

Economic Update, December 16, 2016  
Submitted by Reuben Kyle

Summary: The Federal Open Market Committee's decision to raise the federal funds rate by 1/4 percentage point dominated the economic news this week after a long discussion of the timing of the increase. Otherwise, the news was pretty tame: retail sales increased but only non-store sales. Housing construction was a mixed bag with new housing starts down but builder confidence at a post-recession high. There is some increase in inflation measures but overall inflation remains below the Fed's target of 2%. Consumer confidence appears to be at a year-end high.

Census Bureau

Wednesday, [Advance Monthly Sales for Retail and Food Services](#): The advance November 2016 sales by retail and food services were up by 0.1% for the month and by 3.8% from November 2015. Total retail trade sales were unchanged for the month while nonstore retail sales were 11.9% higher than in November 2015.

Wednesday, Manufacturing and Trade: Inventories and Sales: While inventories fell by 0.2% in October 2016, total business sales rose by 0.8%.

Friday, [New Residential Construction](#): In November 2016, the number of building permits issued fell by 4.7% from October but permits for single-family units were up by 0.5%. Housing starts declined by 18.7% from the prior month and single-family starts also dropped, by 4.1%, from October figures. Housing completions rose by 15.4% for the month and single-family completions were up by 3.3%.

Bureau of Labor Statistics

Tuesday, [U.S. Import and Export Price Indexes](#): Following two successive increases in November 2016 the U.S. Import Price Index fell by 0.3% led a 3.9% fall in the Fuel Import Index. The U.S. Export Price Index fell by 0.1% despite a 0.6% increase in the index for agricultural exports. Excluding fuel imports the import index declined by 0.1%. From November 2015 through November 2016 the import index fell by 9.5% and the export index dropped by 0.3%.

Wednesday, [Producer Price Index \(PPI\)](#): In November 2016 the PPI for Final Demand was up by 0.4% and for the 12-month period through November the index rose by 1.3%. Excluding food, energy, and trade services the November index increased by 0.2% and over the preceding 12-months that measure increased by 1.8%. "In November 2016, over 80 percent of the advance in the final demand index is attributable to a 0.5-percent rise in prices for final demand services. The index for final demand goods increased 0.2 percent."

Thursday, [Consumer Price Index \(CPI\)](#): The November 2016 CPI rose by 0.2% and since November 2015 the index is up by 1.7%. Gasoline prices, rising 2.7% for the month, were the principal mover of the CPI though over the prior 12-month period the gasoline index is up by 1.0%. Excluding food and energy the CPI has risen by 2.1% for the period November 2015 through November 2016.

Thursday, [Real Earnings](#): In November 2016, average hourly earnings fell by 0.1% and combined with the rise of the CPI of 0.2%, real average hourly earnings declined by 0.4%. Over the period November 2015 through November 2016 real average hourly earnings have risen by 0.8%. For production and non-supervisory workers real average hourly earnings declined by 0.1%, the difference being that for those workers, in contrast to all employees, average hourly earnings increased by 0.1%.

Friday, [Census of Fatal Occupational Injuries](#): In 2015, the number of fatal work-related deaths was 4,836 the highest number since 2008. There are plenty of findings by demographic characteristic and I leave it to the reader to explore this report.

Friday, [Regional and State Employment and Unemployment](#): In November 2016, unemployment rates were significantly lower in 18 states and stable in 32 states and the District of

Columbia. The lowest rate, 2.7%, was shared by New Hampshire and South Dakota and the highest rate, 6.8%, was in Alaska followed by New Mexico at 6.7%. [Tennessee's](#) unemployment rate was 4.8%, unchanged from October. Total nonfarm employment increased in November in nine states, decreased in two states, and was relatively unchanged in 39 and the District of Columbia. In Tennessee, total nonfarm employment fell by 2,800 jobs for the month but is 55,000 higher than in November 2015. For November employment declined by 1,400 in manufacturing, leisure/hospitality lost 1,900 jobs, and government employment fell by 1,200. Only the professional/business services industries added an offsetting 2,400 jobs.

#### U.S. Department of Labor

Thursday, [Initial Claims](#): New claims for unemployment insurance in the week ending December 10, 2016 fell by 4,000 to 254,000 while the four-week moving average rose by 5,250 to 257,750. For the week ending December 3, 26 states reported increases of 1,000 or more initial claims and no state reported a decrease of 1,000 or more. Tennessee reported an increase of 1,202 new claims with the comment: "Layoffs in the administrative, support, waste management and remediation service, manufacturing, construction, and accommodation and food service industries."

#### U.S. Department of Transportation

Wednesday, [October 2016 Freight Transportation Services Index](#): At 122.0 the October index was up by 1.0% from September but 2.1% below the all-time high of 124.6 in July 2016. "The 1.0 percent rise in the October Freight TSI from September was due to growth in trucking and rail intermodal, while all other modes declined (data on individual modes are seasonally adjusted by BTS)."

#### Board of Governors of the Federal Reserve

Tuesday, Federal Open Market Committee (FOMC) meeting

Wednesday, [FOMC Meeting Announcement](#): Citing the strength of labor markets and expansion of the economy, the FOMC voted, unanimously, to raise the federal funds rate to ½% to ¾%. "The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data." You can watch the press conference of Janet Yellen, The Fed Chair, at this [link](#).

Wednesday, [FOMC Forecasts](#): These forecasts are submitted by members of the Board and the Presidents of the 12 Federal Reserve Banks. Their latest forecast of real GDP growth for 2016 is 1.9%, up 0.1 percentage point from their September forecast, and their forecast for 2017 is 2.1%. The unemployment rate for 2016 is 4.7%, down 0.1 percentage point from the previous report, with a further decline to 4.5% in each of the next three years. Their forecast for the Core Personal Consumption Expenditure (PCE) Price Index—the preferred inflation measure—is 1.7% in 2016, 1.8% in 2017, and 2.0% in 2018. The projection for the fed funds rate is to rise to 1.4% in 2017, 2.1% in 2018, 2.9% in 2019, and a long-term average of 3.0%.

Wednesday, [Industrial Production](#): In November 2016, industrial production fell by 0.4% and the index is down by 0.6% year-over-year. Production increased for the month in Construction by 0.7% and by 1.1% in Mining but declined by 0.1% in Manufacturing and by 4.4% in Utilities, the latter due to mild weather in the Fall months. Capacity utilization declined by 0.4 percentage points to 75.0% compared to its long-term average of 80.0%.

#### Markit Economics

Thursday, [Purchasing Managers Index \(PMI\) Manufacturing Index Flash](#): The preliminary December 2016 index is at 54.2 up from 54.1 in the final November reading. Chief Markit Economist

Chris Williamson observed: "US manufacturing is enjoying a strong end to 2016, showing further signs of pulling out of the soft-patch seen earlier in the year and putting the sector on the starting blocks ready for a further upturn as we move into 2017. The fourth quarter has seen the strongest PMI readings for one-and-a-half years, suggesting the goods-producing sector is growing at an annualised (sic) rate of 2-2.5%."

National Association of Home Builders

Thursday, [Housing Market Index](#): The December 2016 index jumped seven points to 70, the highest level since July 2005. NAHB Chief Economist Robert Dietz stated: "Though this significant increase in builder confidence could be considered an outlier, the fact remains that the economic fundamentals continue to look good for housing,...The rise in the HMI is consistent with recent gains for the stock market and consumer confidence. At the same time, builders remain sensitive to rising mortgage rates and continue to deal with shortages of lots and labor."

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading was 45.5 up from 45.1 the previous week and this level registered the highest for 2016. "The Bloomberg Consumer Comfort Index reached a new 2016 high this week to cap its best eight-week run since spring 2015. Confidence in the national economy and the buying climate have gained since the election, more than compensating for a dip in Americans' ratings of their personal finances."

PNC Financial Services

Last Week, [A New Inflation Measure](#): By this measure, prices increased by 0.7% from 2015.