

Economic Update, April 21, 2017  
Submitted by Reuben Kyle

Summary: There is definitely a mixed bag of economic news this week. There are indications that the US economy has slowed somewhat. Purchasing managers' surveys were down in early returns for April. The *Wall Street Journal's* Economic Forecasting Survey reports expected slowing. On the other hand, there are still many positive indicators, particularly in the housing sector. Industrial production increased in the latest report, and Tennessee's unemployment rate fell in March.

Census Bureau

Tuesday, [New Residential Construction](#): In March 2017, the number of building permits issued was 3.6% above the level in February and 17.0% higher than in March 2016. Single-family permits were 1.1% below the number in February. Housing starts were down by 6.8% from February but 9.2% higher than in March 2016. Single-family starts declined by 6.2% from the previous month. Housing completions were up by 3.2% from February and by 13.4% from March 2016.

Bureau of Labor Statistics

Tuesday, [Usual Weekly Earnings of Wage and Salary Workers](#): "Median weekly earnings of the nation's 110.7 million full-time wage and salary workers were \$865 in the first quarter of 2017 (not seasonally adjusted). This was 4.2 percent higher than a year earlier, compared with a gain of 2.5 percent in the Consumer Price Index for All Urban Consumers (CPI-U) over the same period." Women's median weekly earnings were \$765 compared to \$950 for men; that is 80.5%. There is a lot of interesting information here.

Wednesday, [Consumer Expenditure Survey Midyear Update](#): This report covers the period from July 2015 through June 2016 and finds that average annual expenditures increased by 2.3% over that period while average income increased by 6.3%. The table below shows the changes in selected categories of expenditures during the covered period.

Table A. Average expenditures and income of all consumer units

Item	July 2014- June 2015- Average	July 2015- June 2016- Average	Percent change
			July 2014 - June 2015 to July 2015 - June 2016
Income before taxes	\$68,662	\$72,990	6.3
Average annual expenditures	54,992	56,258	2.3
Food	6,887	7,196	4.5
Food at home	3,983	4,101	3.0
Food away from home	2,904	3,095	6.6
Housing	18,128	18,495	2.0
Apparel and services	1,885	1,794	-4.8
Transportation	9,315	9,225	-1.0
Gasoline	2,094	1,932	-7.7
Vehicle insurance	1,041	1,180	13.4
Healthcare	4,379	4,470	2.1
Entertainment	2,782	2,908	4.5
Cash contributions	1,761	1,813	3.0
Personal insurance and pensions	6,048	6,553	8.3
Pensions and Social Security	5,733	6,221	8.5
All other expenditures	3,807	3,804	-0.1

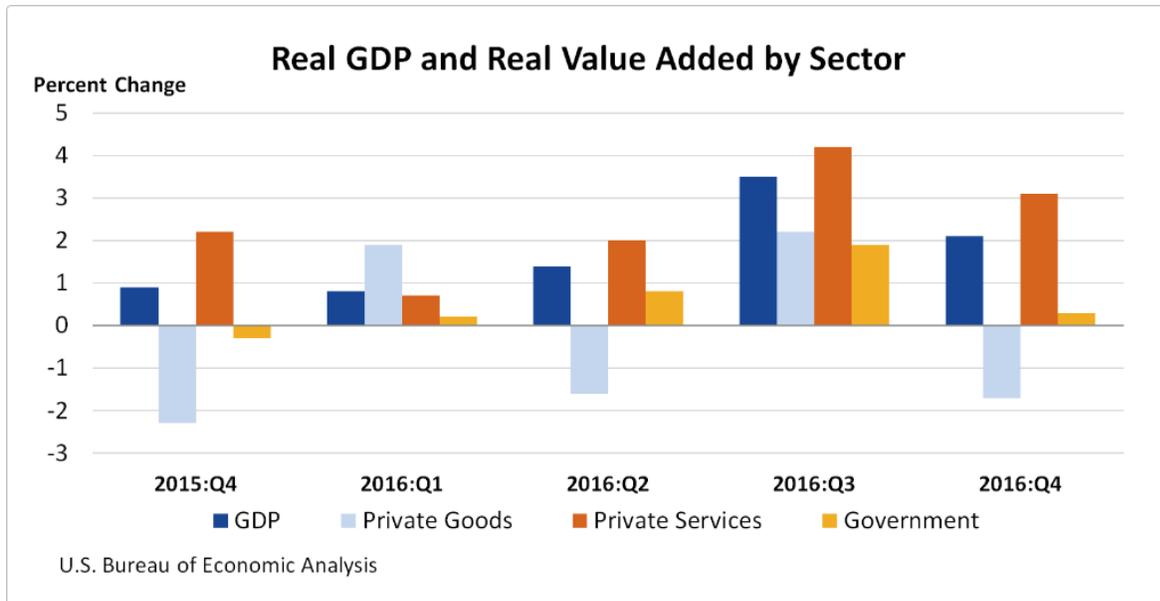
Note: Subcategories do not sum to 100%.

Thursday, [Employment Characteristics of Families](#): In 2016, the BLS reports that of 82.1 million families in the US, 80.4% included at least one employed family member. Alternatively, 6.5% of those families had at least one member who was unemployed. This information is compiled from a survey of 60,000 households. The number of families with at least one member unemployed declined in 2016 by 314,000 to 5.3 million. Among those families with at least one unemployed person, 69% included at least one member who was employed. These data are parsed in many different ways.

Friday, [State Employment and Unemployment](#): In March 2016, unemployment rates declined in 17 states and were stable in 33 states and the District of Columbia. In [Tennessee](#), the unemployment rate was 5.1% compared with 5.3% in February. Colorado had the lowest unemployment rate at 2.6% and four other states had rates below 3%. New Mexico had the highest rate at 6.7% and seven states plus the District of Columbia had unemployment rates significantly higher than the national rate of 4.7%. Total nonfarm employment fell from the previous month in four states and rose in three. Tennessee added 8,600 jobs in March and 63,700 jobs year-over-year. Industry sectors losing jobs from the prior month in Tennessee included construction, manufacturing, health care, and social assistance. Government added 4,000 jobs in March.

Bureau of Economic Analysis

Friday, [Gross Domestic Product by Industry](#): In the 4<sup>th</sup> quarter of 2016, real GDP grew by 2.2%, and 19 of 22 industry sectors contributed to that growth with finance and insurance and professional, scientific, and technical services leading that growth. The chart below shows the broad sector contributions. The report contains much more detail.



#### US Department of Labor

Thursday, [Initial Claims](#): Over the week ending April 15, 2017, initial claims for unemployment insurance increased by 10,000 to 244,000 and the four-week moving average fell by 4,250 to 243,000. The four-week moving average number of insured unemployed persons was 2,023,500, the lowest number since June 17, 2000. In the week ending April 8, eight states reported increases of 1,000 or more new claims and no state reported a decrease of 1,000 or more. Tennessee reported a decrease of 72 initial claims.

#### Board of Governors of the Federal Reserve

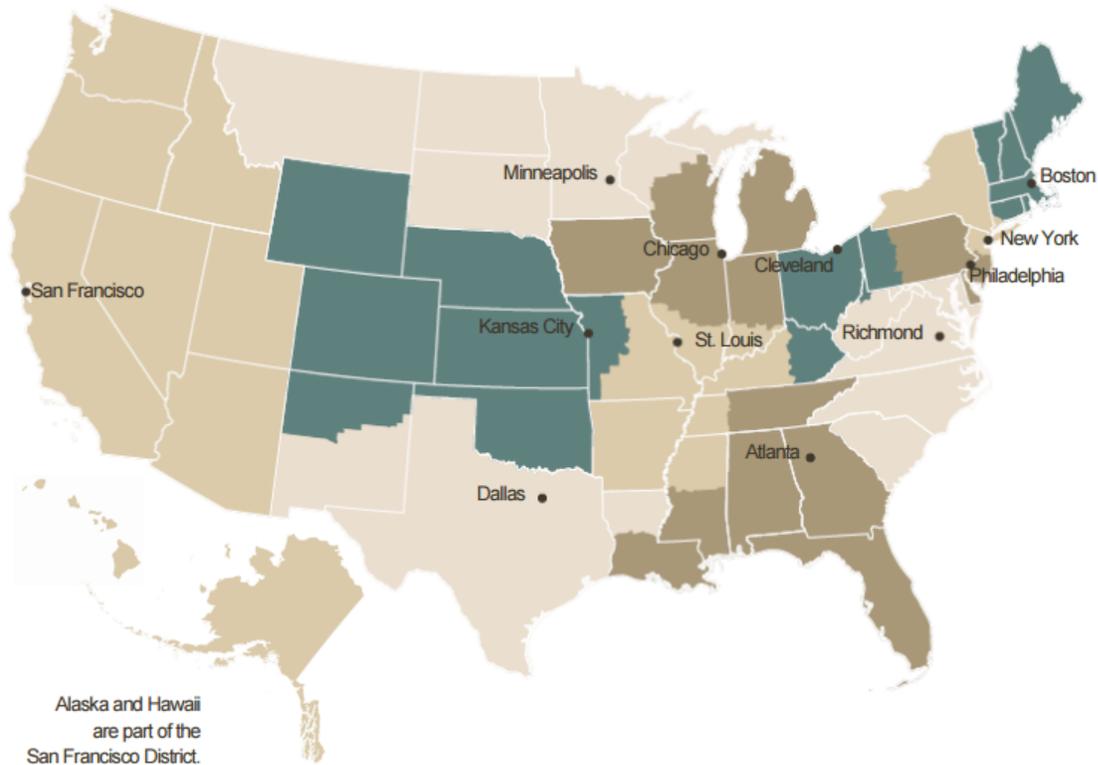
Tuesday, [Industrial Production](#): In March 2017, industrial production rose by 0.5%, following a 0.1% increase in February. Since March 2016, industrial production is up by 1.5%. However, construction was down by 0.8% for the month. "Manufacturing output fell 0.4 percent in March, led by a large step-down in the production of motor vehicles and parts; factory output aside from motor vehicles and parts moved down 0.2 percent." Capacity utilization increased by 0.4 percentage points to 76.1% compared with its average over the period 1972-2006 of 79.9%.

Wednesday, [Beige Book](#): Below is a map of the 12 Federal Reserve Districts, most of Tennessee is in the Sixth District headquartered in Atlanta while west Tennessee is in the Eighth District headquartered in St. Louis. The report is composed of submissions by each of the 12 banks and the current report is based on surveys for the period mid-February through the end of March. The summary for the Sixth District states that economic activity has improved modestly from the last report. "Firms continued to struggle to find, hire, and hold onto quality workers, particularly in skilled technical jobs, but also in sales, finance, information technology, and compliance positions." Wage growth is in the 2% to 3% range while in March expected unit costs were up by 1.7% from the same period in 2016. Retail trade was reported to be down since the previous report. Tourism and hospitality contacts in Georgia, Louisiana, and Tennessee reported strong growth in activity. Home builders indicated that their sales were "flat" and residential real estate contacts described activity as slow but steady. Commercial real estate contacts "noted improvements in demand that continued to result in rent growth and increased absorption, but cautioned that the rate of improvement varies by metropolitan area, submarket, and property type." District manufacturing activity is reported to be strong, and the outlook for future production is optimistic. Reports from the agricultural sector were not positive as drought conditions

still prevail in many areas. Also, “[t]here were limited reports of poultry that tested positive for avian flu in Alabama, Georgia, and Tennessee with stop movement orders, surveillance, quarantine, and depopulation employed as containment methods.”

In the Eighth District, the summary was that the economy continued to grow at a modest pace since the last report. There were “anecdotal” reports of some employment growth but also indications of tight labor markets. “Construction contacts in Memphis and Little Rock reported shortages of workers, and manufacturing contacts reported difficulties in hiring and retaining experienced employees. Contacts in transportation and manufacturing reported that growth has been restrained because of difficulties hiring experienced workers.” There were varying reports of pricing pressures from different sectors. Feed prices are down due to lower prices for corn. Commercial rents are reported up in Memphis. Retail trade has experienced moderate growth. “Retail sales growth was particularly strong in the Memphis area; accordingly, the majority of households in west Tennessee continue to hold an optimistic outlook for their financial situation for 2017.” Manufacturing activity has also improved modestly and there are reports of capital expenditure plans in the District. “Reports from the healthcare sector were mostly negative; layoffs were announced in Louisville and Memphis...” In the agricultural sector, farmers plan to plant 20% more cotton and 20% less rice. “This planned switch in the District’s two largest crops was largely driven by the fact that soybeans, with much lower per acre costs, require much smaller operating loans.”

## Federal Reserve Districts



The System serves commonwealths and territories as follows: the New York Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands.

### The Conference Board

Thursday, [Leading Economic Indicators \(LEI\)](#): In March 2017, the LEI increased by 0.4% to 126.7 (2010=100). “The March increase and upward trend in the U.S. LEI point to continued economic growth in 2017, with perhaps an acceleration later in the year if consumer spending and investment pick up,” said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. “The gains among the leading indicators were very widespread, with new orders in manufacturing and the interest rate spread more than offsetting declines in the labor market components in March.” The Coincident Economic Indicators rose by 0.2% to 114.9 (2010=100).

### Markit Economics

Friday, [Purchasing Managers' Index \(PMI\) Composite Index](#): The preliminary April 2017 composite index of both manufacturing and service sectors is 52.7, down from 53.0 in March. Chris

Williamson, Chief Market Economist, writes: "The PMI data suggest the US economy lost further momentum at the start of the second quarter. The surveys are signaling [sic] a GDP growth rate of 1.1% after 1.7% in the first quarter." The final reports will be released May 1st and 3<sup>rd</sup>.

National Association of Home Builders

Monday, [Housing Market Index](#): In April 2017, the index of builders' confidence was 69, down from 71 in March. "Even with this month's modest drop, builder confidence is on very firm ground, and builders are reporting strong interest among potential home buyers," said NAHB Chairman Granger MacDonald, a home builder and developer from Kerrville, Texas. Robert Dietz, Chief NAHB Economist, added: "The fact that the HMI measure of current sales conditions has been over 70 for five consecutive months shows that there is continued demand for new construction...However, builders are facing several challenges, such as hefty regulatory costs and ongoing increases in building material prices."

National Association of Realtors

Friday, [Existing Home Sales](#): In March 2017, existing home sales were 5.71 million, on a seasonally-adjusted, annual rate, up 4.4% from February and the highest rate since February 2007. Chief NAR Economist Lawrence Yun stated: "Bolstered by strong consumer confidence and underlying demand, home sales are up convincingly from a year ago nationally and in all four major regions despite the fact that buying a home has gotten more expensive over the past year."

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading is 49.9 compared with 51.0 the week before.

The Wall Street Journal

Wednesday, [Economic Forecasting Survey](#): The April survey queried 76 individuals and organizations and received 60 responses. The average forecast of 1<sup>st</sup> quarter GDP growth is 1.42%, rising to 2.52% in the 4<sup>th</sup> quarter with an average for the year of 2.3%. The average forecast for 2018 is 2.4%, dropping to 2.12% in 2019. The expected CPI as of June 2017 is 2.4%, and that level is forecast to persist through the year. Oil prices as of June 2017 are forecast to be \$52.81, rising to \$55.55 by June 2018. (The futures price of crude oil, as I write, is \$51.59. The unemployment rate as of March 2017 was 4.7%, and the average forecast for June 2017 is 4.5%, dropping to 4.4% by the end of this year. (The [last time](#) the unemployment rate was that low was in 1999-2000.) The average monthly number of jobs created in 2017 is 168,500. More than 78% of respondents anticipate another increase in the federal funds rate in June 2017 with the average forecast for that rate of 1.13% compared with the actual average rate of 0.38% in June 2016 and an average of 0.13% in June 2015. (A perceptive reader might ask why, if the FOMC's target rate in June 2015 was 0 to 0.25% was the actual rate 0.13%. The answer is that the New York Federal Reserve Bank buys and sells short-term U.S. securities to keep the rate within the range. It does not actually set a specific rate.) The yield on 10-year U.S. Treasury Notes is forecast to be 2.59% in June 2017 while the yield, again as I write, is 2.215%. The annual rate of increase in home prices is forecast to be 4.0% at the end of 2017 a slight decline from earlier this year. The number of housing starts is projected to be 1.35 million by the end of this year. Finally, the probability of a recession within the next 12 months is assessed at a little less than one-chance-in six, but 40% of the respondents are concerned that their assessment of GDP growth is too high.

Friday, [Northern New England's Good Jobless Numbers? They're Bad](#): Here is a very interesting story about an unusual situation facing New Hampshire, Maine, and Vermont. All three states have very low unemployment rates that are well below the national rate (see the story on rates above). The dilemma is that employers cannot find workers and some are relocating to other states for that reason. Last summer I was in Maine and there were many businesses that had been shut down, even

abandoned, probably not for the same reasons. The point is that economic activity, for good and bad, varies widely even in states with overall strong economies.