

## Economic Update, February 5, 2016

Submitted by Reuben Kyle

Summary: This week's economic news is another mixed bag. As this is the first Friday of the month, the big story is the BLS jobs report, and the 151,000 jobs created in January is not exciting. However, there are a number of positives in the report including a drop in the unemployment rate to 4.9%. Construction spending and employment both increased in the latest reports. Manufacturing sagged again in January, but manufacturing employment increased. There is upward pressure on wages, and in some areas and industries, there are labor shortages. The strong dollar continues to hurt US exports with consequences for a number of industries. In short, it was a full week for economic news.

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

Monday: Dr. R starts with a pretty dismal outlook based on the 0.7% 4<sup>th</sup> quarter GDP growth rate. He spins a discouraging tale for the economy and the stock market but sees no recession ahead though Q1 2016 GDP growth, he says, is going to be very slim. His forecast for Friday's jobs report is 176,000. The only bright spot in his view is in construction and a slowing of housing price increases.

### University of Tennessee Center for Business and Economic Research

Last week: [An Economic Report to the Governor of the State of Tennessee](#): Here is a treasure chest of information about the state and its economy. I'll mention only one thing and that is the measure of Tennessee's Gross Domestic Product which grew 2.4% in 2015. There are lots and lots of numbers here plus forecasts for the US and Tennessee economies.

### ADP.com

Wednesday, [Employment Report](#): Private-sector employment increased in January 2016 by 205,000 jobs. While manufacturing added no jobs, construction gained 21,000. Medium-sized companies with 50 to 499 employees added 82,000 jobs.

### US Department of Labor

Thursday, [Initial Claims](#): For the week ending January 30, 2016, initial claims numbered 285,000, an increase of 8,000 from the previous week, and the four-week moving average increased by 2,000 to 284,750. In the week ending January 23, no state reported an increase of 1,000 or more in new claims, and 20 states including Tennessee reported decreases of 1,000 or more. Tennessee reported a decline of 2,974 in initial claims but offered no comment.

### Bureau of Labor Statistics

Wednesday, [Metropolitan Areas Employment and Unemployment](#): December 2015 unemployment rates compared with a year earlier were lower in 296 of the 387 Metropolitan Statistical Areas (MSAs), higher in 79, and unchanged in 11. The lowest rate (2.2%) was in Ames, Iowa; the highest was in El Centro, California (19.6%). For the ten Tennessee MSAs, the unemployment rate was lower from November to December three, higher in two, and unchanged in five. Year-over-year, the rate was lower in all ten. In December, the Nashville-Davidson–Murfreesboro–Franklin MSA had the lowest rate at 4.2%, and Memphis had the highest rate at 6.1%. For all of 2015, total nonfarm employment increased in 280 MSAs across the country, fell in 94, and was unchanged in 13. Employment increased from November to December in seven of the ten Tennessee MSAs and fell in three. Over the year,

employment increased in nine and was unchanged in Cleveland. The largest percentage increase in employment was in the Nashville MSA with 3.24% followed by Knoxville with 3.30%.

Thursday, [Productivity and Costs](#): Labor productivity fell 3.0% in the fourth quarter of 2015 as output increased 0.1% and labor hours worked increased 3.3%. For all of 2015, labor productivity increased 0.6%. Labor cost per hour increased 4.5% in Q4 and 2.8% for the year. The table below gives the annual averages for productivity and costs for 2011 through 2015.

Table C. Annual average changes in productivity and related measures: 2011-2015

Sector	Nonfarm Business					Manufacturing				
	2015	2014	2013	2012	2011	2015	2014	2013	2012	2011
Labor Productivity	0.6	0.7	0.0	0.9	0.2	1.3	1.3	0.7	0.7	5.6
Output	2.8	3.0	1.7	3.1	2.2	2.2	2.9	1.5	3.0	7.8
Hours worked	2.2	2.3	1.7	2.2	2.0	0.9	1.6	0.8	2.3	2.1
Hourly compensation	3.0	2.7	1.1	2.7	2.2	2.6	2.7	0.2	1.8	1.7
Real hourly compensation	2.8	1.1	-0.4	0.6	-0.9	2.4	1.0	-1.2	-0.3	-1.4
Unit labor costs	2.4	2.0	1.1	1.7	2.1	1.3	1.4	-0.5	1.0	-3.6

Friday, [Employment Situation](#): The January 2016 jobs number was 151,000, a substantial drop from the 262,000 in December, but the unemployment rate was 4.9%, the first time the rate has been below 5% [since February 2008](#). From the Household Survey—the source of the unemployment rate—the labor force, the labor force participation rate, and the employment-population ratio all increased. The number of people not in the labor force and the number of discouraged workers fell. The unemployment rates for most demographic groups fell though not for adult women and African-Americans. From the Establishment Survey—the source of the number of jobs created—the number of private sector jobs added was 158,000, but the government sector lost 7,000. In the private sector, construction gained 18,000 jobs and manufacturing added 29,000 including 12,000 in motor vehicles and parts. Retail trade employment increased by 57,000, but transportation and warehousing lost 20,300 jobs. Health care and social assistance gained 44,000 jobs. One positive from this report is the diffusion indexes or the percentage of industries in which employment increased: 59.5% gained employment of 262 total private-sector industries, and 63.5% of the 79 manufacturing industries gained. The diffusion indexes reflect the breadth of job gains across the economy.

### Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index was 44.2, down slightly from 44.6 the previous week. “It’s a far different start to the year than the CCI experienced in 2016 and not in a bad way. A year ago, the index peaked after a very sharp Q4 rally then headed south—the first in a yearlong run of rollercoaster results. So far this year, consumer sentiment’s been steadier—if not further up after its latest advance in December, also not down.”

### Gallup.com

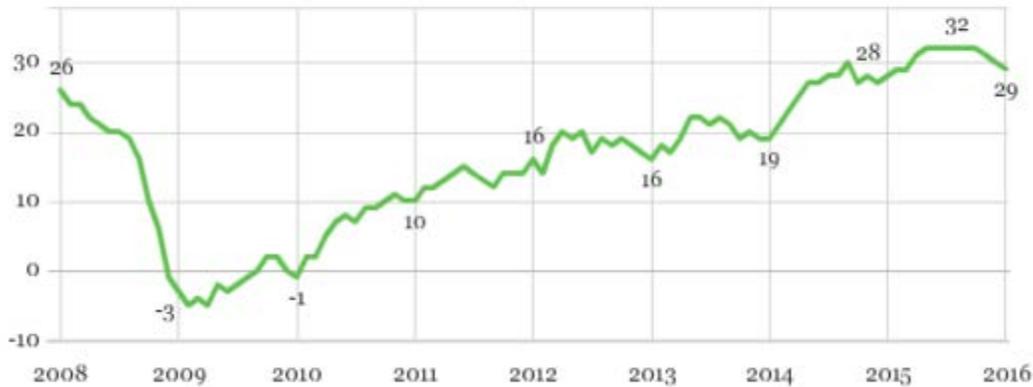
Monday, [US Consumer Spending](#): In January 2016, average daily spending by US consumers was \$81, down from \$99 in December. This drop in spending is typical of the seasonal pattern of spending, but the \$81 matches that of January 2015 as the highest January level since Gallup began collecting this data in 2008.

Tuesday, [Economic Confidence Index](#): The index was at -11 in January 2016, which is the same level as in December and “much higher than most monthly averages recorded since 2008.” That said, in January 2015 the index was +3.

Wednesday, [Job Creation Index](#): This index was +29 in January 2016 with 41% of respondents indicating that their companies were hiring and 12% reporting that their firms were letting people go. The +29 is below the +32 that held for the period May through October 2015. Below is a graph of the index since January 2008 when Gallup began collecting this measure.

*U.S. Job Creation Index, Monthly Averages, January 2008-January 2016*

Percentage of U.S. workers who say their employers are hiring new people minus percentage who say their employers are letting people go



Gallup Daily tracking

Thursday, [Good Jobs Rate](#): The January 2016 “Good Jobs Rate” (the percentage of workers 18 and older working 30 hours or more per week) was 44.7%, which is 0.6 percentage points higher than in January 2015 and higher than any January since Gallup began collecting this measure in 2010. “This suggests an underlying increase in full-time work beyond seasonal changes in employment.”

### **Bureau of Economic Analysis**

Monday, [Personal Income and Outlay](#): In December 2015, Personal Income and Disposable Personal Income (DPI) both increased 0.3% in current dollar terms; DPI increased 0.4% when adjusted for inflation. Personal Consumption Expenditures (PCE) were unchanged from November but when adjusted for inflation rose 0.1%. For all of 2015, Personal Income increased 4.5% from 2014, real DPI increased 3.5%, and real PCE increased 3.1%.

Friday, [US International Trade in Goods and Services](#): US exports fell in December 2015 by \$0.5 billion from November, and US imports increased by \$0.6 billion. As a result, the deficit in the US Balance of Trade in Goods and Services increased by \$1.1 billion. In the case of goods, the deficit increased by \$1.3 billion, while the surplus in services increased by \$0.1 billion. For all of 2015, the deficit in goods and services increased by \$23.2 billion to \$531.5 billion as exports fell by \$112.9 billion and imports fell by \$89.7 billion.

### **US Department of Transportation**

Monday, [Transportation Services Index](#): Still another measure of overall economic activity, the index fell slightly from October to November 2015. There is a lot of volatility in these monthly data, but the chart from January 2000 shows clearly the two business cycles since that time.

## Autodata.com

Tuesday, [Motor Vehicle Sales](#): The seasonally adjusted, annual sales rate of light vehicles in January 2016 was 17.58 million, making the 10<sup>th</sup> month in the past year that the rate has exceeded 17 million and well above the 16.72 million rate of January 2015. Among the Tennessee assemblers, General Motors car sales were up 0.3% compared with January 2015, Nissan's car sales fell 8.7%, and Volkswagen's sales were down 14.6%. As was true in 2015, the strength of total sales is in trucks with both General Motors and Nissan truck sales up year over year.

## Markit Economics

Monday, [Purchasing Managers' Index \(PMI\) Manufacturing Index](#): The January 2016 manufacturing index was 52.4, up from 51.2 in December. "Production volumes were reported to have increased at a solid pace in January, with the rate of expansion accelerating from December's recent low . . . . Payroll numbers expanded again at the start of the year, but the rate of job creation eased since December and was slightly slower than seen during 2015 as a whole."

Wednesday, [PMI Services Index](#): The headline on the January 2016 report is "Services activity growth eases to its weakest for 27 months." The index is 53.2 compared with 54.3 in December. Chief Markit Economist Chris Williamson observed, "The US upturn has lost substantial momentum over the past two months, the trend in business activity sliding to the worst for over three years. Slower service sector activity combined with subdued manufacturing growth means January's expansion was the weakest seen since October 2012 with the sole exception of October 2013, when business was affected by the government shutdown."

## Census Bureau

Monday, [Construction Spending](#): December 2015 construction spending rose 0.1% to an annual rate of \$1,116.6 billion from November and was 8.2% higher than in December 2014. While total private construction spending fell 0.6%, residential construction was up 0.6%. For all of 2015, total construction spending of \$1097.3 billion was 10.5% higher than in 2014. For December 2015, total public construction of \$292.5 billion was up 1.9% from November, while for the year the total was \$291.2 billion or 5.6% higher than in 2014. Over the year, educational construction was up 6.8% and highway construction spending was 6.7% above that in 2014.

Thursday, [Manufacturing Shipments, Inventories, and Orders](#): New orders, shipments, and unfilled orders all fell, while inventories increased in December 2015 from the previous month. New orders for manufactured durable goods declined 5.0%. Shipments decreased 2.1%. Unfilled orders fell 0.5%, and inventories increased 0.5%. Transportation equipment, nearly every type, led the declines.

## Institute for Supply Management

Monday, [January 2016 Manufacturing ISM Report On Business](#): The manufacturing index in December 2016 was 48.2%, indicating that the sector contracted for the fourth consecutive month. However, the overall economy expanded for the 80<sup>th</sup> consecutive month. The survey covers 18 manufacturing industry sectors of which eight reported growth while 10 reported contracting. Below are some comments by respondents.

- "The oil and gas sector continues to be challenged by low oil and gas prices. [S]uppliers filing for bankruptcy and reducing their workforce is becoming an increasing risk. Our company workforce is also declining." (Petroleum & Coal Products)

- "Business this month [is] better than last month and better than this period last year. Reduced oil and basic chemical prices providing favorable margin comparisons." (Chemical Products)
- "Huge rollout in wireless in 2016 across all markets. We should be very, very busy." (Computer & Electronic Products)
- "We are a bit slower, but staying busy." (Fabricated Metal Products)
- "Business is still strong, but slowing." (Transportation Equipment)

Wednesday, [January 2016 Report on Business Non-Manufacturing Index](#) (NMI): The January 2016 NMI was 53.5%, down from 55.8% in December but marking the 72<sup>nd</sup> consecutive month that the non-manufacturing sector expanded. "An NMI<sup>®</sup> above 48.9% over a period of time generally indicates an expansion of the overall economy." Ten of the 18 industry sectors surveyed reported growth in January, while eight reported contracting. The table below details the results of both the non-manufacturing and manufacturing surveys.

ISM <sup>®</sup> NON-MANUFACTURING SURVEY RESULTS AT A GLANCE									
COMPARISON OF ISM <sup>®</sup> NON-MANUFACTURING AND ISM <sup>®</sup> MANUFACTURING SURVEYS*									
JANUARY 2016									
Index	Non-Manufacturing						Manufacturing		
	Series Index Jan	Series Index Dec	Percent Point Change	Direction	Rate of Change	Trend** (Months)	Series Index Jan	Series Index Dec	Percent Point Change
NMI <sup>®</sup> /PMI <sup>®</sup>	53.5	55.8	-2.3	Growing	Slower	72	48.2	48.0	+0.2
<b>Business Activity/Production</b>	53.9	59.5	-5.6	Growing	Slower	78	50.2	49.9	+0.3
<b>New Orders</b>	56.5	58.9	-2.4	Growing	Slower	78	51.5	48.8	+2.7
<b>Employment</b>	52.1	56.3	-4.2	Growing	Slower	23	45.9	48.0	-2.1
<b>Supplier Deliveries</b>	51.5	48.5	+3.0	Slowing	From Faster	1	50.0	49.8	+0.2
<b>Inventories</b>	51.5	53.0	-1.5	Growing	Slower	10	43.5	43.5	0.0
<b>Prices</b>	46.4	51.0	-4.6	Decreasing	From Increasing	1	33.5	33.5	0.0
<b>Backlog of Orders</b>	52.0	50.0	+2.0	Growing	From Unchanged	1	43.0	41.0	+2.0
<b>New Export Orders</b>	45.5	53.5	-8.0	Contracting	From Growing	1	47.0	51.0	-4.0
<b>Imports</b>	46.0	49.0	-3.0	Contracting	Faster	2	51.0	45.5	+5.5
<b>Inventory Sentiment</b>	61.5	64.5	-3.0	Too High	Slower	224	N/A	N/A	N/A
<b>Customers' Inventories</b>	N/A	N/A	N/A	N/A	N/A	N/A	51.5	51.5	0.0
<b>Overall Economy</b>				Growing	Slower	78			
<b>Non-Manufacturing Sector</b>				Growing	Slower	72			

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

\*\* Number of months moving in current direction.

Indexes reflect newly released seasonal adjustment factors.