

Economic Update, September 2, 2016
Submitted by Reuben Kyle

Summary: It's the first Friday of the month so the big news is the BLS jobs report of 151,000 new jobs, not as strong as expected but not bad. The economic reports on manufacturing were mixed with some indications of slowing and some of growth. Motor vehicle sales slowed in August. The housing market indicators show strong demand but restraint on the supply side. Consumer confidence also sent mixed signals with one measure up and another down, somewhat.

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

Monday: Dr. R begins his discussion with his Fed watch, that is, his take on comments by Fed Chair Janet Yellen and Vice Chair Stanley Fischer. His conclusion is that there will be a hike in the Fed Funds rate this year but his own prediction is that it will occur in December. The timing may depend of this week's jobs report. Ratajczak's forecast is for 195,000 jobs. Another factor in the rate hike decision is the increase in the wages. He compares his forecast of a 3.0% GDP growth rate in the 3rd quarter with the Atlanta Fed's forecast of 3.4%, which had been lowered from 3.6%. He has some thoughts about the seemingly contradictory news about housing markets but concludes that he raised his own forecasts for housing starts and single-family permits. Although I did not see any discussion of consumer confidence, his forecast in the lead table was negative. In fact, the index was very strong. Forecasting is hard to do, especially if it is about the future.

Census Bureau

Thursday, [Construction Spending](#): In July 2016, construction spending was virtually unchanged from its level in June though 1.5% higher than in July 2015. Year-to-date in 2016 construction spending is up by 5.6% above the level for the same period in 2015. Private construction spending was up by 1.0% for the month but public spending was 3.1% lower prompted by an 8.3% drop in education construction spending.

Friday, [U.S. International Trade in Goods and Services](#): In July 2016, the U.S. Balance of Trade deficit fell by \$5.2 billion as U.S. exports increased by \$3.4 billion from June and U.S. imports also fell by \$1.8 billion. The deficit in goods fell by \$5.3 billion while the surplus in service increased by \$0.1 billion.

Friday, [Manufacturers' Shipments, Inventories, and Orders](#): In July 2016, new orders for all manufactured goods increased as did inventories. But shipments felled and unfilled orders also declined. Manufactured durable good shipments and inventories increased; unfilled orders decreased. New orders for transportation equipment increase 10.6% while shipments of computers and electronic products increased 1.7%.

Bureau of Labor Statistics

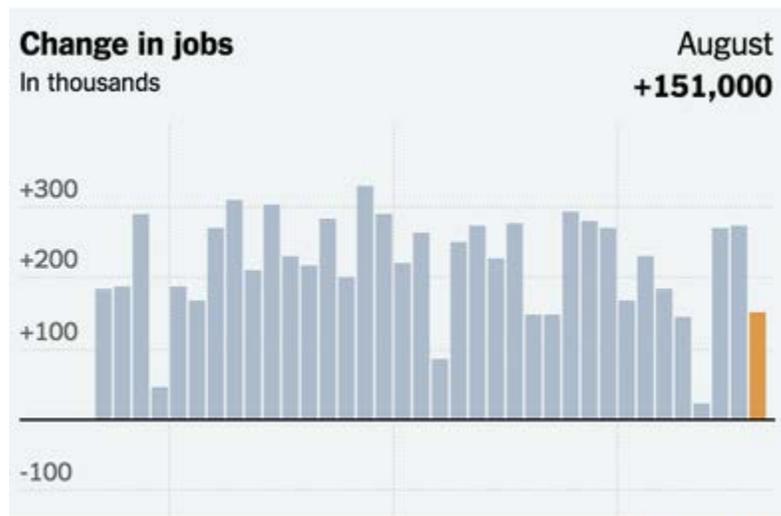
Tuesday, [Consumer Expenditures](#): "Average expenditures per consumer for 2015 were \$55,978, a 4.6 percent increase from 2014 levels, the U.S. Bureau of Labor Statistics reported today. During the same period, the Consumer Price Index (CPI-U) was virtually unchanged, rising 0.1 percent. In 2014, spending increased 4.7 percent. Average pre-tax income per consumer increased at a slightly slower pace than expenditures, up 4.1 percent from 2014 to \$69,629." There are some interesting tables in the report including ones showing the share of income spent on various expenditure categories. Check out the share spent on health care, a topic much in the news recently.

Wednesday, [Metropolitan Area Employment and Unemployment](#): In July 2016, unemployment rates were lower, compared with July 2015, in 279 of 387 Metropolitan Statistical Areas (MSAs). The unemployment rate increased in 87 MSAs and was unchanged in 21. The lowest unemployment rate, at 1.9%, was in Sioux Falls, South Dakota and the highest rate, at 24.3%, was in Yuma, Arizona. Total nonfarm employment increased year-over-year in 331 MSAs, decreased in 52, and was unchanged in

four. Among the 10 Tennessee MSAs, eight had lower unemployment rates in July compared with June, and two were unchanged. All 10 had lower rates compared with a year earlier. Although nonfarm employment fell in seven of the 10 MSAs compared with July 2015, overall employment increased by 63,200 jobs.

Thursday, [Productivity and Costs](#): In the 2nd quarter of 2016 nonfarm business sector productivity fell, compared to Q1 2016, by 0.6% as a result of a 1.1% increase in output and a 1.7% increase in labor hours worked. From Q2 2015 to Q2 2016, productivity fell by 0.4%. With the fall in productivity, unit labor cost increased by 4.3%. In manufacturing, hourly compensation rose by 6.3% in the 2nd quarter of 2016.

Friday, [Employment Situation](#): In August 2016, total nonfarm employment increased by 151,000 and the unemployment rate was unchanged at 4.9%. According to the Household Survey, the labor force increased by 175,000 and the labor force participation rate was unchanged at 62.8%. Among different demographic groups the unemployment rates changed little with the rate for adult men falling by 0.1 percentage point and for African American workers by 0.3 percentage points. From the Establishment Survey, the private sector added 126,000 jobs. Construction lost 6,000 and motor vehicles and parts lost 5,600. The service-producing sector gained 150,000 jobs with the largest increases in health care and social assistance. The government sector added 25,000. Average weekly hours worked dropped 0.1 to 34.3. The diffusion index for 262 total private industries was 58.0% and for 79 manufacturing industries it was 45.6%. The chart below shows the monthly changes in employment since August 2013.

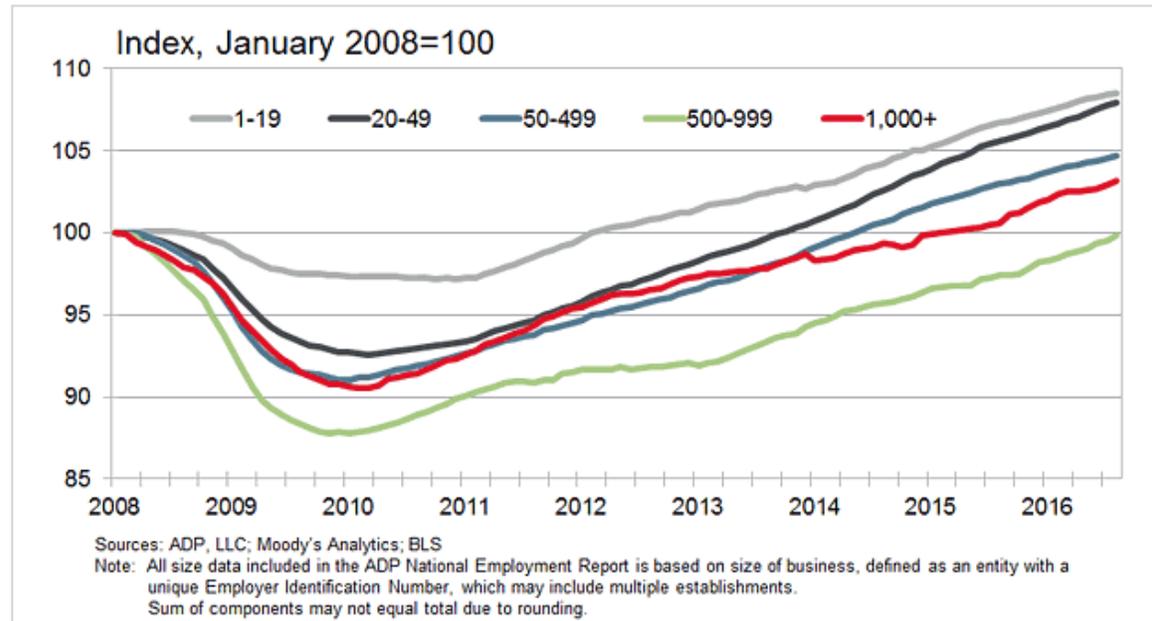


ADP.com

Wednesday, [ADP Employment Report](#): In August 2016, the private sector added 177,000 jobs. According to this report, construction lost 2,000 jobs, manufacturing added no jobs, and the service sector gained 183,000 new jobs. The chart below shows the changes in nonfarm employment by company size since 2008.

Change By Company Size

Change in Total Nonfarm Private Employment by Company Size



[CHART] Change in Total Nonfarm Private Employment by Company Size

Bureau of Economic Analysis

Monday, [Personal Income and Outlays](#): In July 2016, Personal Income, Disposable Personal Income (DPI), and Real DPI all increased by 0.4% from June. Personal Consumption Expenditures, both current dollar and inflation-adjusted, increased by 0.3%. Year-over-year Personal Consumption Expenditures increased by 0.8% while excluding food and energy those expenditures increased by 1.6%.

U.S. Department of Labor

Thursday, [Initial Claims](#): New claims for unemployment insurance in the week ending August 27, 2016 increased by 2,000 to 263,000, and the four-week moving average fell by 1,000 to 263,000. In the prior week ending August 20, two states reported an increase of 1,000 or more new claims and two states reported decreases of 1,000 or more. Tennessee reported a decrease of 25 initial claims.

The Conference Board

Tuesday, [Consumer Confidence Index](#): After a drop in July, the August 2016 index rose from 96.6 to 101.1 (1987 = 100). "Consumer confidence improved in August to its highest level in nearly a year, after a marginal decline in July," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' assessment of both current business and labor market conditions was considerably more favorable than last month."

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading is 43.4 down from 45.3 the week before.

Institute for Supply Management

Thursday, [August 2016 Manufacturing ISM Report on Business](#): This purchasing managers' index fell by 3.2 percentage points to 49.4% in August, indicating contraction of the manufacturing sector after five months of expansion. However, the overall economy expanded for the 87th consecutive month. Of the 18 manufacturing industry sectors surveyed, only six reported growing, and 11 reported contracting. Below are a few respondents' comments.

- "We have been getting lots of inquiries, but not a lot of sales order placements." (Chemical Products)
- "Business was flat this month overall." (Computer & Electronic Products)
- "Continued strong market demand for our products related to construction." (Nonmetallic Mineral Products)
- "Commercial construction continues to be strong, and therefore our business is very good." (Fabricated Metal Products)
- "Business conditions are generally flat." (Transportation Equipment)
- "Hard to find production associates. Unemployment in the area is around 4 percent. Can't get enough employees [which] leads to lots of overtime." (Plastics & Rubber Products)

Markit Economics

Thursday, [Purchasing Managers' Index \(PMI\) Manufacturing Index](#): The August 2016 index was 52.0 down from 52.9 in July but since it is above 50.0 the index is still in the expansion range. Chris Williamson, Chief Markit Economist, stated: "Despite the PMI falling in August, the survey suggests the third quarter is shaping up to be the best quarter so far this year for manufacturing, with output growth picking up compared to the first half of the year on the back of improved export sales."

Autodata.com

Thursday, [Motor Vehicle Sales](#): August 2016 sales of new light trucks and cars was 17 million, seasonally-adjusted, down from 17.88 million in July. The results for Tennessee assemblers were mixed. General Motors car sales for the month were up by 5.8% compared to August 2015 but year-to-date they are 8.6% lower. Nissan car sales were 24.6% lower than in the same month in 2015 and year-to-date their car sales are down 1.1%. Volkswagen sales fell 9.1% below those of August 2015 and year-to-date their sales are down by 13.0%.

National Association of Realtors

Wednesday, [Pending Home Sales](#): In July 2016, the Pending Homes Sales Index was 111.3, up by 1.3% from June and 1.5% higher than in July 2015. Chief NAR Economist Lawrence Yun stated: "Amidst tight inventory conditions that have lingered the entire summer, contract activity last month was able to pick up at least modestly in a majority of areas...More home shoppers having success is good news for the housing market heading into the fall, but buyers still have few choices and little time before deciding to make an offer on a home available for sale. There's little doubt there'd be more sales activity right now if there were more affordable listings on the market."

Standard & Poor's

Tuesday, [S&P Case-Shiller House Price Index](#): In June 2016 the National Index was up by 1.0% over May and by 5.1% over June 2015. Housing prices are rising most rapidly in the Pacific Northwest (Portland and Seattle), followed by Denver. David M. Blitzer, Managing Director and Chairman of the Index Committee at S&P Dow Jones Indices, said, "In the strongest region, the Pacific Northwest, prices are rising at more than 10%; in the slower Northeast, prices are climbing a bit faster than inflation. Nationally, home prices have risen at a consistent 4.8% annual pace over the last two years without showing any signs of slowing."

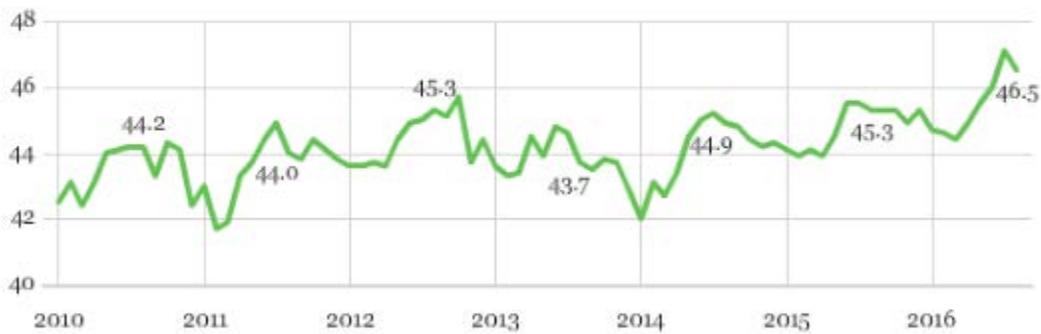
Gallup.com

Thursday, [Good Jobs Rate](#): In August 2016, Gallup's measure of U.S. employment was 46.5% down from 47.1% in July but higher than the 45.3% in August 2015. "[Gallup's Good Jobs] GGJ typically peaks in the midsummer months of June and July and begins to fall in August, so this decrease is in line with the typical seasonal pattern." In fact, this current rate is the second highest recorded since they began the measure in 2010. See the chart below.

U.S. Gallup Good Jobs Employment Rates

Monthly trend, January 2010-August 2016

■ % of adult population employed full time for an employer



Gallup Daily tracking

Figures shown are for August of each year.