's light truck sale year-to-date were 14.5% higher than in 2015.

Institute for Supply Management

Tuesday, [October 2016 Manufacturing ISM Report on Business](#): The October index was 51.9%, up by 0.4 percentage points from 51.5% in September, which indicates that the manufacturing sector is expanding again. The overall economy expanded for the 89th consecutive month. The survey covers 18 manufacturing industry sectors and 10 of those reported expanding while eight reported contracting. Below are a few respondents' comments.

- "Domestic business steady. Export business trending higher." (Chemical Products)
- "Very favorable outlook in the market." (Computer & Electronic Products)
- "We are looking at a considerable slowdown for October and November. Production is down 20 percent." (Primary Metals)
- "Business is much better." (Fabricated Metal Products)

Thursday, [October 2016 Non-Manufacturing Index ISM Report on Business](#): The non-manufacturing index was 54.8%, down from 57.1% in September. Thirteen of the 18 industry sectors surveyed reported expanding, and five reported contracting. Below are a few respondents' comments.

- "Food industry is reeling from high avocado pricing due to a labor dispute between packers and growers. We've seen case prices rise to as much as \$100 for standard 48 count. Otherwise, commodities have remained as usual given the transition to seasonal growing regions." (Accommodation & Food Services)
- "We secured lots of new clients, and business in our division is booming." (Construction)
- "Slight decline for this time of year. Seeing price reductions as well." (Arts, Entertainment & Recreation)
- "Economy is becoming stabilized. All segments doing fairly well." (Finance & Insurance)

The table below gives the details for both the manufacturing and non-manufacturing surveys.

ISM® NON-MANUFACTURING SURVEY RESULTS AT A GLANCE
COMPARISON OF ISM® NON-MANUFACTURING AND ISM® MANUFACTURING SURVEYS*
OCTOBER 2016

Index	Non-Manufacturing						Manufacturing		
	Series Index Oct	Series Index Sep	Percent Point Change	Direction	Rate of Change	Trend** (Months)	Series Index Oct	Series Index Sep	Percent Point Change
NMI®/PMI®	54.8	57.1	-2.3	Growing	Slower	81	51.9	51.5	+0.4
Business Activity/Production	57.7	60.3	-2.6	Growing	Slower	87	54.6	52.8	+1.8
New Orders	57.7	60.0	-2.3	Growing	Slower	87	52.1	55.1	-3.0
Employment	53.1	57.2	-4.1	Growing	Slower	5	52.9	49.7	+3.2
Supplier Deliveries	50.5	51.0	-0.5	Slowing	Slower	10	52.2	50.3	+1.9
Inventories	52.0	51.5	+0.5	Growing	Faster	2	47.5	49.5	-2.0
Prices	56.6	54.0	+2.6	Increasing	Faster	7	54.5	53.0	+1.5
Backlog of Orders	52.0	52.0	0.0	Growing	Same	2	45.5	49.5	-4.0
New Export Orders	55.5	56.5	-1.0	Growing	Slower	2	52.5	52.0	+0.5
Imports	53.0	51.0	+2.0	Growing	Faster	9	52.0	49.0	+3.0
Inventory Sentiment	62.0	64.5	-2.5	Too High	Slower	233	N/A	N/A	N/A
Customers' Inventories	N/A	N/A	N/A	N/A	N/A	N/A	49.5	53.0	-3.5
Overall Economy				Growing	Slower	87			
Non-Manufacturing Sector				Growing	Slower	81			

* **Non-Manufacturing ISM® Report On Business®** data is seasonally adjusted for Business Activity, New Orders, Prices and Employment Indexes. **Manufacturing ISM® Report On Business®** data is seasonally adjusted for New Orders, Production, Employment and Supplier Deliveries.

Market Economics

Tuesday, [Purchasing Managers' Index \(PMI\) Manufacturing Index, October 2016](#): The final October index was 53.4, exceeding the flash reading of 53.2 and the highest level ever reached in October. Chief Market Economist Chris Williamson is quoted: "October saw manufacturing enjoy its best performance for a year. Factories benefitted from rising domestic and export sales, driving output higher to mark an encouragingly strong start to the fourth quarter." Inventories are being rebuilt but hiring is "subdued."

Thursday, [PMI Services Index, October 2016](#): Compare the results of this survey with the ISM survey, as this index jumped from 52.8 in September to 54.8 in October 2016. Chris Williamson stated: "Indications of stronger economic growth, solid job creation, rising prices and improved business confidence all pave the way for the Fed to hike interest rates again by the end of the year. The surveys are signaling (sic) the largest monthly rise in business activity for nearly one year after inflows of new orders surged higher in October." The graph below gives an interesting comparison of this index and U.S. GDP growth.

Markit Composite PMI and U.S. GDP



Sources: IHS Markit, U.S. Bureau of Economic Analysis.

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading is 44.6, up 3.3 points in the past two weeks. “Last week’s advance preceded the Q3 GDP report, which exceeded expectations with 2.9 percent growth. The CCI correlates highly with GDP, among other indicators.” The report states that this latest index “cements 2016 as the CCI’s best year since pre-recession 2007.”

Gallup.com

Tuesday, [Economic Confidence Index](#): The October 2016 monthly average index was -11, very close to the averages for September and August. In fact, this index has been “relatively stable since August 2015.”

Wednesday, [Job Creation Index](#): The monthly Job Creation Index for October 2016 was +32, very nearly identical to the +33 which held for the previous five months and matches the index reading for Octo 2015. “...Gallup’s Job Creation Index suggests perceived hiring activity is about the best it has been since the Great Recession.”

Thursday, [Good Jobs Rate](#): The October 2016 Gallup Good Jobs Rate was 46.4% compared with 45.6% in September and was the highest October rate since Gallup began collecting this measure in 2010.

Reuters

Tuesday, [Colonial Pipeline](#): There was another explosion at a Colonial pipeline, and that is shutting down the main pipeline “at least for a couple of days.” Gasoline prices jumped by as much as 13% on Tuesday. There was one death and several injured in this, the second explosion since September. It appeared that there was a brief up-tick in gas prices but that disappeared, according to my own observations.

TACIR and Dr. David Penn, Economic & Finance Department, MTSU [“Tracking Tennessee’s Economy”](#)

Wednesday: All the state economic indicators have been updated through September 2016. Initial claims for unemployment insurance are trending down, with the level of initial claims well below

pre-recession levels. Building permits for single-family homes are up and comparable to the level in the summer of 2007. State sales tax collections are also trending up but at a very modest rate. "Over the year, state sales tax collections are up 4.6% for Tennessee. Eight of the ten metropolitan areas show gains of 3% or higher over the year." Seasonally adjusted nonfarm employment increased by 14,800 jobs in September and by 2.5% over the year. The state's unemployment rate rose in September but remained below the national average, and the increase was mainly due to people returning to the labor force. Average hourly earnings were \$22 in September, a gain of 4.8% for the year. Those earnings increased by 5.5% or more over the year in Chattanooga, Knoxville, and Nashville.