

Economic Update, April 29, 2016

Submitted by Reuben Kyle

Summary: This week's economic news was not bad but not good either. First quarter GDP growth came in at 0.5%, worse than some forecasts but better than some, see below. Initial claims fell but remain at very low levels. The housing market continues to be solid if not great. We got a complete mixed bag in the three consumer confidence measures with two down and one up. The FOMC did not raise the fed funds rate—again—though the participants in this week's meeting are predicting that it will rise again at least once this year. This week, I included an interesting story on the oil industry. Despite very high inventories, oil prices rose again this week and are back above \$45 per barrel. I would really like for one of you smart people to explain that to me.

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

Monday: Dr. R's Indicator Table is full this week, so if you like numbers, he has them. His "forecast" for 1st quarter GDP growth is 0.0%, see below for the BEA's number. He offers no change in his April jobs forecast, which we get next Friday. As usual, he has a lot to say about many economic measures, but the one that I found most interesting is his assessment that there is a one billion barrel excess in oil inventories. This despite Saudi Arabia's claim that it could add a million barrels per day to its production with very short notice plus a complete shutdown by Kuwait's oil operations. Somebody will have to explain to me why under these circumstances oil prices have risen this week.

Census Bureau

Monday, [New Residential Sales](#), March 2016: The seasonally adjusted, annual sales rate of single-family houses was 511,000, which 1.5% below the level of February but 5.4% higher than in March 2015. The median selling price this March was \$288,000 compared with \$297,400 in February and \$282,600 in January. At the current sales rate, there is a 5.8-month supply of houses available up from a 5.1-month supply available a year earlier.

Tuesday, [Advance Report on Durable Goods Manufacturers' Shipments, Inventories, and Orders](#): In the preliminary March 2016 report, new orders for manufactured durable goods increased 0.8% led by transportation equipment which rose 2.9%. Shipments and unfilled orders both fell, shipments by 0.5% and unfilled orders by 0.1%. Inventories increased but by less than \$0.1 billion. In the case of capital goods, new orders for nondefense goods fell, shipments increased, unfilled orders declined, and inventories increased. In defense capital goods, new orders, shipments, unfilled orders all increased and inventories fell.

Thursday, [Housing Vacancies and Homeownership](#): In the 1st quarter of 2016, the homeownership rate was 63.5%, down from 63.7% in Q1 2015 and 63.8 in Q4 2015. The national vacancy rate for rental housing was 7.0% compared with 7.1% in Q1 2015 and unchanged from Q4 2015. The vacancy rate had peaked in Q3 2009 at 11.1% and was above 10.0% for much of the period Q1 2008 through Q3 2010. The homeowner vacancy rate in this latest period was 1.7%, down from its peak of 2.9% in 2008.

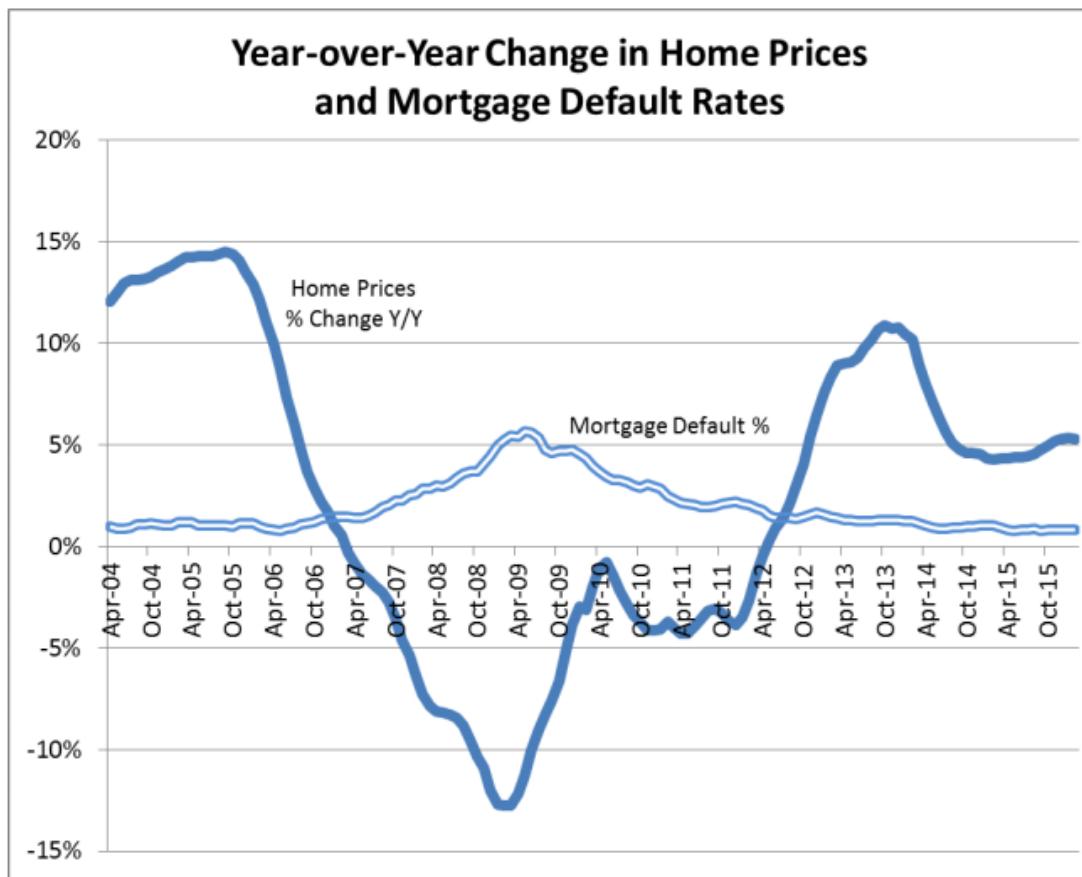
National Association of Realtors

Wednesday, [Pending Home Sales](#): In March 2015, the Pending Home Sales Index increased 1.4% to 110.5. "After last month's slight gain, the index has increased year over year for 19 consecutive months and is at its highest reading since May 2015 (111.0)." Chief NAR Economist Lawrence Yun said, "Despite supply deficiencies in plenty of areas, contract activity was fairly strong in a majority of markets

in March. . . . This spring's surprisingly low mortgage rates are easing some of the affordability pressures potential buyers are experiencing and are taking away some of the sting from home prices that are still rising too fast and above wage growth."

Standard & Poor's (S&P)

Tuesday, [Case-Shiller House Price Index](#): In February 2016, the National index increased 0.2% from January and 5.3% from February 2015. "Home prices continue to rise twice as fast as inflation, but the pace is easing off in the most recent numbers," says David M. Blitzer, managing director and chairman of the Index Committee at S&P Dow Jones Indices. "The year-over-year figures for the 10-City and 20-City Composites both slowed, and 13 of the 20 cities saw slower year-over-year numbers compared to last month." The chart below compares the National House Price Index to the mortgage default rate since 2004. The latter is an indicator of the health of housing markets, and Mr. Blitzer says that the rate is currently about 0.75%, slightly lower than in 2004.



Source: S&P/Case-Shiller National Home Price Index; S&P/Experian Consumer Credit First Mortgage Default Index

US Department of Labor

Thursday, [Initial Claims](#): In the week ending April 23, 2016, new claims for unemployment insurance were 257,000, an increase of 9,000 from the week before, and the four-week moving average was 256,000, a decrease of 4,750. The latter was the lowest level since December 8, 1973. In the previous week, ending April 16, three states reported increases of 1,000 or more initial claims and 12

states, including Tennessee, reported decreases of 1,000 or more new claims. Tennessee reported a drop of 1,267.

Bureau of Labor Statistics

Wednesday, [Metropolitan Area Employment and Unemployment](#): “Unemployment rates were lower in March [2016] than a year earlier in 270 of the 387 metropolitan areas [MSAs], higher in 98 areas, and unchanged in 19 areas, the US Bureau of Labor Statistics reported today. . . . Nonfarm payroll employment increased over the year in 332 metropolitan areas, decreased in 51 areas, and was unchanged in 4 areas. The national unemployment rate in March was 5.1%, not seasonally adjusted, down from 5.6% a year earlier.” Ames, Iowa, and Sioux Falls, South Dakota, tied with the lowest unemployment rate of 2.4%, and El Centro, California, had the highest rate at 18.6%. For the 51 MSAs with a population of 1 million or more, the Memphis, Tennessee, MSA has the largest decrease in its unemployment rate, year over year, 1.7 percentage points. All ten Tennessee MSAs had lower unemployment rates in March than in February and in March 2015. Once again, the Nashville-Davidson–Murfreesboro–Franklin MSA had the lowest rate at 3.2% followed by Knoxville at 3.9%. All ten had unemployment rates below 5%, and consequently, below the national average. Nonfarm employment increased in all ten Tennessee MSAs from February to March and year over year. In percentage terms, the Jackson MSA was the big gainer for the month of March, and the Cleveland MSA was the biggest gainer since March 2015.

Wednesday, [Quarterly Data Series on Business Employment Dynamics](#): In the 3rd quarter of 2015, gross private sector job gains numbered 7.3 million, while job losses were 6.9 million giving a net increase in employment of 418,000. In Tennessee, the number of gross job gains was 140,614 while losses numbered 123,495 for a net gain of 27,119. The report contains a great deal more detail.

Thursday, [College Enrollment and Work Activity of High School Graduates, 2015](#): In October 2015, 69.2% of 2015 high school graduates were enrolled in colleges or universities. Three million people 16 to 24 graduated from high school between January and October 2015. Of them, about 2.1 million were enrolled in colleges, 90% of them full-time. “Recent high school graduates not enrolled in college in the fall of 2015 were much more likely than enrolled graduates to be in the labor force (72.7% compared with 36.0%). The unemployment rate for recent high school graduates not enrolled in college was 20.7%, higher than the rate of 12.6% for recent graduates enrolled in college. There are lots of numbers here.

Friday, [Employment Cost Index](#): In the 1st quarter of 2016, compensation costs for civilian workers increased 0.6% and 1.9% from March 2015 to March 2016. In the private sector, the increase was 1.8% with wages and salaries up 2.0% and benefits up 0.5%. Compensation of state and local government workers increased 2.4% year over year with wages and salaries increasing 1.8% and benefits rising 3.5%.

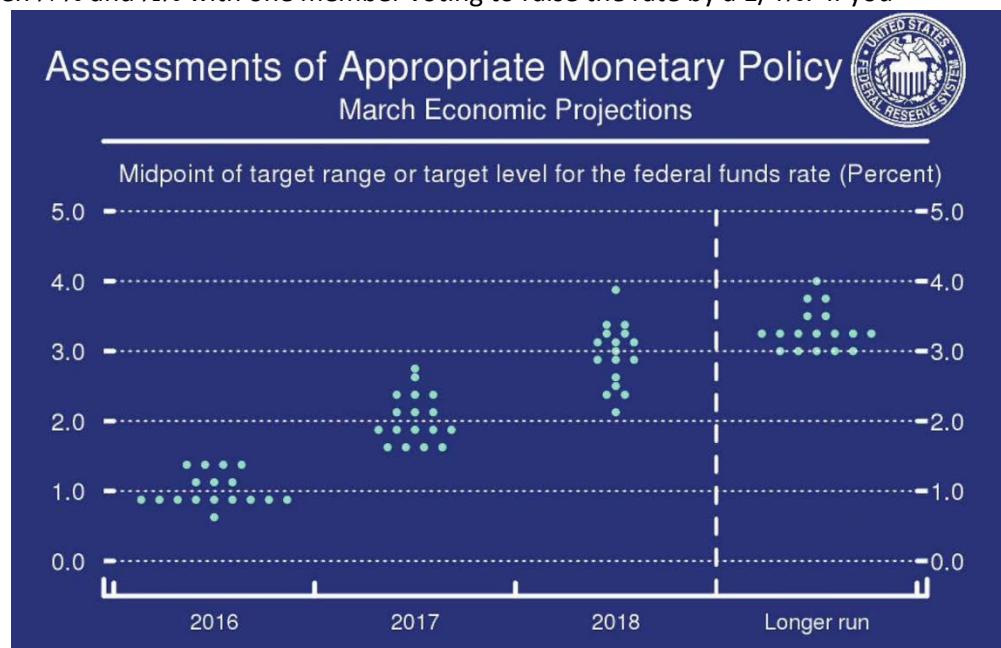
Bureau of Economic Analysis

Thursday, [Gross Domestic Product, 1st Quarter 2016 \(Advance Estimate\)](#): The first estimate of Q1 2016 GDP growth is 0.5% compared with 1.4% for Q4 2015. “The increase in real GDP in the first quarter reflected positive contributions from personal consumption expenditures (PCE), residential fixed investment, and state and local government spending that were partly offset by negative contributions from nonresidential fixed investment, private inventory investment, exports, and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.” The second estimate will be released May 27. The personal saving rate was 5.2%, up from 5.1% in Q4 2015.

Friday, [Personal Income and Outlays, March 2016](#): In March 2016, personal income and disposable personal income both increased 0.4%. When adjusted for inflation, disposable personal income was up 0.3%. Personal consumption expenditures (PCE) rose 0.1%, but when adjusted for inflation, the increase was less than 0.1%. The Price Index for PCE increased 0.1% in March, and year over year, it has increased 0.8%.

Federal Open Market Committee

Wednesday, [Meeting Announcement](#): Citing a “range of recent indicators” pointing to growth but also some to a slowing of the economy, the Committee voted to maintain the current policy of a federal funds rate between $\frac{1}{4}$ % and $\frac{1}{2}\%$ with one member voting to raise the rate by a 1/4%. If you would like to hear Fed Chair Janet Yellen’s statement about the meeting, go to the Fed’s [Website](#) and watch the video. The chart below shows the meeting participants’—not all of whom vote—projections for the path of the fed funds rate over the foreseeable future. As can be seen, virtually all of them see the rate rising again in 2016.



The Conference Board

Tuesday, [Consumer Confidence Index](#): The April 2016 index declined from 96.1 to 94.2 (1985=100). “Consumer confidence continued on its sideways path, posting a slight decline in April, following a modest gain in March,” said Lynn Franco, director of economic indicators at The Conference Board. “Consumers’ assessment of current conditions improved, suggesting no slowing in economic growth. However, their expectations regarding the short term have moderated, suggesting they do not foresee any pickup in momentum.”

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading is 43.4, up from 42.9 the previous week. It is now just below the 2016 average of 43.8 and above the low of 42.6. “Americans’ ratings of the buying climate reached their best in two months in this week’s Bloomberg Consumer Comfort Index, moving back above their pre-recession average with a slow but significant gain the last three weeks.”

University of Michigan

Friday, [Consumer Sentiment Index](#): The final April 2016 index was 89.0, down from 91.0 in March and 95.9 in April 2015. “Consumer sentiment continued its slow decline in late April due to weakening expectations for future growth, although their views of current economic conditions

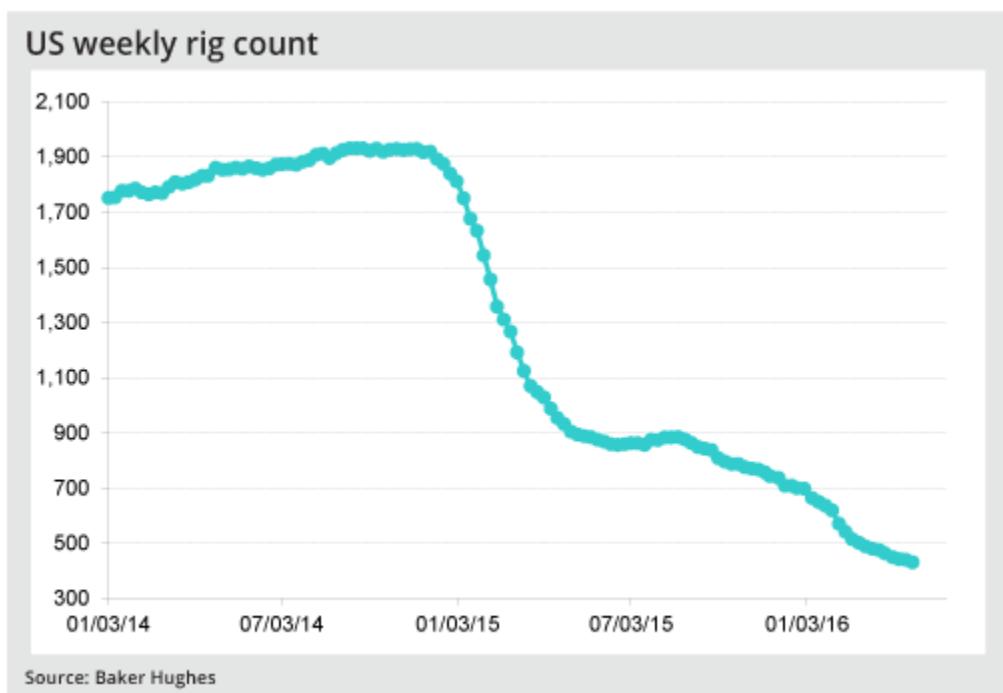
remained positive. All of the April decline was in the Expectations component, which fell by 4.8% from one month ago and by 12.6% from a year ago and by 14.7% from its January 2015 peak.”

Markit Economics

Thursday, [Purchasing Managers' Index \(PMI\), Services Flash](#): This preliminary April 2016 reading of the service sector index was 52.1, up from 51.3 in March. Chris Williamson, chief Markit economist, writes, “The upturn in the rate of growth of business activity and increased inflows of new orders suggest the economy should see GDP rise at an increased rate in the second quarter, but growth is clearly far more fragile than this time last year.”

SNL Financial

Monday, [Baker Hughes Oil Rig Survey](#): This article provides a very clear “picture” of the situation in the oil patch. As of the end of the week April 22, 2016, the number of operating oilrigs in the US is 501 lower than a year ago and 1,500 below the peak of 1,931 on September 26, 2014. [Today, April 11, 2017, the count for the US was 420, down from 431 the week before.]



f