

Economic Update, February 26, 2016

Submitted by Reuben Kyle

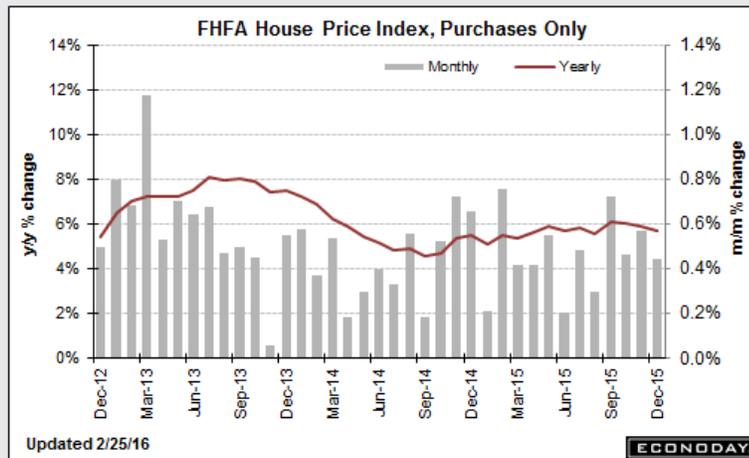
Summary: While it was not a stellar week for economic news, this week was pretty positive. The 4th quarter GDP growth figure was revised up, the latest manufacturing report was good, existing home sales increased slightly, and the consumer confidence measures have not retreated in the face of volatile financial markets.

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

Monday: This week's commentary will interest any inflation hawks among you readers. Dr. R says that he "smells a hint of inflation" but only back to about the Fed's preferred 2.0%. He also has a number of predictions and forecasts. For example, he anticipates that US GDP will grow at about 2.4% this year, and global economic activity will improve. His forecast for February job growth will be 193,000. Finally, he dissects the inflation prospects thoroughly.

Federal Housing Finance Agency (FHFA)

Thursday, [FHFA House Price Index](#): In the 4th quarter of 2015, US housing prices rose 1.4% and 5.8% from Q4 2014 to Q4 2015. Over the 12-month period, prices increased in all 50 states plus the District of Columbia. The quarterly increase in Tennessee was 1.89%, for the year 2015 the increase was 7.5%--the 11th highest percentage in the nation—and since 1991, housing prices have increased by 122.2%. Below is the graph of this index from the [Economic Calendar](#) since December 2012.



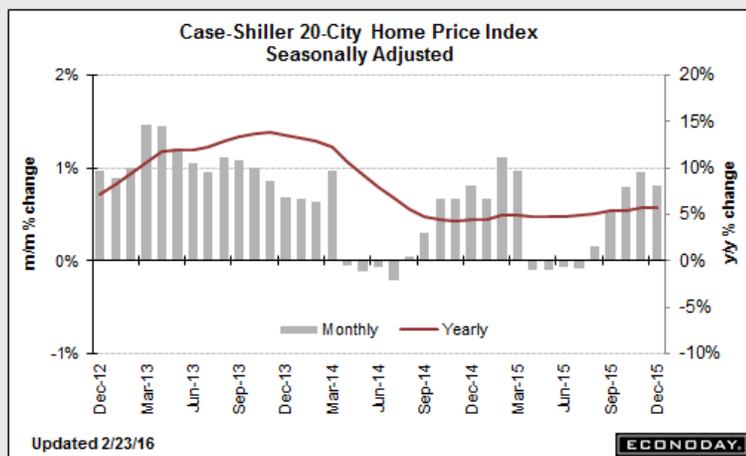
The FHFA House Price Index captures price data for an important segment of the housing market - home purchases with mortgages financed or bundled by federal housing agencies. However, this HPI does not cover high end housing.
Data Source: *Haver Analytics*

National Association of Realtors

Tuesday, [Existing Home Sales](#): January 2016 existing home sales rose slightly "to the highest annual rate in six months." The seasonally adjusted annual sales rate was 5.47 million units of all types of housing, and that rate was 10% higher than a year earlier. Lawrence Yun, NAR chief economist, said, "The housing market has shown promising resilience in recent months, but home prices are still rising too fast because of ongoing supply constraints. . . . Despite the global economic slowdown, the housing sector continues to recover and will likely help the US economy avoid a recession."

Standard & Poor's

Tuesday, [S&P Case-Shiller House Price Index](#): “Before seasonal adjustment, the National Index posted a gain of 0.1% month over month in December. The 10-City Composite decreased by 0.1% and the 20-City Composite remained unchanged in December. . . . While home prices continue to rise, the pace is slowing a bit,’ says David M. Blitzer, managing director and chairman of the index committee at S&P Dow Jones Indices.” The graph below from *The Wall Street Journal's Economic Calendar* shows the 20-City Index since December 2012.



The Case-Shiller Home Price Index is based on repeat transactions. That is, appreciation or depreciation is for same houses resold. This index is probably the best measure of changes in home prices. While it covers the gamut of types of houses sold, it is limited to metropolitan areas.
Data Source: *Haver Analytics*

Census Bureau

Wednesday, [Housing Vacancies and Homeownership](#), Annual 2015: The vacancy rate of rental units was 7.1% nationally, down slightly from 7.6% in 2014. That rate varied from 5.1% in the West to 8.9% in the South. The home ownership rate in 2015 was 63.7% nationally compared with 64.5% the year before and a peak of 69.0% in 2004. In Tennessee, the rate in 2015 was 66.5%, down from 66.7% in 2014 and a peak of 72.4% in 2005.

Wednesday, [New Residential Sales](#): In January 2016, sales of new single-family homes fell 9.2% from December and 5.2% from January 2015. At the current sales rate, there is 5.8-month supply of houses available.

Thursday, [Advance Report on Durable Goods Manufacturers' Shipments, Inventories, and Orders](#): New orders, shipments, and unfilled orders for manufactured durables all increased in the preliminary report for January 2016. Inventories fell 0.1% for the month. Transportation equipment led a 4.9% increase in new orders and a 1.9% increase in shipments. Computers and electronics moved unfilled orders to increase 0.1%. In the case of nondefense capital goods, the pattern was the same: new orders, shipments, and unfilled orders all increased, while inventories fell. For defense capital goods, new orders and unfilled orders increased as did inventories, but shipments declined.

Markit Economics

Monday, [Purchasing Managers' Index \(PMI\) Manufacturing Flash](#): The preliminary February 2016 index is 51.0, down from 52.4 in January. The headline on this report is “US Manufacturing PMI drops to lowest level since October 2012.” Chris Williamson, Markit's chief economist, said, “US

factories are reporting the worst business conditions for over three years. Every indicator from the flash PMI survey, from output, order books, and exports to employment, inventories, and prices, is flashing a warning light about the health of the manufacturing economy.”

Wednesday, [PMI Services Index Flash](#): This index was 49.8 in February 2016, down from 53.2 in January. This reading is the preliminary level for the month. Economist Williamson said, “The PMI survey data show a significant risk of the US economy falling into contraction in the first quarter. The flash PMI for February shows business activity stagnating as growth slowed for a third successive month. Slumping business confidence and an increased downturn in order book backlogs suggest there’s worse to come.” You might compare his view with that of Dr. Ratajczak in last week’s Update.

Bureau of Economic Analysis

Friday, [Gross Domestic Product \(GDP\), 4th Quarter and Annual 2015](#): The second estimate of real GDP growth in the 4th quarter of 2015 is 1.0%, slightly higher than the advance estimate of 0.7%. “With this second estimate for the fourth quarter, the general picture of economic growth remains the same; private inventory investment decreased less than previously estimated. . . . The deceleration in real GDP in the fourth quarter primarily reflected a deceleration in PCE [Personal Consumption Expenditures] and downturns in nonresidential fixed investment, in state and local government spending, and in exports that were partly offset by a smaller decrease in private inventory investment, a downturn in imports, and an acceleration in federal government spending.” For the year of 2015, real GDP increased 2.4%, the same rate as in 2014.

Friday, [Personal Income and Outlays](#), January 2016: Personal income, disposable personal income, and personal consumption expenditures all increased 0.5% in January. Adjusted for inflation, disposable personal income and personal consumption expenditures both increased 0.4%. “Wages and salaries increased \$48.1 billion in January compared with an increase of \$18.3 billion in December. Private wages and salaries increased \$43.7 billion compared with an increase of \$15.9 billion. Government wages and salaries increased \$4.4 billion compared with an increase of \$2.4 billion.” For all of 2015, real disposable personal income increased 3.4%, while real personal consumption expenditures increased 3.1%.

Bureau of Labor Statistics

Friday, [Regional and State Employment and Unemployment](#): In calendar 2015, unemployment rates fell from the year before in 47 states [ten were not significant changes] and the District of Columbia, increased in two states [though not significantly], and was unchanged in one. The employment/population ratio increased in 35 states [significantly in 19 states] and the District of Columbia, but fell in 15 states [though only four declines were significant]. North Dakota had the lowest unemployment rate at 2.7%, and Nevada and West Virginia had the highest rate at 6.7% among the 50 states. The District of Columbia had a rate of 6.9%. Tennessee’s average annual unemployment rate for 2015 was 5.8%, down from 6.5% the year earlier. The employment/population ratio in Tennessee was 55.9% compared with the national ratio of 59.3% [the year-over-year difference for Tennessee was not significant].

US Department of Labor

Thursday, [Initial Claims](#) for unemployment insurance in the week ending February 20, 2016, increased by 10,000 to 272,000, while the four-week moving average fell by 1,250 to 272,000. For the previous week, ending February 13, no state reported an increase of 1,000 or more new claims and

10ten states, including Tennessee, reported decreases of 1,000 or more. Tennessee reported 1,651 fewer initial claims but provided no comment or explanation.

The Conference Board

Tuesday, [Consumer Confidence Index](#): This index fell from 97.8 in January to 92.2 in February 2016. “Consumer confidence decreased in February after posting a modest gain in January,” said Lynn Franco, director of economic indicators at The Conference Board. “Consumers’ assessment of current conditions weakened, primarily due to a less favorable assessment of business conditions. Consumers’ short-term outlook grew more pessimistic, with consumers expressing greater apprehension about business conditions, their personal financial situation, and to a lesser degree, labor market prospects. Continued turmoil in the financial markets may be rattling consumers, but their assessment of current conditions suggests the economy will continue to expand at a moderate pace in the near-term.”

Bloomberg.com

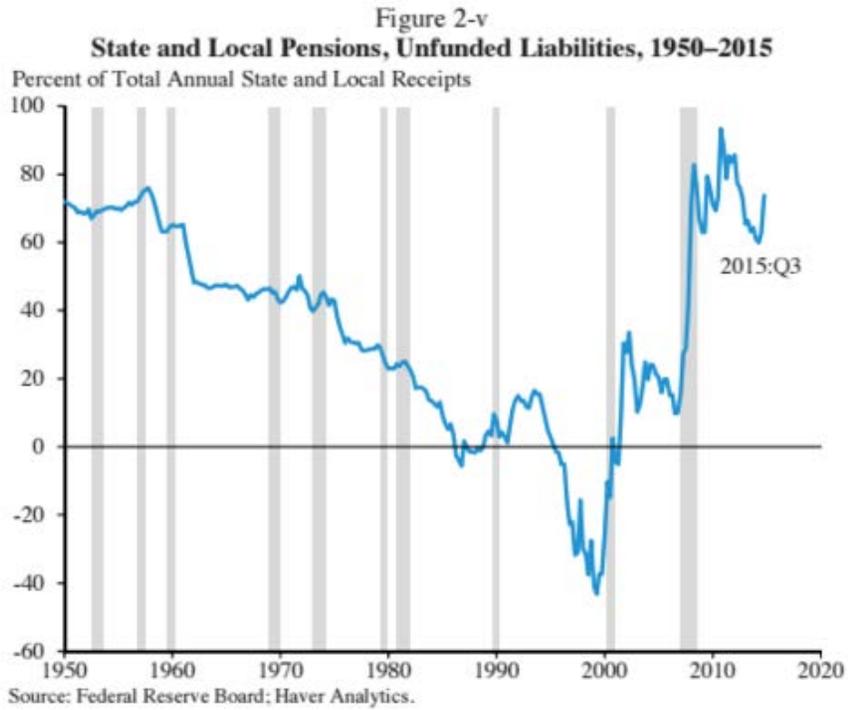
Thursday, [Consumer Comfort Index](#): The latest index reading was 44.2, compared with 44.3 the prior week. “Consumer sentiment is off to a strikingly durable if plodding start to the year, absorbing mixed economic signals simply by standing pat. . . . Its two-month stretch within a tight 0.6-point band is its flattest since Q2 2013. That said, views are significantly more positive now than then; the CCI’s average for the 2013 streak was just 35.2. That fell far short of the index’s pre-recession average, 45.3 from late 1985 through 2007—it’s a lot closer now.”

University of Michigan

Friday, [Consumer Sentiment](#): In February 2016, the Index of Consumer Sentiment was 91.7 compared with 92.0 in January and 95.4 in February 2015. “Consumer confidence nearly recovered the entire small loss it recorded at mid month, with the Sentiment Index finishing February just 0.3 Index-points below January. Although consumers are not as optimistic as at the start of last year, the Sentiment Index is just 6.5% below the cyclical peak of 98.1 set in January 2015. Such a small decline is hardly consistent with the onset of a downturn in consumer spending.”

The Wall Street Journal

Monday, [Five Trends That Will Shape the Future of the US Economy](#): This story is drawn from the President’s Council of Economic Advisors’ [2016 Economic Report of the President](#). That report is 400 pages long, so I’m leaving it for you to read, but the WSJ story has a number of interesting graphics may summarizing the parts of the report that may interest you. Below are a couple that may pique your interest.



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