

## Economic Update, March 18, 2016

Submitted by Reuben Kyle

Summary: The week's economic news shows slowing growth in some areas of the economy such as manufacturing, utilities, and mining, but some areas are surging, such as construction. Labor markets continue to be strong with 5.5 million job openings and very low claims for unemployment insurance. The Leading Economic Index increased in February, reversing the decline in January.

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

Monday: This week's commentary begins with Dr. R's take on oil prices and their influence on stock prices. He also gives his view on the level of inventories and the concerns that some analysts expressed that the high inventory/sales ratio could foretell a recession. He rejects that argument, pointing out that the ratio is at the wholesale level, and manufacturers have already reduced their inventories. (The latest inventory report is below.) His current forecast for March jobs is 193,000, but that may well be revised before the end of the month. Finally, his prediction of the Leading Economic Index—see the actual results below—is for a +0.3% after a decline in February.

### Census Bureau

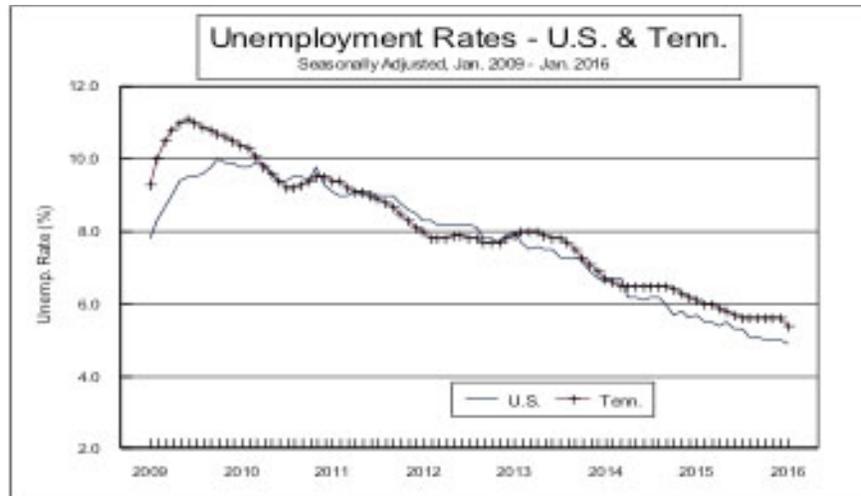
Tuesday, [Advance Monthly Sales for Retail and Food Services](#): The preliminary sales figures for February 2016 were down 0.1% from January but 3.1% higher than in February 2015. "Retail trade sales were down 0.3% . . . from January 2016 and up 2.7% . . . from last year. Building material and garden equipment and supplies dealers were up 12.2% . . . from February 2015, while gasoline stations were down 15.6% . . . from last year." (I omitted the 90% confidence intervals for the sake of readability.)

Tuesday, [Manufacturing and Trade: Inventory and Sales](#): In January 2016, sales of distributive trade providers and shipments by manufacturers were down 0.4% from December and 1.1% from January 2015. Inventories increased 0.1% for the month and 1.8% year over year. The inventory/sales ratio was 1.40, up from 1.39 in December and 1.36 in January 2015.

Wednesday, [New Residential Construction](#): The number of building permits issued in February 2016 was 1,167,000 or 3.1% below the number in January but 6.3% higher than in February 2015. The number of housing starts was 1,178,000, which was 5.2% above that in January and 30.9% higher than in February 2015. Housing completions were down 4.2% from the prior month but 17.5% more than a year earlier. Single-family housing was higher in February than in January.

### Bureau of Labor Statistics

Monday, [State and Regional Employment and Unemployment](#): In January 2016, 28 states and the District of Columbia had lower unemployment rates, eight states had higher rates, and 14 states' rates were unchanged from December. [Tennessee](#)'s unemployment rate was 5.4%, down 0.2 percentage points from December and down from 6.1% in January 2015. The Dakotas, both North and South, had the lowest unemployment rates at 2.8%; Mississippi had the highest rate at 6.7%. Employment increased in 30 states plus the District of Columbia in January decreased in 20. Tennessee added 13,100 jobs in January with 4,200 new jobs in construction, 2,800 in trade/transportation/utilities, and 1,800 in manufacturing. Government employment fell by 400 jobs from December to January. Since January 2015, Tennessee has gained 96,000 jobs. The chart below compares Tennessee's unemployment rate with the national rate since 2009.



Tuesday, [Producer Price Index \(PPI\)](#): The seasonally adjusted index for final demand in February 2016 fell 0.2%, and year over year, the unadjusted index was unchanged. Excluding food, energy, and trade, the index increased 0.1% in February and 0.9% over the prior 12 months. The energy index was down 3.4% for the month, and the total index for services was unchanged in February.

Wednesday, [Consumer Price Index \(CPI\)](#): In February 2016, the CPI fell 0.2%, and once again, energy prices prompted the decrease as that index dropped 6.0%. Excluding food and energy, the index rose 0.3%. Over the previous 12 months, the CPI excluding food and energy rose 2.3%, led by medical services, shelter, and services less energy services.

Wednesday, [Real Earnings](#): With a 0.1% decrease in average hourly earnings combined with the 0.2% decline in the CPI, real average hourly earnings were unchanged in February 2016 compared with January. In the case of production and nonsupervisory workers, real average hourly earnings increased 0.3% as their average hourly earnings were unchanged from January, but the CPI for Urban Wage Earners and Clerical Workers fell 0.3%.

Thursday, [Job Openings and Labor Turnover Survey \(JOLTS\)](#): In January 2016, the number of job openings increased to 5.5 million with 5.0 million hires, 4.9 million total separations, and a 2.0% quit rate. “Total separations includes quits, layoffs and discharges, and other separations. Total separations is referred to as turnover. Quits are generally voluntary separations initiated by the employee. Therefore, the quits rate can serve as a measure of workers’ willingness or ability to leave jobs.”

Friday, [Metropolitan Area Employment and Unemployment](#): Unemployment rates were lower in 333 of 387 metropolitan statistical areas (MSAs) in January 2016 than in January 2015, higher in 43, and unchanged in 11. The lowest rate, 2.5%, was in both Ames, Iowa, and Boulder, Colorado. The highest rate was in 19.2% in El Centro, California. All ten Tennessee MSAs had lower unemployment rates in January compared with December and compared with January 2015. The lowest rate was in the Nashville-Davidson–Murfreesboro–Franklin MSA at 3.7%, and the highest was in Morristown at 5.7%. Year over year, the state average fell from 6.6% to 4.9%. Among the ten, the largest decline in the unemployment rate was in Memphis, which saw a decline from 7.4% to 5.6%.

## US Department of Labor

Thursday, [Initial Claims](#): New claims for unemployment insurance for the week ending March 12, 2016, were 265,000, up by 7,000 from the previous week, and the four-week moving average was 268,000 or 750 more than the prior week. “This marks 54 consecutive weeks of initial claims below

300,000, the longest streak since 1973.” In the week ending March 5, no state reported increases of 1,000 or more new claims, and two states reported decreases of 1,000 or more. Tennessee reported a decrease of 454 new claims.

### **Board of Governors of the Federal Reserve**

Wednesday, [Industrial Production](#): In February 2016, industrial production fell 0.5%. “Sizable declines in the indexes for both utilities and mining in February outweighed a gain of 0.2 percent for manufacturing. The output of utilities dropped 4.0% as unseasonably warm weather curbed the demand for heating. Mining production fell 1.4% and has decreased nearly 1.3% per month on average over the past six months.” Capacity utilization declined 0.4 percentage points to 76.7% compared with the average of 80.0% for the years 1972 through 2015.

Wednesday, Federal Open Market Committee [Meeting Announcement](#): The committee expressed concern about business fixed investment and exports as well as the fact that inflation continues to fall below the 2% target. As a result, the committee voted to maintain the fed funds rate at its current  $\frac{1}{4}$ % to  $\frac{1}{2}$ % level. There was one dissenting vote in favor of raising the rate.

Wednesday, [Forecasts](#): The projections by the FOMC members and the Federal Reserve Bank Presidents include changes in real GDP, the unemployment rate, the Personal Consumption Expenditure (PCE) Price Index, and the Core PCE inflation rate. In addition, the report includes the “Projected Appropriate Policy Path.” The median GDP growth rate for 2016 is 2.2%, down from the December forecast of 2.4%. The median unemployment rate is 4.7% in 2016, unchanged from December’s forecast. The median PCE forecast is 1.2% compared with 1.6% in December, and the core PCE rate is 1.6%, the same as in December. The median forecast for the fed funds rate is 0.9% for 2016 compared with 1.4% in the prior forecast.

Wednesday, [Fed Chair Press Conference](#): You can listen to Chair Janet Yellen’s remarks at the link provided or see a [transcript](#). Regarding the decision to maintain the fed funds rate at its current level, she offered the following: “. . . 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. This expectation is consistent with the view that the neutral nominal federal funds rate—defined as the value of the federal funds rate that would be neither expansionary nor contractionary if the economy was operating near potential—is currently low by historical standards and is likely to rise only gradually over time. The low level of the neutral federal funds rate may be partially attributable to a range of persistent economic headwinds that weigh on aggregate demand, including developments abroad, a subdued pace of household formation, and meager productivity growth. There is considerable uncertainty regarding the evolution of the neutral funds rate over time. However, if these headwinds abate, as we expect, the neutral federal funds rate should gradually move higher as well.”

### **The Conference Board**

Thursday, [Leading Economic Indicators](#): In February 2016, the Leading Economic Index (LEI) increased 0.1% to 123.2 (2010 = 100). “The US LEI increased slightly in February, after back-to-back monthly declines, but housing permits, stock prices, consumer expectations, and new orders remain sources of weakness,” said Ataman Ozyildirim, director of business cycles and growth research at The Conference Board. “Although the LEI’s six-month growth rate has moderated considerably in recent months, the outlook remains positive with little chance of a downturn in the near-term.” The Coincident Economic Index rose 0.1%.

### **National Association of Home Builders**

Tuesday, [Housing Market Index](#): In March 2016, this index, a measure of builders' confidence, was unchanged from February at 58. "While builder sentiment has been relatively flat for the last few months, the March HMI reading correlates with NAHB's forecast of a steady firming of the single-family sector in 2016," said NAHB Chief Economist David Crowe. "Solid job growth, low mortgage rates, and improving mortgage availability will help keep the housing market on a gradual upward trajectory in the coming months."

### **Bloomberg.com**

Thursday: [Consumer Comfort Index](#): The latest index was 44.3 compared with 43.8 the previous week. "Americans' ratings of their personal finances broke out of a long stall to advance to a five-month high this week. But ratings of the national economy and the buying climate remained flat, keeping consumer sentiment overall in a three-month trough."

### **University of Michigan**

Friday, [Consumer Sentiment Index](#): The mid-month index for March 2016 was 90.0, down from 91.7 in February and 93.0 in March 2015. "Consumer confidence eased in early March due to increased concerns about prospects for the economy as well as the expectation that gas prices would inch upward during the year ahead."